Conclusions
Democratic Consolidation and Institutional Theory

Broadening the Debate

This book has sought to elucidate the pivotal role of institutional insulation in countries undergoing the transition from authoritarian rule. I have argued that once they know the writing is on the wall, authoritarian governments on the brink of losing power give democracy away with one hand while taking it back with the other.

Specifically, where exiting elites fear the populism that may be endemic to new democracies and know that a change of regime is imminent, they attempt to make monetary policy resilient to the distributional pressures that accompany democracy by creating an autonomous central bank. To the extent that they place themselves in charge of this institution, they in turn carve out a niche of power in what is arguably one of the most important public-policy-making bodies in the developing world. And incoming democratic governments have no choice but to accept this institutional inheritance, thereby removing a key aspect of economic decision making from their control.

To analyze the plausibility of this argument, this study examined two transitional democracies where central bank reforms took place—Chile (1989) and Mexico (1993). While both reforms reflected an attempt by authoritarian elites to deflect the policy uncertainty embedded in democratic rule, the cases differed noticeably in the amount of autonomy afforded the central bank. Through a paired comparison in which the need for external credibility and the expected policy distance between the authoritarians and the democrats were held constant, I showed how variation in the proximity of the democratic threat explained the observed difference in outcome (see table 9.1).

We began by looking at the strong case of transitional insulation: the Chilean central bank reform of 1989. General Pinochet’s dramatic loss in the 1988 plebiscite was a devastating blow for Chile’s conservative authoritarian regime. Not only did the victorious Concertación coalition pose a programmatic challenge to the authoritarians’ neoliberal policy agenda, but these leaders also knew that their hold on power was finite. In order to fend off this pronounced and imminent threat, they crystallized their preferences for low inflation in a highly autonomous central bank.
We then turned our attention to a middle-range case: the Mexican central bank reform of 1993. Unlike in Chile, where the definitive knowledge of Pinochet’s political fate prompted an all-out insulation offensive, the democratic threat facing Mexico’s technocratic elite was considerably more tenuous. Although internal party splits and the growing strength of the opposition could no longer be ignored, the momentum for regime change had yet to definitively jeopardize Salinas’s market-oriented agenda. While anticipation of an eventual change of rule thus mandated some sort of institutional response, Mexico’s authoritarians did not need to create a fully autonomous central bank—at least not yet.

What this comparison ultimately underscores is the difference between a reform undertaken in the wake of a transition to democracy and one carried out under a liberalizing authoritarian regime. Whereas the former environment offers incentives to create as autonomous an institution as possible, the latter provides incentives to leave some leeway in institutional design. By comparing these two instances of central bank autonomy, this study thus illuminates the broader relationship between democratization and institutional change set out in the introduction to this book. Chapter eight confirmed this general relationship across a number of additional cases and also suggested how the basic framework might be extended to accommodate a variety of democratic political settings.

This chapter further addresses the generalizability of the argument at hand and assesses its ramifications for the study of democratization and institutional theory. The first section (“Generalizing the Argument: Other Insulation Strategies”) speculates as to the possibilities for applying the logic to

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insulation strategies beyond central bank reform. The second section (“Insulated Transitions: Prospects for Democratic Consolidation”) examines the consequences of these authoritarian institutional legacies for the process of democratic consolidation. The third section (“Implications for the Study of Institutional Design”), as its title indicates, contains a brief discussion of the argument’s implications for the study of institutional design. I conclude by mapping out future avenues for research.

**Generalizing the Argument: Other Insulation Strategies**

**The Empirical Universe**

In the previous chapter, we examined the extent to which the argument presented in this book can be used to explain cases of central bank reform across other institutional contexts. A second way to extend the model at hand is to explore its application to other institutional forms. In the introductory chapter, I noted that central bank autonomy is but one of several institutional mechanisms through which outgoing authoritarian elites attempt to protect themselves against the onset of democracy. They also frequently employ a host of other electoral, constitutional, and military arrangements in order to tie the hands of their successors. In what follows, I elaborate on some of these other insulation strategies to flesh out the relevant empirical universe. This is followed by an assessment of the argument’s ability to speak to these additional institutional forms.

One way that exiting authoritarian elites attempt to entrench their preferences before leaving power is by creating pockets of impunity for certain actors deeply identified with authoritarian rule. In Latin America and Africa, this actor is often the military. This protection assumes a number of different forms. Above all, military regimes seek to prevent retribution. Perhaps more consistently than any single other posttransition institutional guarantee, amnesty clauses are introduced that preclude former rulers of military regimes from being tried for human rights abuses carried out under military rule. Since 1978 and with the exception of Argentina and isolated instances in Chile, El Salvador, and Bolivia, the Latin American military involved in coups and subsequent human rights abuses have all been amnestied (Love-man 1998, 128).

In turn, military regimes also seek to make sure that the armed forces remain on solid financial footing. In the Chilean transition, for example, they automatically received 10 percent of the income from state copper sales, the nation’s number one export. In Brazil, the military was given autonomous
control over various defense sector industries, such as informatics and telecommunication, in order to afford it a privileged position in areas of technological development. Military regimes also frequently set up mechanisms that allow for their representation in top policy-making bodies and/or shield military officials from dismissal or oversight. In Portugal, Turkey, Chile, and Brazil, exiting elites created powerful military-dominated institutions to control national security. In Chile, the chief executive was given no power over the promotion or dismissal of high-ranking military officials but was instead forced to defer to a series of nonelected bodies on such matters. More generally, most Latin American constitutions in the 1990s continue to afford the armed forces broad scope to impose what is known as a “state of exception.” This can be used to justify a variety of different forms of intervention in civilian affairs ranging from suspending ordinary rights and liberties, to delegating extraordinary powers to the president, to—in the ultimate instance—staging a coup (Loveman 1998, 134–39). By institutionalizing this array of different privileges for the military, the scope of authority afforded elected officials in new democracies is greatly reduced.

Moving away from the strictly military realm, another vehicle through which authoritarian elites seek to preserve their interests is by biasing the political arena for or against certain groups. At the extreme, the authoritarians may bar certain actors from even entering politics, such as political parties representing allegedly extremist elements. In both Turkey and South Korea, for example, legal restrictions were placed on labor militancy and political dissidence, thereby limiting contestation over certain crucial social policy issues. Voter registration procedures can also be created that discourage widespread popular participation, as occurred in Brazil. Or the authoritarians might appoint certain individuals to an otherwise elected post, as Pinochet did when he personally named nine of the country’s forty-seven senators, or when the outgoing regime in Brazil stipulated that six out of twenty-two members of the cabinet would be uniformed officers.

In a similar vein, electoral rules can also be designed to disproportionately advantage certain partisan interests over others. The Communist Party in Poland sought and obtained the right to control 65 percent of all seats in the lower house of parliament before leaving power. Outgoing military officials in Turkey also set electoral thresholds that helped the conservative Motherland Party gain large legislative majorities under democratic rule. In a slightly different twist on this theme, successor governments in Nigeria were obliged to include a certain set of (neoliberal) policies in their programmatic agendas when running for office. More generally, Geddes (1995) has noted how outgoing elites in several Eastern European countries initially favored strong presidencies and majoritarian legislatures as a means of bolstering the
influence of Communist Party leaders in the posttransition polities. In South Africa, in contrast, proportional representation was set up to favor the white minority political parties following the end of apartheid rule.

A third strategy available to exiting authoritarian elites seeking to leave their imprint on democratic rule is to remove certain governmental arenas from the vagaries of democratic politics. We have already noted a variety of cases where central bank autonomy served this purpose. To the extent that the supreme court can be appointed by the outgoing regime and given expanded powers, it offers a similarly potent form of policy insulation in this regard. Another example comes from the transitions in Chile, Thailand, and South Korea, where chief executives were empowered to establish spending ceilings that could not be raised by the legislature (cf. Baldez and Carey forthcoming). At other times, institutions may be used to enfranchise certain societal interests within the new regime. Nicaragua’s Sandanistas, for example, were able to successfully institutionalize the gains from land reform before ceding office in 1990.

Finally, authoritarian regimes can also employ the power of appointment to entrench their preferred policies within the new democracy. In the Chilean case, the authoritarians not only appointed all but 16 of the country’s 325 mayors but also made it legally impossible for the new government to appoint all but the top level of incoming state officials (Valenzuela 1992, 66). Job guarantees were similarly provided for civil servants affiliated with the outgoing (white) National Party in South Africa. In Brazil, traditional political elites allied with the military regime commandeered certain key ministries and administrative jobs at the federal and state levels that afforded them extensive control over state patronage (Hagopian 1990, 1996). In Poland, exiting elites ensured that bureaucracies in charge of external defense and internal order would remain in Communist hands throughout the first term of democratic rule. More generally, former nomenklatura in Eastern Europe and the former Soviet Union were able to secure fairly widespread control over the management and administration of various state-owned enterprises to assure themselves a dominant position in the emerging capitalist economy (Stark 1990).

Through all of these institutional tactics, the authoritarians seek to guarantee the survival of their policies long after they leave office. If they, themselves, cannot remain in power, both their people and their programmatic agendas will endure.

A Note on Institutional Persistence

In principle, there should be no problem in applying the basic argument about institutional choice developed in this book to a wider set of insulation
strategies. As noted in chapter 3, both the intensity of threat and the proximity of threat are meant to serve as general conditions under which authoritarian elites will seek to entrench their interests. While these two dimensions of threat might require some operational modifications when applied to different institutional forms, there is no reason to believe that the expected policy distance and the timing of democratization will cease to be relevant factors. Rather, as Moe and Caldwell (1994, 176) note, “the basic forces at work are generic.”

Where one might have greater cause to challenge the broader applicability of the model at hand is on the question of institutional persistence and, more specifically, the extent to which we should expect all authoritarian enclaves to be equally “sticky.” This is less of an issue for central bank reform, where the market-induced constraint privileged in this study should serve as a fairly powerful guarantee of institutional stability. That said, one could reasonably argue that biased electoral rules and/or bureaucratic appointment strategies might be more easily overturned in a newly democratic setting. It is certainly the case that not all of the examples furnished in the previous pages managed to survive the onset of democratic rule.

The transitions literature has been fairly vague on the topic of institutional persistence to date. Earlier scholarship assumed that all enclaves were the product of explicit negotiations between the outgoing and incoming democratic regimes and were thus necessarily self-enforcing (O’Donnell and Schmitter 1986; Hagopian 1990; Karl 1990). While exactly what rendered such agreements credible was not always fully spelled out, it presumably hinged on the exiting regime’s ability to threaten a return to authoritarian rule (cf. Valenzuela 1992). Although a number of authors have subsequently cautioned against assuming that such bargains necessarily endure forever (e.g., Przeworski 1992; Haggard and Kaufman 1995; Geddes 1998), few have actually speculated as to the precise conditions that might affect their endurance.

An important exception in this regard is Hunter (1997), who argues that electoral incentives facing democratic politicians in Latin America to redistribute public resources and maintain greater autonomy over policy-making may push these leaders toward reducing the military’s power over time. While an important corrective to the earlier literature, Hunter’s argument does not really lend itself to generalizable propositions that could be further tested across a larger set of cases. To begin with, the two conditions she identifies as explaining when democratic governments will be willing to “cross” the military are very loosely defined. More precise inferences are also rendered difficult by the fact that she includes a wide array of different insu-

1. The first of these, which has to do with the relative fluidity of institutional rules, is overly general. In the case she focuses on most closely (Brazil), it hinges on the relative weak-
lation strategies under the general heading “military prerogatives,” ranging from military representation in policy-making bodies to electoral rules to constitutional reform, which in turn do not always covary. Finally, because she focuses exclusively on military regimes, it is not clear how much we can extrapolate from her data about a broader range of (nonmilitary) transitions.

In short, Hunter is on the right track, but her explanation as to those factors that facilitate the staying power of authoritarian institutional legacies requires further refinement. In my opinion, future analysis should attempt to parcel out insulation strategies along more narrowly defined lines of inquiry such as a particular feature of the electoral system or a specific institution such as the supreme court, as opposed to attempting to generalize about the catchall category “military prerogatives.” In order to make more systematic claims, one could then evaluate the extent to which institutional entrenchment strategies vary by country, by issue area, or by some core feature of the institutional environment such as the number of veto players.

It is also possible that different institutions will be associated with different persistence rationales. Toward the end of chapter 3, I enumerated a variety of domestic political factors that might cause autonomous central banks to remain under democratic rule. To reiterate, I noted the power of vested interests, the existence of supramajority rules, respect for the rule of law, veto gates, the role of shared expectations, and path dependence. Following this line of reasoning, one might hypothesize, for example, that the maintenance of biased electoral laws hinges on the presence of supramajority rules, while military veto powers are more likely to depend on the existence of powerful domestic constituencies. At the very least, the two countries contemplated in detail within this study—Chile and Mexico—could serve as an excellent basis upon which to begin testing such propositions in a controlled environment.

Understanding exactly how all of this works would be an important contribution to the transitions literature. It is entirely possible that once we move beyond the credibility-based explanation that I privilege in the case of central banks, explaining institutional persistence becomes more tenuous. Alternatively, it may also be the case that the earlier literature was not necessarily wrong in positing the longevity of these authoritarian enclaves but perhaps

ness of the party system, although she alludes to a host of other institutional variables that might conceivably fall under this rubric (e.g., presidential versus parliamentary rule, internal party procedures, etc.). Her second variable—which has to do with the legitimacy of the military to intervene in politics—is arguably less a variable than it is a parameter in the sense that the armed forces’ ability to exert influence over democracy has uniformly diminished in the current era. These conceptual problems are compounded by the fact the declining power of the military in the three additional cases she examines does not seem to depend on the presence/absence of these two variables but rather on broader power alignments and the general effectiveness of civilian governments.
underspecified with respect to the precise mechanisms and the conditions under which these apply. This is ultimately an empirical question and one that cannot be resolved without further investigation.

**Insulated Transitions: Prospects for Democratic Consolidation**

In sum, there exist a myriad of mechanisms through which authoritarian regimes may seek to protect their interests once they know that they are losing power. How the authoritarians choose to do this will depend upon what arenas of policy they care about most and what institutional forms of protection are most readily available to them. The bulk of this book has been devoted to the motive, design, and implementation of these insulated structures. In conclusion it is worth touching on some of the implications they may have for the new democracies of the third world.

**Insulated Institutions: Why All the Fuss?**

One set of issues that inevitably arises in this regard concerns how we are to distinguish the institutional insulation described in this book from “normal” forms of delegated authority found in established democracies. After all, many polities remove specific policy domains from the hands of elected officials without marring their democratic credentials. The very essence of consociational democracies, for example, is to limit the influence of electoral majorities in areas of policy that are of particular concern to minorities (Lijphart 1977). Economic policy is also highly insulated in the small European democracies, where major decisions about wage and incomes policy are made through private corporatist negotiations between key interest groups and the government (Katzenstein 1986). The U.S. government itself has a long tradition of abdicating regulatory powers to semiautonomous agencies, such as the Securities and Exchange Commission (SEC), which monitors activities in the securities market.

One may question—as we did in chapter 2—whether institutional insulation in established democracies may also share some inequitable characteristics (cf. Moe 1990a, 1990b). That said, it is still important to clarify why the institutional enclaves in a transitional polity are particularly anti-democratic. One reason lies in their distorting effects upon the representativeness of these democracies. The authoritarians do not create these institutional footholds in

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2. The following examples draw heavily from Valenzuela (1992).
order to promote a balance among the interests of different societal groups, as is the case in consociationalism. These institutions are instead designed to artificially preserve the influence of former rulers and their associated allies who have been permanently removed from office by the will of the people. Rather than protecting the interests of a minority with a legitimate claim to representation, they thus grossly overrepresent an illegitimate minority.

Second, these insulated structures also skew the institutional balance of power within new democracies. Traditionally, we are accustomed to thinking of autonomous agencies as at least in part a corrective against excess discretion in the hands of the chief executive. Many have interpreted the Mexican central bank reform of 1993, for example, as facilitating democratization by reducing the authority of the Mexican president over the economy (Maxfield 1997, 148). But this is an erroneous interpretation of the role that insulated institutions play in transitional polities. For while they do wrest control away from the chief executive by placing it in the hands of a decentralized, autonomous agency, that agency is in turn under the direction of a small elite with no legitimate claim on the state apparatus. Far from reducing the concentration of political power in the political system, these institutions arguably serve to exacerbate it.

This brings us to a third and final liability associated with such institutional forms: their consequences for the ability of incoming democratic governments to freely exercise their authority. For unlike the policy insulation that flows out of corporatism—which emerges from a set of negotiated agreements—the institutional forms to which this study refers are largely the product of imposition. They are not created through voluntary actions taken by the democrats themselves but instead form part of a larger institutional inheritance that is thrust upon them. Although the new power holders would like to control these areas of policy in order to carry out their programs, they are instead precluded from even considering this as an option.

One might argue that even in established democracies, policymakers are frequently denied the opportunity to set policy within certain arenas. But there is a crucial difference in transitional polities: in many cases, this prohibition is reinforced by the veiled or explicit threat of a return to authoritarian rule. Precisely because these institutions have been imposed by actors with “privileged access to crucial elements of state power to make credible their threat of destabilization” (Valenzuela 1992, 65), they are often backed by a degree of coercion not present in most democratic settings.

As S. Valenzuela sums up the nefarious consequences of such authoritarian enclaves, “they undermine both the end of the democratic process—
i.e., the authority of democratically elected governments, and . . . detract from its means—i.e., the fairness and centrality of the electoral mechanism as a route to forming governments” (Valenzuela 1992, 62) (italics added). While this is arguably also true of certain forms of insulation in established democracies, the difference is one of both degree and kind. For while insulation in first world countries may compromise certain aspects of the democratic process, the institutions considered in this study have the potential to imperil the democratic system as a whole.

Consider the case of Chile. Despite several significant advances, Chile’s democracy continued to be haunted in the 1990s by an electoral system that did not allow the majority to rule, a military not subject to civilian control, and an amnesty clause that precluded the definitive resolution of the human rights controversy. What all of these institutions pointed to was the continuing behind the scenes influence of various political actors who were not themselves subject to electoral accountability but had the ability to hold Chile’s democratic future hostage. As long as such reserved domains of authoritarian influence remain, they cast reasonable doubt as to whether or not Chile’s transition has actually ended. Indeed, one author went so far as to say that the Aylwin government was no further along the “transitional” continuum between authoritarianism and democracy when it stepped down from power in 1994 than it was when it began to rule four years earlier (Garretón 1993).

This is undoubtedly an overstatement, although not too far out of step with the views of some noted scholars of democratic consolidation (cf. Linz and Stepan 1996, 207–17). Even Londregan (2000), who wishes to argue that the agenda-setting powers of the presidency have gradually eroded the policy constraints imposed by Chile’s various institutional enclaves, admits that the effectiveness of this strategy was limited to issue areas where the authoritarians had less of a stake. And even there he concludes that change occurred at a pace that was “slow to glacial” at best (Londregan 2000, 212). He thus pre-

4. Despite modest improvements, the pervasive influence of the enclaves could still be felt in several realms of Chilean politics under Aylwin’s successor, Eduardo Frei. In the electoral realm, for example, a movement in 1995 to abolish the institution of the designated senators was defeated. While the government was able to appoint two of their four replacements, the other two were named by governing bodies outside of executive control. Of particular note—and despite widespread popular protest—Pinochet was able to assume the position of “senator for life” upon stepping down from his role as commander in chief of the armed forces. Progress toward bringing certain former military officials to trial for human rights violations carried out under military rule was similarly limited. The prominent exception—the jailing of Pinochet’s former head of secret police, Manuel Contreras—was enforced only after extensive delay and by offering concessions to the military, including a pay hike and a commitment to bring closure on remaining court cases (Hunter 1997, 155). And while Pinochet’s right to diplomatic immunity as a for-life senator was revoked early in 2000—thereby enabling him to stand trial for human rights abuses carried out under military rule—it has yet to be seen whether or how this issue will be resolved by the Chilean courts.
dicts that the executive branch’s ability to move certain policies in the direction preferred by the majority may take more than a generation to be realized, leaving Chile woefully shy of the responsiveness threshold set by established democracies.

To be sure, not all new democracies come as well insulated as Chile’s. But most do share at least some of the institutional constraints described earlier. Unless and until these constraints can be removed, most authors seem to agree that the transitional polities of the third world are condemned to exist as “partial,” “incomplete,” or “unconsolidated” democracies.5

Assessing the Future: Insulation as a Necessary Evil

Of course, this discussion necessarily begs the final question of what—if anything—these new governments can do to avoid the institutional legacies of their authoritarian predecessors. Unfortunately, the answer would seem to be “not much.” While few scholars of democratization would extol the virtues of these institutional forms, most would agree that they constitute a necessary evil.

Regardless of their potentially perverse consequences for new democracies down the road, insulated institutions do serve an important function in the early stages of the transition. Some credit the enclaves with fostering an otherwise elusive consensus among contending factions by providing a supraconstitutional basis for dispute resolution (Godoy 1994, 18). More generally, they are thought to play a pivotal role in limiting the uncertainty of the transition by extending guarantees to those who formerly supported authoritarian rule (Karl and Schmitter 1994, 56). As Przeworski (1992) argues, a transition is only possible if some sectors within the dictatorship can expect to have a significant political presence under democratic conditions (Przeworski 1992, 126). For all of these reasons, the very success of the transition arguably hinges on the existence of institutions that are necessarily conservative—if not out-and-out anti-democratic—in nature.

The problem is that, once there, these insulated institutional forms place their democratic heirs in a double bind. For despite their integral role in facilitating the initiation of the transition, these pockets of authoritarian control are not easily uprooted. Rather, for all of the reasons noted earlier, they are in fact quite difficult to reverse. It is perhaps not surprising, then, that O’Donnell speaks of two transitions—one that entails the installation of a democratic government and a second more complex transition to an institutional-

5. For a conceptual discussion of democratic consolidation, see the various contributions found in Mainwaring, O’Donnell, and Valenzuela 1992; Linz and Stepan 1996; Diamond et al. 1997.
ized democratic regime (O’Donnell 1992, 18). Ironically, those enabling conditions most conducive to the first transition may prove to be the very factors that are most detrimental to its subsequent democratic evolution (Hagopian 1990; Karl 1990).

This is not to imply that change is out of the question. There is, after all, no a priori reason why democratization “cannot prove to be an ongoing process of renewal” (Karl 1990, 16). It may well be the case, as suggested earlier, that some authoritarian enclaves are simply less “entrenchable” than others are and/or certain institutional environments render them less resilient. It may also be the case that once a climate of trust has been established between the authoritarians and the democrats, the enclaves will become obsolete (Godoy 1994). But such a halcyon scenario seems unlikely. Particularly if Chile is to serve as any sort of model, the outlook for modifying the institutional structure of new democracies does not look promising. If these countries are ultimately to shake their authoritarian pasts, it is unlikely to happen any time soon.

Implications for the Study of Institutional Design

In addition to its relevance to the study of democratic transitions and consolidation, the argument presented in this book also speaks to a host of other issues germane to modern political economy. Above all, it has attempted to make a contribution to the burgeoning literature on central banks. While the past few years have witnessed a growing body of literature on the causes and effects of central bank autonomy in the advanced industrial democracies, there has been relatively little corresponding research on central bank reform in the developing world. And where such work does exist (e.g., Maxfield 1997), it has tended to borrow heavily from economics, typically casting central bank independence as an efficient solution to a commitment problem that leaves politicians objectively better off. This book has put forth an alternative, more overtly political explanation for central bank reform and its related distributional effects. I raise the possibility that politicians who create autonomous central banks do so not so much to commit themselves to a future of low inflation but, rather, to bind the policy choices of future governments, who may well view this institutional inheritance as costly.

But while central banks have constituted the principal substantive focus of this book, my argument can also be read as a broader comment on the study of institutions. For as with the credibility literature, there has been a tendency within the social sciences in recent years to view institutions as efficient vehicles for welfare improvement. This bias has been most evident
within that body of literature known as the new economics of organization (NEO) (Williamson 1985; Milgrom and Roberts 1992). In a nutshell, the NEO argues that institutions arise in order to overcome market failures, thereby helping actors to bargain their way toward mutually beneficial gains from trade. Like the credibility literature, it employs an essentially econom-based reasoning, with a focus on bargaining and Pareto-improving outcomes. While initially confined to economics and, in particular, to theories of the firm, this efficiency-based view of institutional design has rapidly become a dominant paradigm in political science as well (Steinmo, Thelan, and Longstreth 1992; Hall and Taylor 1996).

The hegemony of the NEO paradigm has recently been challenged on two grounds. First, it ignores the role that power may play in the process of institutional creation. Rooted as it is in the analysis of the firm in Coase 1937, the NEO posits a state of nature in which actors of equal strength engage in voluntary exchange. It is assumed that as actors enter into contractual agreements, they will jointly structure an authority relationship to serve their mutual needs—whether this is the firm (as in the case of economics) or the legislature (the most common example in politics). What is not clear is how well this marketlike depiction extends to the political environment (Moe 1984). While there are undoubtedly settings where political actors stand on equal footing, there are also many cases where the initial allocation of property rights privileges the interests of certain actors over others (Levi 1990; Knight 1992). Whether by virtue of their ability to exercise agenda control (Shepsle and Weingast 1989), to alter the game’s payoff matrix (Conybear 1987), or to induce cooperation by unilaterally shifting the status quo (Gruber 2000), more powerful actors are likely to be favored in the process of institutional design. In short, what the NEO characterizes as bargaining may more aptly be termed coercion when transposed to the political realm.

A second and related problem with the NEO is that it tends to overstate the welfare-enhancing effects of institutional outcomes. For while this paradigm acknowledges that politicians may have divergent interests, it is assumed that whatever institutional outcome is ultimately chosen will necessarily benefit all parties equally. But if it is true that politics is best characterized by power asymmetries, then it is not so clear that the resultant institutions—and the policies they embody—will necessarily serve all actors to the same degree. It seems more likely that outcomes will be skewed in favor of the interests of he or she who holds power, leaving some actors more advantaged than others.

This is certainly the thrust of Moe’s work (1990a, 1990b), discussed in chapter 2, which is all about the ways in which incumbents use the power of office to impose their preferences on their successors, who may be left worse
off. A redistributive air also infuses much of the literature in international relations over the past decade, which seeks to explain how actors choose an institutional equilibrium when there is more than one path to cooperation. The argument is that where such multiple equilibria exist, power and resources may determine the choice of solution (Krasner 1991; Garrett and Weingast 1993). Thus, for example, the bargains struck in the European internal market are said to reflect the preferences of the most powerful states (Garrett 1991; Moravscik 1991).

If there is good reason to argue for a more redistributive understanding of institutions in the developed world, such a critique would seem all the more compelling in the developing world. Hall and Taylor (1996), for example, have argued that the NEO seems best suited to those political settings where actors of roughly equal power are accustomed to interacting strategically within a mutually agreed upon set of rules. But does this sound like the political reality of the everyday developing country? At the very least, this set of analytical tools would seem particularly ill suited to one institutional environment of growing empirical significance: democracies in transition from authoritarian rule. After all, the transitional setting is one in which there exist glaring asymmetries of power, strategic interaction is far from routine, and the rules of the game are—by definition—in flux.

Despite this fact, a great deal of emphasis has been placed to date on the role of bargaining as the primary mechanism through which most transitions occur (O’Donnell and Schmitter 1986; Karl 1990; Przeworski 1992). Although undeniably some element of bargaining takes place in nearly all transitions that are not a product of out-and-out revolution, it may be misleading to overemphasize this dynamic as the transition’s dominant leitmotiv. For these are generally not bargains among equals, at least in the sorts of top down, elite-led transitions where insulation tends to be most prevalent. In such cases, enclaves are frequently not the object of negotiation but rather are presented as a condition for withdrawal, without which the authoritarians are not willing to yield power (Przeworski 1992, 118). And even where these arrangements are the product of explicit understandings between exiting authoritarian and incoming democratic leaders, it is the authoritarians who—by virtue of their first mover advantage—have the ability to set the terms of this debate.

To state this somewhat differently, it may prove more fruitful to conceive of the transitional bargains so commonly referred to in the literature less in terms of what the democrats “give” the authoritarians (cf. Bates 1991) than what the authoritarians “take.” For while it is true that the democrats do, in some sense, get democracy in exchange for these institutional constraints, they do not relish inheriting these enclaves and would overturn them if they
could. While few scholars would disagree with this assertion, their emphasis on bargaining and negotiation tends to obscure the fundamental power asymmetries that lie at the heart of most transitions.

**Paths for Future Research**

This study lends itself to a number of different avenues for future research. I have already speculated as to how the present argument might be extended to explain central bank reform under other institutional contexts and/or other forms of insulation. In closing, I raise two additional possibilities.

First, it might be interesting to examine the extent to which the insulation argument presented here holds across transitions over time. We know, for example, that during the first wave of transitions at the turn of the century, European governments created proportional systems of representation in order to maximize the influence of smaller, liberal parties under future democratic rule (Rokkan 1970; Boix 1999). In the second wave of transitions following the end of World War II, one could presumably study the differing ways in which colonial powers used institutions to try to shape the course of political and economic developments in the newly independent countries of the third world. Thus, for example, the franc-backed monetary union in the countries of West Africa has often been viewed as an attempt by France to remove monetary sovereignty from her colonies before relinquishing formal political control (Collier 1991; Van de Walle 1991). Other colonial institutional structures that illustrate a similar principle must surely also exist. Were we to find systematic evidence of such a trend, this would further underscore the empirical robustness of the argument at hand.

A second way to extend the argument might be to develop a fuller model of how authoritarian governments optimize across a range of different potential insulation strategies. The basic thrust of this book is that exiting authoritarians ought to try to “spread their DNA” across as many institutional domains as conform to their interests. Above a certain threshold, however, there must surely be some trade-off between allocating resources in one institutional arena versus another. The model presented here does not allow me to address this question, as the view of the world I am offering constitutes only a partial equilibrium. One future course of research might thus be to model how authoritarian governments go about calculating such trade-offs across the entire range of potential insulation domains and then to test this hypothesis across a wider set of countries.

Whatever the institutional form or historic moment at hand, the basic point is that insulation constitutes a central part of politics in any context and
reflects the essence of strategy by outgoing elites in the transition from authoritarian rule. The bottom line is that these insulated institutions are created by authoritarian regimes who know they are losing power and who respond to this threat by willfully imposing their policy preferences on those who inherit the throne. The rules are not fair, nor are the opponents equally matched. But it is the price of democracy, and it is the only game in town.