

INSTITUTIONAL QUALITY INDEX 2019



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Populism vs. Institutions

Martín Krause

Latin America has made few original contributions to the social sciences. One positive contribution is the creative analysis of the informal sector contained in the famous book *"The Other Path"* by Hernando de Soto, Enrique Ghersi and Mario Ghibellini. This work was an important and original contribution, although there is still some debate as to whether the phenomenon it addresses is positive (*the quest for free market conditions*) or negative (*the undermining of the formal contractual framework that facilitates the functioning of the markets*).

A second original contribution, also in the sphere of economic policy, is the vision that was developed from around the middle of the 20th century based on the **ECLAC** model. This economic policy model criticised and rejected

the classical understanding of the advantages of international trade. It was based on a theory of dependency and disparities between the centre and the periphery which argued that participation in international trade would perpetuate underdevelopment. While undoubtedly original, the **ECLAC** doctrine had a catastrophic impact on many Latin American countries, leading to stagnation, a lack of competitiveness, and ultimately the collapse of their economies due to hyperinflation during the late 1980s.

It was our region's third innovation - **populism** - that put these economic policy theories into practice. The **ECLAC** doctrine never caught on outside of Latin America except among a few isolated intellectuals. Something similar occurred with populism, which didn't capture the

attention of thinkers in the rest of the world until it started to rear its ugly head in the most developed nations. It was only then that these countries began to throw their full academic weight into analysing populism, transforming it from a colourful regional phenomenon into something with much wider implications.



The populist rationale

Latin America provided fertile ground for populist regimes. Initially displaying hybrid ideological characteristics, these regimes would acquire right-wing qualities during the 1990s and left-wing tendencies in the 2000s, creating two different brands of populism. Previously there had been no such distinction - the original populists were all things to all men

... or didn't stand for anything in particular. It was the failure of the ECLAC model that forced populist leaders to seek out other economic policies, first nailing their colours to the "neoliberal" mast before subsequently turning to the Socialism of the 21st Century. In one of the first studies of populism, Di Tella (1965) argues that ideologies are used instrumentally, as a means of social control and mobilising the masses, to an extent never witnessed in the world's older nations. The fundamental principles of the ideology are reinterpreted and mixed with nationalist elements, but above all it is ritualised to such a degree that it becomes unrecognisable.

Our understanding of populism has advanced significantly since these early studies, not least thanks to the contributions of Laclau (2008). This author retains Di Tella's central argument concerning the unhappiness of a large part of the population, either for genuine reasons or due to incitement by a demagogic political discourse (Kaiser & Álvarez, 2016). He goes on to state that it is both important and necessary to construct a concept of the "people" by articulating the demands of different groups. These groups are no longer social classes defined in economic terms based on their relationship

to the ownership of the means of production. Instead, they are defined in terms of different social aspirations, including the demands of the feminist, anti-racist, gay and environmental movements (Mouffe, 2018a).

In the words of Chantal Mouffe, populism is not an ideology, it is a way of doing politics. It is a construct built on the boundary between the people and the oligarchy. Although it evidently first appeared in Latin America, we are now seeing exactly the same type of populism in Europe. The big difference between left-wing and right-wing populism is how they define the "people" - the "people" is not the same as the population, it is not an empirical benchmark, it is a political construct (Mouffe, 2018b).

This evolution of the support base for modern populist regimes is also linked to the economic failure of the previous incarnation of populism, the downfall of the socialist regimes, and the relative success of the economic liberalisation programmes in certain Latin American countries (*Chile, Peru, Panama and Costa Rica*). These failures belied the populists' claims that they could solve their countries' economic problems, demonstrating that their policies actually only exacerbate these problems, as can be seen today in the case of Venezuela.



Left and right

It is thus now standard practice to talk of “left-wing populism” and “right-wing populism”. The prevailing distinction drawn between them in the literature is that left-wing populism focuses on the economic dimension, whereas right-wing populism focuses on ethnic, cultural or religious threats (Ocampo, 2019). In both cases, there is a clearly defined enemy. However, as before, these regimes continue to defy simple classification. The “right-wing” populism of the 1990s was clearly centred around economic reforms, and the only example that exists today – the Bolsonaro regime in Brazil – also appears to be focused on these reforms (*economic liberalisation, privatising State-owned companies, social security reforms*), although its policy agenda also includes security (*where there are some concerns about the protection of individual rights*) and the fight against corruption (*Bolsonaro’s new Minister of Justice is Sergio Moro, the judge from the Operation Car Wash case*).

As for the impact of the different brands of populism on institutions, we know what

happened with the left-wing populist regimes, while it remains to be seen what happens in Brazil. Donald Trump, who could also be described as a right-wing populist, finds himself in a unique position because the United States is a country with relatively robust institutions. The US comes 12th in IQI 2019 – it has traditionally strong institutions, a clear separation of powers, an independent judiciary, and a free and critical press. But populist leaders always believe that they have a mandate to do whatever they want because they have won the support of the people. They do not understand the need for limits on the power of the majority, one of the fundamental elements of a liberal democracy. Will the strong institutions of the United States be able to withstand the assault of their populist leader? For now, it seems that they will, although they may well suffer lasting damage that compromises institutional quality in the longer term.

Venezuela, on the other hand, was unable to withstand the populist onslaught. From being a country with average institutional quality in the 1990s, it has fallen 74 places in the IQI since 1996 and is now bottom of the table for Latin America.

Could Bolsonaro be equally dangerous in Brazil? So far, it would appear not. In fact, his election was a reaction

to the left-wing populism of Lula and the Workers’ Party, under which Brazil fell 47 places in the IQI, dropping from 69th in 2005 to its current position of 116th.

But is left-wing populism worse than right-wing populism? Although it is still too early to say, we do know that the Left believes left-wing populism to be necessary in order to combat its right-wing counterpart. Chantal Mouffe is strongly opposed to treating left-wing and right-wing populism as two sides of the same anti-democratic coin. *She argues that the only way to combat and prevent the development of right-wing populism is by building a left-wing populist alternative (Mouffe, 2018b).*

The big problem with this interpretation is that institutions are the only real way of curbing the abuses of populism, regardless of whether it is right-wing or left-wing in nature. Institutions place limits on a regime’s power, and this is something that the populists abhor. It is no use to simply replace right-wing abuse of power with left-wing abuse of power – this only exacerbates the abuse and the damage to institutional quality.

Populist leaders believe they have a direct link to the masses and that the “people” – defined as a relative majority at one particular point in time – have unrestricted authority to impose their chosen policies. This often includes policies that clearly violate the rights of minorities.

Populism never thinks in terms of individual people or individual rights. It always focuses on the rights of groups, and in particular on the rights of certain groups versus other groups, framing things in terms of “us and them”. It inevitably privileges some

and punishes others, in a system where everyone suffers in the end.

The populist understanding of power is encapsulated in the following anecdote. In 2011, when Cristina Fernández de Kirchner was celebrating her re-election with her supporters after winning 54% of the vote, she is reported to have said **“let’s go after everything”**, a phrase that neatly sums up the populists’ attitude. They believe that winning a one-off majority at a given point in time entitles them to do whatever they want, even if that means violating the rights of the other 46% of the electorate.

Institutional quality, on the other hand, means that there are limits on power. In other words, even if a leader has a majority of more than 54%, they still can’t do whatever they like or whatever they think will please the majority that voted for them. That is what we mean when we talk about limits on power, and anything else is little different to an absolute monarchy or a dictatorship.

The **"populist rationale"**, on the other hand, adopts a collectivist approach to the sociopolitical situation (*the people vs. those who are not the people, i.e. an adversarial attitude based on myths or 'narratives' rather than on rationality, see Salinas*). Rights are **"social"** rights, and are conferred primarily on those groups defined as forming part of the **"people"**. As for everyone else, they mainly have duties rather than rights. In other words, the rights that exist under populist regimes are not individual rights that apply to everyone. It follows that the institutions created to protect these individual rights are no longer important or necessary and should certainly not be allowed to restrict the will of the **"people"** as expressed in the ruler's narrative.

Any limits on power are merely obstacles to enacting the will of the people. Judicial independence is recast as dependence on the powers of the **"anti-people"**, freedom of the press is regarded as a means of propagating the narrative of the powerful groups that control the media, while the owners of private property are condemned for **"doing as they please"** with their possessions without considering the **"national interest"** as defined by the populist ruler.

This is the rationale that underpins the erosion of the institutional restrictions on power. If the legislative branch wishes to be independent of the executive branch, then you can always create a parallel assembly like they did in Venezuela. Freedom of the press can be overcome by funding government propaganda and/or through the forced purchase of the main media organisations, while decisions concerning the availability of property (*selling prices, export or import licences, borrowing, access to foreign currency*) are taken by government officials rather than by those who created the resources in the first place.

Limits on power

Populism's detrimental impact on institutional quality is reflected in the IQI. Since 1996, the first year for which retrospective data are available, Bolivia has fallen 114 places in the index, while Argentina has fallen 75 places (*although it has recovered slightly in recent years*), Venezuela 74 (*starting from a lower position than the first two countries: in 1996, it was 109th, whereas Argentina was 44th and Bolivia 40th*), Ecuador 72 and Nicaragua 45 (*it was 85th in 1996*).

This is the impact that **"left-wing populism"** has on a country's institutions. As for right-wing populism, although we lack a full data set for the 1990s, we know that it delivered

clear improvements in market institutions by bringing an end to the disastrous **ECLAC** economic policies that resulted in the period of hyperinflation at the end of the 1980s. At the same time, however, it had a negative impact on the quality of political institutions, particularly with regard to judicial independence and corruption (*as witnessed in the regimes of Menem, Salinas de Gortari, Fujimori and Collor de Mello*).

So what can we expect in the cases of Trump and Bolsonaro?

Will their countries' institutions be able to keep their ambitions to accumulate political power in check while at the same time allowing them to introduce reforms that improve the quality of their market institutions?

In Bolsonaro's case, the key policies at stake are the reduction of public spending and taxation, economic deregulation and liberalisation, the privatisation of around 140 State-owned enterprises, and the social security reform referred to above (*spending on social security accounts for 13% of GDP and is responsible for more than half of the fiscal deficit*). In the best-case scenario, Bolsonaro's government would deliver on all of these policies.

Donald Trump's declaration of a national **"emergency"** in connection with the wall that he wants to build on the Mexican border will test the strength of the United States' institutions. The US budget was recently passed by both chambers. On the very same day that this crucial deal was adopted, setting out the resources that the State will obtain from its citizens and how it will spend them, Trump chose to declare a national emergency, a legal expedient that grants the president special powers in the event of a crisis. This expedient had already been used on 58 previous occasions, many of which hardly qualified as a **"crisis"** – it has often served as a ploy for

the Executive to try and get round the limits imposed on it by Congress.

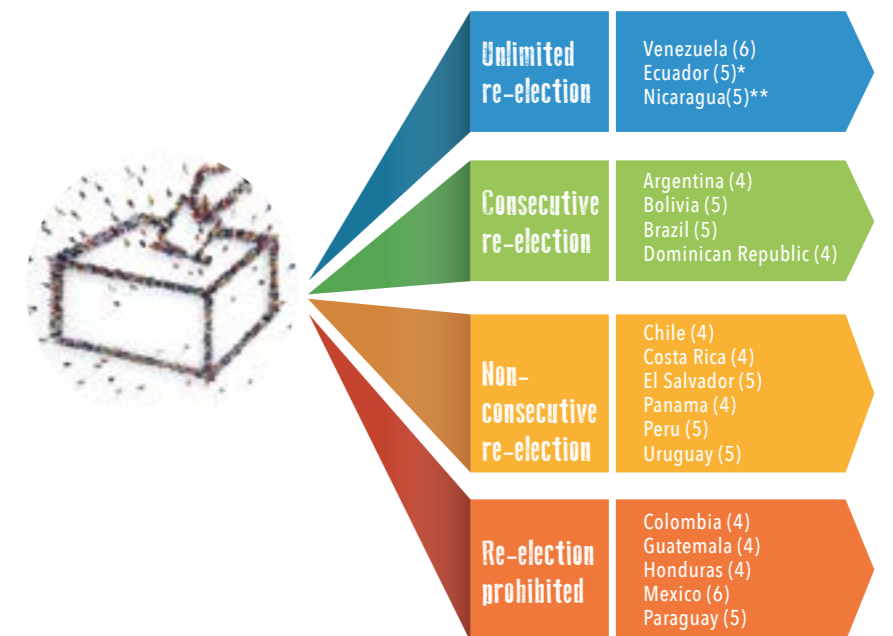
Trump's actions are once again a clear example of the president abusing his power to override the will of Congress, which had not included funds for the wall in the budget. The effect of this is to weaken the separation of powers. It remains to be seen whether the third branch – the judiciary – will be able to maintain its independence or whether it will cave in to pressure from the Trump administration. The quality of the United States' institutions is about to be put to the test.

Some of the reforms that have recently been introduced in our region could support greater independence. Corrales (2018) refers to institutions that regulate the **"entry and exit mechanisms"** of power. On the entry side, the author alludes to electoral systems with runoff rules, arguing that second rounds have a moderating effect because they force extremist candidates to bargain with those in the centre in order to build a majority. However, since this did not happen in Bolsonaro's case

we can only speculate as to whether the fact that he won the election with the support of voters in the centre will have a moderating influence now that he is in power.

On the exit side, presidential term limits have been a key barrier to the accumulation of power. The following table taken from Mac Auliffe (2017) summarises the situation in Latin America:

*Following reforms that came into force in 2017, removing all restrictions on re-election to positions subject to a public vote, including that of President. **Following reforms introduced in 2014.



The three countries that allow unlimited re-election are among those with the worst institutional quality in Latin America, whereas the countries with the best institutional quality have non-consecutive re-election models. Bolivia's situation is extremely worrying, since it is in danger of moving out of the consecutive re-election group and into the group of countries with unlimited re-election. It already belongs to this group in terms of its institutional quality, not least because of the way that President Evo Morales is manipulating the country's institutions in order to achieve his goal of unlimited re-election.

Could non-consecutive re-election be an even better antidote to the populists' attempts to monopolise power than prohibiting re-election outright?

While unlimited re-election is a sign of poor institutional quality because there is nothing to stop the same people from staying in their positions, there does not appear to be any obvious reason why non-consecutive re-election should result in better institutional quality than banning re-election outright. However, it is beyond the scope of this article to analyse this phenomenon.

Corrales goes on to highlight the increased independence of the judiciary and of social movements. The clear improvement in judicial independence was analysed in IQI 2017, where we considered the relationship between institutional quality and corruption. This improvement was illustrated by the advances in justice in Brazil and the outcome of the Operation Car Wash investigation. Sergio Moro, the

judge who was cited as an example of this increased independence, is now Minister of Justice in the Bolsonaro government. It remains to be seen whether he is able to maintain and strengthen this independence under a president who is regarded as a populist, at least in some respects. The increased autonomy of social movements is also playing an important role. Corrales cites the example of Ecuador, where feminist, indigenous and environmental groups have challenged Rafael Correa's attempts to accumulate power. The same phenomenon can be observed in Bolivia. Despite Evo Morales co-opting a large part of the indigenous movement and the Supreme Electoral Tribunal to approve his bid for re-election – **even though it was rejected in a 2017 referendum** – several organisations and political parties have asked the Inter-American Commission on Human Rights to issue a ruling on Morales' spurious argument that preventing his re-election is a violation of his human rights. A similar process is also occurring in Venezuela.

elements that could mitigate or halt the deterioration in institutional quality that usually occurs under populist regimes. Mexico's President López Obrador accepted and participated in the renegotiation of the NAFTA agreement with the United States and Canada, in which two right-wing populists (Trump and López Obrador) and one left-wing populist (Trudeau) at least agreed to keep the agreement in force. This outcome goes some way towards curbing the populist threat, although it doesn't remove it completely. On the other hand, the Mexican president's support for the Venezuelan regime is a worrying sign, as is his decision to suspend clean energy tenders, even though the contracts already awarded in previous tenders will be respected.

Moreover, while he was still president-elect, López Obrador used a public consultation in which less than 1% of the electorate took part in order to halt and cancel the construction of a new airport for Mexico City. Regardless of how justified this decision may be, it will entail huge compensation payments to the construction companies for breach of contract. Even more importantly, it shows that López Obrador intends to get round the institutional checks and balances by promoting certain changes through a so-called "participatory democracy" in which very few people actually participate.

It is true that direct democracy can serve as a mechanism for restricting the abuse of power. However, when this happens it is usually through bottom-

up, grass-roots initiatives that are supported by civil society organisations and ultimately by a majority of voters (as in Switzerland and California, see Krause & Molteni, 1997). It very rarely serves this purpose when those in power organise a referendum on their own policies. López Obrador subsequently used the same strategy to win approval for the "Mayan Train" project. As well as this, other worrying signs for the future include the creation of a new National Guard and the president's regular "morning news conferences", which recall Hugo Chávez's unrelenting attempts to dominate the "narrative" and the political discourse, thereby undermining democratic debate.

Mexico's institutions – which as we have already explained are far from robust – will face a number of tests over the coming years. These will play out as and when the judiciary attempts to restrict the government's actions (the current debate about pay cuts for civil servants, including members of the judiciary, seems to be focused on protecting professional privileges rather than ensuring judicial independence, which depends on the decisions taken by judges, not on higher salaries). Other tests will occur if the government tries to interfere with the independence of the Central Bank and – assuming that the president continues to enjoy high popularity ratings – if towards the end of his term of office López Obrador seeks to modify the strict ban on presidential re-election that has traditionally existed in Mexico. Although this ban was not enough to save Mexico from decades of

Conclusion

Populism has had a devastating impact on institutional quality in Latin America. Some of the region's countries have managed to escape populism's clutches and improve their institutional quality, notably Chile, Costa Rica, Uruguay and Panama. Others, such as Venezuela, Nicaragua and Bolivia remain firmly stuck in the populist mire. A third group of countries comprising Argentina and Ecuador are trying to break free, but are encountering numerous difficulties, some of their own making and some inherited.

Finally, Mexico and Brazil are facing a new test. Although one is considered to have a left-wing and the other a right-wing populist government, in both cases there are certain



uninterrupted populist PRI regimes, at least it prevented the “cult of the caudillo”, another typically populist phenomenon.

In Brazil, as well as bringing in Sergio Moro as his Minister of Justice, Jair Bolsonaro has also appointed a finance minister who would seem to be anything but a populist and who wants to liberalise the economies of both Brazil and the closed-off Mercosur bloc. While he may still dabble with populist policies in some other areas, it would appear that these two extremely important areas will be spared, at least for the time being.

We do not yet know how things will pan out in Mexico and Brazil. Both are very important countries within our region and neither has particularly strong institutions to curb the populist onslaught – Mexico ranks 94th in the IQI and Brazil 116th. Venezuela occupied a similar position when it began its downward spiral, and none of its institutions were able to check the populists’ momentum. None of the institutions – the separation of powers, judicial independence, freedom of the press, economic liberalisation, a healthy currency and fiscal solvency – were very strong at the time, and they proved unable to prevent the country’s subsequent collapse.

There is no doubt that these countries are facing a severe test. It remains to be seen whether their populist presidents will attempt to accumulate power and whether their mediocre institutions will be able to withstand these attempts should they occur.

In the face of this challenge, it is up to everyone who believes in freedom, both in Brazil and Mexico and in the rest of our region, to stand up and be counted.

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IQI 2019

**By Félix Maradiaga, President
of the Fundación Libertad –
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The study of the institutions of power is one of the most fascinating aspects of political science and indeed classical political philosophy. Aristotle’s defence of private property can be viewed as an early attempt to analyse how the relationship between the market and political power influences the quality of the “polis”. The Pre-Socratics also highlighted the role of individual human virtues in determining what today might be described as “institutional quality”.

From the classical philosophers through to the icons of the Enlightenment, an intellectual tradition was thus established that involved studying the norms of human behaviour as the principal means of analysing the factors that shape a given society. However, the social sciences had to wait for the evolution of a more quantitative

approach to the observation of these norms that drew on some of the methods used in economics. Thinkers such as David Hume, Adam Smith, Ludwig von Mises and Friedrich von Hayek are among the greatest forerunners of the intellectual tradition that today is largely encapsulated in rational choice theory. It is no exaggeration to say that the Institutional Quality Index (IQI) shares the same exalted aspirations of excellence as this intellectual tradition, which seeks to understand reality through the use of objective analytical tools that allow us to draw comparisons, compile rankings and identify trends and best practices.

Another of this tradition’s contributions is the dispassionate and rigorous identification of the individual and collective behaviours that have the greatest influence on a nation’s prosperity or poverty. Unlike other approaches that are fixated on how things ought to be, the rational tradition has an almost compulsive urge to analyse the incentives and ideas that are responsible for shaping the institutions of economic and political power in actual practice. In the English-speaking world, there are a number of outstanding contemporary exponents of this tradition, such as Douglas North and, more recently, the likes of Daron Acemoglu and James Robinson. Extremely valuable contributions have also been made by various think tanks, for example the Fraser Institute’s Economic Freedom of the World Index, the World Economic Forum’s Global Competitiveness index and the Heritage Foundation’s Index of Economic Freedom, to name but three. However, with very few exceptions, the contributions from Latin America have been few and far between.

In producing the IQI with such clarity and methodological rigour, Dr Martín Krause has thus made a major contribution to the political and economic sciences in Latin America. The IQI also provides invaluable input for the work of the organisations that make up the Red Liberal de América Latina (*RELIAL*), which funds its publication.

Published annually, the Index is a breath of fresh air for a variety of readers interested in comparing the performance of governments around the world. The IQI is without doubt the most authoritative and robust contribution in its field both for the expert community of think tanks, political scientists and economists, and for the more discerning readers with a general interest in the subject. However, the IQI's most important contribution, made possible by its elegant simplicity, is that it provides a tool for the defence of free and open societies. Shunning rhetoric, the Index allows its methodological rigour to reveal insights that no amount of flowery language could ever express as effectively – for instance, the fact that the societies with the greatest respect for freedom not only have better market institutions but better political institutions, too.

On a personal level, I am an avid reader of Professor Krause's work. His academic publications are always characterised by a winning combination of detailed analysis and common sense. This attribute can be appreciated throughout the IQI, which is based on

eight indicators of institutional quality. These eight indicators relate to aspects that are analysed by some of the world's most rigorous academic organisations, and are clearly explained in the methodology section. It would make little sense for me to try and summarise the IQI in this foreword, since it would be nigh on impossible to do justice to the publication's contents. The best way to fully appreciate its many fascinating insights is simply to immerse oneself in the pleasure of reading it. Rest assured that this will be time well spent, especially for anyone concerned about the latent threat of populism throughout the world, a topic that is of fundamental importance to the future of democracy and thus a very apt choice of theme for this edition of the IQI.

As Professor Krause reminds us, populism is no longer an exclusively Latin American problem, nor is it a phenomenon associated solely with the Left or the Right. He adds that *"institutions are the only real way of curbing the abuses of populism, regardless of whether it is right-wing or left-wing in nature. Institutions place limits on a regime's power, and this is something that the populists abhor."*

It is no coincidence that, once again, it is the Nordic countries that dominate the top positions with regard to the quality of political institutions, or that countries such as Singapore, Hong Kong and New Zealand rank as the world's most open economies. All of these countries are characterised not only by a high Human Development Index (*HDI*) and gross domestic product (*GDP*), but also by institutional mechanisms for limiting the potential abuses that could arise under a populist regime.

Reading this edition of the IQI has made me realise that populism, in all its different guises, is not just an ethical problem – it is a phenomenon that poses a serious, practical threat to the future of the people who live under populist regimes. It is bad enough that populism tends to lead to an excessive concentration of power and decision-making authority in the hands of a single person. Worse still, however, it also seriously impairs the factors that stimulate saving, investment and individual freedom.

There can be few causes as important in today's world as the defence of people's individual dignity against populism's voracious urge to control. Contemporary concerns about authoritarianism have much in common with the classical philosophers' preoccupation that a polis would be at risk of turning into a tyranny if its ruler did not follow *"virtuous"* norms. Those of us who believe that ideas are the best way of combatting the purveyors of misery and deprivation will regard this edition of the IQI not so much as a reference work, but rather as a weapon for defending prosperity and freedom.



Institutional Quality Index 2019

Martín Krause

New Zealand's success in certain sports is mirrored in the quality of its institutions. The All Blacks and Black Ferns men's and women's rugby union teams, the Crusaders in the Super Rugby competition and the America's Cup sailing team are all number one – a position the All Blacks have held for many years. When we started compiling this index in 2007, New Zealand came fourth overall. However, retrospective data were subsequently compiled going back to 1996, and New Zealand topped the table in this first year. In the 24 years for which we now have data, New Zealand has come first on 12 occasions, i.e. in half of all the indexes. This is no mean feat.

The impacts of this institutional quality are felt across several different areas in this country of 4.9 million people. Per capita income has grown

steadily over the period in question, rising from \$26,735 in 1996 to \$37,852 in 2017 (*in 2010 constant dollars*) (*Source: World Bank*). The unemployment rate is 4.3% and inflation stood at 1.9% in 2018. Life expectancy is 80 for men and 83 for women. New Zealand is notable for its respect for individual rights, cultural diversity, the environment, security and justice.

New Zealand comes 5th in the Rule of Law indicator, 4th in Voice and Accountability, 24th in Freedom of the Press, 2nd in Corruption Perceptions, 18th in Global Competitiveness, 3rd in Economic Freedom (*Heritage and Fraser*) and 1st in Doing Business. These results place it 7th in the political institutions subindex and 3rd in the market institutions subindex, meaning that its overall institutional quality is the best of any country in the world.

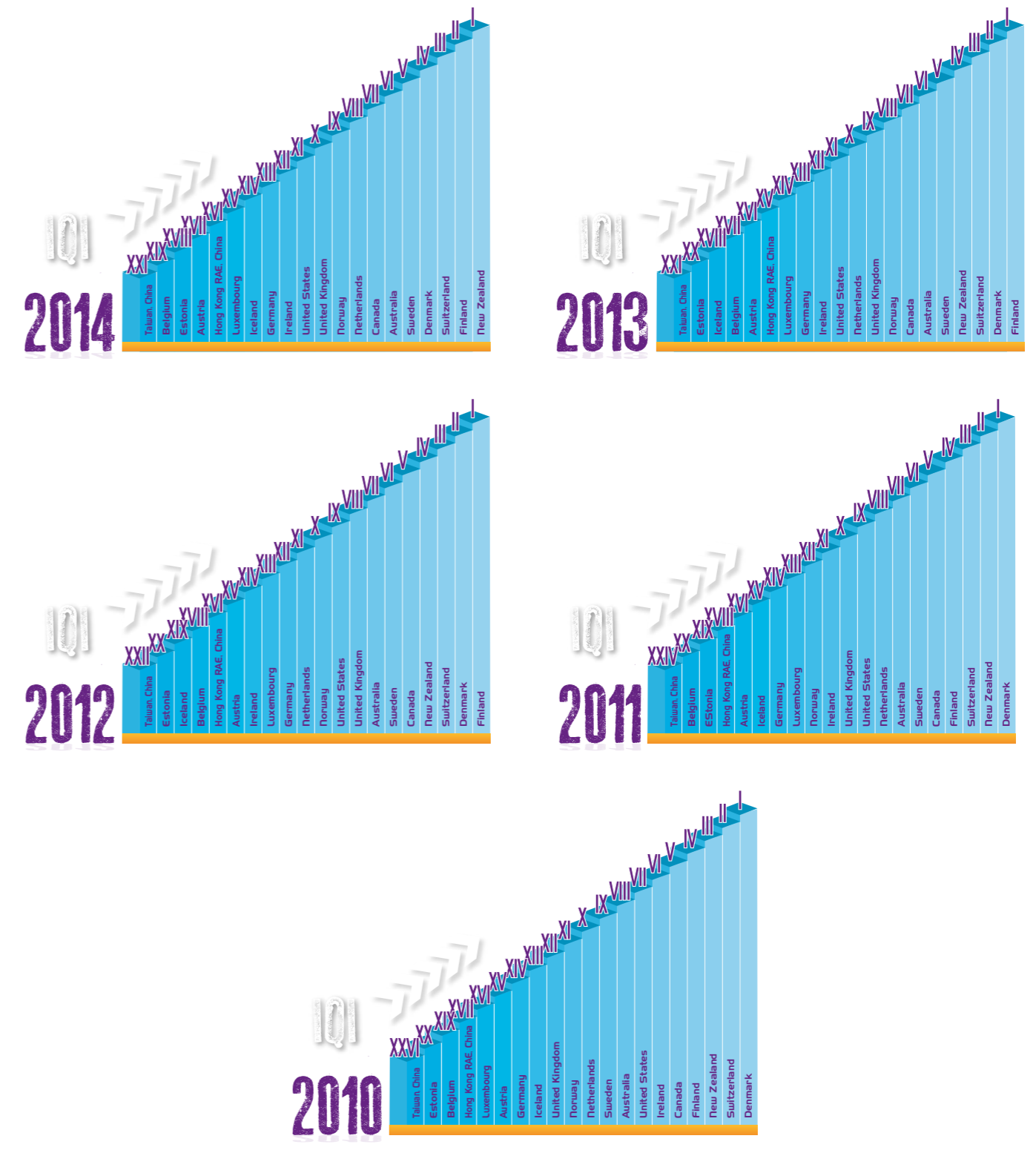
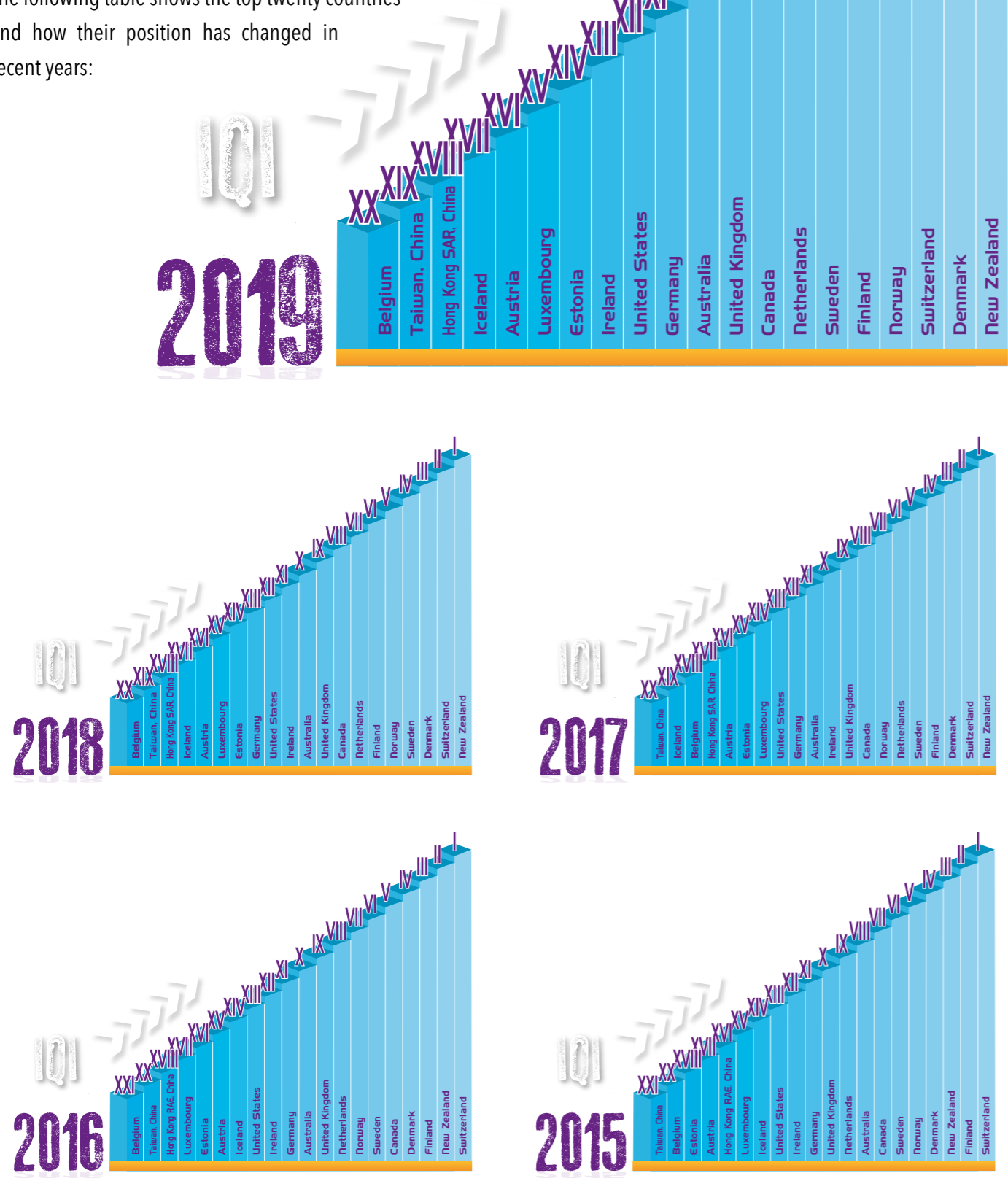
There is of course still room for improvement – it doesn't come top in all of the indicators. As explained in the appendix on the IQI's methodology, the index does not claim to measure perfection. However, in this imperfect world, New Zealand comes out ahead of everyone else. The implication is that its model should receive more attention than is currently the case. New Zealand is rarely cited as an example in the public policy debate – the results of the IQI suggest that it should be mentioned far more frequently.

Over the years, New Zealand has shared the top three spots with Denmark (*which comes 2nd this year*) and Switzerland (*3rd*). Denmark came top of the index four years in a row between 2008 and 2011, while Switzerland took first place on five occasions (*2005-2007 and 2015-2016*).

The fact that these countries have shared the top three places over the past 24 years is an impressive achievement and suggests that their institutions should be carefully studied. Between 2002 and 2017 they were accompanied by Finland, which subsequently fell to 6th in 2017 before climbing one place to 5th in this year's index.

The other countries in the top ten are Norway, Sweden, the Netherlands, Canada, the United Kingdom and Australia.

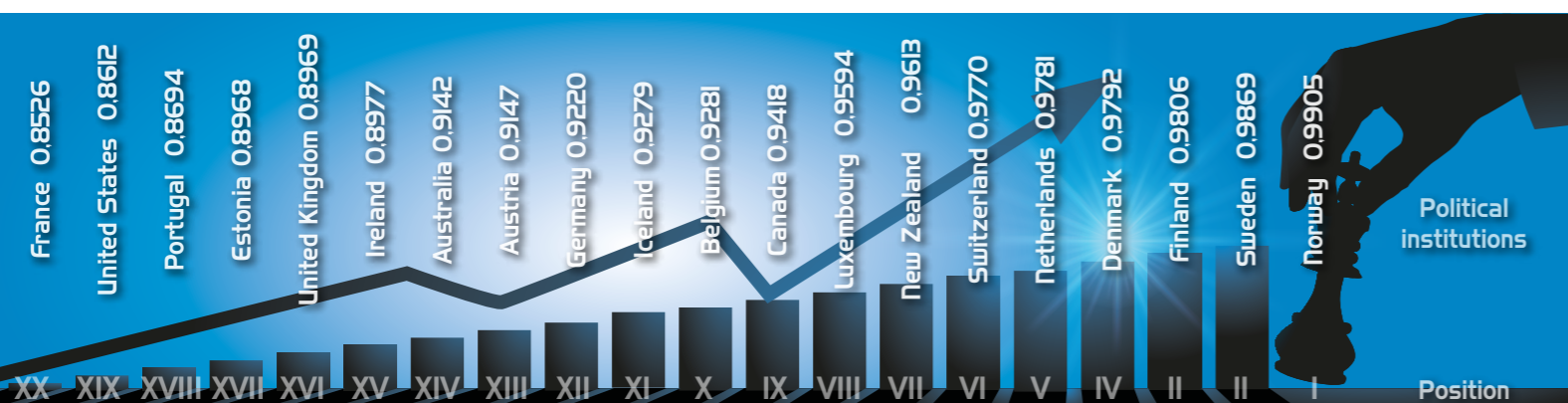
The following table shows the top twenty countries and how their position has changed in recent years:



As ever, the top positions are dominated by Nordic and Anglo-Saxon countries. Previous editions of the index have already discussed the different theories that seek to explain not just the positive consequences of their good institutional quality, but its causes. We have, for example, considered the theories that it is due to the size of these countries (*i.e. that smaller countries or island nations have better institutional quality, although this does not apply to Canada or the United States*), the common law or German/Nordic legal systems as opposed to the codified Napoleonic system, geographical factors, or cultural reasons connected with the prevalence of certain values and ideas.

As we have said before, this is a complex phenomenon that may be explained by a combination of these theories together with historical accidents, the importance of which should not be overlooked. Another significant factor is the presence of what we have described in previous reports as **“institutional entrepreneurs”** – figures who are able to successfully promote institutional change.

As far as the quality of political institutions is concerned, the top of the table is clearly dominated by the Nordic countries. The top twenty are as follows:



However, the notion that the Nordic countries lead the world in terms of their political institutions but have **“socialist”** economic systems fails to adequately account for their characteristics. While it is true that these countries have strong welfare states, Denmark still comes 6th in the market institutions subindex, followed by Norway in 14th, Finland in 16th and Sweden in 17th.

The following table shows the top twenty countries in the market institutions subindex. As usual, the table is topped by Singapore and Hong Kong, the two most open economies in the world.

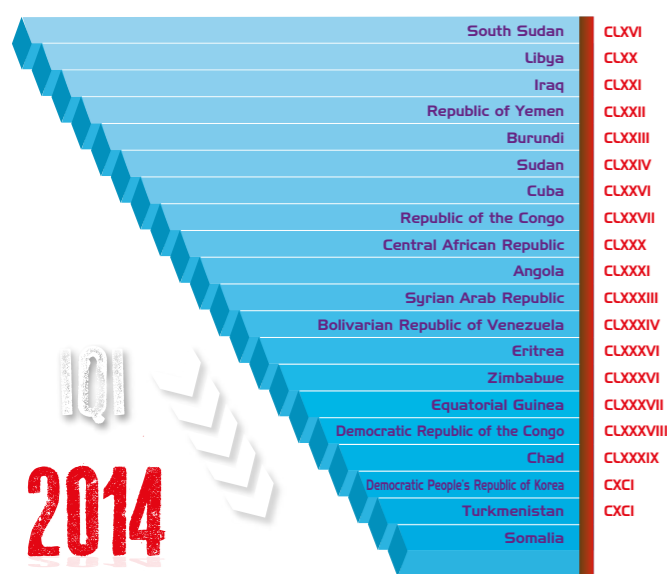
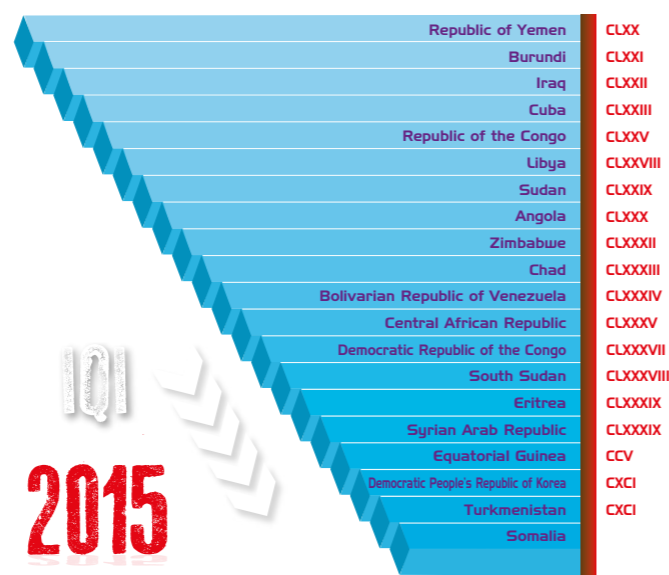
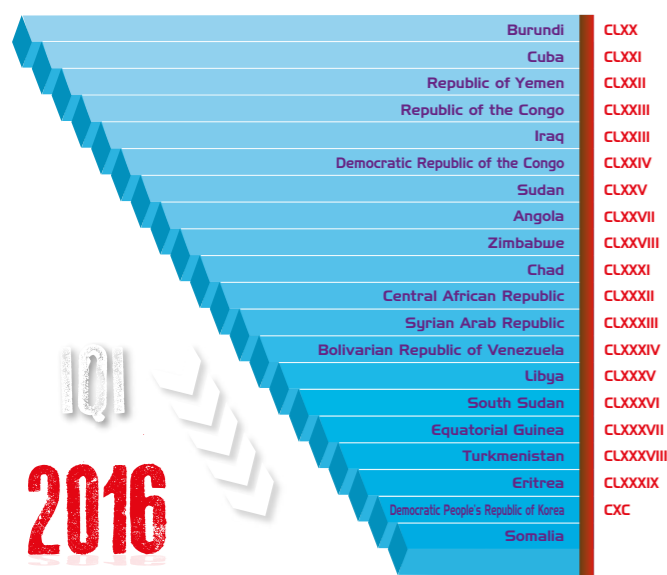
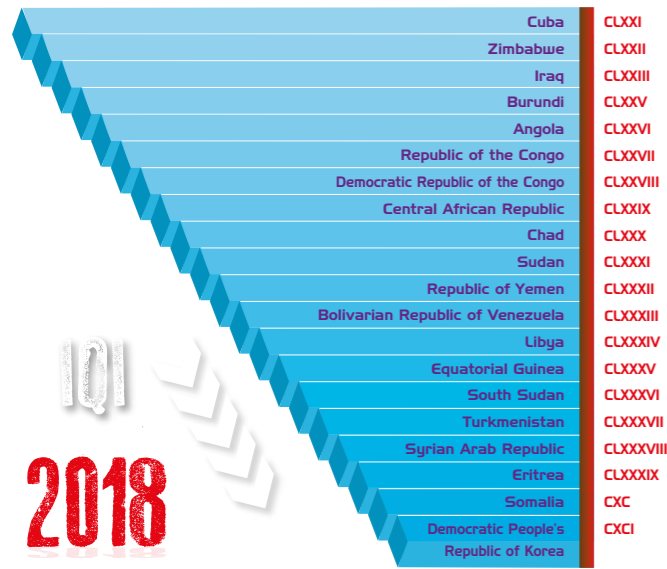
Singapore	0.9940	I
Hong Kong SAR, China	0.9853	II
New Zealand	0.9638	II
United States	0.9595	IV
United Kingdom	0.9549	V
Denmark	0.9429	VI
Switzerland	0.9372	VII
Australia	0.9334	VIII
Taiwan, China	0.9291	IX
Canada	0.9262	X
Ireland	0.9186	XI
Germany	0.9020	XII
Estonia	0.8965	XIII
Norway	0.8962	XIV
Netherlands	0.8950	XV
Finland	0.8940	XVI
Sweden	0.8870	XVII
Republic of Korea	0.8812	XVIII
United Arab Emirates	0.8724	XIX
Lithuania	0.8682	XX

The performance of the Baltic states also deserves a mention – Estonia comes 14th, Lithuania 22nd and Latvia 29th – not least because these are the highest ranked of the countries that emerged from the breakup of the Soviet Union at the beginning of the 1990s. Estonia already came 39th in 1996, demonstrating the huge effort that it made to transform itself in the early post-Soviet years and its success in sustaining these changes ever since. Estonia has never dropped a place in the 24 years for which we have compiled the IQI. The Baltic states are an excellent model for any country faced with carrying out structural reforms.

While New Zealand, Denmark, Estonia and Lithuania are not countries that are usually cited as examples for others to follow, the IQI suggests that perhaps they should be.

Unfortunately, the bottom of the list continues to feature the usual suspects, although it does seem that Zimbabwe has started to edge away from the very foot of the table, despite still being in the bottom twenty. Myanmar (*now 168th*) and Laos (*now 161st*) are two countries that, in the last ten years, have made it off the list of the twenty worst performers, although their progress has nonetheless been very limited.





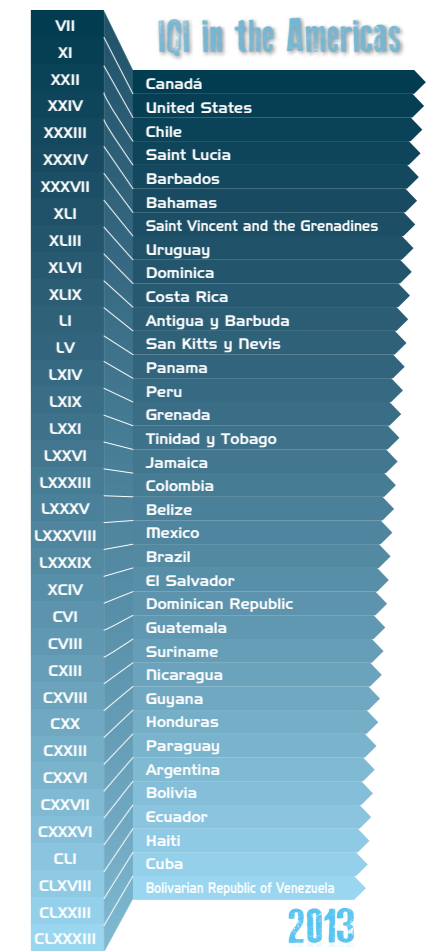
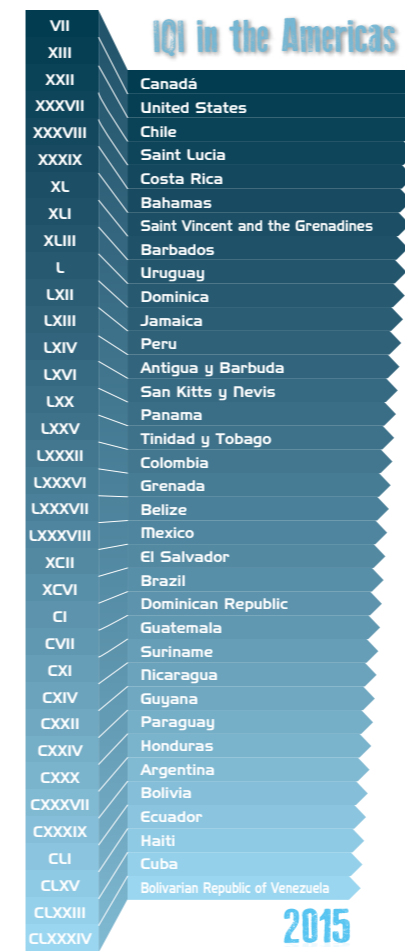
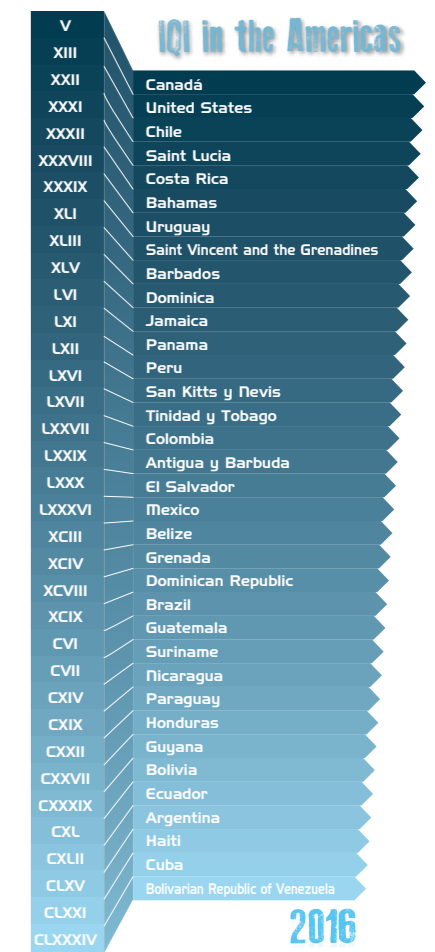
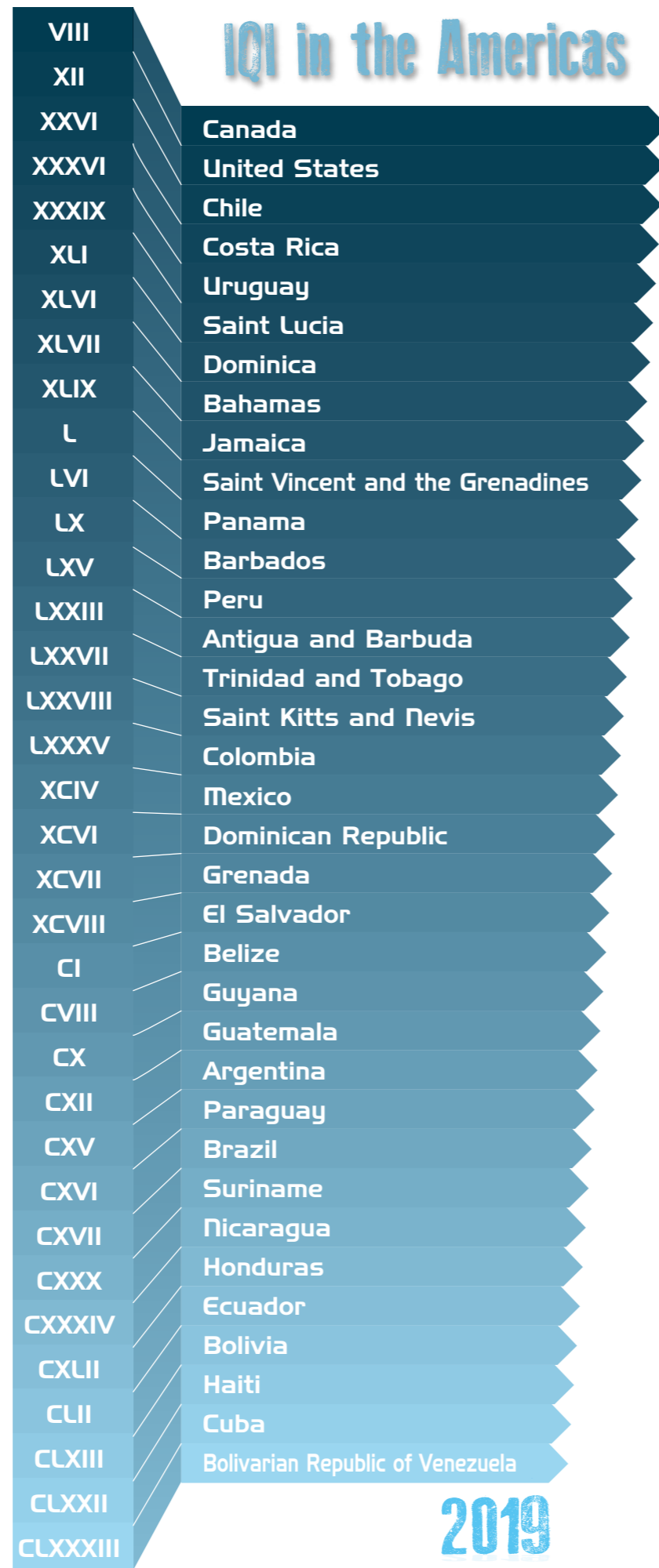
The Americas

There is no doubt that a geographical analysis of institutional quality by continent is somewhat arbitrary, just like most other ways of dividing countries into different groups. "Asia", for example, includes countries as diverse as Israel and Laos.

For what it is worth, Europe is still the leading continent, with an average score of 0.7413, followed by Oceania (0.5713), the Americas (0.5067), Asia (0.4371) and Africa (0.2762). The top and bottom countries for each continent are as follows: Denmark and Ukraine in Europe, New Zealand and Comoros in Oceania, Canada and Venezuela in the Americas, Hong Kong and North Korea in Asia, and Botswana and Somalia in Africa.

As for the Americas, the northern hemisphere countries (including Mexico) obtain a higher average score of 0.7739, the Caribbean countries that are not part of Latin America score an average of 0.5836, while the Latin American countries (including Caribbean nations such as the Dominican Republic and Cuba) manage an average of 0.4326, slightly down on last year's figure of 0.4377. Although this is only a slight decrease, it shows that the region is not improving overall.

The following table charts the changes in the Americas over the last ten years:



IQI in the Americas

V	Canadá
IX	United States
XXVII	Chile
XXXIII	Saint Lucia
XXXVII	Saint Vincent and the Grenadines
XXXVIII	Barbados
XLIV	Bahamas
XLVII	Uruguay
XLVIII	Antigua y Barbuda
XLIX	Costa Rica
LII	Dominica
LIV	Grenada
LV	San Kitts y Nevis
LXV	Panamá
LXVIII	Peru
LXXVIII	Tinidad y Tobago
LXXXVI	Jamaica
LXXXIII	Belize
LXXXVI	Colombia
LXXXVII	Mexico
LXXXVIII	El Salvador
LXXXIX	Brazil
LXXXIX	Guatemala
CVI	Dominican Republic
CIX	Suriname
CXI	Honduras
CXVIII	Guyana
CXXI	Argentina
CXXII	Nicaragua
CXXIV	Paraguay
CXXIV	Bolivia
CXXXI	Ecuador
CXL	Haiti
CXLV	Cuba
CLXII	Bolivarian Republic of Venezuela
CLXXIII	
CLXXI	

2012

IQI in the Americas

V	Canadá
IX	United States
XXIII	Chile
XXXVI	Saint Lucia
XL	Saint Vincent and the Grenadines
XLI	Barbados
XLV	Bahamas
XLVI	Costa Rica
XLVIII	Uruguay
L	Antigua y Barbuda
LI	Belize
LIII	Dominica
LX	San Kitts y Nevis
LXVI	Panamá
LXVIII	Grenada
LXX	Peru
LXXI	Tinidad y Tobago
LXXI	Jamaica
LXXIX	El Salvador
LXXXV	Mexico
LXXXIX	Colombia
LXXXIX	Brazil
XCIV	Dominican Republic
C	Guatemala
CIII	Suriname
CIX	Guyana
CXXII	Honduras
CXXIV	Argentina
CXXV	Nicaragua
CXXVII	Paraguay
CXXVII	Bolivia
CXXXIV	Ecuador
CXLIII	Haiti
CXLVIII	Cuba
CLII	Bolivarian Republic of Venezuela
CLXXV	
CLXXXV	

2011

IQI in the Americas

V	Canadá
VII	United States
XXII	Saint Lucia
XXX	Chile
XXXI	Saint Vincent and the Grenadines
XXXIV	Barbados
XXXVI	Bahamas
XLIV	San Kitts y Nevis
XLVIII	Dominica
XLIX	Antigua y Barbuda
LII	Costa Rica
LVIII	Uruguay
LXI	Grenada
LXII	Panamá
LXIX	Belize
LXXI	Jamaica
LXXI	Tinidad y Tobago
LXXVI	El Salvador
LXXIX	Peru
LXXXII	Mexico
XCII	Colombia
XCIV	Brazil
XCIX	Suriname
XCIX	Dominican Republic
CI	Guatemala
CII	Guatemala
CII	Honduras
CVIII	Argentina
CXX	Nicaragua
CXXI	Guyana
CXXIX	Paraguay
CXXIX	Paraguay
CXL	Bolivia
CXL	Ecuador
CXLV	Haiti
CXLVIII	Cuba
CLIII	Bolivarian Republic of Venezuela
CLXIII	
CLXXX	

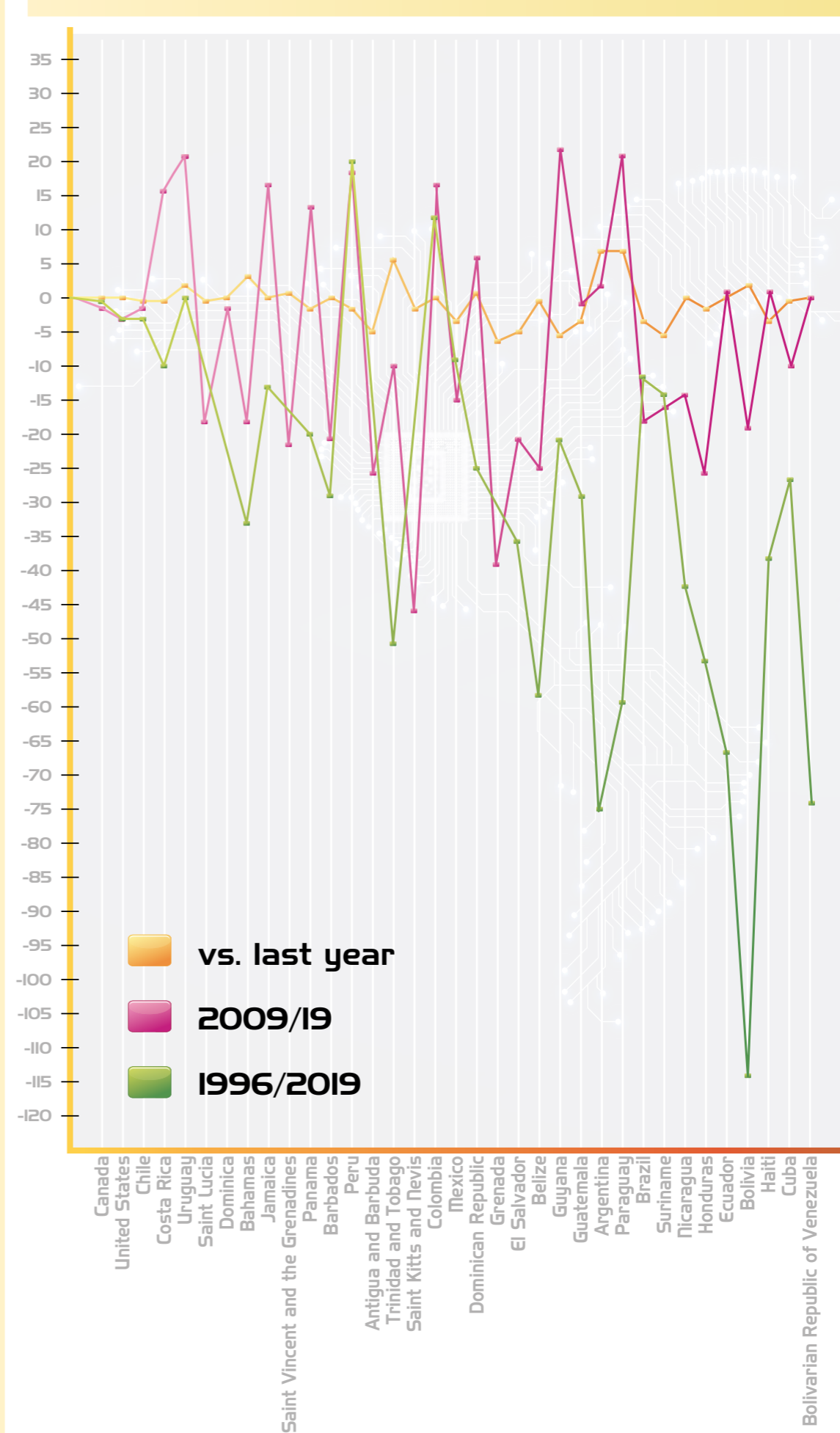
2010

The repression, shortages and starvation currently being suffered by the people of Venezuela more than justify this country's position at the foot of the table. Nevertheless, there is now once again a sense of optimism that change may be around the corner, while the countries with better institutional quality have adopted a clearer and firmer stance against the Chavista dictatorship.

It could well be that positive changes have already occurred in Venezuela by the time this report is published. If so, we would expect this country's institutional quality to experience an upturn in years to come. Unfortunately, the same cannot be said of Cuba and Haiti.

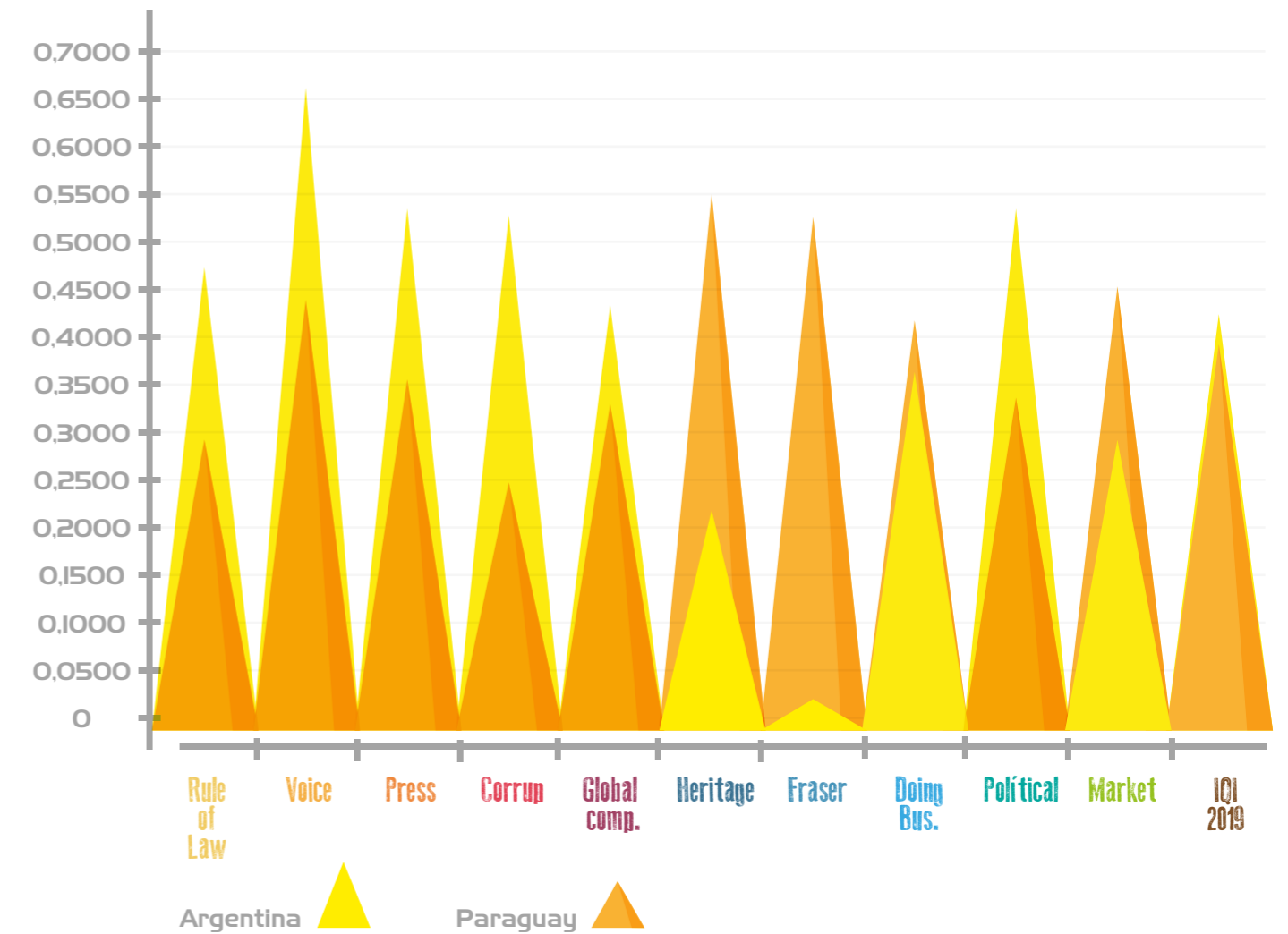
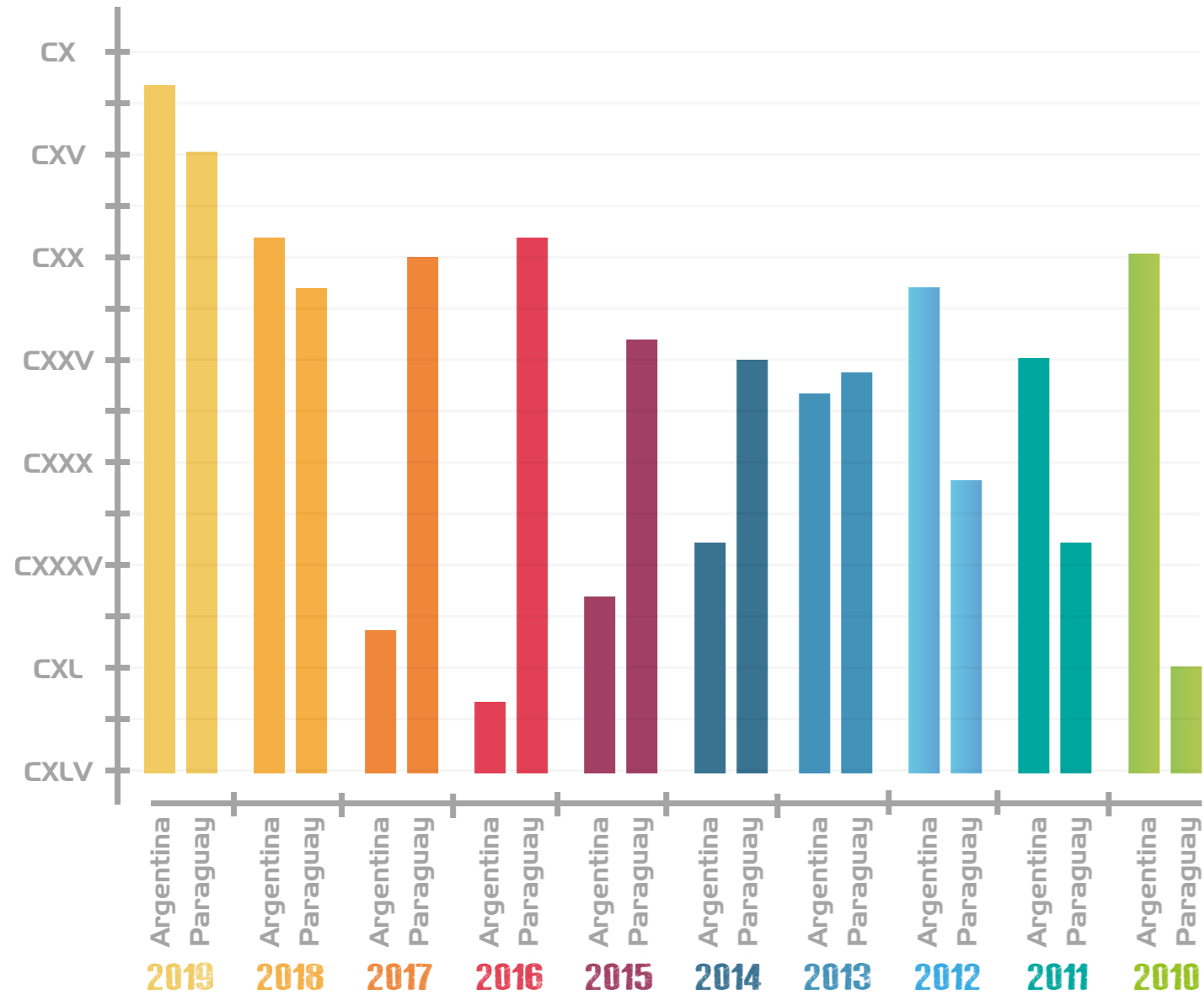
These countries may currently be just above Venezuela, but there do not appear to be any signs of positive change or expectations that such change could occur any time soon. The same is true of Bolivia, where President Evo Morales is trying to force the country into allowing him to stand for another term. Ecuador, meanwhile, is showing signs of a very slight and gradual improvement.

The following table shows the changes versus last year, over the last ten years, and for the entire period for which IQI data is available.



The biggest falls compared to last year's index occurred in Grenada (-8), Guyana (-7) and Suriname (-6), while the biggest gains were in Argentina (+7), Paraguay (+7) and Trinidad and Tobago (+6). It is interesting to compare Argentina and Paraguay, two South American neighbours whose position has improved in recent years. Although they are now very close to each other in the table, they have arrived there by very different routes.

The following table shows their scores for the different indicators:



Paraguay has improved steadily from its lowest position in 2010, whereas Argentina hit rock bottom in 2016, since when things have started to look up again. The differences in these two countries' trajectories reveal the weaknesses that they will have to overcome if they are to keep improving in the future.

Argentina scores highest for the quality of its political institutions, especially with regard to the functioning of democracy, the press and perceptions of corruption. Paraguay, on the other hand, scores highest for its market institutions. Argentina's weaknesses lie in its lack of economic freedom,

whereas in Paraguay they relate to the functioning of the justice system and perceptions of corruption. The fact that they are so close both geographically and institutionally suggests that they might be able to learn from each other, although the indicator for which Paraguay obtains its lowest score

(rule of law and functioning of the justice system) is also the indicator where Argentina scores lowest among the political indicators. Paraguay would do better to look at the example of Chile, which scores 0.8182 in the Rule of Law indicator.

There are certain recurring trends regarding the positions of the different countries in the overall IQI and the two subindexes. The top two spots are shared by the United States (*which leads the market subindex*) and Canada (*which leads the political subindex*). The Caribbean countries that are not part of Latin America score particularly highly for the quality of their political institutions, freedom of the press and judicial independence, but do less well on economic freedoms. Chile and Uruguay are both near the top of the table, but while Chile ranks higher for market institutions, Uruguay does better in the political institutions subindex. A similar trend can be observed lower down the table, with Mexico, Peru and Colombia performing better in the market institutions subindex and Costa Rica and Brazil ranking higher for political institutions.

POSITIONS FOR THE AMERICAS



IX	Canada	0,9418
XIX	United States	0,8612
XXI	Barbados	0,8362
XXIII	Uruguay	0,8191
XXXI	Costa Rica	0,7976
XXXIII	Chile	0,7941
XXXIV	Saint Lucia	0,7860
XXXV	San Kitts and Nevis	0,7839
XXXIX	Dominica	0,7599
XL	St. Vincent and the Grenadines	0,7589
XLII	Bahamas	0,7541
LI	Grenada	0,7136
LIV	Antigua and Barbuda	0,6731
LV	Jamaica	0,6697
LXII	Trinidad and Tobago	0,6266
LXXI	Suriname	0,6068
LXXIII	Panama	0,5666
LXXVIII	Argentina	0,5466
LXXIX	Belize	0,5276
LXXXII	Guyana	0,5209
XC	Brazil	0,4908
XCVIII	Peru	0,4536
CIII	Dominican Republic	0,4397
CIV	Colombia	0,4316
CVII	El Salvador	0,4278
CXXV	Paraguay	0,3348
CXXVII	Ecuador	0,3244
CXXXI	Mexico	0,3161
CXXXII	Bolivia	0,3095
CXLIV	Nicaragua	0,2818
CXLV	Cuba	0,2796
CLI	Guatemala	0,2654
CLIV	Honduras	0,2469
CLVI	Haiti	0,2351
CLXXVIII	Bolivarian Rep. of Venezuela	0,0910



IV	United States	0,9595
X	Canada	0,9262
XXIX	Chile	0,8225
L	Costa Rica	0,6896
LIII	Peru	0,6735
LIV	Panama	0,6696
LVIII	Mexico	0,6388
LX	Uruguay	0,6318
LXII	Saint Lucia	0,6190
LXIII	Jamaica	0,6149
LXVIII	Colombia	0,5930
LXXIV	Guatemala	0,5686
LXXVI	Bahamas	0,5567
LXXX	Dominica	0,5510
LXXXIV	St. Vincent and the Grenadines	0,5244
LXXXVIII	El Salvador	0,5116
LXXXIX	Dominican Republic	0,5060
XCVIII	Paraguay	0,4565
CI	Trinidad and Tobago	0,4326
CII	Honduras	0,4279
CIII	Nicaragua	0,4227
CV	Antigua and Barbuda	0,4158
CVIII	Belize	0,4008
CXXI	Guyana	0,3368
CXXII	Barbados	0,3343
CXXIX	Brazil	0,2978
CXXXIV	Saint Kitts and Nevis	0,2684
CXXXV	Ecuador	0,2655
CXXXVIII	Argentina	0,2593
CXLIV	Grenada	0,2316
CLIII	Haiti	0,1874
CLIV	Bolivia	0,1816
CLIX	Suriname	0,1701
CLXXXV	Bolivarian Rep. of Venezuela	0,0333
CXC	Cuba	0,0167



VIII	Canada	0,9340
XII	United States	0,9103
XXVI	Chile	0,8083
XXXVI	Costa Rica	0,7436
XXXIX	Uruguay	0,7254
XLI	Saint Lucia	0,7025
XLVI	Dominica	0,6554
XLVII	Bahamas	0,6554
XLIX	Jamaica	0,6423
L	St. Vincent and the Grenadines	0,6417
LVI	Panama	0,6181
LX	Barbados	0,5852
LXV	Peru	0,5635
LXXIII	Antigua and Barbuda	0,5445
LXXVII	Trinidad and Tobago	0,5296
LXXVIII	Saint Kitts and Nevis	0,5261
LXXXV	Colombia	0,5123
XCIV	Mexico	0,4775
XCVI	Dominican Republic	0,4728
XCVII	Grenada	0,4726
XCVIII	El Salvador	0,4697
CI	Belize	0,4642
CVIII	Guyana	0,4289
CX	Guatemala	0,4170
CXII	Argentina	0,4029
CXV	Paraguay	0,3957
CXVI	Brazil	0,3943
CXVII	Suriname	0,3884
CXXX	Nicaragua	0,3522
CXXXIV	Honduras	0,3374
CXLII	Ecuador	0,2949
CLII	Bolivia	0,2456
CLXIII	Haiti	0,2113
CLXXII	Cuba	0,1481
CLXXXIII	Bolivarian Rep. of Venezuela	0,0621

POLÍTICAL

MARKET

IQI 2019

Property rights

On more than one occasion, we have underlined the importance of property rights as a key, basic institution both for institutional quality and for the very existence of any society. The rollback and violation of property rights leads to situations like the one we are currently witnessing in Venezuela. Consequently, we have always monitored with interest the performance of different countries in the International Property Rights Index published by the Property Rights Alliance (<https://www.internationalpropertyrightsindex.org/>), and have considered the potential inclusion of this index in the IQI.

Although both the Heritage and the Fraser economic freedom indexes and the Rule of Law indicator take property rights into account, the IPRI is a more specific indicator. One possibility would be to introduce it as a replacement for the Fraser Economic Freedom of the World index, not because the Fraser index is flawed, but because its data is not as up-to-date as the other indicators (the latest figures are for 2016).

However, we have opted not to make this change because the IPRI only covers 125 countries, whereas the Fraser index covers 162. We will continue to monitor the IPRI's evolution going forward. Finland comes first in the IPRI, whereas the top two countries in the Fraser index rank somewhat lower in the IPRI (Singapore comes 5th and Hong Kong 17th). Canada (10th) is above the United States (14th), while the leading Latin American countries are Chile (29th), Costa Rica (31st) and Uruguay (43rd). These are similar to the positions that they occupy in the IQI.

An exercise to see what would happen if we replaced the Fraser index with the IPRI did throw up some differences. Sweden came top of this alternative index, pushing New Zealand down into second place. They were followed by Denmark, Norway, Switzerland and Finland. Canada remained

in 8th place, while the United States fell to 14th. Although the order of the leading Latin American countries remained the same, Chile dropped from 22nd to 24th, Costa Rica stayed in 36th and Uruguay climbed from 39th to 37th. However, when considering these changes it is important to remember the difference in the number of countries evaluated by the two indexes.

In summary, although replacing the Fraser index with the IPRI did not make a great deal of difference, we will continue to monitor the IPRI in years to come.



Political 2019

I	Norway 0.9905
II	Sweden 0.9869
III	Finland 0.9806
IV	Denmark 0.9792
V	Netherlands 0.9781
VI	Switzerland 0.9770
VII	New Zealand 0.9613
VIII	Luxembourg 0.9594
IX	Canada 0.9418
X	Belgium 0.9281
XI	Iceland 0.9279
XII	Germany 0.9220
XIII	Austria 0.9147
XIV	Australia 0.9142
XV	Ireland 0.8977
XVI	United Kingdom 0.8969
XVII	Estonia 0.8968
XVIII	Portugal 0.8694
XIX	United States 0.8612
XX	France 0.8526
XXI	Barbados 0.8362
XXII	Japan 0.8354
XXIII	Uruguay 0.8191
XXIV	Taiwan, China 0.8181
XXV	Palau 0.8180
XXVI	Malta 0.8164
XXVII	Slovenia 0.8115
XXVIII	Czech Republic 0.8111
XXIX	Cyprus 0.8087
XXX	Lithuania 0.8076
XXXI	Costa Rica 0.7976
XXXII	Marshall Islands 0.7967
XXXIII	Chile 0.7941
XXXIV	Saint Lucia 0.7860
XXXV	St. Kitts & Nevis 0.7839

Political 2019

XXXV	Spain 0.7792
XXXVI	Latvia 0.7685
XXXVII	Hong Kong SAR, China 0.7638
XXXVIII	Dominica 0.7599
XL	St. Vct. & the Grenadines 0.7589
XLI	Israel 0.7546
XLII	Bahamas 0.7541
XLIII	Micronesia, Fed. Sts. 0.7477
XLIV	Republic of Korea 0.7450
XLV	Samoa 0.7396
XLVI	Kiribati 0.7386
XLVII	Slovakia 0.7338
XLVIII	Cape Verde 0.7299
XLIX	Mauritius 0.7248
L	Poland 0.7195
LI	Grenada 0.7136
LII	Italy 0.7122
LIII	Vanuatu 0.7045
LIV	Antigua and Barbuda 0.6731
LIV	Jamaica 0.6697
LVI	Namibia 0.6686
LVI	Tonga 0.6673
LVIII	Botswana 0.6627
LVIII	Singapore 0.6529
LX	Romania 0.6430
LXI	Croatia 0.6397
LXII	Trinidad and Tobago 0.6266
LXIII	Hungary 0.6221
LXIV	Ghana 0.6218
LXV	Seychelles 0.6176
LXVI	Greece 0.6163
LXVII	Solomon Islands 0.6138
LXVIII	Bhutan 0.6100
LXIX	Georgia 0.6085
LXX	South Africa 0.6072

Political 2019

LXXI	Suriname 0.6068
LXXII	Bulgaria 0.5714
LXXIII	Panama 0.5666
LXXIV	India 0.5652
LXXV	Montenegro 0.5577
LXXVI	Senegal 0.5564
LXXVII	São Tomé and Príncipe 0.5523
LXXVIII	Argentina 0.5466
LXXIX	Belize 0.5276
LXXX	Tunisia 0.5261
LXXXI	Mongolia 0.5223
LXXXII	Guyana 0.5209
LXXXIII	Fiji 0.5172
LXXXIV	Benin 0.5164
LXXXV	Burkina Faso 0.5061
LXXXVI	Serbia 0.4994
LXXXVII	United Arab Emirates 0.4973
LXXXVIII	Borneo 0.4964
LXXXIX	Qatar 0.4939
XC	Brazil 0.4908
XCI	Lesotho 0.4829
XCI	Indonesia 0.4783
XCVI	Malaysia 0.4751
XCVI	Philippines 0.4635
XCVI	Bosnia, Herzegovina 0.4594
XCVI	Albania 0.4591
XCVI	Sri Lanka 0.4544
XCVI	Peru 0.4536
XCVI	Jordan 0.4528
C	Oman 0.4419
CI	Kosovo 0.4410
CI	Kuwait 0.4408
CI	Dominican Republic 0.4397
CI	Colombia 0.4316
CI	Malawi 0.4307

Political 2019

CVI	Timor-Leste 0.4299
CVII	El Salvador 0.4278
CVII	Macedonia (FYROM) 0.4133
CIX	Papua New Guinea 0.4112
CX	Rwanda 0.4086
CXI	Morocco 0.4067
CXII	Mali 0.3968
CXIII	Moldova 0.3963
CXIV	Ivory Coast 0.3822
CXV	Tanzania 0.3791
CXVI	Armenia 0.3776
CXVII	Ukraine 0.3709
CXVIII	Zambia 0.3671
CXIX	Turkey 0.3634
CXX	Niger 0.3597
CXXI	Nepal 0.3541
CXXII	Saudi Arabia 0.3478
CXXIII	Thailand 0.3386
CXXIV	Kenya 0.3350
CXXV	Paraguay 0.3348
CXXVI	Sierra Leone 0.3317
CXXVII	Ecuador 0.3244
CXXVIII	Liberia 0.3218
CXXIX	Bahrain 0.3188
CXXX	Uganda 0.3183
CXXXI	Mexico 0.3161
CXXXII	Bolivia 0.3095
CXXXIII	Togo 0.3056
CXXXIV	Nigeria 0.2987
CXXXV	Comoros 0.2980
CXXXVI	Maldives 0.2967
CXXXVII	Mauritania 0.2941
CXXXVIII	Pakistan 0.2911
CXXXIX	Gambia 0.2888
CXL	Lebanon 0.2880

Political 2019

CXLI	Mozambique 0.2840
CXLII	Swaziland 0.2835
CXLIII	Vietnam 0.2819
CXLIV	Nicaragua 0.2818
CXLV	Cuba 0.2796
CXLVI	China 0.2763
CXLVII	Algeria 0.2752
CXLVIII	Bangladesh 0.2698
CXLIX	Belarus 0.2684
CL	Madagascar 0.2661
CLI	Guatemala 0.2654
CLII	Kyrgyzstan 0.2528
CLIII	Egypt 0.2515
CLIV	Honduras 0.2469
CLV	Gabon 0.2448
CLVI	Haiti 0.2351
CLVII	West Bank and Gaza 0.2332
CLVIII	Kazakhstan 0.2287
CLIX	Ethiopia 0.2198
CLX	Myanmar 0.2145
CLXI	Guinea 0.2070
CLXII	Cameroon 0.1911
CLXIII	Russia 0.1869
CLXIV	Djibouti 0.1862
CLXV	Guinea-Bissau 0.1780
CLXVI	Congo, Rep. 0.1776
CLXVII	Afghanistan 0.1620
CLXVIII	Islamic Rep. of Iran 0.1617
CLXIX	Cambodia 0.1565
CLXX	Central African Rep. 0.1469
CLXXI	Angola 0.1449
CLXXII	Azerbaijan 0.1445
CLXXIII	Laos 0.1426
CLXXIV	Zimbabwe 0.1352
CLXXV	Iraq 0.1341

Political 2019

CLXXVI	Chad 0.1205
CLXXVII	Congo, Dem. Rep. 0.0916
CLXXVIII	Bolivarian Rep. of Venezuela 0.0910
CLXXIX	Libya 0.0846
CLXXX	Tajikistan 0.0836
CLXXXI	Burundi 0.0766
CLXXXII	South Sudan 0.0739
CLXXXIII	Uzbekistan 0.0728
CLXXXIV	Sudan 0.0620
CLXXXV	Eritrea 0.0552
CLXXXVI	Yemen, Rep. 0.0501
CLXXXVII	Somalia 0.0500
CLXXXVIII	Turkmenistan 0.0453
CLXXXIX	Equatorial Guinea 0.0363
CXC	Syria 0.0225
CXCI	Korea, Dem. Rep. 0.0176

Market 2019

Table with 2 columns: Rank (I to XXXV) and Country/Score (Singapore 0.9940 to Cyprus 0.7565)

Market 2019

Table with 2 columns: Rank (XXXVI to LXX) and Country/Score (France 0.7470 to Jordan 0.5879)

Market 2019

Table with 2 columns: Rank (LXXI to LXXXV) and Country/Score (Serbia 0.5845 to Antigua & Barbuda 0.4158)

IQI 2019

Table with 2 columns: Rank (I to XXXV) and Country/Score (New Zealand 0.9625 to Slovenia 0.7520)

IQI 2019

Table with 2 columns: Rank (XXXVI to LXX) and Country/Score (Costa Rica 0.7436 to Borneo 0.5509)

IQI 2019

Table with 2 columns: Rank (LXXI to LXXXV) and Country/Score (Armenia 0.5501 to Kiribati 0.4433)

Market 2019

Table with 2 columns: Rank (CVI to CXXV) and Country/Score (Vietnam 0.4091 to Senegal 0.2494)

Market 2019

Table with 2 columns: Rank (CXXVI to CXXV) and Country/Score (Pakistan 0.2488 to Congo, Dem. Rep. 0.1061)

Market 2019

Table with 2 columns: Rank (CLXXVI to CXXV) and Country/Score (Iraq 0.0866 to Somalia 0.0053)

IQI 2019

Table with 2 columns: Rank (CVI to CXXV) and Country/Score (Saudi Arabia 0.4340 to Gambia 0.3038)

IQI 2019

Table with 2 columns: Rank (CXXVI to CXXV) and Country/Score (Timor-Leste 0.3031 to Congo, Rep. 0.1073)

IQI 2019

Table with 2 columns: Rank (CLXXVI to CXXV) and Country/Score (Angola 0.1059 to Korea, Dem. Rep. 0.0209)

	IQI 2019	Rule of Law	Voice	Press	Corrup	Global Comp	Heritage	Fraser	Doing Bus	Polítical	Market	IQI 2019
Antigua and Barbuda	0,6699	0,6863	0,6633						0,4158	0,6731	0,4158	0,5445
Argentina	0,4641	0,6569	0,5377	0,5278	0,4286	0,2111	0,0185	0,3789	0,5466	0,2593		0,4029
Aruba	0,8708	0,9265										
Bahamas	0,6029	0,7500	0,8191	0,8444			0,5944	0,6914	0,3842	0,7541	0,5567	0,6554
Barbados	0,7560	0,8431	0,8844	0,8611			0,3556	0,3210	0,3263	0,8362	0,3343	0,5852
Belize	0,1675	0,6716	0,7437				0,3611	0,4938	0,3474	0,5276	0,4008	0,4642
Bolivarian Republic of Venezuela	0,0096	0,1471	0,1407	0,0667	0,1000	0,0111	0,0062	0,0158	0,0910	0,0333		0,0621
Bolivia	0,1005	0,4608	0,4322	0,2444	0,2571	0,0444	0,2407	0,1842	0,3095	0,1816		0,2456
Brazil	0,4402	0,6176	0,5276	0,3778	0,4929	0,1556	0,1111	0,4316	0,4908	0,2978		0,3943
Canada	0,9569	0,9608	0,8995	0,9500	0,9214	0,9556	0,9383	0,8895	0,9418	0,9262		0,9340
Chile	0,8182	0,7941	0,7085	0,8556	0,7714	0,8944	0,9136	0,7105	0,7941	0,8225		0,8083
Colombia	0,4067	0,4951	0,3970	0,4278	0,5786	0,7722	0,3580	0,6632	0,4316	0,5930		0,5123
Costa Rica	0,6794	0,8480	0,9296	0,7333	0,6143	0,6889	0,8025	0,6526	0,7976	0,6896		0,7436
Cuba	0,3541	0,0784	0,0302	0,6556			0,0167			0,2796	0,0167	0,1481
Dominica	0,7512	0,7549	0,7889	0,7444			0,6389		0,4632	0,7599	0,5510	0,6554
Dominican Republic	0,3636	0,5245	0,5930	0,2778	0,4214	0,5167	0,6173	0,4684	0,4397	0,5060		0,4728
Ecuador	0,2584	0,4118	0,2663	0,3611	0,3929	0,0889	0,2222	0,3579	0,3244	0,2655		0,2949
El Salvador	0,2057	0,5196	0,6080	0,3778	0,3071	0,5889	0,5926	0,5579	0,4278	0,5116		0,4697
French Guiana	0,8612	0,9167										
Grenada	0,6651	0,7206	0,7688	0,7000					0,2316	0,7136	0,2316	0,4726
Guatemala	0,1340	0,3775	0,3668	0,1833	0,3214	0,6056	0,8580	0,4895	0,2654	0,5686		0,4170
Guyana	0,4354	0,5588	0,6281	0,4611			0,4389	0,2716	0,3000	0,5209	0,3368	0,4289
Haiti	0,1292	0,2647	0,4523	0,0944	0,0214	0,3167	0,3642	0,0474	0,2351	0,1874		0,2113
Honduras	0,1483	0,3284	0,2663	0,2444	0,2857	0,4833	0,5741	0,3684	0,2469	0,4279		0,3374
Jamaica	0,4928	0,6961	0,8844	0,6056	0,4429	0,7889	0,6173	0,6105	0,6697	0,6149		0,6423
Mexico	0,3206	0,4314	0,3015	0,2111	0,6786	0,6556	0,5000	0,7211	0,3161	0,6388		0,4775
Nicaragua	0,2967	0,2745	0,4171	0,1389	0,2643	0,4556	0,6605	0,3105	0,2818	0,4227		0,3522
Níger	0,2823	0,3431	0,4523	0,3611	0,1857	0,1167	0,1975	0,2526	0,3597	0,1881		0,2739
Panama	0,5455	0,6520	0,6080	0,4611	0,5500	0,7056	0,8333	0,5895	0,5666	0,6696		0,6181
Paraguay	0,2919	0,4461	0,3568	0,2444	0,3286	0,5500	0,5370	0,4105	0,3348	0,4565		0,3957
Peru	0,3349	0,5539	0,5477	0,3778	0,5571	0,7611	0,7284	0,6474	0,4536	0,6735		0,5635
San Kitts and Nevis	0,7081	0,7892	0,8543						0,2684	0,7839	0,2684	0,5261
Santa Lucía	0,7273	0,7794	0,9095	0,7278			0,7222		0,5158	0,7860	0,6190	0,7025
Saint Vincent and the Grenadines	0,6555	0,7647	0,8543	0,7611			0,7278		0,3211	0,7589	0,5244	0,6417
Suriname	0,5024	0,6127	0,7286	0,5833			0,0833	0,2901	0,1368	0,6068	0,1701	0,3884
Trinidad and Tobago	0,5120	0,6667	0,7889	0,5389	0,4500	0,3833	0,4444	0,4526	0,6266	0,4326		0,5296
United States	0,9187	0,8235	0,8191	0,8833	1,0000	0,9056	0,9691	0,9632	0,8612	0,9595		0,9103
Uruguay	0,7225	0,8676	0,8141	0,8722	0,6286	0,7944	0,5988	0,5053	0,8191	0,6318		0,7254



➤ The Methodology of the Institutional Quality Index

As Groucho Marx famously said

“I have my principles, and if you don't like them I have others”

His words could easily be applied to the IQI's methodology – and in this spirit, we welcome the input of anyone wishing to develop a better alternative.

Right from the outset, we have always used the principle of **Occam's razor**, which is generally applied to scientific theories. This principle states that, all else being equal, the simplest explanation is more likely to be correct. **This is not to say that the simplest solution is automatically the right**

one – we must accept that the more complex solution is correct if it is supported by the available evidence.

Something similar applies to the IQI, although in this instance we are simply dealing with a methodology for evaluating institutional quality, rather than a theory. While we elected to use a simple methodology, perhaps even the simplest possible, we welcome the input of anyone who wishes to propose a more complex alternative.

Ultimately, it is a question of **economy** of understanding and effort. A more complex methodology would need to be justified by its results. After all, evaluating institutional quality is not an exact science and we do not claim that our results allow us to draw irrefutable conclusions. We have

always stressed that it is impossible to **“measure”** institutional quality. To do so would require a yardstick for comparing all the different countries, and no such yardstick exists – although we do know which institutions are best at promoting human cooperation and social progress. This is a subject that has been addressed by political philosophers, economists and historians down the ages, but with particular success by members of the Scottish Enlightenment (*Hume, Ferguson, Smith*), certain classical French authors (*Montesquieu, Voltaire, Turgot, Cantillon*) and the Founding Fathers of the American Revolution.

While we cannot give a score of ten to one country and two to another, we can say that some countries are better than others. In other words, the IQI is a

relative index. Since we do not claim to be able to measure perfection, we cannot determine whether the country that tops the index comes close to perfection or still falls a long way short of it. **However, despite the fact that institutional change is inevitably a slow process, we can still learn a lot from the fact that certain countries have remained in the top few places for decades while others have stayed near the bottom, or that some countries have climbed or fallen several places in the table.**

The IQI is based on eight indicators that were chosen because we believe that they reflect certain aspects of institutional quality. Eight is of course an arbitrary number. We simply selected those that we consider to provide the most accurate reflection of the institutions that best enable individuals to pursue their preferences and attain their desired goals.

There are basically two pathways for achieving these goals: free exchanges in the market, and politics and the State. These two pathways exist in all modern societies, although of course the balance between them varies and

shifts over time. This is why the IQI is based on two subindexes, one for political institutions and the other for market institutions. Each subindex is given a weighting of 50% on the basis that the decisions taken in both areas are equally important.

While most attempts to analyse and evaluate institutions focus on political institutions (which is why they often refer to “governance”), we believe political and market institutions to be equally important. In all probability, even more – and more important – decisions are freely taken in the market than in the political arena (including everything from who we marry to what we buy in the supermarket). Nevertheless, we have given the same weighting to both types of institution and have included four indicators in each subindex.

We have tried to choose indicators that reflect certain aspects of institutionality as accurately as possible, have been compiled by well-known (public and private) organisations, publish new data every year, and cover a large number of countries.

The subindex for the quality of political institutions is made up of the World Bank's Rule of Law index (which forms part of its Governance Matters indicators); the World Bank's Voice and Accountability index, Freedom House's Freedom of the Press index and Transparency International's Corruption Perceptions index.

These indicators comprise a mix of quantitative and qualitative data. For instance, the **Corruption Perceptions index** is so called because although the very nature of corruption means that it is not possible to put a figure on the amount of money involved, meaning that no accurate statistics exist, it is possible to evaluate the perceptions of experts in this field in each of the different countries. The same is true of freedom of the press. On the other hand, some data can be quantified, for example consumer price indexes (assuming that we can believe the statistics compiled by the different countries), or the level of import tariffs.

The indicators that make up the market institutions subindex are the Global Economic Forum's Global Competitiveness index, the Heritage Index of Economic Freedom, the Fraser Economic Freedom of the World index and the World Bank's Doing Business index.

Each indicator is given the same weighting. While this may appear no less arbitrary than giving them different weightings, once again we have opted for the simplest solution. However, the number of countries assessed by the different indicators varies from 209 in the Rule of Law index to 140 in the Global Competitiveness index. This means that we cannot use a country's actual ranking in each indicator, since 50th out of 209 is not the same as 50th out of 140, for example. Instead, we employ their relative positions, expressed as a percentage. Accordingly, the indicators used by the IQI show each country's position in percentage terms compared to all the other countries.

In order to appear in the IQI, a country must feature in at least four of the eight indicators, with at least one appearance in each subindex. This means that certain countries do not feature regularly, as a rule either because they are small (the Vatican, Monaco) or because of a close association with another country (Puerto Rico). The fact that certain countries do not feature in all the indexes may sometimes cause their ranking to fall even though they are actually doing better overall. As we have explained in previous years, a similar principle applies to Cuba, which probably has an artificially high ranking because it does not feature in three of the economic indicators. Although Cuba still meets the criteria for inclusion in the IQI, it is necessary to highlight these methodological shortcomings.

Finally, as stated in the 2019 edition of the IQI, we are always looking for indicators that are better or more up-to-date, in order to see if they can improve our results.

We conclude this review with the same invitation that we made at the beginning, by asking

Anyone who believes our methodology to be flawed to propose a better alternative — all such improvements will be gratefully received.

INSTITUTIONAL QUALITY INDEX 2019

By Martin Krause
Consejero Académico
Fundación Libertad y Progreso

➤ **Populism vs. Institutions**
by Martín Krause

➤ **IQI 2019**
By Félix Maradiaga, President of the Fundación Libertad – Nicaragua

➤ INSTITUTIONAL QUALITY INDEX 2019

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Red Liberal de América Latina

RELIAT was created in order to strengthen cooperation and coordination among liberals in the region. It aims to gain a greater public presence in decision-making positions, leverage and share experiences and become a counterweight to socialism.

RELIAT aims to be a proactive and efficient liberal network that helps to transform Latin America into a region characterised by liberal democracies and prosperous societies committed to the principles of freedom, individual responsibility, respect of private property, the market economy, the primacy of the rule of law and peace, so that living standards in the region can be improved.

Its principles are:

- Defence of liberal democracy
- Freedom and individual responsibility
- Respect of private property
- Promotion of limited government
- Support for the market economy
- Primacy of the rule of law
- The defence of peace

