

DEVELOPMENT IN THE AMERICAS

Better Spending for **Better Lives**

How Latin America and the Caribbean Can
Do More with Less

Chapter 10

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10 Shortchanging the Future: The Short-Term Bias of Politics

This volume documents a pattern of spending policies in Latin America and the Caribbean in which governments leave money on the table: spending inefficiencies that, if removed, would allow governments to provide more and better services to more citizens. These inefficiencies pose a difficult puzzle: since citizens in these countries elect their governments, these governments might be expected to pursue policies that improve citizen welfare, and citizens to choose politicians who promise and deliver efficient policies. Unfortunately, this is not what happens. The pressures of competition in the political and electoral marketplaces of Latin America and the Caribbean—as in democracies the world over—do not necessarily drive public policy toward the social optimum. Governments neglect public investments in physical and human capital that would yield economic growth rewards far exceeding their cost, and tolerate gross spending inefficiencies that reduce the value of services that citizens receive. Across the region, there is a systematic bias against policies that would bring substantial benefits in the future or whose fruits are more difficult to observe. Why do democracies, and specifically those of Latin America, exhibit such biases?

This chapter tries to answer this question. One explanation is that the institutions that structure political and electoral marketplaces distort the incentives of politicians to respond to citizen demands—to “supply” efficient, development-promoting policies. Every form of government has rules that establish who elects which politicians and how those politicians make decisions about public policy. No rules are perfect; none give politicians perfect incentives to translate citizen preferences into public policy. However, some are less perfect than others. In Latin America, the formal rules of elections and legislative decision-making favor lower capital

spending; they do not encourage the long-term agreements necessary to implement policies with long-run benefits.

Another class of explanations is that citizens do not “demand” policies that would make them better off. New evidence from surveys across Latin America and the Caribbean reveals that citizens are reluctant to embrace policies that deliver future benefits, even in areas of significant concern to them, such as education and crime. Despite high inequality in the region, support for taxes to pay for redistribution is also low.

There are three possible reasons for these policy preferences: mistrust, lack of information, and impatience. Citizens may not trust one another, the government, or public officials. Lack of trust reduces their interest in any policy that expands the scope of government; they do not believe governments will follow stated policy, or that their fellow citizens will join them in voting against governments that default on their promises. Lack of trust also suppresses citizen demand for policies that require up-front costs to reap large future benefits; they are simply skeptical that those benefits will ever materialize. Citizen mistrust that governments will convert tax revenues into growth-promoting infrastructure is one potential explanation for the declining share of capital expenditure in total government spending in the region (see Chapter 1). New evidence on trust and public policy in the region confirms the role of mistrust in citizens’ policy preferences.

Why is mistrust so embedded in the region? At a broad, aggregate level, citizens do not feel represented by political parties; lacking large organizations to solve the collective action problems they face in holding governments accountable, citizens have little trust in government. At a more local level, citizens doubt whether their neighbors would work together to demand that local government improve neighborhood infrastructure. The greater their doubts, the less trust they express in government.

Citizens might also express little demand for “good” policies because they are *uninformed* about what governments can do for them, what governments are doing for them, or what political candidates promise to do for them. If people do not know what governments are capable of, they will not ask the right questions. Lacking information about what governments have done in the past, citizens have no way to hold officials accountable. And if they do not know the policy promises that candidates make, they can neither support the candidate whose promises best align with their preferences nor hold politicians accountable. Ignorance can, therefore, introduce a significant wedge between citizens and politicians, discouraging the emergence of beneficial policies. Capital spending is particularly vulnerable to this problem since its benefits are often indirect and informationally-demanding. Infrastructure—ports and highways, for

example—delivers large indirect benefits in the form of faster economic growth, but it is difficult even for analysts, much less citizens, to quantify those benefits.

Information and trust are related. Citizens who cannot verify government claims of policy achievement have less reason to trust government assurances that stated policies will be pursued. However, even fully informed citizens may have reason to worry that governments will renege on their future commitments. Infrastructure is vulnerable to lack of information: citizens cannot easily verify the efficiency with which their tax dollars are turned into infrastructure projects, nor the technical merits of the infrastructure projects that governments choose to build. At the same time, informed citizens may question whether future administrations will continue construction of the infrastructure projects begun by their predecessors.

Finally, some people are simply more patient than others, and attach a higher value to future benefits. If countries differ in the patience of their citizens, they might also differ in the degree to which they adopt policies with high future payoffs paid for by current expenditures. While patience is an intrinsic quality of individuals, societies can be exposed to external circumstances that try the patience of all their citizens. The poor confront significant challenges in the present that might outweigh their concerns about the future. In countries where the economic environment is volatile, and the chances of bad outcomes are high, citizens are less likely to prefer future benefits to current payoffs. High volatility exacerbates the problem of incomplete information, making it more difficult for citizens to understand the connections between investments today and long-term benefits tomorrow.

The Politics of (Bad) Policy: Institutions

Elected governments might be expected to pursue policies that most improve citizen welfare, and citizens to prefer politicians who promise to pursue these policies. Such policies should be stable in the face of political transitions, and policies that do not work should be quickly replaced by those that do. Elected governments that pursue beneficial policies should also coordinate and enforce them. Unfortunately, reality often fails to conform to these expectations. Across Latin America and the Caribbean, policies tend to be unstable, to favor narrow interests, and to be inefficient (Franco Chuaire and Scartascini, 2014). The region exhibits a systematic bias against investments (e.g., in infrastructure and education) with benefits that only become apparent in the future and are less direct and more difficult for citizens to appreciate.

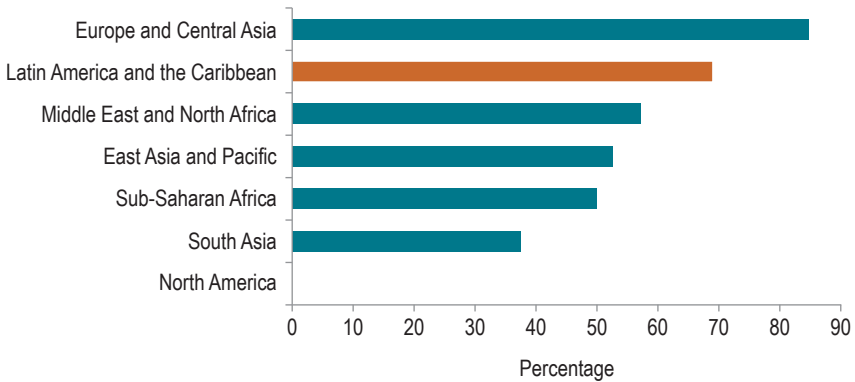
The political institutions of Latin America—the supply of public policies—contribute to this bias. On the one hand, electoral institutions in the region tend to shy away from geographically targeted investments. This particularly affects infrastructure, which generally yields greater benefits to some geographic areas than to others. On the other hand, policymaking institutions, particularly legislatures, are characterized by low levels of intertemporal cooperation. Political actors have difficulty agreeing on public policies that have short-term costs and long-term benefits. This problem is particularly acute in contexts in which benefits will accrue to future administrations, as with most infrastructure and investment projects.

Compared to countries with plurality electoral systems (i.e., winner-take-all, single-member districts), proportional representation countries tend to favor coalitions that share demographic rather than geographic characteristics. Legislators elected in narrow districts have incentives to provide geographically targeted benefits to their constituencies. Infrastructure is particularly easy to target geographically. Transfers, in contrast, are easier to target to demographic groups. Hence, in large proportional districts where parties tend to align with broad interests (unions, exporters, etc.), legislators shift spending toward subsidies and transfers and away from public goods expenditure in the economy (Lizzeri and Persico, 2001; Scartascini and Crain, 2002).

Milesi-Ferretti, Perotti, and Rostagno (2002) look at a sample of 20 OECD countries and find that expenditures on transfers and total spending are higher in more proportional electoral systems.¹ In Italy, when the electoral system became less proportional, transfers to families declined (Santolini, 2017). In a sample of Brazilian states, the more disproportional the electoral system and the smaller the fragmentation of state assemblies, the greater was the allocation to public goods and the smaller the allocation to transfers (Lledo, 2003).

Latin America and the Caribbean stands out with respect to the fraction of countries that exhibit proportional electoral systems (see Figure 10.1). The region is also an outlier when it comes to the institutionalization of congress (see Figure 10.2), with significant implications for legislators' ability to make intertemporal agreements. The measures of congressional institutionalization consider members' degree of technical expertise, the average experience, the relevance of committees, the effectiveness of legislative bodies, and the confidence of people in congress, among other measures (Saiegh, 2010; Palanza, Scartascini, and Tommasi, 2016). One important characteristic of institutionalized congresses is that legislators tend to

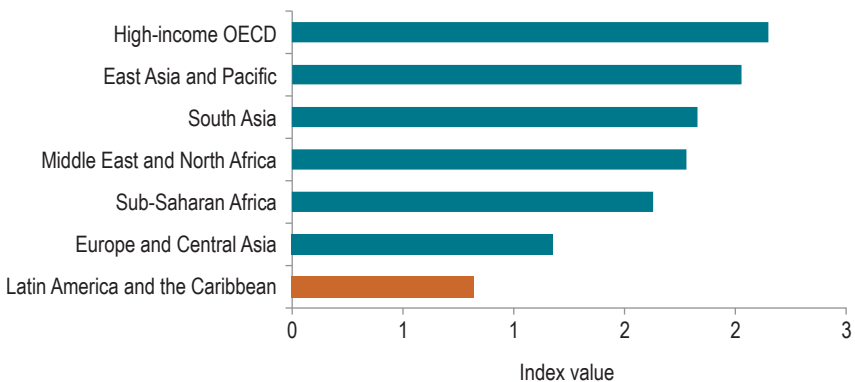
¹ Ardanaz and Scartascini (2014) show that fiscal institutions can change this equilibrium by changing the incentives of policymakers.

Figure 10.1 Countries with Proportional Representation, by Region, 2017

Source: Authors' elaboration based on the Database of Political Institutions 2017.

view them as places to build a career. Becoming a professional politician depends on becoming a professional legislator. Professional legislators invest in their careers in congress, participate in relevant committees, and cultivate seniority and experience. These features of institutionalized congresses tend to facilitate intertemporal cooperation (Stein et al., 2005; Stein and Tommasi, 2008; Scartascini, Stein, and Tommasi, 2013; Franco Chuaire and Scartascini, 2014; Palanza, Scartascini, and Tommasi, 2016).

Professional legislators with long-term horizons are more willing to enter into long-term agreements because they can reap the political rewards of spending projects that yield large benefits only in the future. The institutionalization of the legislature affects those horizons. For example, some legislatures

Figure 10.2 Degree of Congressional Institutionalization across Regions

Source: Authors' elaboration based on Chuaire and Scartascini (2014).

have unpredictable rules for assigning individuals to key committee and leadership roles. Hence, current legislators are more uncertain about the incentives of future legislators to preserve intertemporal agreements. Large investments in infrastructure, for example, yield high future payoffs only to the extent that future legislators approve funding for maintenance. If they do not, infrastructure decays and promised benefits do not materialize.

Long-run policies are also complex. Infrastructure spending entails decisions about where to place it, what type of infrastructure to prioritize, whether it should be built by private or public agencies, and whether it should be partially funded with user fees. However, legislatures frequently do not allocate internal decision-making power to legislators with expertise, leaving legislators with weak incentives to acquire expertise. Since identifying welfare-optimizing public policies requires expertise, systems that do not reward it yield lower-quality policies, including policies that substitute lower current for higher future payoffs.

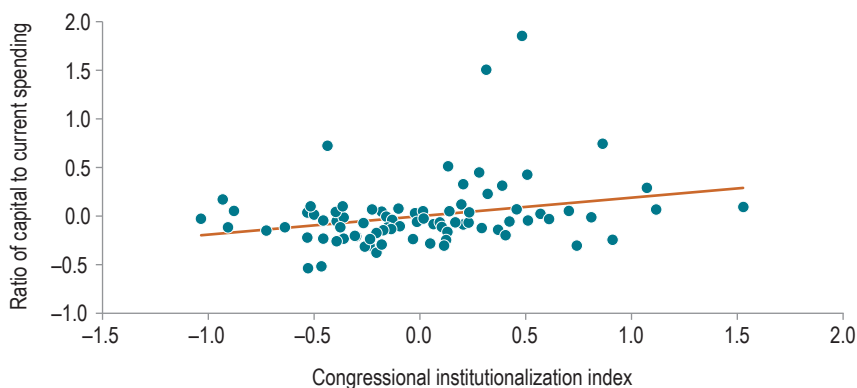
Countries with more institutionalized legislatures, in fact, tend to also produce better public policies. Legislative institutionalization yields better infrastructure and less distortionary subsidies (Scartascini and Tommasi, 2010). It is also positively correlated with less waste in public spending and greater efficiency in education spending (Scartascini and Tommasi, 2010; Palanza, Scartascini, and Tommasi, 2016).

Other institutions also matter significantly for intertemporal cooperation among political actors. Among these, political parties are particularly important. Political parties that provide career paths for members, set the criteria for and influence candidate selection, mobilize electorates independent of the candidates running, and maintain a consistent policy program over time and across candidates, can enforce agreements among legislators; future legislators from a strong, institutionalized, and programmatic party cannot easily renege on agreements made by earlier legislators from the party (see Keefer, 2018). Congressional institutionalization is strongly related to party organization: to the extent that legislators have no partisan reasons to sustain legislative institutions, those institutions are likely to be fragile (Diermeier, Prato, and Vlaicu, 2018).

Latin America and the Caribbean tends to present a bias toward current over capital spending (see Chapter 2). Countries in Latin America and the Caribbean are also particularly weak in terms of institutionalization, particularly of congress, and tend to elect their representatives using proportional representation systems. Are these patterns correlated?

Broadly speaking, institutionalized legislatures and parties underlie the findings in Keefer (2007) that younger democracies are less likely to provide public goods—such as public investment—than older democracies.

Figure 10.3 Ratio of Capital to Current Spending and Congressional Institutionalization



Source: Authors' elaboration based on Scartascini, Cruz, and Keefer (2018); the IMF's World Economic Outlook Database 2017; and World Bank World Development Indicators.

Note: Graph depicts the relationship between the ratio of capital to current spending and congressional institutionalization, controlling for the log of median house district size, judicial independence, party institutionalization, bureaucratic quality, the log of GDP, the log of the land area, and whether the political system is presidential or parliamentary.

More direct evidence for the region emerges from observing a simple correlation. One measure of proportionality in legislative elections is the number of legislators in a legislative district. When there are more, the electoral rules are almost always proportional (seats are assigned according to the fraction of votes that a party receives in the district), and districts tend to be geographically larger. A one standard deviation increase in the degree of proportionality in legislative elections is associated with a decrease in the ratio of capital to current spending of about 5 percentage points—a substantial amount, since the average ratio of capital to current spending in the region is about 22 percent.

Capital spending also goes hand in hand with congressional institutionalization: an increase of about one standard deviation is associated with an increase in the ratio of about 12 percentage points (see Figure 10.3).²

Institutions are not the only “supply-side” determinants of policy choice. Interest groups also play a significant role. Strong unions, organized groups of the middle class, or the unemployed may help tilt the balance of spending composition toward higher current spending. On the

² Importantly, Palanza, Scartascini, and Tommasi (2016) find that proportional representation is negatively correlated with institutionalization. As such, the institutional choice seems to be having a double effect on spending decisions, through incentives for reelection and incentives for building a strong congress.

other hand, strong business actors, particularly on the construction side, may tilt decisions more toward infrastructure spending. However, there are no data to examine whether the relative power of these interest groups is systematically different in Latin American and Caribbean countries that exhibit an outsized preference for current over capital spending.

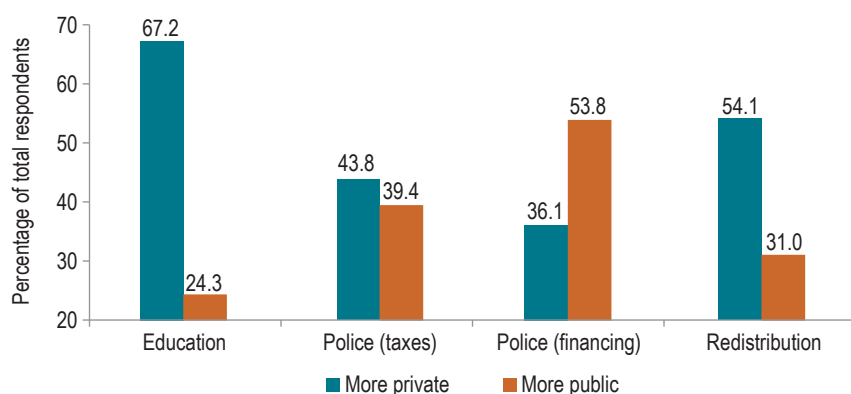
Similarly, citizens may find it more difficult to identify lines of responsibility for some public policies (e.g., infrastructure and capital spending) than for others. This may especially be the case when they are confronted with coalition governments or federal systems. Again, however, systematic evidence on these issues is scarce and it is difficult to show that Latin American and Caribbean countries are outliers with respect to blurry lines of accountability.

The Demand Side: Citizens' Policy Preferences

While persuasive, the institutional “supply-side” explanation is incomplete. Countries in other regions with similar institutions do not exhibit the same policy dysfunction as countries in Latin America. At the same time, institutions convert citizen preferences into public policy, but voter preferences and the relationship between voters and politicians can differ across countries with identical institutions. If voters do not demand public goods and investments in future benefits, then those policies will be under-provided regardless of the country’s institutional arrangements. If the relationship between voters and politicians is fragile—if voters do not trust politicians or do not have any information about what politicians do—then again, regardless of the institutional arrangements, voters will prefer policies that do not require them to have faith in politicians’ assurances. Politicians, therefore, may prefer less welfare-improving policies not only because of institutions, but also because citizens tolerate, or even prefer, such policies.

In fact, regional surveys suggest that underinvestment may be entirely consistent with citizen preferences. One, undertaken in 2017 by the Inter-American Development Bank with LAPOP (the IDB-LAPOP survey), elicited the policy preferences of 5,800 respondents from seven countries: Chile, Colombia, Honduras, Mexico, Panama, Peru, and Uruguay. The questions evaluated respondent preferences with respect to funding for education, policing, and redistribution to the poor.³ The results demonstrate the

³ A key issue in assessing policy preferences accurately is whether respondents understand that policy choices require trade-offs. The survey made these trade-offs clear by presenting respondents with vignettes that gave them a choice between two mutually exclusive policy options. For example, one question was: “The government has two options to combat insecurity. Option A is to allocate more resources to the police so that they can do a better job of fighting crime throughout the city. Option B is to give

Figure 10.4 Preferences for (against) Public Goods in Latin America, 2017

Source: Authors' elaboration based on IDB-LAPOP Database.

Note: Respondents who were indifferent about policy options are not shown. Option "More private" means lower taxes for greater private spending (education and police) or for faster economic growth (redistribution), while option "More public" means higher taxes to finance greater public provision (education and police) or greater redistribution.

absence of support for more funding of education, the police, or redistribution (see Figure 10.4).

Three important messages emerge from Figure 10.4. First, Latin Americans oppose higher taxes to finance greater spending on education and redistribution, although the region does less of both compared to other countries with similar or higher incomes per capita. They are essentially indifferent—neither for nor against—raising taxes for policing.

Second, among these policy options, the benefits of education take the most time to be realized. Resistance to higher taxes to finance education spending is significantly greater than resistance to taxes for policing and redistribution. This is relevant for the broader issue of current versus capital expenditure in the region, where the latter delivers benefits with the greatest delay. Notice that education is akin to capital spending in that the benefits of this type of expenditure only materialize in the future. Could this indicate an issue of trust for delivering long-term policies?

Third, whether the resources come from taxes or somewhere else makes a difference. Respondents were asked about two scenarios: in one, police funding was explicitly financed by higher taxes, while in the other the funding source was ambiguous. Support for the second option (more policing, ambiguously funded) was significantly greater than support for the first (more policing, financed through higher taxes). Like people

subsidies to citizens and neighbors so that they can fight crime by contracting private security and installing security cameras on their streets. Which option do you prefer?"

everywhere, Latin Americans are attracted by the promise of greater benefits at little or no cost.

These results also cast doubt on survey results that claim to capture citizens' policy preferences without ever having asked citizens to weigh the trade-offs embedded in their preferences. For example, many surveys conducted in Latin America have asked respondents to describe their preferences regarding state involvement in the economy and state provision of services. When asked about these issues in a general way, they express significantly more support for an expanded public role. However, these questions are not only broad, they also do not ask respondents to make trade-offs. Once respondents are obliged to account for the need to make trade-offs (e.g., higher taxes to finance more government), enthusiasm for larger government appears to dim significantly.

Ideally, direct information on citizen preferences for infrastructure spending would also be available. This turns out to be challenging to collect, however. First, infrastructure encompasses a variety of services, with differing distributions of citizen preferences across them. For example, most households have regular access to treated water, but some do not. Some households rely on public transportation or commute long distances. Others do not. Second, infrastructure services differ in whether they provide direct or indirect benefits to households. For example, ports, highways, railroads, and Internet backbones benefit households indirectly with cheaper goods and faster economic growth. Third, many infrastructure services are inherently geographically targeted. Citizens may, therefore, express little preference for infrastructure spending simply because they are unsure of where it will go. Education, crime, and redistributive policies are less subject to these methodological difficulties but vary along intertemporal and other relevant dimensions, a fact that highlights other distortions in public policy that make it difficult to plan long term.

Trust in Latin America and the Caribbean: A Rare Commodity

One factor that may contribute to the bias against capital spending, and against raising taxes for police, education, and redistribution, is citizens' lack of trust in government and political actors. Substantial research has looked at electoral competition between candidates when voters believe there is a good chance that politicians will break their promises, concluding that it reduces incentives to provide services that benefit everyone (i.e., public goods), and increases rent seeking (Persson and Tabellini, 2000; Keefer and Vlaicu, 2008); it even increases vote buying by politicians (Keefer and Vlaicu, 2017). Since politicians in younger democracies may

face greater challenges building trust among voters, their policies may differ notably from those of more established democracies. Most often, they will be characterized by less public investment and larger swings in government spending during election years (Keefer, 2007).

Mistrust of government and of other citizens can also reduce support for redistribution to the poor. The central challenge of redistribution is the adequate targeting of benefits. Even in the face of great inequality, though, citizens may not support redistributive policies if they do not trust government to target accurately. This may be one of the reasons why the relatively better-off tend to dislike transfers to the poor, while favoring other kinds of redistribution (Machado, 2012).

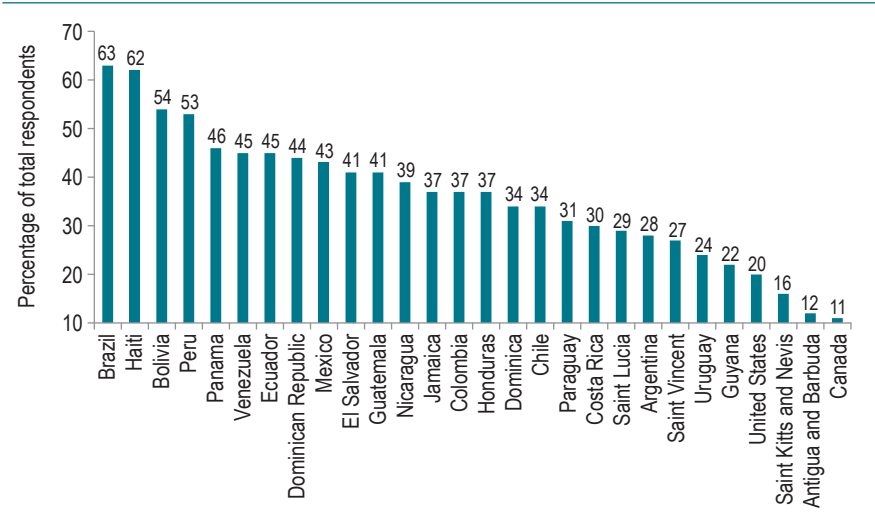
Lack of trust in fellow citizens also affects policy preferences. The benefits of many government policies, such as education or redistribution, depend on the behavior of the households that receive them. Education policies, for example, aim to increase student learning. However, it is well known that the effectiveness of schooling for learning also depends on family inputs into the education process. Lower trust may translate into a lack of confidence that households receiving education benefits will exert the complementary effort that is key to student learning. Low trust in others then translates into lower support for education spending. Similarly, if people are convinced that ineligible citizens will apply for and receive redistributive benefits, they are less likely to support redistributive programs.

Evidence from the Barómetro of the Américas 2017 survey covering all Latin American and Caribbean countries, and of the IDB-LAPOP 2017 survey of seven countries discussed previously, point to a trust deficit in the region. The Barómetro survey, undertaken by Vanderbilt University's Latin American Public Opinion Project (LAPOP), is one of the most comprehensive public opinion surveys in the region. It collects responses from a nationally representative sample of every country in Latin America and the Caribbean.

In 2017, as in prior years, respondents were asked whether they thought the people in their communities were very, somewhat, little, or not at all trustworthy (*confiable*). Thirty-eight percent of respondents said the people in their community were little or not at all trustworthy, ranging from 63 percent in Brazil and 62 percent in Haiti to 24 percent in Uruguay (Figure 10.5).

Respondents also answered questions about the trustworthiness of the president, legislature, and political parties. Figures 10.6-10.8 demonstrate the levels of trust in political actors across the region. In most countries, one-third or more of respondents reported mistrust of these actors.

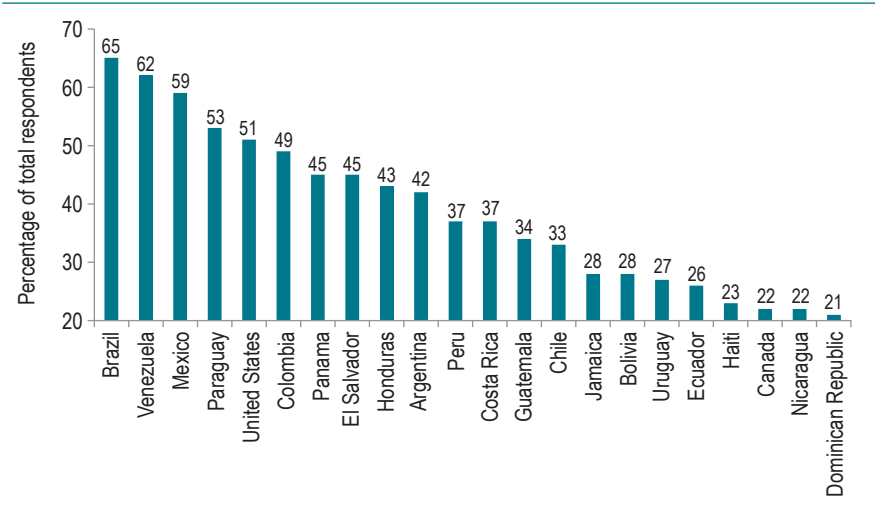
Figure 10.5 Trust in People in Their Community, 2016 and 2017



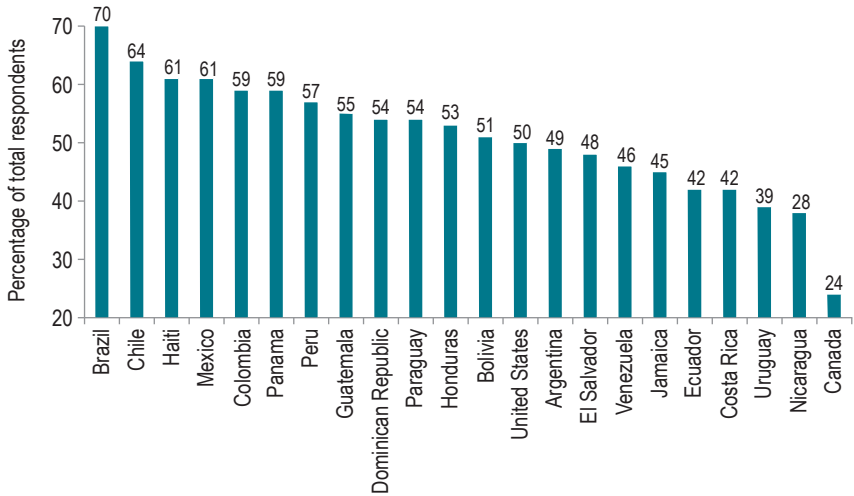
Source: Authors' elaboration based on IDB-LAPOP Database, 2016-2017.
Note: The survey question for Figure 10.5 has values ranging from 1 to 4, where 1 is not at all trustworthy and 4 is very trustworthy. Low trust is defined as options 1 or 2.

The foregoing indicators of trust come from a survey targeted only at the region and do not permit comparisons with the rest of the world. The World Values Survey of 2005-07, on the other hand, suggests that Latin

Figure 10.6 Low Trust in the President, 2016 and 2017



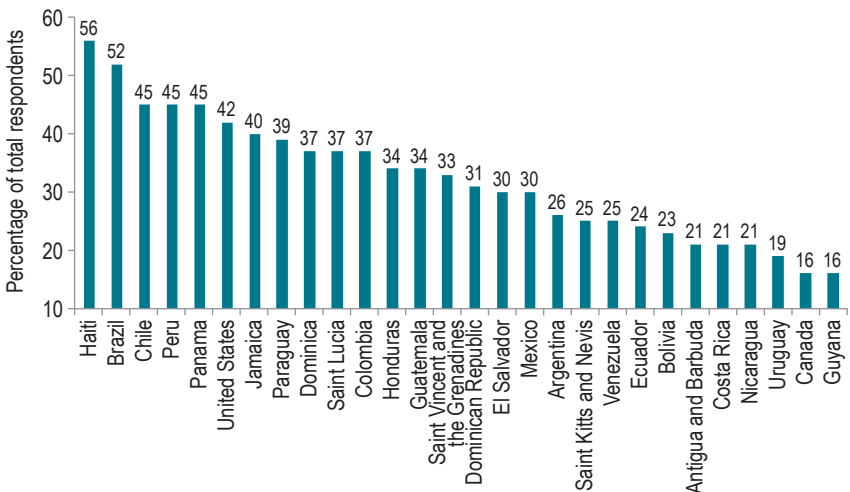
Source: Authors' elaboration based on IDB-LAPOP Database, 2016-2017.
Note: Values range from 1 to 7, where 1 is no trust and 7 is trusts a lot. Low trust is defined as options 1 or 2.

Figure 10.7 Low Trust in Political Parties, 2016 and 2017

Source: Authors' elaboration based on IDB-LAPOP Database, 2016–2017.

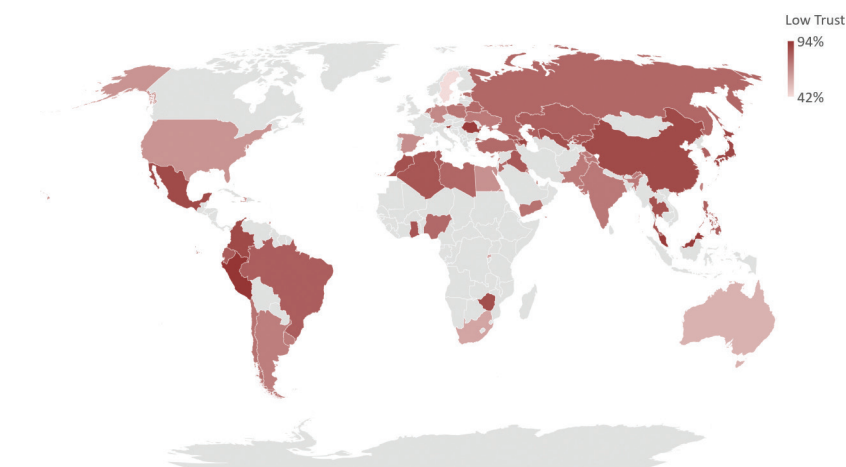
Note: Values range from 1 to 7, where 1 is no trust and 7 is trusts a lot. Low trust is defined as options 1 or 2.

American respondents are significantly less trusting than those in the rest of the world, and more likely to say that they cannot trust people they meet for the first time. More specifically, Figure 10.9 shows that compared to most OECD countries, Latin Americans trust others less.

Figure 10.8 Low Trust in Congress, 2016 and 2017

Source: Authors' elaboration based on IDB-LAPOP Database, 2016–2017.

Note: The survey question for Figure 10.8 has values ranging from 1 to 7, where 1 is no trust and 7 is trusts a lot. Low trust is defined as options 1 or 2.

Figure 10.9 How Much Do You Trust People You Meet the First Time?

Source: Authors' elaboration based on World Values Survey 2010–2014 Database.

The 2017 IDB-LAPOP survey of seven countries also asked about general trust (are people in general very, somewhat, little, or not at all trustworthy), along with a parallel question about family members. Moreover, it also introduced an expanded battery of questions designed to elicit more precise evaluations of trust issues. It probed respondents' expectations of the behavior of politicians and public officials, people in general, and family members. Did respondents think members of these different groups keep their promises? Obey the law? The survey also elicited respondents' expectations regarding policy goals. For example, if governments raised taxes with the stated intention of redistributing revenues to the poor, did respondents think the revenues really would reach the poor? And if governments raised water prices to maintain water pipes, did respondents think the pipes would really be maintained?

The results point to low expectations on all dimensions (see Figure 10.10). The seven-country survey yields similar results on trust as those from the all-region Barómetro survey. Not surprisingly, respondents believe their family members are significantly more trustworthy than people in general. Respondents expressed more trust in family than in others, but not much more trust in other citizens than in politicians and government officials.

Respondents tend to believe, unsurprisingly, that family members will fulfill their promises and obey the law—to a degree. For example, 30 percent of respondents regard their family members as very trustworthy, but

Figure 10.10 Keeping Promises, Obeying the Law: Responses from Seven Countries in Latin America and the Caribbean, 2017



Source: Authors' elaboration based on IDB-LAPOP Database, 2016–2017.

Note: Values range from 1 to 4, where 1 is no trust and 4 is high trust. “Trust general” means trust in people in general (from not at all trustworthy to very trustworthy). “Trust family” means trust in family members (from not at all trustworthy to very trustworthy). “Promises (family)” means promise fulfillment by family members (from not common at all to very common). “Law (family)” means law compliance by family members (from not common at all to very common). “Promises (politicians)” means promise fulfillment by politicians (from not common at all to very common). “Law (politicians)” means law compliance by politicians (from not common at all to very common). “Promises (officials)” means promise fulfillment by government officials (from not common at all to very common). “Law (officials)” means law compliance by government officials (from not common at all to very common). “Taxes going to poor” means trust that revenues earned from additional taxes to the rich actually are distributed to the poor. “Use of higher prices” means trust that government will use revenue from higher water prices to fix pipe infrastructure.

think that, at most, it is only somewhat common that they fulfill their promises or obey the law.

For state actors, these measures are all low (about 2 out of a total possible trust measure of 4). Respondents across the seven countries believe it is not very common for politicians or public officials to fulfill their promises, nor for politicians to obey the law. They have little confidence that public officials will obey the law. This pessimism extends to specific public policy commitments. *Seventy-five* percent of respondents believe there is little or no chance that tax revenues raised specifically to redistribute to the poor will, in fact, reach the poor. They are also not confident that if water prices are increased to finance infrastructure maintenance, infrastructure will be maintained.

As the following sections demonstrate, lack of trust has everything to do with the policy preferences of respondents: respondents who do

not believe government representatives (politicians or public officials) fulfill their promises or, depending on the policy context, obey the law, are significantly less likely to prefer policies that entail expanding the role of government in education, policing, or income redistribution.

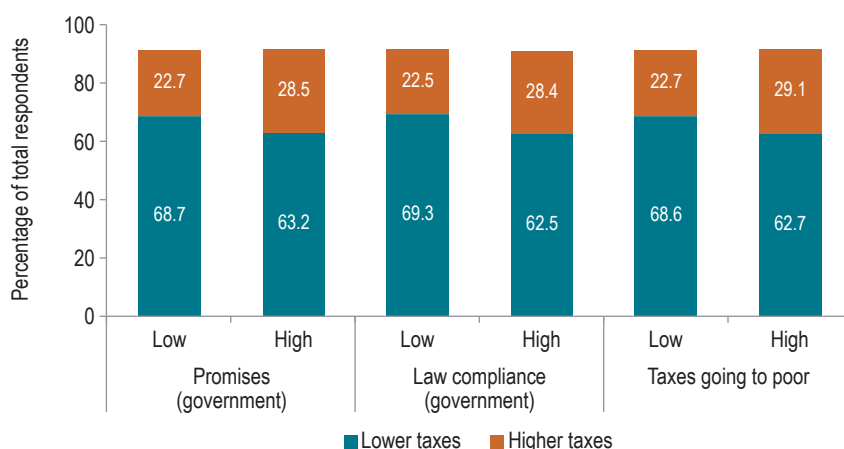
Trust and Financing Education

Education spending is a perennial issue in Latin America. Although it has risen significantly, it is still low in comparison to countries outside the region. Respondents to the seven-country IDB-LAPOP survey were asked whether they preferred increasing taxes to boost education spending, or lowering taxes to allow households to spend more on private education. In none of the surveyed countries did respondents express significant support for higher taxes to support education. Support was particularly low in Mexico (where significant and sometimes violent political conflict surrounds the education issue) and Uruguay (where taxes are already high). Wealthier households expressed greater support for education taxes; women and older respondents reported less.

Trust should also play a significant role in people's preferences regarding education spending policy. If they do not believe that the actors involved in the public education of children will use additional resources to improve child learning, their support for more spending should be lower. Support for higher government spending might also fall if people believe that families will take advantage of higher spending to reduce their own investments of time and money in their children's education. Education is a long-term process, such that if people believe that government commitment to education is weak, and that state actors might reduce education inputs in the future, they are again more likely to resist increases in education spending.

In fact, across all measures of trust, less trusting respondents preferred lower taxes and less public education spending (Figure 10.11).⁴ For example, respondents who most strongly believed that politicians and government officials fulfill their promises or obey the law were significantly

⁴ These associations are highly significant and emerge after controlling for many other factors that might simultaneously account for lower trust and preferences for smaller government: country effects; gender and age of the respondents; respondents' employment status and sources of income, including whether the household receives assistance from the government; household income and assets; infrastructure quality around the residence; number of children living in the house; health insurance and pension coverage; respondents' patience (as revealed by their valuation of more- versus less-distant benefits); and the interviewer's assessment of respondents' political knowledge.

Figure 10.11 Education Financing Preferences and Trust, 2017

Source: Authors' elaboration based on IDB-LAPOP Database.

Note: Respondents chose between a preference for increased taxes to boost education spending, or lower taxes to allow households to spend more on private education. Percentage missing corresponds to respondents who were indifferent about both options. "Promises (government)" means promise fulfillment by the politicians and government officials (from not common at all to very common). "Law compliance (government)" means law compliance by the politicians and government officials (from not common at all to very common). "Taxes going to poor" means likelihood of revenues earned from additional taxes to the rich actually being distributed to the poor.

more likely to support higher taxes for education. Among those who expressed less trust, according to these two measures, support for higher education taxes was approximately 6 percentage points less than among those who expressed greater trust. Again, the bias is against policies that promise benefits in the future when trust is low.

When respondents were asked whether they believe that governments will accomplish what they say they will do, the results were even starker. For example, if governments raise taxes to finance transfers to the poor, do respondents believe that the proceeds will reach the poor? Among those who thought this was very likely, 32 percent preferred higher taxes for education, compared to only 19 percent of those who thought this was very unlikely.

Could the effects of trust be driven only by respondents who think education is a significant problem? The IDB-LAPOP survey asked respondents for what they viewed as the most pressing problems confronting the government. Thirteen percent responded that education was one of the three most important problems. However, controlling for whether respondents thought education, or corruption, bad government in general, crime, infrastructure, poverty and inequality, or housing were the

most pressing problems confronting government, the trust results persist, or even strengthen. The IDB-LAPOP survey also asked respondents which political party they preferred. Even controlling for respondents' partisan tendencies, trust in government continues to be a significant determinant of preferences for education spending.

These findings raise two questions. First, do they really reflect the effects of trust in government or other people, or is it rather that people who are against education taxes are also inclined to respond negatively to all trust questions? One way to account for this possibility is to see if the results survive after controlling for respondents' evaluations of family trustworthiness. In fact, however, results strengthen: controlling for whether respondents think family members fulfill their promises, obey the law, or are trustworthy *strengthens* the association of the corresponding government measures with education tax preferences. Still, the possibility remains that those who oppose government provision of services allow that opposition to influence their answer to the trust questions; because they oppose government expanding its role, they answer that government officials do not fulfill their promises.

The second important question is, which of these types of trust really matters? Where should policymakers first seek to build trust? A horse race that simultaneously evaluates the association of education tax preferences with the four trust variables (whether government officials fulfill promises or obey the law, whether revenues raised for the poor reach the poor, and whether people are in general trustworthy) can help sort out this issue.

Two measures of trust stand out: whether revenues raised for the poor reach the poor, and whether other people are, in general, trustworthy. Increasing the trust of people in one another is not a goal for which well-established policy prescriptions exist. However, it is the other measure of trust, whether people believe that revenues raised for the poor go to the poor, that impacts policy preferences most and is most susceptible to policymaker intervention. If people are skeptical that government policies have their intended effects, and in Latin America and the Caribbean such skepticism is high, governments can respond by ensuring that the opposite is true, and forcefully communicating to citizens objective evidence that proves this point.

Trust and Police Financing

Similar patterns exist in the relationship between trust and funding for policing as between trust and funding for education. The Barómetro survey

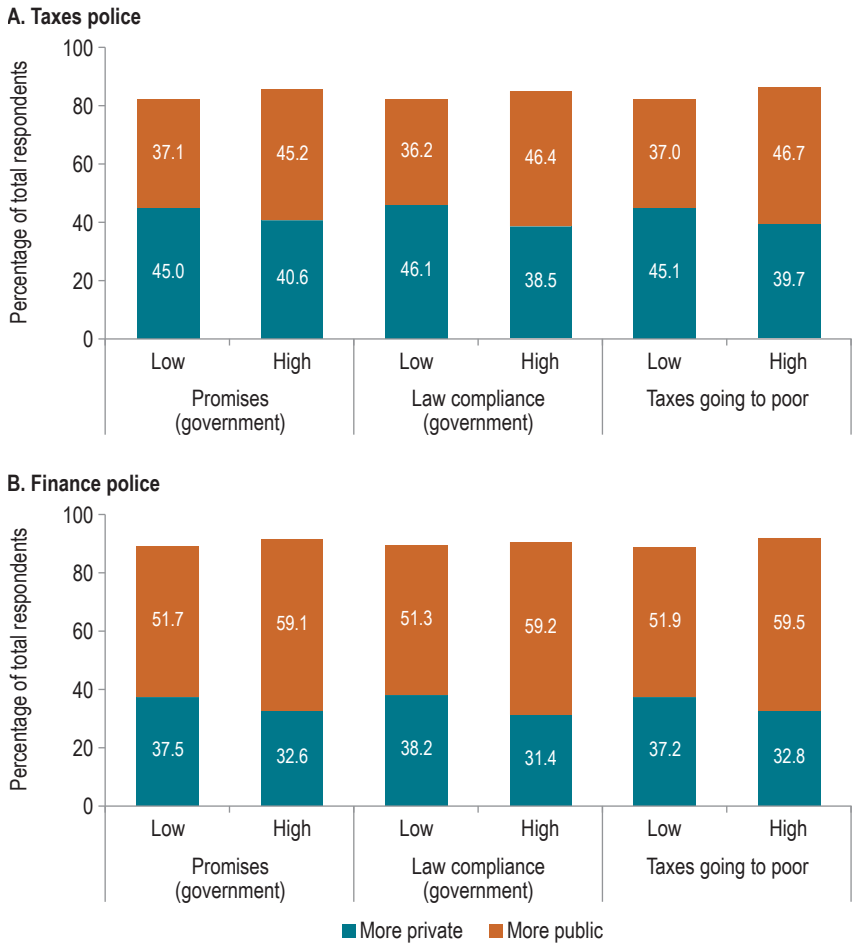
of 2017 asked respondents about their level of trust in congress and in the government. It also asked them to consider two mutually exclusive policy options: to transfer more resources to the police or, instead, to transfer more resources to households so that they could make private investments in their own security. Those who reported high levels of trust also expressed significantly greater support for more police rather than more transfers to households to finance their own security. This finding is key; when there is little trust in government, people prefer the transfer rather than having the government invest for them. The survey results from the annual round of the Latinobarometer database (2017 data) showed the same results. Once again, those who trusted congress, parties, and the government were more likely to support public financing of the police over using the money for private security.

The IDB-LAPOP survey also asked respondents to choose between transferring resources to households or to the police. However, it added a twist to this question, as respondents were asked to choose between two policies: higher taxes to provide more resources for the police, or lower taxes to allow households to provide their own security. In all seven countries, if respondents were told that a given budget must be distributed between policing and security subsidies to households, they preferred it to go to the police, a sentiment that was significantly stronger in Panama and Uruguay and significantly weaker in Colombia. However, when told that larger police budgets would be financed with higher taxes, support for police financing dropped, with the largest declines in Uruguay, Mexico, and Panama (Figure 10.12).

For both policing questions in the IDB-LAPOP survey, but especially for the policing question that stipulated an increase in taxes, the results mirror those for education. Respondents who believe governments fulfill their promises and obey the law, and who believe that revenues raised to finance transfers to the poor will reach the poor, were significantly more likely to prefer greater funding for the police, whether explicitly tax-financed or not. In contrast to education, the effect of generalized trust is weaker: it is significantly associated with support for higher police funding, but not when this is paid for with higher taxes.

The basic characteristics of policing and education policies suggest that subtle distinctions among trust questions should matter. Public education in Latin America is disproportionately directed at improving the learning of children from poor and lower-middle-class households. It is reasonable, therefore, that trust in people in general, and the belief that revenues raised for the poor will go to the poor, are the most significant trust determinants of preferences for education spending.

Figure 10.12 Police Financing Preferences and Trust, 2017



Source: Authors' elaboration based on IDB-LAPOP Database.

Note: Options available are more taxes for public spending or less taxes and increased private spending to improve the outcomes in security (through police). Percentage missing corresponds to respondents who were indifferent to both options. "Promises (government)" means promise fulfillment by politicians and government officials (from not common at all to very common). "Law compliance (government)" means law compliance by politicians and government officials (from not at all common to very common). "Taxes to poor" means likelihood that revenues gained from additional taxes on the rich would actually be distributed to the poor.

On the other hand, the goal of greater expenditures on policing is to improve law enforcement. In contrast to education, therefore, citizens' beliefs about whether government officials themselves obey the law are likely to be critical to their confidence in the value of greater police spending. The data reveal precisely this sensitivity. When greater funding for policing is financed through higher taxes, as in the education policy

question, those who believe funds raised for the poor go to the poor, and who trust people in general, are again more likely to support higher taxes to finance larger police budgets. In addition, though, and in contrast to education spending, those who believe that government officials obey the law are also more likely to support higher taxes for the police.⁵

The IDB-LAPOP survey also speaks to the issues of transparency, corruption, and preferences for government programs. Those who had experienced police corruption—12 percent of respondents across the seven nationally representative samples—were significantly less likely to support either transferring resources to the police or increasing taxes to finance larger police budgets.

Once again, the key policy implication that emerges from the analysis of citizen trust and preferences for public funding is that governments must communicate more clearly and convincingly that the spending they undertake achieves the promised objectives. In the case of policing, however, a significant caveat applies: where citizens believe that politicians and public officials themselves are above the law, they are disinclined to support public spending for police, even if they believe that this spending might be desirable.

Trust and Redistribution

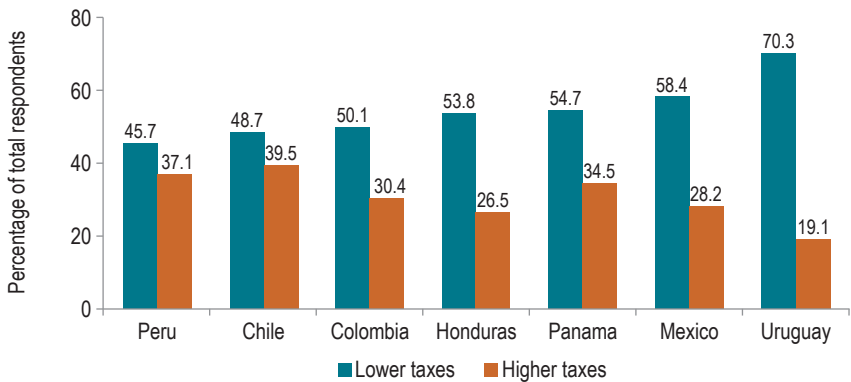
One central function of government is to provide public services, particularly those that private markets are likely to underprovide, such as policing. Another function is to enact policies that reflect social demands for equity. Those demands vary from country to country (see Alesina and Angeletos, 2005; Alesina and Giuliano, 2011). The survey evidence indicates low support for redistribution in Latin America. Why? Lack of trust provides one explanation; citizens in the region who distrust government are significantly less likely to support higher taxes for redistribution.

The IDB-LAPOP survey asks respondents to choose between higher taxes to redistribute to the poor and lower taxes to stimulate job creation.⁶ Across the seven countries, 54 percent prefer lower taxes and 31 percent prefer higher. Respondents in Uruguay, where redistributive taxes

⁵ When taxes are taken out of the equation, neither generalized trust nor the belief that the poor receive the proceeds of revenues collected for them are significantly associated with support for greater police financing. Instead, again, whether respondents believe government officials obey the law, and to a lesser extent whether they believe that government officials fulfill their promises, matter most.

⁶ Using survey data from Japan, Yamamura (2014) finds that people are more likely to support income redistribution when trust in government in their neighborhood is high. The survey question did not clarify that redistribution would require higher taxes.

Figure 10.13 Preferences for Redistributive Taxes, 2017

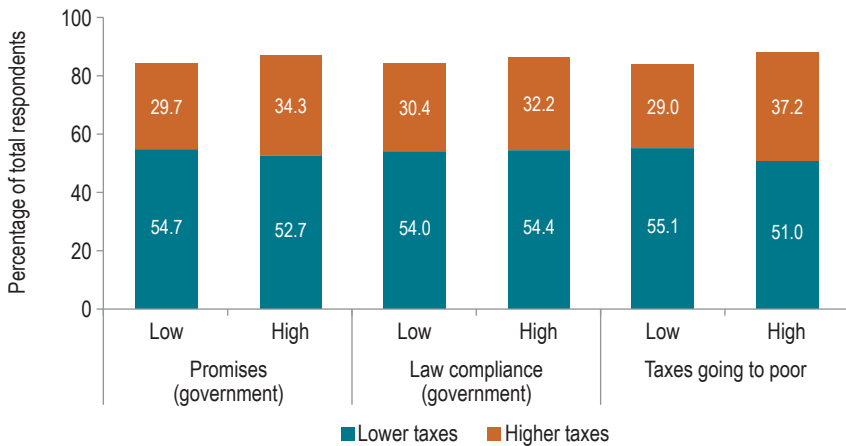


Source: Authors' elaboration based on IDB-LAPOP Database.

Note: Options available are preference for higher taxes to finance redistribution and lower taxes to stimulate job creation. The missing portions of percentages correspond to respondents who were indifferent to both options.

are higher, were significantly less supportive of the more redistributive option than those in other countries; respondents in Panama, Colombia, Peru, and Chile were significantly more supportive. Still, even in these four countries, the average respondent was indifferent between more taxes to finance more redistribution and lower taxes. While richer households or households with greater incomes tended to support higher taxes for education or police, they oppose taxes to pay for redistribution. Older respondents were also significantly less likely to support taxes for redistribution (Figure 10.13).

Individually, all dimensions of trust—in government, and in other citizens—are positively related to respondents' support for redistributive taxation. This makes sense. As with education, the benefits of redistribution depend on the behavior of beneficiaries; those who trust citizens generally may also be more confident that beneficiaries will not respond to greater redistribution by working less. As with both education and policing, support for higher taxes for a particular purpose, such as redistribution, depends on citizen confidence that government officials will fulfill their promises to pursue those purposes. Concerns about obeying the law also matter, since redistribution to the poor requires government officials to follow the legally established targeting criteria through which the poor are selected. Finally, of course respondents who explicitly state that they do not believe that funds raised for redistribution will actually reach the poor are unlikely to support higher taxes to support redistribution.

Figure 10.14 Taxes for Redistribution and Trust, 2017

Source: Authors' elaboration based on IDB-LAPOP Database.

Note: Options available are preference for more taxes for redistribution or lower taxes to stimulate job creation. Percentages missing correspond to respondents who were indifferent to both options. "Promises (government)" means promise fulfillment by politicians and government officials (from not at all common to very common). "Law compliance (government)" means law compliance by politicians and government officials (from not at all common to very common). "Taxes going to poor" means likelihood that revenues gained from additional taxes on the rich would actually be distributed to the poor.

Of all these dimensions of trust, however, the two most clearly associated with support for redistribution are whether governments fulfill their promises and, of course, whether funds raised for redistribution in fact reach the poor. Of those who believe governments fulfill their promises some or all of the time, 34 percent favor higher taxes for redistribution. Among those who state that government officials rarely or never fulfill their promises, 30 percent support redistribution. The differences are naturally greater when contrasting those who believe, or not, that redistributive tax revenues will flow to the poor. Of those who agree that it is somewhat or very likely that revenues from higher taxes on the rich will go to the poor, 37 percent support redistribution; the number falls to 29 percent among those who believe that is unlikely (Figure 10.14).⁷

⁷ The robust association between skepticism that tax revenues will flow to the poor and lack of support for redistribution may arise for a spurious reason: those who oppose redistribution are more likely to say that funds raised for redistribution will go astray. However, these same views would affect partisan preferences. The lack of confidence that revenues will reach the poor continues to be significantly associated with weak preferences for redistribution even after controlling for partisan preferences. In addition, the belief that government officials do not fulfill their promises remains significantly associated with redistributive policy preferences even controlling for beliefs about the targeting of revenues raised for redistribution.

Trust matters, then, not only for popular support for public services, but also for redistribution. Once again, the lesson is that governments that convince their constituents that their words will translate into action, and that their actions will have the effects they say they will, are more likely to be able to persuade citizens that they can rely on government to provide the services they need and the social goals they value.

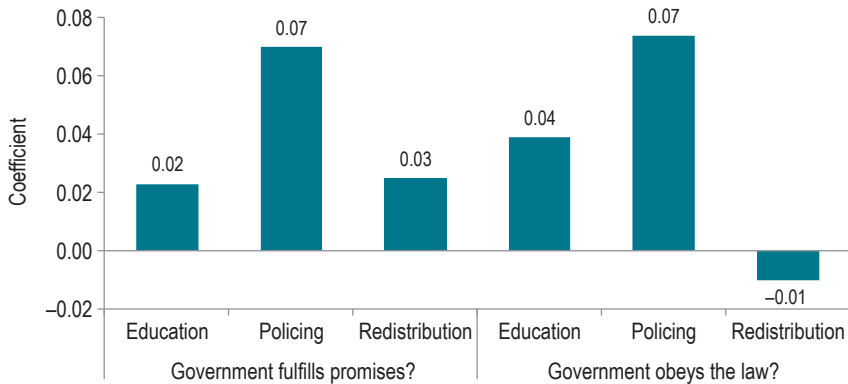
Lessons for Capital Spending

Clearly, mistrust undermines support for all types of public policies, including those in which benefits appear further in the future (education) and those with more immediate results (redistribution). They do not, however, specifically demonstrate larger effects of mistrust on policies that deliver benefits in the future—the fiscal phenomenon at the center of this volume. This is because mistrust affects not only beliefs about whether future governments will continue policies with future benefits, but also about whether even current governments will carry them out. Moreover, the foregoing analysis combines individuals who, for education, policing, *and* redistribution, prefer higher taxes and larger government (402 respondents) and those who, again for *all* policies, prefer lower taxes and smaller government (1,255 respondents). To identify the effects of trust on relative support for different policies, it is more informative to exclude those respondents who *always* prefer either more or less government.

The two trust variables that are most relevant for the cross-policy comparison are respondent beliefs about whether politicians and government officials fulfill their promises and obey the law. The objective is to discover whether these two variables disproportionately affect policies that, like infrastructure spending, exhibit a longer time horizon and greater complexity (education and policing), compared to redistribution, with both a shorter horizon and less complexity. Figure 10.15 demonstrates that among respondents who are not always for or against larger government (the large majority of all respondents) neither measure of trust affects preferences for redistribution. However, both measures of trust are significantly associated with support for higher taxes for policing. Whether respondents believe that government officials obey the law is also significantly associated with support for higher taxes for education, another long-term policy.⁸

⁸ However, the confidence intervals associated with the estimates are large. The hypothesis that trust has no effect on support for higher taxes for police can be rejected while the same hypothesis for redistribution cannot. However, the hypothesis that the effect on redistribution is lower than the effect on police also cannot be rejected.

Figure 10.15 Trust in Government and Preferences for Higher Taxes for Education, Police, and Redistribution, 2017



Source: Authors' elaboration based on IDB-LAPOP Database.

Note: Each bar indicates the amount by which a one unit increase in trust is associated with higher preferences for taxes to finance education, police, or redistribution, rather than lower taxes to support private provision of education or security, or to accelerate economic growth. The association controls for country fixed effects and a large number of respondent characteristics, ranging from political to demographic. The two trust measures are: Do you think politicians/government officials fulfill their promises? Do you think they obey the law?

Thus, particularly for the vast majority who do not have a strong view on government size, low levels of trust may be particularly biasing expenditure demand against long-term policies, which includes capital expenditures. Trust may be particularly important for processes that take time, such as education or capital expenditures, which cannot be verified as soon as transfers, for instance. This factor may lie behind the issue of biases against capital expenditure raised in Chapter 2.

Collective Action and the Determinants of Trust in Government

Research on the origins of trust in government, and strategies to revive it, is vast and its conclusions are murky. Mishler and Rose (2001) look at former communist societies and argue that adverse experiences with government—with institutions that actively undermine trust—are responsible for the low levels of trust in government in that region. Others point to dissatisfaction with political parties: when parties are more centrist, voters at the extremes are more likely to express distrust in political institutions (Miller, 1974); when they are polarized, those in the center express lower trust (King, 1997). Nearly all research agrees that distrust in political institutions is associated with respondents' political lives, not their personalities or even their social characteristics (Levi and Stoker, 2000). Grimes (2006),

for example, provides evidence that people's perceptions that government is procedurally fair affect political trust.

The implication is that governments can increase trust, for example by acting impartially (as in Grimes, 2006). In Latin America, trust in government might increase if governments more clearly and frequently communicated that they pursued the policies they promised to pursue, and that the policies had the effects they said they would. In general, information campaigns have positively impacted government performance. Programs to systematically inform the public of government malfeasance reduced levels of malfeasance in Uganda and Brazil, for example (Reinikka and Svensson, 2004; Ferraz and Finan, 2011). Even providing citizens with basic information about what government can do can lead to broad changes in both voter and politician behavior (Cruz, Keefer, and Labonne, 2016). Information about what governments do with the money they collect can also affect citizens' behavior and their willingness to provide for the public good. For example, when governments provide information about the use of public funds and/or provide new public goods, taxpayers tend to increase their voluntary tax compliance (Castro and Scartascini, 2015; Carrillo, Castro, and Scartascini, 2017).

However, information is only one piece of the trust puzzle. Another is the ability of citizens to act collectively. Trust in government is a function of whether citizens believe they can influence government decision-making—whether they can reward governments that keep their promises or punish those that do not. Individually, though, citizens are powerless, unless they can use judicial recourse to act on their grievances. However, citizens have no legal recourse when politicians break their electoral promises. Collective action by citizens is, therefore, essential to government accountability. It should also be essential to trust in government.

In democracies, citizens seeking to mobilize collectively to influence public policy do so most commonly through political parties. However, if political parties do not bring together citizens with similar public policy goals, or choose candidates who support those goals and discipline candidates who deviate from them, they do not solve the collective action dilemma that citizens confront. A weak party does not attract candidates and voters based on policy stances, is a vehicle for party leaders to advance their personal careers, and provides members little power to remove leaders who reverse their policy stances. Hence, citizens' low trust in politicians could be due to their inability to rely on political parties to solve the collective action problems they confront in curbing opportunistic behavior by political leaders.

This is, for example, the lesson of early research by Miller and King. Why should individuals trust political institutions when they feel that political parties do not represent their interests? One reason is that they lack an organization that can solve the collective action challenges they face in trying to influence government themselves.

Political parties in Latin America are weak particularly in their ability to represent the policy or programmatic interests of citizens (Kitschelt et al., 2010). The Database of Political Institutions characterizes parties according to whether they favor right- or left-leaning economic policies, are centrist, or convey no economic policy messages at all. From 2001 to 2015, 46 percent of the largest opposition parties, 22 percent of the largest parties in governing coalitions, and 41 percent of the second largest parties in the governing coalitions in Latin America conveyed no economic policy commitments. Parties in Caribbean countries are more structured with 70 to 80 percent of parties associated with right- or left-leaning economic policies.

Survey evidence confirms the importance of parties for trust. Respondents to the IDB-LAPOP survey were asked if they felt represented by a political party. Since parties in Latin America are not well organized to solve the collective action problems of citizens, it is not surprising that most respondents (73 percent) did not feel at all represented, responding zero on a 0–5 scale. Importantly, these judgments differ from those found in earlier research on the United States, where parties align on the left-right dimension. Parties in Latin America trigger feelings of lack of representation for the opposite reason, because they lack a clear policy orientation.

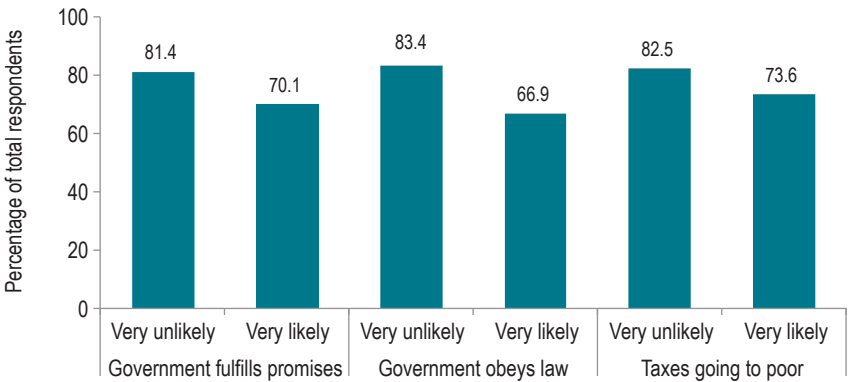
Prior research indicates that those who do not feel represented by parties do not trust political leaders and institutions. Moreover, those who do not feel represented by political parties tend to behave quite differently from those who do (Machado, Scartascini, and Tommasi, 2011). The IDB-LAPOP survey allows for an examination of the effects on more precise assessments of trust and credibility. Those who feel more represented by a party are significantly more likely to say that government officials fulfill their promises and obey the law, as well as to believe that revenues raised for redistribution will in fact benefit the poor.⁹

⁹ An increase in party representation from zero to five increases responses stating the belief that government officials fulfill their promises by 0.19, more than one-quarter of a standard deviation, controlling for measures of trust in family members, along with numerous other variables, including country fixed effects.

Of course, individuals who feel generally excluded by the political process could become negative about all things political. However, other indicators of collective action, unrelated to formal political institutions, also affect trust in government. For example, collective action can also be a local phenomenon: neighbors who band together or organizers who mobilize individuals to express their positions on issues. The IDB-LAPOP survey asked respondents how likely it was that a petition asking the government to fix the streets and sidewalks of the neighborhood would gather 500 signatures. Forty percent of respondents said it was very likely; 34 percent said it was somewhat to very unlikely.

Confidence in the success of a petition has a large correlation to trust in government across all three measures. Figure 10.16 compares the fraction of those who do not trust government among those who thought it was very unlikely—or very likely—that 500 signatures could be collected in their neighborhood. For example, the first set of bars indicates the fraction of respondents who answered that politicians and government officials tend not to keep their promises. Among those who thought it was very unlikely that they could collect 500 signatures in their neighborhood, 81.4 percent did not think public officials keep their promises. However, among those who thought it was very likely that 500 signatures could be

Figure 10.16 Survey Respondents’ Perceived Likelihood of Collecting 500 Signatures on a Petition and Degree of Trust



Source: Authors’ elaboration based on IDB-LAPOP Database.

Note: Answers range from 1 to 4, where 1 is not at all trustworthy and 4 is very trustworthy. A small degree of trust is indicated by 1 or 2. Differences between respondents who answered either “Very unlikely” or “Very likely” to the question of whether their neighborhood could gather 500 signatures to fix the streets. “Government fulfills promises” means promise fulfillment by politicians and government officials (from not at all common to very common). “Government obeys law” means law compliance by politicians and government officials (from not at all common to very common). “Taxes going to poor” means likelihood that revenues gained from additional taxes on the rich would actually be distributed to the poor.

collected, more than 10 percentage points fewer agreed that public officials do not keep their promises. Thus, trust in public officials is higher among those who thought it was very likely to get the petition going. The difference among the two groups was even starker when looking at opinions about whether government officials and politicians obey the law; 16.5 percent more individuals agreed that they generally do not obey the law among those who thought that 500 signatures were very unlikely to be collected.

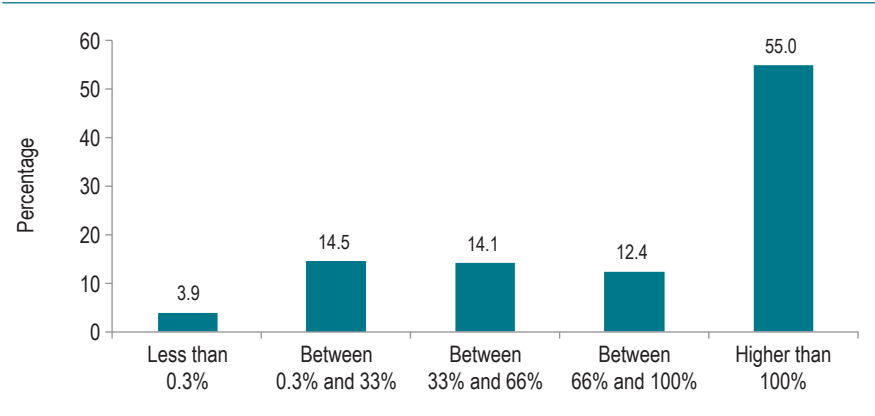
Patience and Policy Preferences

Individuals differ in their willingness to exchange effort or expenditure today for rewards in the future. This can significantly affect life choices: children's effort in school offers payoffs years in the future, for example, and one goal of efforts to improve non cognitive skills in children is precisely to change their calculation of the costs and benefits of current effort and future reward (see Busso et al., 2017). Previous chapters demonstrate spending inefficiencies across numerous sectors that may be traced to an unwillingness to invest in quality improvements that yield benefits only in the future. The pension and retirement crises confronting many countries are linked in part to the degree to which citizens recognize that a more comfortable retirement in the future requires sacrificing consumption today (see Parker, 2017, for evidence that impatience is associated with a high propensity to spend rather than save). Many desirable public services, which genuinely make citizens better off, also demand that they incur costs today for sizeable benefits tomorrow. They range from education and public pensions to infrastructure and environmental protection.

There are many reasons, therefore, to believe that the well-being of individuals, and of societies, depends on their willingness to sacrifice today for rewards tomorrow. The IDB-LAPOP survey explored differences in this regard among individuals in seven Latin American countries. To what extent were respondents willing to incur costs in the present in return for rewards in the future? To gauge this willingness, each survey respondent answered six questions, drawn from a pool of 31 possible questions, each posing a different trade-off between current and future benefits. For example, in the case of the survey for Chile, survey participants had to choose between 65,000 pesos today and 107,250 in 12 months, or 65,000 today and 112,450 in 12 months, etc., thus implicitly stating interest rates needed to delay consumption.

It turns out that for 52 percent of respondents, *none* of the future rewards proposed to them were sufficient to induce them to postpone

Figure 10.17 How Much Do Latin Americans Demand in Return for Delayed Benefits? (2017)



Source: Authors' elaboration based on IDB-LAPOP Database.
Note: Respondents were asked what interest rate would persuade them to wait 12 months to receive a payment. "Less than 0.3%" corresponds to a preference to wait in order to receive a little more money, and "Higher than 100%" corresponds to a general dislike for waiting.

consumption. Within this group, all preferred the equivalent of 65,000 pesos today rather than amounts exceeding the equivalent of 100,000 pesos in 12 months. For more than half the people in the survey, not even a 100 percent interest rate would persuade them to wait 12 months for benefits rather than receive them today (Figure 10.17). This result is particularly remarkable given that people in surveys where no actual money is involved could be more willing to accept trade-offs.

The willingness to make trade-offs between consumption today and tomorrow exhibited some predictable tendencies. In general, the more vulnerable valued future benefits less. Respondents who were unemployed, had fewer household assets, and had more children all preferred benefits today significantly more than larger benefits tomorrow.

The data also reveal substantial differences across countries in the value placed on future benefits. On a 32-point scale, where 1 signifies an unwillingness to ever sacrifice current for future benefits and 32 a willingness to always accept this sacrifice, an unemployed Mexican respondent was 1.16 points less willing to accept this sacrifice than the average respondent. In contrast, unemployed Panamanians were 5.57 points less willing and unemployed Chilean respondents 1.32 points less willing to sacrifice current for future benefits. The percentage of respondents who *always* preferred current over future benefits ranged from 45 percent in Chile to 57 percent in Honduras.

Why might large country-level differences exist? No research addresses this question. However, in countries where the future is more

uncertain, citizens would likely value future benefits less.¹⁰ Either political or economic volatility might create these feelings of uncertainty. For example, one indicator of economic volatility is the extent to which inflation fluctuates from year to year. In the seven countries where inflation varies the most, the willingness to make current sacrifices for future benefits is low.¹¹ Political and economic volatility could similarly explain why Hondurans were significantly less likely to make this trade-off than Chileans. However, these factors cannot explain why Panamanians were even less likely to prefer these trade-offs than Hondurans, and Uruguayans' reluctance to embrace future benefits more closely resembled that of Hondurans than Chileans.

Can differences in the willingness to accept lower current over larger future benefits account for public policy preferences? The IDB-LAPOP survey presented respondents with several policy choices that forced them to make tradeoffs between current and future benefits. In general, the more willing they were to accept larger future benefits over current benefits, the more likely respondents were to prefer public policies with large future benefits for society. The fact that most respondents were almost always unwilling to make this trade-off helps explain why public policy in the region consistently favors lower current over larger future benefits.

The survey asked questions about trade-offs in two policy areas: education and policing. In the case of education, respondents were asked whether they preferred giving tablet computers to children or spending those resources on teacher training. Respondents were told that the benefits of training were significantly greater than those of tablet computers, but would emerge only with a delay of two years or four years (half of the respondents were told two years, the other half four years). This is consistent with research showing that the distribution of laptops had minimal effects on student learning (Beuermann et al., 2015; Yamada, Lavado, and Montenegro, 2016). Respondents were asked a similar question about policing, whether they preferred a policy that would increase the number of police, and that would reduce crime immediately by 10 percent, or a policy that would leave the number of police unchanged, but better use the

¹⁰ Although the scenarios that respondents were asked to consider reflected no such uncertainty.

¹¹ One measure of this fluctuation, the standard deviation of inflation rates over the 10 years prior to the IDB-LAPOP survey, is highly negatively correlated with the average willingness of country respondents to prefer larger future over smaller current benefits.

resources to train police, reducing crime by 20 percent in two or four years (half the respondents were told two years, and half four years).

Most individuals preferred teacher training: 64 percent, versus only 28 percent who preferred tablets. However, individuals with a stronger preference for future benefits were significantly more likely to prefer teacher training even when their benefits would arrive only after four years. The effects are small in the case of tablets.

Respondent opinions were more mixed when choosing between more police and better-trained police. When the benefits of both were immediate, most respondents preferred higher-quality police (55 percent versus 35 percent). When the benefits of police training were delayed by two or four years, however, respondents switched: when told the benefits of training would arrive in two years, 40 percent supported training and 47 percent preferred more police of the same quality. When presented with a four-year delay, 52 percent preferred more police and only 34 percent preferred better-trained police. Considering the two policy options in which the benefits of police training were delayed, respondents who were more patient were also much more likely to prefer police training.

Respondents who expressed greater trust in congress (though not government overall) were also more likely to support investments in police training, which would yield a 20 or 30 percent drop in crime in two years, rather than hiring more police, which would yield an immediate drop in crime, albeit only one-half or one-third as large. Thus, comparisons across support for education, policing, and redistribution confirm the message that patience matters and can partially account for preferences for current over capital spending.¹²

Toward a Long-Term Vision

Latin America confronts difficult policy challenges, from the low quality of education to the weakness of infrastructure and the public demand for integrity and transparency. Across sectors and countries, governments choose policies that increase citizen welfare less than other policies they could have chosen. In particular, they under-provide public services that require long-term investments or that are more complex to deliver. This is perplexing; in all cases, these governments are popularly elected and, in

¹² Respondents to the IDB-LAPOP survey who supported either all three proposals to increase taxes to finance more government services, or opposed all three proposals, are excluded. Among most of the remaining sample, patience was significantly associated with support for higher taxes to support greater policing, but not for redistribution or education.

many, they are also popular. This chapter has proposed two answers to this question. First, although they elect their representatives, the electoral and legislative institutions of these countries create incentives for these representatives to pursue short-term over long-term, and simple over complex, policies. Second, citizens do not demand these policies, because they do not trust government to provide them, and because they excessively discount future benefits and prefer policies with lower, immediate benefits, over greater, long-term benefit investments.

Lack of trust and heavy discounting of future benefits go hand in hand with preferences for precisely the inefficient policies that politicians have provided. Why the low trust? Why the low value attached to future benefits? The characteristics of electoral competition in Latin America—the weakness, for example, of political parties and the historical and economic legacies of the region, marked by cycles of economic boom and collapse and by episodes of government predation on citizens—would seem to be sufficient to account for the low levels of trust and high discount rates in the region.

The analysis points to several avenues of reform to build support for critical welfare-enhancing policies in the region, including investments in public infrastructure. On the one hand, institutional changes are likely to have large payoffs. Changing institutions is cumbersome and may have unexpected consequences (Lora and Scartascini, 2010). Still, there are ways to strengthen institutions such as congress in ways that support incentives to pursue complex policies with future benefits. Scartascini and Tommasi (2014) summarize general principles: focus on the incentives of political actors, not detailed rules governing the behavior of civil servants; focus on reforms that are likely to be easier to pass and still have a large impact, such as information and transparency policies; focus on reforms that strengthen the credibility of intertemporal agreements among political actors, reforms that enhance consensus and enforcement and make substantial policies more difficult to reverse.

Smaller institutional reforms can also make a difference. Intra-legislative institutions, such as those regulating the assignment of legislators to committees and leadership positions, should favor the acquisition of expertise and reward seniority, the first to create incentives to adopt and support complex legislation and the second to create career incentives compatible with long-term benefits. Legal and constitutional norms that diminish the legislature's control over its own agenda and amplify the ability of presidents to reject legislative proposals work against the emergence of legislators' incentives to pursue welfare-enhancing policies for citizens.

Rules governing the creation of political parties should also favor the development of parties with well-defined programmatic positions and

internal governance procedures, and campaign financing laws that give parties the ability to select and support candidates who adhere to party positions. At the same time, because strong internal governance is no guarantee that parties will pursue policies that favor the interests of broad groups of citizens, laws governing party creation and electoral laws should not impose excessive barriers to entry on new parties.

Governments in the region must do more to build trust. Building institutions that facilitate collective action by citizens, such as strong political parties, but also neighborhood associations, is a key part of this. In addition, and more rapidly, governments can build trust by providing citizens with greater, more reliable, and more timely information about how policy outcomes correspond to policy promises. Citizens who know they can monitor government, and who can act collectively when monitoring reveals shortcomings, are more likely to trust government.

Information is not a panacea. In the short run, information about politicians' performance (non-performance) can even have pernicious effects: citizen disappointment and disengagement, on the one hand, and increased use of illicit electioneering tactics, such as vote buying, on the other (Chong et al., 2015; Cruz, Keefer, and Labonne, 2016). However, particularly when paired with effective modalities of collective action, transparency in the content and results of government policies and programs, and the responsibility of government and political officials for those results, ultimately builds confidence and increases political incentives for welfare-enhancing policies.

Above all, trust can perhaps be regained once citizens see that their governments are striving for efficiency in all areas of government, and that their tax dollars are being put to good use. That's why this book is so timely. Increasing technical and allocative efficiency, the basis for better spending, may restore people's trust in government, setting in motion a virtuous circle of trust leading to better policies that favor long-term investments and, in turn, growth. If both governments and citizens could overcome their myopia, policy could benefit from a longer-term vision that pays off in better spending for better lives.