



**3rd International Conference
on Public Policy (ICPP3)
June 28-30, 2017 – Singapore**

Panel T15P04 Session 2

New Political Regimes, Old Public Policy and Governing Patterns?

Title of the paper

Democratic Transitions in Central America:
Case Study of Institutionalism and Development in Nicaragua and
Costa Rica

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Date of presentation

Thursday, June 29th of 2017

Abstract

The end of the 20th century was important for democratic transitions in many countries of Latin America. However, despite the efforts to create enhanced democratic institutions, the democratic transition in some countries has not been completed yet. The main objective of this paper is to analyze and compare the relationship between governance and development between two countries in Central America, Nicaragua and Costa Rica. Key concepts of political reforms in Central America, such as governability and democracy, and how they have evolved in in both countries were analyzed. Furthermore, from a game theoretical perspective, the dynamics of democratic transitions in both cases were explained. Finally, this paper analyzes the role of important key factors that are related to a democratic transition in both countries, such as: access to power, functioning of markets, and political parties.

Key Words: Democratic transition, governance, open access institutionalism, close access institutionalism, political stability, institutional change.

Total Word Count: 7.924

Introduction

After the end of the Cold War, many countries in Latin America have started a process of democratic transitions and institutional changes. Some countries, such as Nicaragua, still have the theoretical debate of whether the State should have the role of “economic planner” that it had during the eighties (influenced by the Soviet’s communist) or change into a more liberal market economy. In other cases, like Costa Rica, the consolidation of democracy has been a process accompanied by institutional reforms and a redefinition of the role of the State in the public and private spheres. The fundamental question regarding democratic transitions is whether they lead to consolidated democratic institutions, namely, a system where the political actors submit their interests to the interaction of democratic institutions, and agree with the outcomes of the democratic process.

The main objective of this paper is to analyze some key factors that have conditioned the democratic development of Nicaragua and Costa Rica. The first chapter of this paper offers a theoretical framework that focuses on the relationship between governability and democracy, establishing how the political decision-making process influences the type of democratic regime of a country. In chapter two a comparison is established between the democratic process of Nicaragua and Costa Rica. Moreover, a more detailed analysis is made about the dynamics of power, political rents and institutional reforms. The methodology of rational choice and game theory, proposed by Douglas North and Adam Przeworski, was used to study the effect of the political reforms and the democratic transitions. In chapter three a review of the current institutional situation of Nicaragua and Costa Rica is made, taking into consideration the historical evolution of the democratic transition in both countries. The fourth chapter offers an analysis in some key institutional policies that guarantee a democratic consolidation in the Nicaraguan regime, such as accession to power, rule of law and reforms of political parties. Finally, some conclusions are drawn from the study cases indicating the most relevant findings about the democratic transition in Nicaragua, and pointing the institutional reforms needed to achieve a consolidated democratic system.

I. Governability and Democracy: Two Sides of the Same Coin

There is an important accumulation of scientific literature, both theoretical and empirical, that explains the relationship between *Democracy*, *Governability* and *Development*. After the World War II, experts in development focused on the study of economic factor as key elements to the development of poor countries. However, by the end of the Cold War, some important world events -such as the technological development, globalization, the downfall of communism in the Soviet Union and Eastern Europe, the “Third Wave” of democracy and the extension of free market economy, - had questioned the most orthodox theories of development worldwide. The appearance of a major phenomenon came to accelerate the need for a comprehensive review of the prevailing paradigms in the field of development. This phenomenon consisted in the fact that, despite the implementation of many economic and social reforms suggested by development economists, some countries have not yet reached sustainable economic growth and political stability.

The theoretical proposals show that economic growth must be accompanied by reforms that makes society operative in a collective way (Paramio, 2005). Furthermore, Grindle (2007) has identified some key structural reforms that any democratic society must applied to achieve economic development: control of violence and conflict; establishment of mechanisms capable of conflict resolution; definition and defense of property rights; access to public services; broaden participation in decision-making regarding public policies; reduction of social inequality; creation and consolidation of democratic institutions, and the emergence of a solid civic culture. Before the emergence of institutional economics, these factors were called “residuals” by economists. In social sciences, now they are known as part of *good governance*.¹ The topic of good governance and democratic transitions have been acutely addressed by scholars from many different disciplines, such as history (North, 2007), rational choice and game theory (Putnam, 2002), and political science (Fukuyama, 2008). Moreover, international institutions such as the World Bank (WB), the World Economic Forum (WEF), the International Monetary Fund (IMF), among many others, have also made important conceptual

¹ Good governance is a term used in international development literature to describe how public institutions conduct public affairs and manage public resources. It is usually defined as the process of decision-making by which decisions are implemented, or not implemented, in different sectors of society. For more information about governance, refer to: *What is Good Governance?* United Nations Economic and Social Commission for Asia and the Pacific. July, 2009

and methodological contributions on democracy, development and governability in democratic transitions.

Accordingly, several independent studies have found that by improving the governance in a country with weak social development, like Nicaragua, it was possible to reach the social and economic level of a country with strong economic and social development, like Costa Rica, in a relatively short period of time (Acemoglu, Johnson & Robinson, 2001; Knack & Keefer, 1995). Good Governance and its effect on the ability to generate collective action, or being able to work together in the achieving common objectives in a society, becomes crucial for the development of a country.

Douglass North *et al.* (2007) have hypothesized that a key factor to understand the problems of development and democracy is the configuration of the distribution of the rent in a specific society. This network of shared interests around the distribution of the rent² from the political class generate, at first, a regime characterized by a limited access of social actors to collective goods, such as public resources, access to property rights, security, among many others. The current academic debate of rent-seeking focus on the manipulation of institutions (agencies) to gain monopolistic advantage in the market while imposing disadvantages on competitors (North, 2007; Paramio, 2005 & Fukuyama, 2008). The term rent-seeking derives, however, from a far older practice of gaining a portion of production through ownership or control of natural resources and locations. In many market-driven economics, much of the competition for rent is legal, regardless of harm it may do to an economy. However, some rent-seeking competition might turn out to be illegal –such as bribery or corruption–, especially in political systems where institutions have little or no compliance in the accountability of the political actors. The relation of political actors and power of decision making varies from country to country, as shown in the figure below.

² In economics and rational choice theory, rent-seeking is understood as the intention to increase the economic share of a political actor by manipulating public policies or economic conditions, without necessarily creating new wealth. The effects of renting-seeking are reduced economic efficiency through poor allocation of resources, reduced wealth creation, lost government revenue, increased income inequality and, potentially, national decline. For more information about public choice theory and rent-seeking, see Dabla-Norris & Wade. *Rent Seeking and Endogenous Income Inequality*. IMF Working Paper. February, 2001

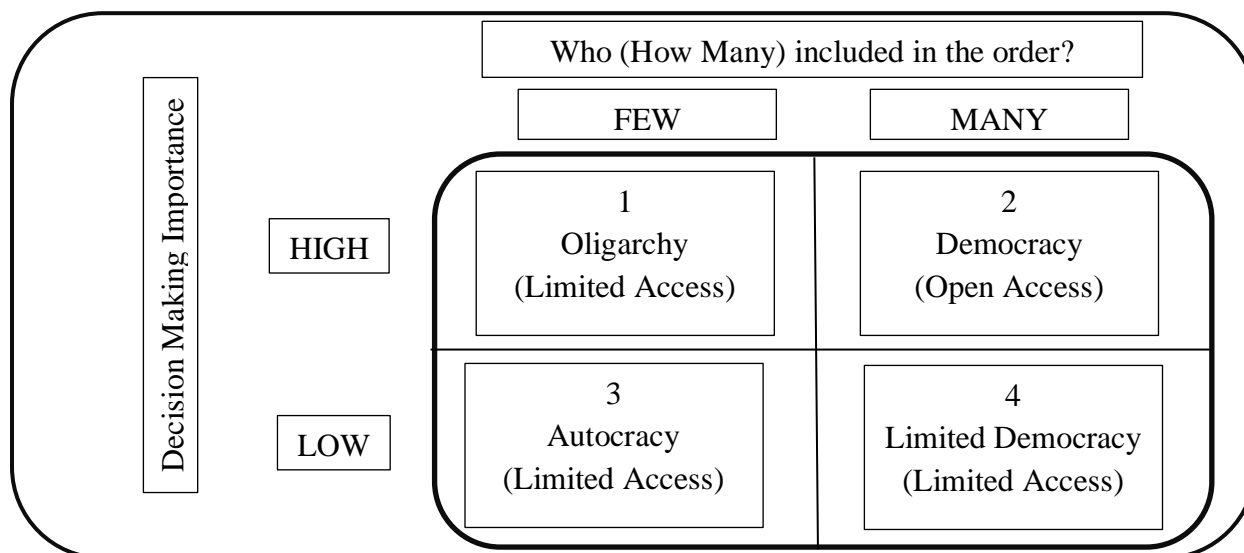


Figure 1: Types of Regimes and Importance of Decision Making
 Source: Velásquez, 2011

The figure above identifies four types of regimes (oligarchy, democracy, autocracy and limited democracy) considering the number and nature of actors in each one of them, and the level of importance in the decisions that they make. For example, in the first quadrant (Oligarchy), the actors included in the decision-making are few, but the importance of the decision-making process itself is high. The second quadrant (Democracy) show a very inclusive regime, with a lot of social actors involved in decision-making process. The third quadrant (Autocracy) is characterized by the exclusion of important actors with limited importance in the decision-making process. Finally, the fourth quadrant (Limited Democracy) are characterized by the “symbolic inclusion” of many actors within the regime, but with a scarce decision-making process. Three types of regimes (quadrants 1, 3 and 4) make part of what is known as the *limited access institutional group*, where the political power for the rent distribution or any political reform is concentrated in few political actors. Conversely, only one type of regime (quadrant 2) makes part of the *open access institutional group* – where there are many actors and institutions in play, and the power is well distributed among those actors.

In revising the consolidation of democratic institutions, North concluded that western societies that emerged from the industrial revolution in the north of Europe and the United States have been pioneers in transiting autonomously to a regime of open access, which has caused basic social synergy for economic and social development. The transformation from a limited access regime to an open access regime has depended, in many cases, on its own benefits in terms of rent-seeking perceived by the political elite, and on the role played by institutions that encourage competitions among political actors. Therefore, to North, the distribution of rent

constitutes the key factor in the process of development, as well as in the management of institutional changes and adaptations that the rent distribution requires. The findings of North's research become particularly relevant to understand the dynamics of power and the construction of democracies in societies. In limited access institutional groups, for example, some changes in the organization of power require institutional rearrangements that may cause, in some cases, institutional instability.

When the relation of forces between the actors is known, the institutions are custom-made for a specific person, party or alliance. Negretto (2013) has shown that new institutions have been adopted in Latin America whenever a new party system has emerged from the authoritarian period. The features of the new institutions she analyzed were designed to consolidate the new relations of forces among the actors. In fact, this is the most complex scenario for political decision-making because the conflicting political forces have strong preferences over alternative ways of organizing the political life of the society. In this context, however, the power relations are set by complying with the established rules of democracy.

From a game-theoretical perspective (as it will be shown in the following chapters), situations ("games") where decision-making takes place through new-born institutions from autocratic regimes have no Nash equilibria in pure strategy, and the one possible outcome is civil war.³ This has been exactly the case of Nicaragua between 1979 and 1989; several tries to build strong democratic institutions during a period of war failed, and a stable situation was reached only after the Sandinista's party lost the election in 1990.

³ Games with no Nash Equilibria happen if a player has n available moves for the game, and she is allowed to always play only one move (any action of her choice). No equilibrium is found in this type of games. For more information about Nash Equilibria and Game Theory, refer to: Binmore, K. (1994) *Game Theory and Economic Modelling* in Kreps, D. (1994) *Game Theory and Political Parties*. McGraw-Hill.

II. Dynamics of Power: Rents, Reforms and Games in Democratic Transitions

Kahn (2000) defines *rents* as “excess incomes” which, in simplistic models, should not exist in efficient markets. More precisely, *a person gets a rent if he or she earns an income higher than the minimum that person would have accepted, the minimum being usually defined as the income in his or her next-best opportunity* (Kahn, 2000, p. 1). In a limited access society, political actors extract rents from social actors by means of *extra-economic* coercion. According to Krueger (1974), this happens when a group imposes onerous regulations through legal mechanisms and other political decisions, for example, the creation of monopolies or tariff barriers, affecting the interests of both consumers and producers.

The generation of a vast area of shared interests in the rent ownership becomes fundamental to the maintenance of order incentive. The Status Quo (SQ) requires shared rules by the main actors (both public and private) that crystallize the establishment of a legal framework and an institutional structure. In this context, institutions regulate the process of income distribution and maintain the balance of the system, which results in the impossibility to move the status quo from a given position/location in the “political grid.” Variations in the political environment cause changes in the social context and in the development of the productive forces: demographic changes, technology, access to natural resources, etc. Furthermore, these changes result in the emergence of new social actors (groups, Non-Government Organizations, social classes, etc.) that seek to be included in the system of appropriation of rents. In this way, the system “regenerates” itself to include the demands these new actors or social groups.

At this point, several demands for reforms force politicians to take a stand against these new sectors. Depending on the decisions taken from the formers, changes in the correlation of forces within the power groups and changes in the distribution of income among its members represent a change in the previous status quo. These variations in the correlation of forces usually cause “stress” in the political system since the outcome of the games will give winners and losers. The main political actors must take a decision in terms of their moves to either support such reforms or reject them, fostering or affecting their previous interests respectively. It is precisely at this point that outcome of the reform is either decided or rejected. Obviously, since the position of the status quo is better before the approval of the reforms, the content of such reforms substantially alters the distribution of income, and the balance of power between the main actors of the political class will be resisted. Conversely, a proposal that promotes both the interests and benefit of the stakeholders will be supported. The following figure describes the

implementation of a political reform in terms of distribution of income from a game theoretical perspective.

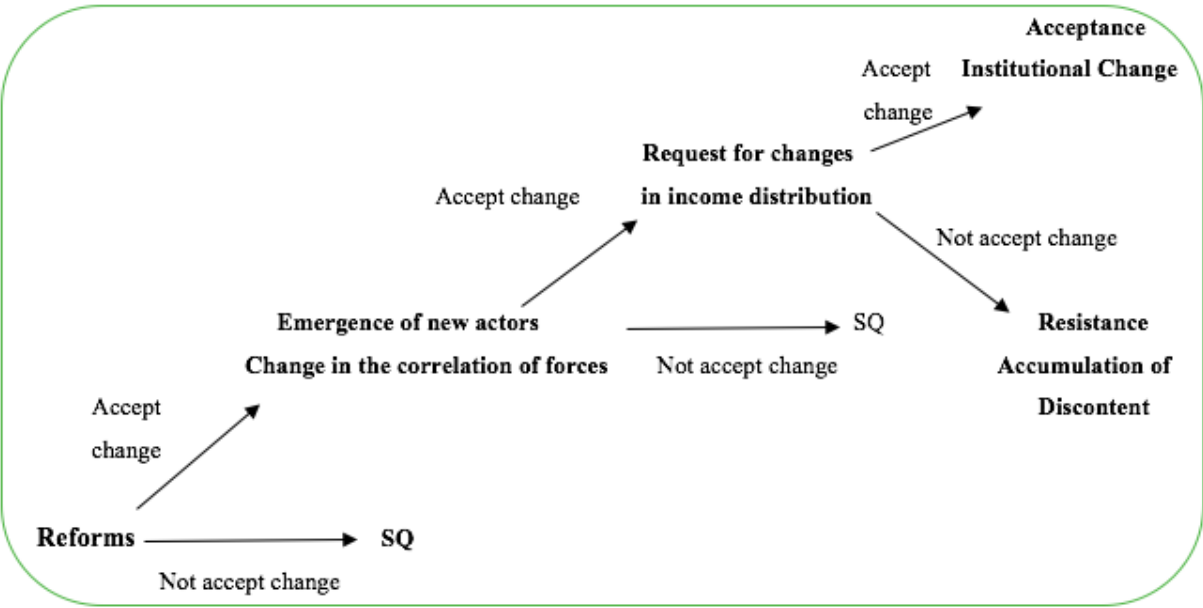


Figure 2: Political Actors Behaviors and Reform Implementation
 Source: Own Elaboration

To understand the outcomes and probabilities of success or failure of a reform, some elements of game theory (cooperative and non-cooperative games) are introduced into the analysis. Axelrod (1986) suggests that reforms could both be understood by either zero-sum games or non-zero-sum games, depending of the outcomes (*payoffs*) when the reforms are implemented. Usually, in non-zero-sum games, the implementation of the reforms can have two possible outcomes: positive or negative. When the end of the game leads to positive results, it means that all the players involved in the game develop a perception or expectation of winning, even though sometimes the results might lead only to one single winner. Moreover, when the game is a positive-sum game, the winner can easily compensate the loser. On the other hand, when the results are negative, the players operate under the expectation of losing, so they play just to avoid a great loss or defeat. In this case, the gaining of the winners is not high enough to compensate the losers, leading to a deadlock. When playing a negative-sum game, the perception of losing sometimes lead players to fear for their compensation, taking the same interlock with corresponding effects on the general welfare. The next figure illustrates a simplified version for the dynamics of the game for two players.

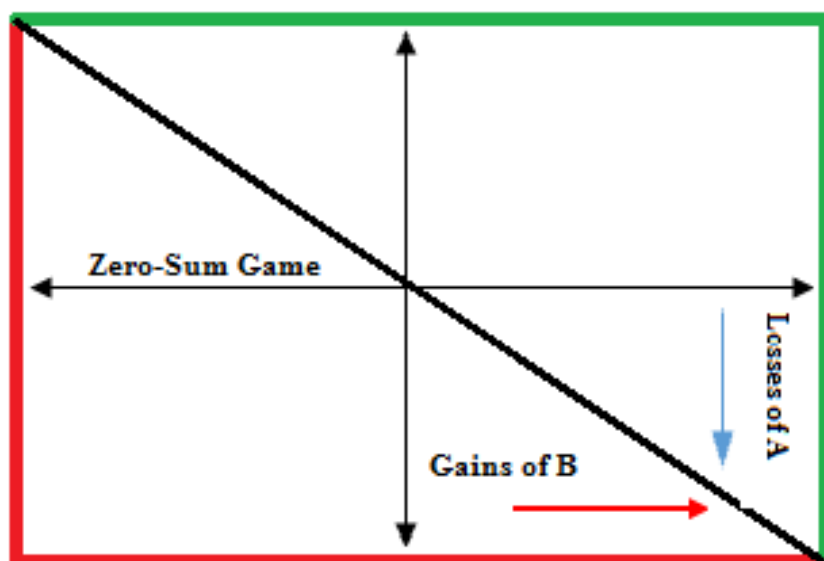


Figure 3: Scheme of non-zero-sum games
Source: Own Elaboration

According to Binmore (1994), if we apply game theory to evaluate the possibilities of success or failure of a political reform process, we could deduce that the reforms have a higher probability to succeed when proposed in a positive-sum scenario where all players that make up a country's political class have the perception that they will get increases in their allocation of political rents and, therefore, judge the content of the reform worthy of being supported and implemented in the sense that they can demand compensation.

On the other hand, the scenarios perceived by players as Zero-Sum Games are difficult to assess, due to the uncertainty of allocating losses of political rents. In general, within the approach of Zero-Sum Games, some players may incur in substantial losses of rent that would lead to his or her withdrawal of the game, causing either a replacement by another player or a block of the implementation of the reform. In any case, the chances of success or failure of the reform would rest on the possibility of building partnerships between the players to ensure policy gain for the ablest and most skilled players. There is also a third scenario to be considered. When the distribution of rents in a specific context becomes a negative-sum game, the expectation of changing the rules of the game is created among the players so that a new configuration of the political rents could be made. In this scenario, we would no longer talk about reforms, but rather a total configuration of the institutional arrangements.

The scenarios described above confirm that the chances of success or failure of a policy reform depend on the perception by politicians that the content of the reform results in the

increase in participation of key players in the distribution of income policies. Figure 3 shows an example of a situation in which the loss of player “A” excess the profits of player “B”, preventing the latter to compensate the former. Only reforms that could be located on the green axes have the potential to be implemented within the logic of this game.

The analysis could be enriched if we use Przeworski (1991) approach of political coalitions using a game theory approach in democratic transitions and institutional reform. If political actors (both hardliners reformers and moderate reformers) do have sufficient political strength to be able to compete under democratic conditions if they are given institutional guarantees, one can assume that it will be enough for them to opt for institutional change and democratic transition. They can get some support under competitive conditions, and they will prefer democracy with guarantees over any other alternatives.

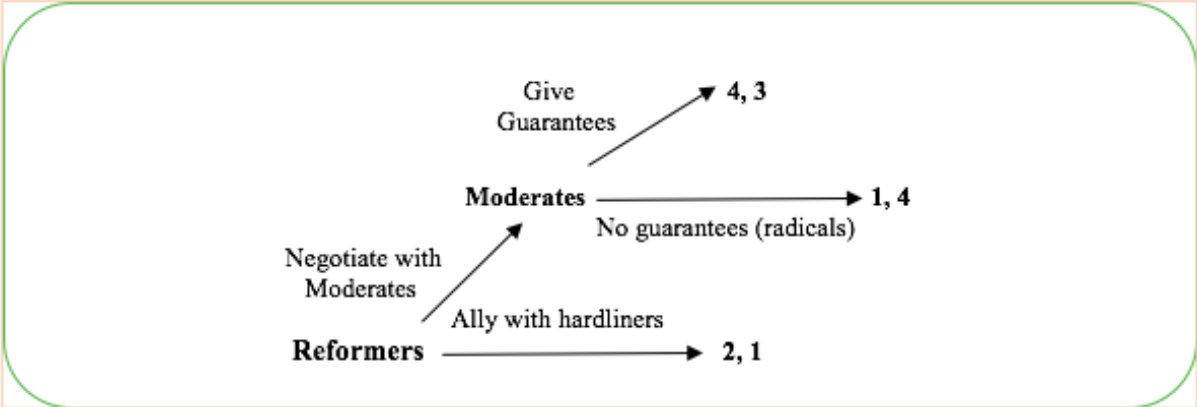


Figure 4: Final Payoffs of the Reform
 Source: Przeworski (1991)

The figure above shows that the outcome of the reformers depends of the actions of the moderates. If the moderates opt for guarantees, reformers are better off under democracy, but if moderates have no guarantees, reformers lose. Examining this structure of conflict in the extensive form, that is, assuming that the first reformers decide what to do, they would be better off under democracy with guarantees. But if they decide to negotiate with moderates, the latter will opt for an alliance with radicals, which will result in the worst outcome for reformers. Hence, reformers are more likely to stay with the regime.

III. Case Studies: Democratic transitions in Nicaragua and Costa Rica

Costa Rica

Costa Rica is often viewed as unique among Latin American nations because its contemporary political institutions have evolved from a colonial tradition of egalitarian rule of life, civilian rule, relatively equal land distribution, ethnic and racial homogeneity, and longstanding electoral integrity. Its democratic system was the result of a long political transition that began in the late 19th century, which involved a conflict-ridden process of development of political institutions during the first half of the 20th century (Molina & Lehouq, 2000). While the date when this transition ended is debatable, it is not controversial to state that most of the institutions and liberties associated with a democratic system were in place by the mid-1950 (Booth, 1999; Peeler, 1992). Arising from the 1948 Costa Rican civil war, a multiparty system developed in Costa Rica under a social democratic National Liberation Party (PLN) that dominated the polity for decades. Small conservative opposition parties coalesced to win the presidency upon occasion. These merged into the Social Christian Unity Party (PUSC), which challenged the PLN for dominance within the system in the 1990s (Webb & White., 2007).

During the second half of the 20th century, there was a unique convergence of economic, social and political process in Costa Rica. On the one hand, like in many other underdeveloped countries, Costa Rican society underwent rapid economic and demographic changes, especially between 1950 and 1980. On the other hand, unlike the rest, it combined the elements of reform explained in the previous chapters with a sound democratic development and important progress regarding social equity. This unprecedented convergence contributed to the country's social and political stability, despite the turbulence of its regional milieu (PEN, 2002).

In the early eighties, however, the country went through a severe economic crisis – though in comparative terms, it was less intense and protracted than in most Latin American countries. Once this crisis was overcome, there were important economic and institutional changes. Costa Rica took a new style of economic development, based on trade liberalization and fostering foreign investment, which generated a dynamic and diversified foreign trade sector. Several constitutional and legal changes altered the structure and function of the Costa Rica State and strengthened the institutions upholding equilibrium in the dynamics of power through the Rule of Law.

Despite the social and political tensions generated by the economic crisis at the beginning of 1980, the democracy that emerged from the protracted transition was a stable one.

From 1972 to 2003, the Freedom House Index⁴ rated Costa Rica democracy in a very similar manner to countries such as the United States and Sweden (Freedom House, 2004). The situation is similar as recorded in Polity IV and in the Poliarchy dataset of Vanhanen (Gurr & Jagger, 2000; Vanhanen, 2000) In addition to its stability, another key feature of recent democratic evolution has been the institutional reforms effected during the last decade of the 20th century.

After the transition, the Costa Rican variety of democracy can be defined as an open access society (quadrant 2), stable presidential system with highly centralized State⁵ and a two-party political system. However, this variety differs from the equivalent ones in the region because of the ever stronger and more numerous political, legal and administrative checks over the Executive branch, developed during the latter decades of the 20th century. There was also a major expansion of the recognition of the rights of the population and a strengthening of mechanisms to safeguard and protect them. Currently, multiple political and institutional actors, including the citizenry as a whole, have (at least some) effective capacity to veto public policy formulation or execution (PEN, 2001).

Nicaragua

On the other hand, the history of Nicaragua shows a highly discontinuous pattern in recreating periods of limited access regimes: oligarchies, autocracies and limited democracies. Since its independence in 1821, Nicaragua has suffered from anarchy and civil war, followed by periods of relative stability, generated by autocratic governments and dictatorships. In general, we can identify in Nicaragua's history a series of events that take place between the search for order and failure. This cycle starts with states of anarchy which interrupt and inhibit the processes of investment and economic growth, which in turns lead to the establishment of oligarchies, autocracies or, in the worst scenarios, dictatorships. The establishment of dictatorships in Nicaragua has led to the impossibility for the regime to acknowledge any kind of institutions that would limit its power.

Przeworski (1991) states that a common feature in dictatorship, whatever mix of inducements and constraints they use, is that they cannot and do not tolerate independent

⁴ The Freedom House is a Non-Governmental Organization (NGO) that conducts research and advocacy on democracy, political freedom and human rights. The organization's annual Freedom in the World Report assesses each country's degree of political freedoms and civil liberties. For more information, see Ide, W. (2000) *Freedom House Report*. Voice from America Retrieved March 1st

⁵ The municipal tax burden with respect to the Gross Domestic Product (GDP) –the relative weight of taxes collected by municipal authorities within the economy- did not surpass 1%. For more information, see Alfaro, R (2003) *Gestión Presupuestaria Municipal de Costa Rica*. San José. Costa Rica. Programa Estado de la Nación

organizations. The reason is that, as long as no collective alternative is available, individual attitudes toward the regime matter little for its stability. What is threatening to the authoritarian regimes is not the breakdown of legitimacy but the organization of counter-hegemony, namely, collective projects for an alternative future or the emergence of others important political actors. Przeworski characterization of an exclusive political regime would explain the institutional weakness of the democratic institutions in Nicaragua. The benefits of inclusion are limited to a small group that is unable to generate the necessary political support to enhance the roles of institutions in a democratic system. When facing internal tensions, their veto power of the small group is not strong enough to even keep cohesion, and the agreements tend to break. This produces the chronic weakness of commitments and agreements from which a democratic stability is based on. As a result, weak institutional structures are generated and reproduced.

Nonetheless, under the false façade of stability created by the system, the process of private investment and economic growth is reactivated. This, however, leads to an accumulation of wealth in a concentrated small group of beneficiaries, so that the model that emerges from this situation is that of an oligarchic regime, which excludes the vast majority of stakeholders. In time, this situation leads to the emergence of pressures to include other actors, discontent and protest from the excluded sectors and/or the emerging ones. The policy response from the elite is repression, which stimulates the rebellion of the excluded sectors. Sooner or later, the dynamic of repression-rebellion has led to civil war, the internalization of the conflict and anarchy, which closes a vicious cycle of political instability.

Note however that all transitions to democracy are negotiated: some with representatives of the old regime and some only among the pro-democratic forces seeking to form a new system. Negotiations are not always needed to extricate the society from the authoritarian regime, but they are necessary to constitute democratic institutions. As Przeworski suggests, democracy cannot be dictated; it emerges from bargaining. A model of such bargaining has the following structure: Conflicts concern institutions. Each political force opts for the institutional framework that will best further its values, projects, or interests. Depending on the relation of forces, including the ability of the actors to impose non-democratic solutions, either some democratic institutional framework is established or the struggle for a dictatorship ensues. This model implies some hypotheses that relate the relations of force and objective conditions to the institutional result. Accordingly, different institutional frameworks are explained in terms of the conditions under which transitions occur.

The reason why some democratic transitions look problematic is because institutions have distributional consequences. Under the rational approach, if the choice of institutions were

just a matter of efficiency, it would evoke no controversy; no one would have reason to fear a Pareto-efficient system, namely, a system that makes someone better off at no cost to anyone else. But given the distribution of economic, political and ideological resources, institutions do affect the degree and the manner in which particular interests and values can be advanced. Hence, preferences concerning institutional change in a democratic transition become more relevant.

Two possible results might happen: whether the relation of forces is known to the actors when the institutional framework is being adopted and, if yes, whether this relation is uneven or balanced. These conditions determine what kinds of institutions are adopted and whether these institutions will be stable. A feature of Nicaragua's politics is the presence of very abrupt institutional change through very strong actors as heads of political parties. In this case, we see an uneven relation of power between the political parties and the rest of institutions. These overpowered agents, which in time converted the weak democratic political regimes into dictatorships, were very common in Latin America during the second half of the 20th century and brought, in most cases, negative consequences for governance and social development. Although political parties have played a crucial role in the democratic transition of Nicaragua, they need important reforms to make them more representative and politically efficient. However, Nicaragua is still struggling to overcome coopted state institutions by political parties that instead of them fostering the democratic transition that initiated during the 90's. That is why reforms are necessary not only for the process of democratic transition itself, but also because they guarantee a real inclusion of all social actors.

IV. Institutional reforms: A Perspective for the Future

The studies conducted by Douglas North, cited in the previous section of this paper, emphasize that the drivers that work as catalysts between an open access society and a close access society are: the rule of law, protection of property rights, and the distribution of rents. If a society is able to create and sustain new incentives from a ruling elite downward to the rest of political and social actors, then it can be stated that the transition to higher levels of accessibility to an open access society may occur.

Costa Rica experienced substantial reforms in its political structure after the second half of the 20th century. After the Costa Rican revolution in 1948, the structural reforms of the country allowed a well-balanced power distribution among the political actors. The main reforms included the abolition of the armed forces, public investment in education and health, and internal reforms of the electoral system and the formation of political parties. The

institutional change in the Costa Rican case has followed interesting models that, according to Thelen and Mahoney (2010) include several steps, from *displacement* (total institutional change) to *drift* (change of the performance of the institutions due to change in the political context) and *conversion* (gradual shift of the institutional role depending on the interpretation of the existing rules). Since it is very unlikely for Costa Rica to experience nowadays an abrupt change in their democratic institutions (unless a deep institutional reform is implemented), the reforms will continue to impact the Costa Rican institutions but with a minimum differential growth.

The political system in Costa Rica has been bipartisan since the middle of the 20th century. The main two political parties are the National Liberal Party (*Partido Liberal Nacional*, PLN), belonging to the center-left wing of the political spectrum, and the Social Christian Unity Party (*Partido de la Unidad Social Cristiana*, PUSC), belonging to the center-right of the political spectrum. The PLN was founded in the middle of the 20th century, and it is the oldest official political party to exist after the revolution in 1948 (Sánchez, 2001). It is ideologically tuned with the classical social democracy ideology, namely, it intends to create a welfare state within the framework of a liberal democracy. Conversely, the PUSC was founded in the early 1980s, as an opposition to the National Liberal Party. Moreover, the PUSC was born out of a unity coalition of many political parties in Costa Rica: The Christian Democratic Party, the Republican Calderonist Party, the People's Union Party and the Democratic Renovation Party (Alfaro, R. & Gomez, C., 2012). This bipartisan system in Costa Rica has given political stability to the country for over twenty years, obtaining over 90% of the votes of the electorate (Sánchez, 2001).

The case of Nicaragua is, however, quite different. The Sandinista National Liberation Front (*Frente Sandinista de Liberación Nacional*, FSLN) led the Nicaraguan revolution in the 1980s, having influences from the Soviet Union and the Cuban revolution in the period of the Cold War. Many aspects of the Sandinista's ideology have similar tendencies of the leftist political thought in Latin America: the appeal to the masses (*populismo*) and anti-imperialism rhetoric (Martí, 2010; Tatar, 2009). However, there are many important differences that make the FSLN party unique in comparison with its peers in Central or Latin America. First, the revolution in the 1980s created a solid political base in the rural regions of the country, and the party has maintained its influence in the rural areas despite being opposition for over 15 years. Second, the FSLN has a strategic union with the Catholic Church in Nicaragua, gaining the sympathy of a highly percentage of believers in the country, and third, the FSLN has also

established strategic relations with the private sector of Nicaragua, having a strong influence in both the political and economic life of the country (Kampwirth, 2008).

Although not completely unchallenged, it is safe to say that the transition to democracy in Nicaragua started in 1990, with the defeat of the former president Daniel Ortega to Violeta Barrios during that year's national election.⁶ In either case, after the civil wars of the eighties, important reforms were implemented in the Nicaraguan State institutions to guarantee a democratic transition. The most important reforms were to reduce the size of the armed forces and to create institutions that would promote the pacification of the country. Furthermore, the access of Nicaragua to a market economy was followed by substantial economic and political reforms as well. These reforms reached their critical point in 1995, when an effective moderation to autocratic tendencies and a real balance between the executive power and legislative power were finally implemented. However, towards the end of the nineties, the reforms that were supposed to promote the institutional change got stocked and, from 1996, began to fluctuate without making any relevant institutional change (NDI, 2005). The modernization of the political parties in Nicaragua is still a pending issue on the national agenda. The constitutional reforms of 1995 raised for the first time this urgent need, and prepared the legal way to make the qualitative *leap* from a limited access regime to an open access regime. However, the traditional remarks of Nicaragua's political parties' structures became the most important obstacle for the right implementation of the reforms.

Therefore, most of what Nicaragua has gone through in terms of its institutional evolution or exercise of political power, could be considered as democratically limited. However, at least from a formal perspective, the Nicaraguan State could be accounted with some basic features of a standard liberal democracy, such as:

1. The presence of a regular, open and competitive elections;
2. The presence of basic civil liberties: freedom of speech, assembly and association;
3. The monopoly of violence (arm forces) by a civil government.

⁶ There is an ongoing debate about the exact period of the democratic transition in Nicaragua. Some scholars argue that the transition from an authoritarian regime to a democratic regime started in 1979, after the defeat of the dictatorship of the Somoza dynasty. This position has two corollaries. The first is an *alternative* conceptualization of democracy, seen as the expansion of space for the political participation of organizations different from political parties. The second is the implementation of an *electoral democracy*, namely, the process in which political parties engage into negotiations aimed at establishing rules of electoral democracies (Williams, 1994; Hoyt, 1997). In fact, it is argued that the first elections held with the characteristics of a liberal democracy were in 1984, and not in 1990 (Ziluaga & Roitman, 1990; Gonzales Marrero, 1991; Williams, 1994; Martí i Puig, 2008).

For over 16 years (1990-2006) Nicaragua's political system has only gained the basic elements of a democratic regime. In the last ten years (2007-2017), the return of the FSLN to power has created ambivalent reforms in the political system of the country, such as the concentration of the political power in the governing party, in the one hand, and the economic growth due to negotiations with the private sector, on the other. These reforms have created political stability in the country, but it also stagnated important advancements in democratic terms.

Therefore, to change from limited access regimes into open access regimes, some institutional reforms need to be implemented. In this sense, it is important to notice that democracy will only work when there is a coherent functioning of the market, the state and the society as a whole. The possible reforms in the case of Nicaragua might include:

- *Access to Power:* Access to power from political parties (and to prevent any kind of authoritarian regime) must be accompanied by political liberalization. Liberalization is a result of an interaction between splits in the authoritarian regime and autonomous organization of the civil society. In an open access society, popular mobilization signals to the potential liberalizers the possibility of an alliance that could change the relations of forces within the power block to their advantage. Visible splits in the power bloc indicate to the civil society that political space may have been opened for autonomous organizations. Hence, popular organization and splits in the regime feed on each other.
- *Functioning of the Market:* Nicaragua must implement a reform that aims at improving the regulatory quality of the State. The effect of *layering*, according to Thelen's definition of institutional change, would help improve the government's effectiveness to meet the demands of the population, control of corruption, strengthen mechanisms of *check-and-balance* in the relation between the state and the market; and between the market and society.
- *Reforms to Political Parties:* In the case of Nicaragua, reforms to political parties are crucial for a democratic transition. The behavior of political parties in Nicaragua during the last decade has eroded the role of institutions to a limited democracy. The displacement, according to Thelen, of many institutions created after the 90's for "new" institutions created by the power of political parties to achieve their own political benefits (more specifically the political party of the current government) has meant a decline in the democratic transition of Nicaragua. The reforms should include primary elections within the political parties to guarantee an open decision-making procedure within the parties.

Conclusions

After several decades of authoritarian regimes, many countries in Latin America are finding their way to build solid and trustful democratic regimes. Some of them, like in the case of Chile or Costa Rica, have achieved important improvements in terms of building democratic institutions, human rights, and a good insertion into a free market economy. On the other hand, there are still some countries that have not yet achieved a fully democratic transition after periods of political instability. The problem that faces these countries is whether, once a dictatorship breaks down, the “new” institutions will allow all kind of relevant political forces to exist. And as soon as these institutions are in place, the question arises whether they will evoke spontaneous compliance; that is, whether they are willing to subject their interests to the uncertainty of competition and to comply with its outcomes.

By comparing the democratic transitions between Nicaragua and Costa Rica, we could identify key differences in both cases. After the Costa Rican civil war in 1948, the democratic transition that followed was characterized by a rapid economic and demographic growth, an abrupt displacement of old institutions for new ones, and a configuration of the electoral system. Even though Central America suffered from an armed conflict during the eighties, the democratic transition in Costa Rica was kept stable. The political reforms in Costa Rica included a stronger *check-and-balance* mechanism over the Executive branch, and a major recognition of political rights of the population. Thus, multiple political and institutional actors have nowadays capacity to formulate and veto many of the policies coming from the Executive.

Nicaragua’s transition has been characterized, on the other hand, by a discontinuous process of limited democracy. After the civil war of the eighties, the main political actors tried to implement reforms to strengthen the institutions to guarantee a peaceful democratic transition. The most important reforms included a reduction of the army and to create institutions that would promote the pacification of the country. Furthermore, the access of Nicaragua to a market economy was followed by substantial economic and political reforms. These reforms reached their critical point in 1995, when an effective moderation to autocratic tendencies and a real balance between the executive power and legislative power were finally implemented. However, towards the end of the nineties, the reforms that were supposed to promote the institutional change got stocked and, from 1996, began to fluctuate without making any relevant institutional change.

The thing that both cases have in common is the role of political parties during the transition. In the case of Costa Rica, a coalition of two dominant political parties contributed a

very important institutional layering and conversion, which played a key role during the democratic transition during the second half of the 20th century. The key characteristics is that the party system in Costa Rica rose of media-dominated retail electoral politics, depersonalization partisan politics, and from the adoption of primary election within the parties' structures.

Likewise, political parties will still play a crucial role in the democratic transition of Nicaragua. The Nicaraguan institutions have followed a very intense institutional change (displacement) followed by gradual change over the years (layering) due to the actions of the main political parties. The political system has changed from a multi-party structure to a bi-party structure, coopting the main institutions of the State. The reforms in Nicaragua should be implemented without excluding an improvement in the legal and institutional system of the country.

Finally, the clear economic “residuals”, as noted in the previous sessions of this paper, explain the development, of its lack of, in countries like Costa Rica or Nicaragua. The oscillation between periods of accumulation is what makes Nicaraguan's transition to be stuck, and prevents it to make the qualitative leap into an open access system. When the transition is complete, Nicaragua will finally nurture its institutions with a critical mass of citizens, the succession from personal rules to institutional ones, without causing more abrupt changes on its political stability. These proposals will require, of course, more analysis and answers.

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