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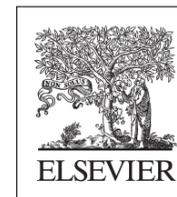
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Available online at www.sciencedirect.com

ScienceDirect



0305-750X(201401)53:C;1-U

ISSN 0305-750X
53, 1–112 (2014)<http://www.elsevier.com/locate/worlddev/>

WORLD DEVELOPMENT

The multi-disciplinary international journal devoted to the study and promotion of world development

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SPECIAL ISSUE
Decentralization and Governance

GUEST EDITOR
Jean-Paul Faguet

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Indexed/Abstracted in: *British Humanities Index, CAB International, Current Contents, Geographical Abstracts, International Development Abstracts, Journal of Economic Literature, Management Contents, PAIS Bulletin, Sociological Abstracts, Social & Behavioral Sciences, Social Science Citation Index*. Also covered in the abstracts and citation database Scopus®. Full text available on ScienceDirect®

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Frequency: Published monthly

Members of the Society for International Development and Development Studies Association may order personal subscriptions at a concessional rate, details of which are available on request.

© The paper used in this publication meets the requirements of ANSI/NISO Z39.48-1992 (Permanence of Paper)

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Publication information: *World Development* (ISSN 0305-750X). For 2014, volumes 53–64 are scheduled for publication. Subscription prices are available upon request from the Publisher or from the Elsevier Customer Service Department nearest you or from this journal's website (<http://www.elsevier.com/locate/worlddev>). Further information is available on this journal and other Elsevier products through Elsevier's website (<http://www.elsevier.com>). Subscriptions are accepted on a prepaid basis only and are entered on a calendar year basis. Issues are sent by standard mail (surface within Europe, air delivery outside Europe). Priority rates are available upon request. Claims for missing issues should be made within six months of the date of dispatch.

USA mailing notice: *World Development* (ISSN 0305-750X) is published monthly by Elsevier Ltd. (The Boulevard, Langford Lane, Kidlington, Oxford OX5 1GB, UK). Periodicals postage paid at Jamaica, NY 11431 and additional mailing offices.

USA POSTMASTER: Send change of address to *World Development*, Elsevier Customer Service Department, 3251 Riverport Lane, Maryland Heights, MO 63043, USA.

AIRFREIGHT AND MAILING in USA by Air Business Ltd., c/o Worldnet Shipping Inc., 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA.

Author inquiries: For inquiries relating to the submission of articles (including electronic submission) please visit this journal's homepage at <http://www.elsevier.com/locate/worlddev>. For detailed instructions on the preparation of electronic artwork, please visit <http://www.elsevier.com/artworkinstructions>. Contact details for questions arising after acceptance of an article, especially those relating to proofs, will be provided by the publisher. You can track accepted articles at <http://www.elsevier.com/trackarticle>. You can also check our Author FAQs at <http://www.elsevier.com/authorFAQ> and/or contact Customer Support via <http://support.elsevier.com>.

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Volume 53

SPECIAL ISSUE
Decentralization and Governance

GUEST EDITOR
Jean-Paul Faguet



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Editorial

Decentralization and Governance – A Special Issue of *World Development*, 2013

The most important theoretical argument concerning decentralization is that it can make government more accountable and responsive to the governed. Improving governance is also a central justification of real-world reformers. But the literature has mostly focused on policy-relevant outcomes, such as education and health services, public investment, and fiscal deficits. The papers in this collection examine how decentralization affects governance, in particular how it might increase political competition, improve public accountability, reduce political instability, and impose incentive-compatible limits on government power, but also threaten fiscal sustainability. Such improvements in governance can help spur the broad historical transitions that define development.

These papers come out of an unusual workshop held at Columbia University in June, 2009, sponsored by the Initiative for Policy Dialogue's Decentralization Task Force. Seeking to re-unite academics studying decentralization with the policymakers who implement it, the 2-day event brought together researchers working at the empirical and theoretical frontiers of decentralization and local government with policy practitioners who have implemented or supported reform at the highest levels of government and international organizations. The purpose of the workshop was not only to exchange ideas, but to marry policymakers' detailed knowledge and insights about real reform processes with academics' conceptual clarity and analytical rigor. The workshop was explicitly structured to facilitate this integration; this collection is the result.

SPECIAL ISSUE GUEST EDITOR

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Decentralization and Governance

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Summary. — The most important theoretical argument concerning decentralization is that it can make government more accountable and responsive to the governed. Improving governance is also a central justification of real-world reformers. But the literature has mostly focused on policy-relevant outcomes, such as education and health services, public investment, and fiscal deficits. This paper examines how decentralization affects governance, in particular how it might increase political competition, improve public accountability, reduce political instability, and impose incentive-compatible limits on government power, but also threaten fiscal sustainability. Such improvements in governance can help spur the broad historical transitions that define development.

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Key words — local government, accountability, political competition, instability, limits on power, health

1. INTRODUCTION

Decentralization is one of the most important reforms of the past generation, both in terms of the number of countries affected and the potentially deep implications for the nature and quality of governance. A decade ago, estimates of the number of decentralization experiments ranged from 80% of the world's countries to effectively all of them (Manor, 1999). Since then, further reforms have been announced in several dozen countries as diverse as Bolivia, Cambodia, Ethiopia, France, Indonesia, Japan, Peru, South Africa, South Korea, Uganda, the UK, and many others. The trend encompasses all of the world's regions, and includes nations rich and poor, large and small, and with very different colonial histories. In short, decentralization is being implemented essentially everywhere.

The importance of reform goes well beyond the sheer number of experiments under way. At least in their intention, many decentralizations aim to reconstitute government—from a hierarchical, bureaucratic mechanism of top-down management to a system of nested self-governments characterized by participation and cooperation, where transparency is high and accountability to the governed acts as a binding constraint on public servants' behavior. In pursuit of this, the scope of authority and resources that many countries have devolved to their sub-national governments is impressive. According to Campbell (2001, p. 2), in Latin America “local governments began spending 10–50% of central government revenues.” Campbell calls this “the quiet revolution,” and argues that it has generated a new model of governance based on innovative, capable leadership, high popular participation, and a new implicit contract governing local taxation. Rodden (2006, pp. 1–2) makes a similar point: “[o]ther than transitions to democracy, decentralization and the spread of federalism are perhaps the most important trends in governance around the world over the last 50 years.”

This policy enthusiasm has inspired a huge wave of research seeking to identify the effects of decentralization on a range of policy-relevant outcomes, as well as attempts to understand why countries undertake reform, and the timing of such decisions. These empirical studies of decentralization number in the hundreds of published academic works over the past 40 years; add in policy reports from international and development organizations (such as the World Bank and UNDP)

and the number rises into the thousands. Most of these studies focus on decentralization's effects on public sector outputs, such as investment levels, public service provision, education and health indicators, and macroeconomic stability, to name a few of the larger threads. Good summaries of this research can be found in Rondinelli, Cheema, and Nellis (1983), Manor (1999), Treisman (2007), and Faguet (2012).

Comparatively few studies investigate decentralization's effects on the quality of governance; some exceptions include Bardhan (2002), de Mello and Barenstein (2001), and Oxhorn, Tulchin, and Selee (2004). The reasons for this are not hard to fathom: (i) the data required to empirically examine decentralization's effects on things like health investment or school enrollment are more commonly available than for governance-type issues like accountability, political competition, and participation in public decision-making; and (ii) the multilateral organizations that sponsor much decentralization research are more interested in service outputs than governance outcomes.

Nonetheless the divergence between the concerns that are most researched and the principal issues that motivate decentralization—both as a theoretical proposition and in real-world reforms—is striking. The strongest theoretical argument in favor of decentralization is that (a) it will improve the accountability and responsiveness of government by altering its structure so as to increase citizen voice and change the deep incentives that public officials face (Faguet, 2012). Other arguments in favor are that it can: (b) reduce abuses of power by transferring certain central government functions and resources to lower levels, (c) improve political stability by giving aggrieved minorities control over subnational governments with limited power over issues that affect them directly, and (d) increase political competition by creating many smaller arenas that politicians vie to control. Decentralization's effects on budgets and service provision are certainly important questions, but are not the most important, a point stressed also by Eaton, Kaiser, and Smoke (2011).

* I gratefully acknowledge financial support from the Hewlett Foundation for IPD's Decentralization Task Force. I am grateful to Elliott Green, Sarah Green, Kai Kaiser, Akbar Noman, José Antonio Ocampo, Lawrence Saez, Farah Siddique, Joseph Stiglitz, workshop participants at the Initiative for Policy Dialogue, and my LSE DV406 and DV431 students for their thoughtful suggestions. All remaining errors are my own.

Reformers around the world agree. Decentralization programs across rich and poor countries are centrally motivated by a quest to improve governance. The preamble of the Bolivian Law of Popular Participation states that its main goal is to improve citizens' quality of life by perfecting representative democracy and facilitating participation (Government of Bolivia, 1994). Sixteen years later, the Framework Law of Autonomies and Decentralization expands on these ideas by declaring as its goal "the effective participation of citizens in decision-making, the deepening of democracy, the satisfaction of collective necessities, and the integral socioeconomic development of the country" (Government of Bolivia, 2010). Likewise, devolution in Britain was aimed at "re-balancing power between citizen and government" in order to "move us away from a centralised Britain to a more democratic, decentralised, plural state" (Blair, 2001). Levels of investment and service provision are a part of this, but the ambitions of these reforms go much further. In Egypt, the Mubarak regime turned to decentralization in 2004 as a way of deepening democracy "and enhancing community partnerships."¹ Far from becoming derailed by the recent upheavals, enthusiasm for reform has increased, with influential voices calling on the transitional administration to decentralize more vigorously lest the grassroots rise up a second time and do it for them (Ben-Meir, 2011).

The Peruvian government views its decentralization as a means to improve citizen participation in government, and "a singular opportunity to confront the inequalities that have historically characterized our country, and promote equal access to opportunities . . . for all" (Government of Peru, 2011). According to the Cambodian government, decentralization is being pursued there above all to strengthen and expand democracy by driving it down to the local level. Reform, it is hoped, will strengthen democratic representation, increase popular participation, strengthen public accountability, and improve government effectiveness (Government of Cambodia, 2005; Romeo & Spycerelle, 2003). These sentiments are closely shared by the Ugandan government (Mulumba, 2004). Likewise Mexico, which undertook decentralization in order to "improve the political involvement of the people in public decision-making," and so "strengthen democracy and spur the country's development efforts" (Muñoz, Acosta, & Moreno, 2006).

Other countries are motivated by more specific governance challenges. Colombia's decentralization was designed as an explicit response to violence. Elected local governments, it was hoped, would give citizens more voice in public affairs, and so drain the reservoir of discontent that fed its left- and right-wing insurgencies (USAID, 2009). South Africa's decentralization was an essential component of its transition from apartheid to democracy, demanded by a white National Party that could hope to hold on to power in certain jurisdictions as it lost power nationally to the African National Congress. Federalism was also demanded nationally by the majority-Zulu Inkatha Freedom Party (USAID, 2009). In Ethiopia, where social diversity is striking, decentralization was aimed at giving political representation to different ethnic groups in order to help the state meet the needs and aspirations of a heterogeneous population (IFAD, 2004). Lastly, and echoing—finally—the great mass of the empirical literature, both India and Tanzania chose decentralization primarily as a means to improve the low level and quality of their public goods (IFAD, 2004; USAID, 2009).

This collection of papers is aimed at the large gap between real reformers' motivations and what we consider to be the most powerful arguments in favor of decentralization, on the

one hand, and the bulk of the empirical literature on the other. It does so by focusing squarely on the role that decentralization can play in deepening democracy and improving governance at the national and local levels. Most of our contributions are empirical, based on both qualitative and quantitative methods. Our two theoretical contributions (Weingast, Myerson) take their analyses of the role of decentralization in constructing democratic governance deeper than the literature previously has done, examining the powerful interactions between decentralization and political competition, the vexed problem of over-mighty government, and alternative vectors of political instability.

The papers in this collection come out of an unusual workshop held at Columbia University in June, 2009, sponsored by the Initiative for Policy Dialogue's Decentralization Task Force. Seeking to re-unite academics studying decentralization with the policymakers who implement it, the 2-day event brought together researchers working at the empirical and theoretical frontiers of decentralization and local government with policy practitioners who have implemented or supported reform at the highest levels of government and international organizations. The purpose of the workshop was not only to exchange ideas, but to marry policymakers' detailed knowledge and insights about real reform processes with academics' conceptual clarity and analytical rigor. The workshop was explicitly structured to facilitate this integration; this collection is the result.

The papers that follow are based on academic research presented at the workshop, revised in light of the detailed discussions they received, complemented by additional papers commissioned specifically for this issue. At its core this research is interdisciplinary political economy, with most authors trained mainly as political scientists or economists, but working in a way that reaches across that divide. The methods employed are both qualitative and quantitative, with several papers blending the two. This collection shows the analytical power of what might be called a one-country, large-N approach. This is an approach fast gaining adherents among social scientists (see e.g., Diaz-Cayeros, 2006; Faguet, 2012; Magaloni, 2006; Rao & Woolcock, 2003, chap. 8; Remmer & Wibbels, 2000; Rodden, 2006; Shami, 2010; Wietzke, 2012) in which a detailed knowledge of the institutional, historical, and economic characteristics of a country (or state or region) is combined with quantitative research on subnational units of analysis, such as municipalities or provinces. By blending deep qualitative knowledge with rigorous quantitative research methods, researchers can approach the elusive goal of explanations that have both generality and a fine-grained, nuanced understanding. They can avoid problems of cross-country comparison—variations in external shocks, political regimes, institutions, colonial legacies, cultural features, and other exogenous factors that are not well accounted for in the data—while still benefiting from the formal rigor that large-N studies provide. And they can stratify their analysis at the national, regional, and local levels, as different questions demand, and yet retain a central focus on complex explanatory factors, such as accountability, trust, and political entrepreneurialism, that are hard to treat quantitatively.

Before proceeding, it is useful to define the two terms in this paper's title. We follow Faguet and Sánchez (2008) and Manor (1999) in defining *decentralization* as the devolution by central (i.e., national) government of specific functions, with all of the administrative, political, and economic attributes that these entail, to regional and local (i.e., state/provincial and municipal) governments that are independent of the center within given geographic and functional domains. And we follow

Fukuyama (2012) in defining *governance* as “a government’s ability to make and enforce rules, and to deliver services, regardless of whether that government is democratic or subject to the rule of law.”² Notice that neither definition is specific to democracies. This is because nondemocracies also decentralize, and also experience (a different kind of) governance, and theoretically robust definitions should not exclude them.

The rest of this paper examines the overarching themes explored in the collection. Section 2 analyzes the nature of political competition in a decentralized system, how it is affected by the form of the party system, and how it affects, in turn, accountability and the quality of policy. Section 3 examines different forms of accountability in federal or decentralized systems, and their effects on corruption. Section 4 turns to how decentralized incentives can dampen or heighten political instability. Section 5 investigates how weak institutions in many developing countries impose insufficient limits on government power, with adverse implications for political accountability, fiscal sustainability, civil conflict, and the level of innovation and growth in the economy. Decentralization provides an incentive-compatible means for limiting overmighty government. Section 6 analyzes the connection between multilevel fiscal governance and macroeconomic instability. Section 7 contributes to the large literature on decentralization’s effects on public sector outputs. Section 8 concludes, synthesizing our range of theoretical and empirical insights into a broad argument about decentralization’s potential to contribute to the broad transformations in political, economic, and social relations that define development.

2. THE NATURE OF POLITICAL COMPETITION

If decentralization is to improve governance in a democracy as its proponents claim, then at least part of the chain of causality must involve political competition. Decentralization might re-center (some) competitive political discourse on local—as opposed to national—concerns, or increase levels of political entrepreneurship or heterogeneity by lowering the costs of entry, or provoke changes in the internal characteristics of political parties. Any one of these could lead to improvement or degradation in governance outcomes. And yet curiously, how decentralization affects the nature of political competition has not been at the forefront of the literature in recent decades. It is telling, for example, that neither of the two most recent reviews of the broad decentralization literature (Faguet, 2012; Treisman, 2007) treats the issue directly.³

This collection does. Myerson notes that one of the deep justifications for democracy is that competition should motivate politicians to offer better public services at a lower corruption-price. A well-ordered federal system can significantly increase political competition in a number of ways, providing strong incentives for higher-quality policy making and tighter reins of accountability to the governed. Myerson’s underlying logic draws lessons and analogies from the economic analysis of oligopolies for political competition and democratic design. The first of these concerns alternative routes for candidates entering national politics. If there is only one route—for example, through national parties—then parliamentary leaders can collude to keep out challengers, with potentially dire effects for efficiency and accountability. Federalism can provide alternative routes into national politics through provincial and local governments, thus increasing total competition and so the quality and probity of a nation’s policymaking.

Decentralization further increases competition through several distinct but related mechanisms. First, it creates new

opportunities for independently elected politicians to demonstrate their abilities to govern. The possibility that successful local officials will advance to higher levels of power in a federal system increases the elasticity of political demand for politicians at each level below the top, and thus increases their competitive incentives to offer better public services. The principle of democratic advancement also increases subnational politicians’ efforts to win popular support, which strengthens their party competitively in national elections. But this transmission path works in both directions. Thus national party sponsorship of local challengers can raise competition in local elections, and so improve the quality of local policy-making. Hence, Myerson argues, national parties should not be restricted from participating in local elections as they are, for example, through formal means in Pakistan and informal means in Uganda.

Likewise, the enhancement of competition implies that obstacles to new party formation be removed. In any country, the goal is to make sure there are at least two strong national parties, each of which includes many politicians with good reputations for public service, and that new parties can develop when old parties do not meet voters’ expectations. Erecting barriers to new party formation can help entrenched parties to survive longer than they would in a political “free market,” which is why entrenched party leaders often push for barriers. Ridding politics of such barriers, and by extension ridding the legislature of impediments to new coalition or bloc formation, can increase competition and so improve the quality of governance.

The costs of ignoring Myerson’s advice are on rich display in Argentina, a country that—Ardanaz, Leiras, and Tommasi point out—suffers a far lower quality of public policy than its level of human development would predict. Why? The authors find an answer in the politics of Argentina’s particular federal system. This system is characterized by strong political “baronies,” some of them actually inherited, in some of Argentina’s poorer, less developed provinces. The structure of legislative accountability in Argentina (discussed below) allows such provincial barons to extract fiscal rents from the federal government and in effect run “rentier subnational states” (Gervasoni, 2010, p. 303). In a neatly vicious circle, incumbents then use these rents to restrict political competition at home, weaken institutional and legal limits on their power at the national level, and ultimately undermine competitive democracy throughout Argentina.

One of the lessons of Argentina is that subnational actors have large incentives to distort a federal system to their own ends. How can decentralizing countries avoid this? In Weingast’s formulation, “what are the institutions and forces that provide incentives for political officials to honor the rules of federalism? As Riker (1964) observed, federal stability is challenged by two problems: *centripetal forces* whereby the center captures the powers of the lower jurisdictions; and *fissiparous forces* whereby free-riding and common pool problems facing lower jurisdictions cause the federal system to fail.”⁴ To be stable, a federal system must chart a path between these opposing dangers. How does it do so?

The form of the party system, Weingast argues, is the key. Some countries have party systems that give national elites dominance, while others give priority to local elites, and still others balance the powers of the two. Where national elites dominate parties, local leaders can be forced to acquiesce to institutional changes that compromise their powers. Examples include Mexico under the Institutional Revolutionary Party (*Partido Revolucionario Institucional*, PRI) during 1929–2000, and India under the Congress Party during 1947–96. By

contrast where local elites have dominance, the party system can be used to force national elites to accept subnational abuse of common pool resources. Argentina's problem of recurrent provincial bailouts is a good example. But where a party system is balanced between national and local elites, each side will defend its prerogative, creating a healthy tension in which federalism can flourish.⁵

Two conditions are required for such a balanced, integrated party system to emerge, Weingast argues.

"First, politicians must have incentives to cooperate across political levels and jurisdictions in order to win elections; and second, once in office, political officials must have incentives to abide by restrictions. Such a system, for example, may have local politicians who rely on the national brand name or reputation of their party; and national politicians, unable to create their own independent national organization, who must cooperate and mobilize local political organizations in order to win national elections. Politicians across levels must therefore cooperate with one another rather than attempt to take advantage of one another. This creates a vertically integrated political system."⁶

that sustains federalism.

All of these arguments rely on competition that is mediated through political parties, by far the most studied form. But what about nonparty political competition, a persistent, low-level phenomenon that occurs mostly in developing countries? Despite being much less studied than party-political competition, strong claims are often made about its beneficial effects on participation, accountability, and stability (Carbone, 2003). Diaz-Cayeros, Magaloni, and Ruiz examine one variant of nonparty competition, the traditional collective decision-making processes known as *usos y costumbres*⁷ in Oaxaca, Mexico. These represent one variant of the many traditional forms of local self-government practiced throughout Latin America, the roots of which go back to pre-Columbian times. The authors find that poor indigenous communities governed by *usos y costumbres* enjoy higher levels of civic engagement and better governance than similarly poor communities where parties compete for power. These advantages are qualitatively observable and statistically significant in 640 municipalities. Their findings throw into sharp relief the underlying questions of what "political competition" means, how contests should be bounded, and what sorts of organizations should be involved for the many theorized benefits of competition to materialize.

3. PUBLIC ACCOUNTABILITY AND CORRUPTION

The question of public accountability has been treated far more extensively than that of political competition in the decentralization literature. The theory of decentralization and public accountability go back to Mill (1993 [1895–61]), Montesquieu (1989 [1748]), Rousseau (1978 [1762]), and de Tocqueville (1994 [1835–40]), who debated the optimal size and conformation of political units that served the interests of their citizens. The modern treatment of this question is perhaps best represented by the widely cited Wallis and Oates (1988), who argue that decentralization can make government more responsive to local needs by "tailoring levels of consumption to the preferences of smaller, more homogeneous groups" (p. 5).

The logic behind this argument relies on a powerful comparative static that goes as follows. By devolving power and authority from higher to lower levels of government elected by local constituencies, decentralization fundamentally changes the incentives that local authorities face, and thus their behavior. Under centralization, "local" authorities are not elected by local citizens but rather *selected* by higher-level

authorities. Immediate accountability for their performance is thus upward to the center, which has power over their careers, salaries, and broader professional prospects (Riker, 1964). Accountability does not run downward to the citizens who consume local public goods and services except at one or more removes, in the sense that central officials are ultimately beholden to national, and not local, electorates. "Local" officials thus face clear, strong incentives to respond to central government priorities and concerns, and weak, muffled incentives to respond to local citizens' needs. Decentralization re-orientes these incentives; this is its most important effect. "Local" officials become local officials, whose tenure and career prospects are in the hands of the citizens they serve, who elect them. The effect of decentralization is to dramatically tighten the loop of accountability between those who produce public goods and services and those who consume them.

The potential for decentralization to increase accountability can be undermined if the relatively smaller scale of local government makes it more susceptible to capture by elites, such as landowners or employers. In this case, locally "big" interest groups can deploy their wealth and social influence, for example by financing a local campaign or pressing employees to vote in a particular way, to distort policy-making in their own favor. Such behavior can rapidly undermine local government's accountability to voters, as Bardhan and Mookherjee (1999, 2006), Blair (2000), Dreze and Sen (1996), and Prud'homme (1995) have argued.

The testing of such claims was among the principal concerns of empiricists a generation ago, of which Rondinelli *et al.* (1983) is one classic and much cited example of many. This generation of studies produced results that were at best mixed, with positive and ambiguous country experiences more than counterbalanced by studies finding that, for example, decentralization has been largely neutralized across most countries by elaborate mechanisms of central supervision and control (Samoff, 1990; Slater, 1989); where neutralization failed, the small electoral environments that reform created were typically distorted by powerful interests, and accountability to the majority undermined (Smith, 1985). In more recent years the theme has largely fallen from favor, a casualty perhaps of increasing quantification in the field. But it is interesting to note that the smaller number of newer, typically quantitative studies that do examine the issue have found far more positive results. Hence decentralization makes government more responsive to local needs (Alderman, 2002; Faguet & Sánchez, 2008; Manor, 1999), increases citizen satisfaction with local services (World Bank., 1995), and helps government target poverty programs better (Galasso & Ravallion, 2005).

The papers in this special issue use rich, multilayered evidence from Argentina, China, and Mexico to push the theory of accountability and corruption away from these static intuitions, toward a deeper understanding of the dynamic incentives that operate across fiscal and political relations in a federal system. By moving to a higher level of complexity, these papers are able to embed the linear "bureaucratic-vs.-electoral" incentives described above in a broader model that interacts fiscal with political imperatives, and embraces public officials at the local, regional, and central levels.

Ardanaz *et al.* analyze Argentine federalism through the lens of its particular policy-making process, in which policy is often the product of exchanges between the president and provincial governors. In these exchanges, presidents trade fiscal transfers for support from provincial actors for national policies. But such transactions seldom take place in Congress, which operates more often as a rubber-stamping body, formalizing deals that the President, provincial governors and interest groups

have already struck in informal arenas. Congressmen tend to see their provincial party leaders as their principals, especially when the leader is the governor. "In sum," the authors say, "provincial party leaders decide whether to 'send' someone to the National Congress and, controlling re-nominations, for how long (Jones, Saiegh, Spiller, & Tommasi, 2002). Therefore, political careers are structured at the provincial level and political fates decided in provincial jousts."⁸

The deeper effect of this federal dynamic is to short-circuit legislative accountability by making congressmen accountable to provincial party leaders, and not voters. This in turn allows provincial leaders to gain control over aspects of national policy (e.g., electoral law, fiscal resources) in such a way as to perpetuate themselves and extend their influence. The governors most effective at this game are those from the least developed provinces with the most distorted politics. The ultimate result is impaired public accountability—not just for certain provinces but for the whole country. This, in the authors' view, is the root of Argentina's infamous policy volatility, resulting in a lack of credibility and a failure to achieve desirable economic and social outcomes.

Contrast this with the federal system that Birney analyzes in China. In contrast to Western federations like Brazil, Canada, Germany, or the United States, whose political and party-political characteristics are central, China's is fundamentally an administrative and fiscal federalism predicated on single-party rule.⁹ Here, poor public accountability is due not to the legislative balance of power, but rather to severe informational problems intimately tied up with the form and direction of accountability. This is the product of what she christens the *rule of mandates*, a system for maintaining political control of lower level officials through well-defined incentives, such as contracts that list targets distinguished by level of importance, and associated bonuses, promotions, fines, and other penalties. Mandates exist alongside the regime's own laws, but—unlike laws—are not public, cover only a limited set of issues, and call for the production of particular outcomes instead of adherence to particular processes. In terms of career incentives for local officials, mandates trump laws.

In the context of Chinese federalism, the rule of mandates makes it particularly difficult for the regime to identify and punish corrupt officials. First, collective responsibility implies that officials face institutionalized incentives to aid their colleagues by overlooking or assisting in false reporting. Second, higher officials have little access to the information that villagers have on the local implementation of laws, which would be too costly to collect systematically. Democratic decentralization solves this problem through local elections, lobbying, campaigning, a free press, and all of the associated apparatus of democracy which elicits and aggregates individuals' information on local performance at relatively low cost. Communist Party rule in China rules out a number of these mechanisms, and the rule of mandates imposes additional constraints. The public is seldom aware of the mandates local officials are given, and so has no way to evaluate their performance. And were the public to be informed, many might well object to the priorities implicit in these mandates, provoking not accountability but political instability. Birney's evidence suggests that local officials do indeed hide behind mandates to shelter their corruption.

Hence, the form that accountability takes in China strongly affects its ability to achieve one of its principal goals—limiting corruption. Diaz-Cayeros *et al.* underline this broader point. Local government by nonparty *usos y costumbres* achieves a more responsive, accountable government because of the processes that characterize *usos* itself: ongoing consultation with

the citizenry, continuous monitoring, and sanctioning when citizens gather in public assemblies. The absence of these processes in partisan democracies leads to agency loss by citizens, when compared to more participatory democracies.

4. REDUCING POLITICAL INSTABILITY

A much smaller thread in the decentralization literature, but one that is germane to some of the world's most difficult policy problems, examines ethnic conflict and political instability. By devolving power and resources to lower levels of government, could decentralization relieve political tensions and reduce the risk of violence or secession? These sorts of questions are most relevant for heterogeneous countries with strong subnational (typically ethnic, regional, or religious) identities. When such groups form a minority of the national population but a majority in some areas, a highly centralized government can exacerbate grievances and lead to demands for violence or secession by coherent groups who feel themselves excluded from power. Decentralization, it is argued, can relieve these tensions by handing control over subnational governments and resources to local leaders throughout the country, who in some regions will be leaders of the aggrieved group(s).

Proponents (e.g., Diamond, Linz, & Lipset, 1995; Hechter, 2000; Horowitz, 1991) argue for a twofold beneficial effect. First, decentralized governments can implement policies better suited to the local needs and preferences of a heterogeneous population (e.g., education, broadcasting, *etc.* in minority languages), thus addressing the substance of minority groups' grievances. And second, by meeting the demands of those willing to settle for limited autonomy, the national government can peel away layers of political support from leaders who promote violence or secession. Where a complex set of complaints and demands meets a wall of centralization, calls for radical action are much more likely to prosper than where such demands meet a flexible, accommodative state. Put another way, monolithic central government is more likely to promote—even if inadvertently—the rise of firebrand leaders within minority groups who promote rebellion against the state. A multi-tiered decentralized system will promote the rise of a different, managerial kind of leader—one who seeks to work within the state to their, and their constituents', advantage.

Although arguments about decentralization and political instability are often treated as a separate theoretical class, they are at their core a particular application of the accountability argument developed above. In the particular context of a heterogeneous country with spatial concentrations of identity groups, decentralization can drain political tensions if it creates governments more responsive to the demands and interests of these groups. Doing so has the further, knock-on effect of changing the internal dynamics of organization and leadership within minority groups, replacing systemic preferences for charisma and mobilization around grievance with preferences for administration, organization, and delivery. This further reduces political instability and lessens the risk of conflict.

This collection builds on such ideas by first applying them to an especially unstable and dangerous country, Pakistan, and then driving the analysis further, beyond heterogeneous countries, to the more nuanced and more general problem of privilege, incentives and stability in all countries. Myerson notes cross-country empirical evidence that presidential systems are significantly more likely to suffer democratic breakdown than parliamentary systems (Boix, 2003; Przeworski, Alvarez,

Cheibub, & Limongi, 2000). This is at least in part, in his view, because in order to actually govern, both systems rely on the cooperation of many political agents, who must have confidence in the leader. Parliamentary democracy aligns the incentives of these agents more closely with those of the executive. A president, by contrast, can rely on his personal mandate from the voters to try to circumvent other agents, thus weakening party discipline or converting it into personal loyalty, either of which weakens democracy. Another advantage of parliamentary systems is that they provide a way out of political crises when the leader suffers a scandal or loss of credibility. Presidential systems find it difficult to change a leader with a popular mandate before her term has finished. In a parliamentary system, the coalition can continue to exercise authority without the affected leader, or a new coalition can form far more fluidly. Thus Myerson recommends parliamentary over presidential democracy for diverse developing countries like Pakistan, at both national and subnational levels.

The need to cooperate features centrally in Weingast's treatment of political decentralization and instability too. In a democracy, elections allocate power to political teams, who can use this power to tax, regulate, and jail people, (re)define their property rights, and otherwise threaten them. Many developing countries lack the institutional features that limit government discretion and protect citizens from abuses of power. Hence when an election brings an unfriendly team into power in a developing country, influential people may resort to extra-constitutional means to defend themselves, their property and interests from real or imagined encroachments. This is one of the main vectors of political instability in immature democracies, and a key explanation of why most new democracies fail (Elkins, Ginsburg, & Melton, 2009, quoted in Weingast).

The incentive to encroach on others' rights or resources affects intergovernmental relations as well. Political officials across different levels of a federation will be tempted to encroach upon the authority and resources of others below and above them. Ardanaz *et al.* illustrate this point, and its many dire consequences, richly with the case of Argentina. What holds a healthy federal system together? Incentives says Weingast. In a stable democracy (i.e., a stable institutional equilibrium), elections provide countervailing incentives. Political officials from all levels of a federation need one another to win national, regional, and local offices. Encroachments sow discord within a party or coalition, opening political opportunities for the opposition. Thus the need to win elections imposes discipline upon parties and politicians, leading them to work together more than they might do otherwise.

Less mature democracies deal with a lack of institutions limiting state power by granting special privileges to groups sufficiently powerful to threaten stability, to keep them in the game. But doing so is inherently undemocratic in the sense that it conflicts with the substance of democracy—the participative self-government of equals, and letting citizens decide their own fate. Granting special privileges may achieve stability, but at the cost of conferring greater voice in public decisions to a favored group. It pushes democracy toward aristocracy.

Herein lies an oddity: The promotion of democracy around the world almost always focuses on national government, especially free and fair elections. But young democracies mostly lack the complementary, power-limiting institutions that protect citizens' rights, and so make transfers of power amenable to those with the most to lose. In such a context, to promote democracy is nontrivially to promote democratic

fragility and instability. But how do we construct democracy-enhancing institutions in countries where democracy is fragile or missing? Decentralization, Weingast suggests, is a crucial part of the answer. By decentralizing government, reformers can square this circle by simultaneously building a culture and experience of democratic practice while limiting the power of central authorities, and hence the threat—real and perceived—to powerful elites. It also lowers the cost to entrenched elites of losing power, as parties losing national power can still hope to retain control of subnational levels, so deterring them from undermining the system. For the case of authoritarian transition, Weingast proposes beginning with democracy at the local level, and then opening up politics to the national level only gradually. Taiwan—one of the most stable new democracies—took just this path.

But is not decentralization inherently destabilizing? Myerson considers the possibility that federalism can exacerbate the risk of regional secession—a turning on its head of the argument presented above. The older literature on federalism (Maddox, 1941; Tocqueville, 1994 [1835–40]; Watts, 1966 quoted in Treisman, 2007) often claimed that decentralization in a diverse country would institutionalize social or ethnic cleavages, preventing them from fading over time, and would also provide a power and resource base for separatist leaders. Such a risk will be greater for larger, wealthier provinces that are more likely to be viable as independent countries. A straightforward remedy, Myerson suggests, is to have smaller provinces. He suggests a rule of thumb that no province should comprise more than 20% of the national population. In Pakistan, this would imply the breakup of Punjab into two or more provinces. Doing so should provide the additional benefit of increasing democratic competitiveness along the lines discussed above.

5. LIMITS ON POWER

The problem of limiting government power is intimately tied up with the problem of political instability, as we saw above. But Weingast takes the issue much further. All successful democracies satisfy the *limit condition*, which limits the stakes of power by restricting the scope of political authority against the interests of citizens and groups. As we saw above, this can be achieved via institutional rules with general effect (as in mature democracies), or the granting of special privileges to the powerful (common in immature democracies). One of the key ways in which these strategies are implemented is through open vs. limited access orders. *Limited access* is when society allows only certain groups or individuals to form organizations that receive specific privileges defined by law (i.e., limited liability). *Open access* is when any individual or group may form such an organization. Most developing countries are limited access societies, whereas most developed countries have open access.

Unfortunately for developing countries, the question of open vs. limited access goes far beyond descriptive attribution, affecting the rate of economic growth, the size of the informal sector, and the level of innovation and efficiency of an economy. Open, competitive markets, Weingast points out, require open access organizations, such as that provided by general incorporation regimes. By contrast closed access, such as provided by special incorporation (which requires a legislative act), is more closely associated with the use of political discretion to create and distribute rents to favored groups. Economies characterized by closed access typically suffer high rates of informality (around 50% in Latin America and 75% in

Africa), low rates of investment and innovation, and artificially low rates of productivity and growth given their wage rates and resource endowments. In this way the nature of the political system directly affects the structure and productive potential of the economy.

But the importance of open access is not limited to the economy. Because it allows opponents of the regime to organize and compete for power, open access to political organizations is a critical component of political competition. And much research has shown that responsive, accountable government relies on a society densely populated by independent civic organizations (Faguet, 2009, 2012; Putnam, 1993; Widner, 2001). Hence open access to civic organizations is also important to a healthy democracy. Indeed, most weak democracies and authoritarian regimes restrict access to both political and economic organization, and many of the latter to civic organization as well, because such organizations can weaken their hold on power by disrupting the clientelistic relationships on which they are based.

By providing incentive-compatible limits on the powers of different levels of government, decentralization can support democratic stability. But to thrive—and especially to produce accountable local governments—decentralization requires open access political, economic, and civic organizations that support open, competitive politics, and give officials strong incentives to respond to local citizens' needs. To ensure their independence and so allow the benefits of federalism that theory predicts to flow through, Myerson adds, subnational governments' budgets and authority should be defined and protected in the constitution.

6. MULTILEVEL FISCAL GOVERNANCE

The connection between decentralization and fiscal sustainability is well researched in the literature. Theoretical findings are mostly pessimistic, and centrally concerned with the problem of fiscal incentives and behaviors—that is, governance—in a multi-level federal environment (Rodden, 2006; Rodden, Eskeland, & Litvack, 2003). Decentralized countries face the intrinsic problem of soft budget constraints because local politicians have strong incentives to overspend and reap the benefits themselves, while nationalizing the cost of their behavior through central bailouts. Such behavior is underpinned by the knowledge that at least some of the blame for a local government default, with attendant reductions in public services, investment, and employment, would attach to central government politicians for two reasons: (a) many such services are jointly financed and voters may not clearly distinguish among responsible parties, and (b) the center could have averted default by bailing out the insolvent municipality. Meanwhile, central government faces a commitment problem: any promise not to bail out in future is not credible precisely because voters will punish it. All local governments know this, and hence all have incentives to overspend today in the hope of being bailed out (Prud'homme, 1995; Rodden, 2006; Rodden *et al.*, 2003; Tanzi, 1995). In the aggregate, such behavior can lead to large national deficits, and hence macroeconomic instability.

This collection analyzes the political economy dynamic in a federal system that drives macroeconomic instability. Ardanaz *et al.* analyze how the Argentine policy-making process described above, which makes legislators accountable not to voters but to their provincial governors, plays out in the fiscal realm. Provincial governments undertake a large share of total spending in Argentina, yet they collect on average only one-third of this amount themselves. In a large number of less pop-

ulous provinces, the transfers received from the federal government constitute over 80% of provincial revenue. "In this logic," the authors explain, "most provincial governments are resource hungry political units eager to extract fiscal favors from the national government. In turn, the federal government needs votes in Congress to implement nationwide economic policies. This situation creates potential gains from trade between presidents and governors, while Congress merely serves as the 'ratifier' of agreements that are struck in other more informal arenas (Saiegh, 2004)."

Argentina thus presents an extreme fiscal example of the broader common-pool problem that has been analyzed extensively in the institutional literature (e.g., Ostrom, 1990). Argentine governors exploit influence in the national arena both fiscally and politically. National governments, effectively dependent on their cooperation to achieve the congressional majorities required to govern, are held to ransom. Provincial leaders extract resources with which they further develop their local dominance, and also construct national-level political careers. It is not accidental that some of the most successful national politicians of the last 20 years, including presidents Menem, Rodriguez Saa, and Nestor Kirchner, hail from the three lowest-ranking provinces (La Rioja, San Luis, and Santa Cruz) in the index of subnational democracy compiled by Gervasoni (2010).

The culture of fiscal ransoms has costs both political and economic. On the political side, it weakens one of the most important institutional mechanisms of democratic accountability—horizontal accountability (O'Donnell, 1998). And on the economic side, repeated provincial bailouts lead to chronic and increasing central deficits that cannot be sustained indefinitely, as modern Argentine economic history richly illustrates. Although popular attention at the time focused more on the currency peg, the Argentine economic disaster of 2001 was very largely a fiscal disaster rooted in uncontrolled profligacy in the provinces. It was profoundly destabilizing to politics as well, destroying the de la Rúa government and altering the competitive balance among parties in ways that persist to this day. This is not in itself surprising, as macroeconomic crises have been observed to bring down governments and threatened democratic stability across dozens of countries in the past. Dillinger and Webb (1999), Wildasin (1998), de Mello (2000), and Montero and Samuels (2004) confirm an empirical link between decentralization and macroeconomic instability for different samples of developing and developed countries.

7. PUBLIC SECTOR OUTPUTS AND OUTCOMES

The theoretical literature argues that decentralization should improve public sector outputs by improving the accountability and responsiveness of government (Wallis & Oates, 1988). Greater local participation and transparency in the production of public services should result in services that are better suited to the real needs of local people, and also of higher quality or lower cost. Against this, others (Prud'homme, 1995; Treisman, 2007) argue that decentralization will worsen public service provision by decreasing productive efficiency and decreasing the quality of policy-making. They argue that central government benefits from greater economies of scale in public goods production and a higher quality of human capital. Decentralization entails a loss in both respects, leading to more expensive and/or lower quality public goods.

The existence of plausible, contradictory arguments implies that theory is ambiguous, opening the door for empirical work

to resolve the matter. And empiricists have indeed taken up questions of public service provision (e.g., education, health) and sectoral outcomes (e.g., literacy and disease rates) with relish. Whereas the studies of three and four decades ago typically relied on qualitative evidence and country-level case study, a more recent literature has emerged in which the unit of analysis is the municipality or province, and a deep knowledge of the institutions, history, and culture of a country are combined with large-N econometric methods. This collection adds to the latter with deep studies of decentralization in Brazil, Colombia, and Oaxaca, Mexico.

Gonçalves addresses the question of accountability and service provision directly in her study of Participatory Budgeting (PB) in Brazil. PB is an alternative budgeting process that solicits citizen inputs on municipal budgets and investment priorities. Pioneered in Porto Alegre, it has been implemented broadly in Brazil; about 30% of the country's 200 million people live in municipalities that use PB. It operates via two distinct channels: (i) it improves information flows between citizens and policy makers, raising the chances that goods and services more closely match public needs; and (ii) it stimulated more frequent and informed oversight of politicians' (very public) promises by citizens, the press, and watchdog groups, so strengthening politicians' accountability to voters.

Gonçalves exploits an original panel dataset covering all Brazilian municipalities during 1990–2004, with rich variation in the time and duration of adoption, both within and across municipalities across time (i.e., some municipalities adopted PB early, others late, some later dropped out, and many never adopted). She finds that municipalities adopting PB increased spending on health and sanitation significantly more than those that did not—by between 20% and 30% of the sample mean. This is in line with preferences consistently expressed in PB meetings. Interestingly, these preference-driven increases took place in budget-neutral environments, and are not the result of larger overall budgets or greater per capita municipal expenditures.

More impressive still is PB's effect on real outcomes. Gonçalves finds that municipalities adopting PB registered a significant drop in infant mortality of one and two infants per 100,000, between 5% and 10% of the total infant mortality rate at the beginning of the period. This is particularly striking given that changes in indicators like infant mortality are driven by economic, demographic, and scientific factors well beyond budget allocations, and hence we would not necessarily expect to find any detectable effect of PB. The evidence implies that PB reduces the informational asymmetries between policy makers and citizens, and encourages more intensive oversight of the formers' activities by the latter. This serves to improve government accountability and responsiveness along some of the very channels that the theory of decentralization predicts.

Granados and Sánchez report on an interesting natural experiment in Colombia in which some municipalities spun off water and sewerage services to private sector firms and others retained them in the hands of local government. With a large database including over 95% of the 1200 Colombian municipalities, they estimate a difference-in-differences model that allows them to control for municipal characteristics in order to estimate the effects of reform in water and sewerage services on child mortality. Their results show that municipalities that privatized service provision suffered a significant rise in child mortality compared to municipalities that maintained services in the hands of local government.

These findings are interesting not only because of the evidence they provide regarding decentralization per se, but because they provide strong evidence about the relative efficacy

of different forms of decentralization. The standard view is that the market represents a decentralized form of provision. This view goes back to Adam Smith's (1991 [1776]) *Wealth of Nations* and 18th century debates about the appropriate role of the state in a market economy. It also became a central theme in the important 1930s debate concerning efficiency in the allocation of resources in socialist vs. market economies. In this debate, Hayek (1958 [1948]) and others pointed out that the information required for resources to be efficiently allocated is dispersed among agents throughout the economy. A market economy solves the information problem by decentralizing decision making authority to individual agents, who act in accordance with their self-interest and are coordinated by market prices. Socialist economies, by contrast, invest decision-making authority in a central planner, who acts on the basis of information communicated by individual agents.

Centralized socialist and decentralized market resource allocation systems were compared on the basis of the communication and information processing demands each entailed, and the individual incentives and behaviors that each gave rise to. Proponents of the market claimed superior efficiency on the basis of a much lower requirement for active, accurate communication in a context suffused with market signals, and the fact that information processing is distributed across agents throughout the economy, whose selfish incentives guide them toward accurate calculation. Proponents of the socialist economy countered that central planning was a natural way to avoid deep problems of distributional equity, externalities, increasing returns, and public goods that naturally bedevil decentralized systems. Hurwicz (1972, 1973, 1977) provides an excellent overview of this earlier literature and its subsequent development. Mookherjee (2006) reviews more recent theoretical contributions, focusing on mechanism design theory.

But on the empirical side, no study to our knowledge has compared decentralized market provision of public services to decentralized public provision. Empirical studies of state vs. market are often motivated by privatization reforms, and thus collapse by default into many vs. mono comparisons in which the market equilibria of competitive firms are shown to be more efficient or innovative than a public monopoly. This may reflect the real experience of many countries, and thus response to specific policy debates there. But it does not compare like with like, and at a theoretical level might reasonably be viewed as stacking the deck.

Our Colombia paper breaks with that pattern in an unusual way: it compares decentralized market provision *with decentralized public provision*. Granados and Sánchez' results contradict the view that private sector incentives naturally lead to better-quality public service provision. In municipalities of similar size, within a common legal and institutional context, decentralized public water and sewerage provision performed better than decentralized private provision. Much more research is needed to uncover why this may have been the case (Poor local regulation? Less experienced private providers? There are many more possibilities). But for now the evidence implies that local public officials proved more accountable than private businessmen to water and sanitation users.

Díaz-Cayeros, Magaloni, and Ruiz continue in this vein, examining the effects of a particular kind of decentralization—via traditional *usos y costumbres* self-government described above—on public goods provision in Oaxaca, Mexico. In order to solve the problem of selection bias in a nonexperimental setting, they calculate average treatment effects on the treated via a multi-method approach that, first,

estimates the effects of indigenous autonomy through propensity score matching, and, second, uses difference-in-differences to control for fixed unobservables. They find that municipalities governed by traditional collective choice methods enjoyed improvements in electricity provision, larger reductions in extreme poverty, and no differences in political entrenchment by local political bosses compared to similar municipalities in the control group.

These results contradict claims that indigenous autonomy disguises authoritarian enclaves and entrenches local *caciques*. To the contrary, communities governed by *usos* registered higher civic engagement, better governance indicators, and better access to local public goods than similarly poor communities run by political parties. In this context *usos* in Mexico is similar to PB in Brazil, the one based on traditional and the other on modern social forms. Both can interact positively with decentralization, by increasing informational and participative intensity, to improve first accountability and responsiveness, then public service outputs, and finally real outcomes of interest like poverty and infant mortality. This last step is exceedingly rare in the decentralization literature.

8. CONCLUSION: DECENTRALIZATION, AND DEVELOPMENT TRANSITIONS

Much of the decentralization literature examines what could be characterized as fairly simple linear relationships between decentralization and policy-relevant outcomes such as education and health services, public investments, the level of corruption, and national and subnational fiscal deficits. Decades of research has shown that decentralization both improves and worsens all of these outcomes, in different countries at different times, leaving us unable to draw broader conclusions. Most theoretical and empirical analyses are exercises in comparative statics: pre- and post-reform equilibria are compared to see whether the policy-relevant variable of interest *X* (e.g., school enrollments, medical interventions, investment in water and sanitation) rises or falls. Relatively few studies attempt to tease out the underlying dynamic relationships that must be at work for any comparative static to hold.

This is especially ironic because the “underlying relationships” in question comprise governance, better governance is the single biggest theoretical justification for decentralization, and in practice it is the major political justification driving real reforms around the world. And yet the effects of decentralization on governance have been largely ignored in favor of other, more concrete outcomes that are more easily measured. Although such issues are also important, and many of these individual studies are excellent, in the aggregate they have left important gaps in our knowledge that this collection begins to fill.

The first two gaps concern decentralization’s effects on accountability and the nature of political competition in a democracy. Theory argues that decentralization can re-orient politicians’ incentives downward toward local voters, and increase the level of political competition in a country, resulting in higher-quality policy and tighter reins of accountability on government officials. Decentralization increases competition by providing alternative routes of entry for new politicians, and by providing local officials with incentives to compete harder in elections on their own and their party’s behalf, and then perform better once in government, in the hope of ascending to higher levels of government.

But the form of federalism matters. In a democracy, the incentives described can be perverted to very different ends.

The experience of Argentina shows that subnational actors have large incentives to distort a federal system in order to extract resources and reduce political competition at the local and national levels. This subverts the accountability of both subnational and national politicians, contributing to policy volatility, a lack of credibility, and the kinds of poor economic and social outcomes that Argentina has suffered in recent decades. The form of federalism matters for nondemocracies as well. In China, central-local relations are largely defined by the rule of mandates, which severely limits central authorities’ information, and hence accountability, allowing corruption to flourish. The opposite is the case in certain parts of Oaxaca, where traditional community self-government achieves a more responsive, accountable government than party-political rule. Where democracies are concerned, a political party system that balances the power of local and national elites, forcing them to cooperate in order to win elections at both levels, can help avoid these risks.

Decentralization can also reduce political instability. In institutionally underdeveloped democracies, elites who fear the unchecked power of unfriendly governments may resort to violence to protect themselves and their interests. Many such countries protect against this risk by granting special privileges to elites in order to keep them in the democratic game. But this undermines the substance of democracy. Decentralization can help by providing an incentive-compatible way to limit government powers by dividing them up among different hierarchical levels, each with a democratic mandate, that must cooperate in positive-sum games to maximize their outputs.

Such considerations underscore a deeper point about decentralization reform: it is not exogenous to the issue of who has power and what they want. Indeed, the question of multilevel governance—the form of federalism—is itself an endogenous outcome of struggles among the powerful for advantage. This explains a great deal of the variation we observe across countries in the scale of “local” vs. “regional” government, the authority and discretion devolved to them, and the resources they control.¹⁰ That in turn has important impacts on the governance and service outcomes we observe.

This collection adds to the literature on public sector outputs and outcomes as well. In Brazil, participative local budgeting not only improved the matching between public investment and citizens’ wishes, but also decreased infant mortality rates in those municipalities that adopted it. Results from Colombia imply that it is not just the fact of decentralization, but how decentralization is carried out that matters. Municipalities that privatized water and sewerage services saw increases in child mortality compared to those that maintained these services in municipal hands. And in Mexico, the traditional community institutions of *usos y costumbres* improved electricity provision and reduced extreme poverty compared to neighboring municipalities run by conventional partisan administrations. It is notable that these results flow through the mechanism of higher civic engagement and better governance.

Lastly, let us place the insights of this collection in a broader context. Not only can reform spur improvements in public services such as health and electricity, and real outcomes such as infant mortality and poverty—impressive and important as such findings are. They can also contribute to the institutional changes that accompany broad historical transitions to increasing wealth and freedom. The study of such transitions has seen a remarkable resurgence in recent years. Regardless of whether development transitions are conceived of as leading to open-access societies and economies (North, Wallis, &

Weingast, 2009), or inclusive institutions (Acemoglu & Robinson, 2012), theorists agree that they consist of a complex of interdependent changes across government, the economy, and social relations (Brett, 2009; Boone & Faguet, 1998).

Many of these changes, such as technical upgrading in the productive sector, are not susceptible to decentralization. For others, such as infrastructure expansion and human capital formation, decentralization can be a useful contributory measure. But for some of the most important transformations involving governance and the exercise of power, such as increasing political competition, improving public accountability, decreasing corruption, enhancing political stability, limiting government power, and promoting economic stability, decentralization is centrally implicated. As we have seen, it can be a key factor driving improvements in all of these areas, or a key element fomenting instability, opacity, capture, and decline.

Recognizing this forces us to shift our attention away from the “decentralization success factors” stressed by so many studies, a focus that typically blames failure on absent factors such as a lack of political will, low bureaucratic capacity, and insufficient resources. We are led instead to focus on the hierarchical institutions and the structure of incentives in which decentralization operates. In this context, the first-order answer to the question “Is decentralization good for development?” is not that it will improve children’s health, which in the long term will boost a country’s prospects, although such a connection is certainly valid and important.

Rather our first answer will take the form: If reform divides public resources and authority among many independent units in a transparent way, decentralization will provide an incentive-compatible means of limiting the power of government to threaten powerful elites. If these independent units must cooperate to achieve positive-sum outcomes, and this structure of incentives is replicated within political parties and the public administration, then decentralization will generate competitive incentives compatible with deepening democracy and strengthening the rule of law. Subnational officials will tend to compete within the rules of the game to further their careers by improving local services. And the currency of such competition will often be cooperation with other independent government units—either central or peripheral—as a means to capture more resources, and as an independent form of validation.

Such a system not only increases political stability, but also promotes open access economic, political, and social organizations. Open-access organizations in turn support competitive political systems and a vibrant civil society, both important to

accountable government, as well as promoting innovation and growth in the economy. But if transparency is absent and some units can blackmail others, decentralization can instead undermine both political accountability and economic stability.

What is the difference between decentralizations that promote development transitions and those that undermine them? We can only speculate for now—much more empirical research is needed on decentralization and governance before general conclusions can be ventured with any confidence. But the research in this special issue suggests that the electoral incentives embedded in a competitive democracy are responsible. In authoritarian regimes, for example, decentralization may decrease the chances of closed-to-open-access transitions by providing the center with incentives to undermine transparency and local accountability, as occurs in China. In uncompetitive or distorted democracies, such as Argentina, a broadly similar result may obtain through an upward, instead of downward, channel, as political “barons” reach up from the regions they have captured to twist national politics away from the national interest.

In a competitive democracy, by contrast, we can understand the argument that decentralization re-oriens accountability incentives downward to voters as an *opening-access* argument—because more public officials become beholden to more citizens, effectively incorporating more people and more information into a society’s governance. Thus the key element that allows decentralization to spur closed-to-open-access transitions is open, competitive democracy. Subjecting public office to elections is what changes the incentives politicians throughout a system face when that system is decentralized. Electionless decentralization does not have the same effect.

So decentralization requires democracy in order to achieve its potential. But paradoxically, democracy may require a measure of decentralization—which divides power and lessens the ability of the state to threaten elites—in order to emerge out of autocracy. Which should come first? Where should reformers focus their efforts? We are left with a classic chicken-and-egg conundrum from which theory provides no escape, and hence an area ripe for further empirical research. In this context, the concrete results of reform that our colleagues identify in Brazil, Mexico, and Colombia provide the beginnings of an answer. The gains documented in each are not the technocratic products of bureaucratic adjustments, but rather leading indicators of deepening democracy, improving governance, and expanding freedom.

NOTES

1. Prime Minister Ahmad Nazeef, Statement of the Cabinet to the People’s Assembly, 19 December 2004.

2. P.1. The 2012 online [Oxford English Dictionary](#) defines governance as “The action or manner of governing,” and “The manner in which something is governed or regulated.”

3. Although related issues, such as accountability, are treated in detail.

4. P.2, my emphasis.

5. This is a rich, well-developed field. To explore further, Sartori (1976) is the classic treatise on parties and party systems. Lijphart (1999) connects party systems to electoral rules, parliamentary regimes, and broader government performance.

6. P.6.

7. According to the authors, *usos y costumbres* “entails electing individuals to leadership positions through customary law in non-partisan elections, making decisions through participatory democracy, and monitoring compliance through a parallel (and often informal) system of law enforcement and community justice” (p. 10).

8. P.9.

9. Gupta, Stern, and Hussain (1995) and Montinola, Qian, and Weingast (1996) discuss China’s federal characteristics and their various effects.

10. Eaton *et al.* (2011) make a similar point.

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Second Generation Fiscal Federalism: Political Aspects of Decentralization and Economic Development

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Summary. — This essay contributes to second generation fiscal federalism (SGFF), which traces the implications of incentives created by political and fiscal institutions. The approach explores how various forms of fiscal federalism work in the presence of political officials who, rather than being benevolent social planners, face various forms of political incentives. The paper focuses on three sets of positive models: First, it explores self-enforcing federalism; that is, how federal systems are held together given various tendencies for federal systems to become centralized or fall apart. Second, it considers how specific political institutions, such as democracy, interact with decentralization. Finally, it studies various political impediments to economic growth, again highlighting the interaction with decentralization.

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Key words — intergovernmental relations, federalism, secession, structure, scope and performance of government, publicly provided goods, political economy

1. INTRODUCTION

Traditional approaches to fiscal federalism typically make a series of implicit political assumptions that limit its applicability as a positive model. For this reason, the literature distinguishes between two approaches to fiscal federalism. First generation fiscal federalism (FGFF) studies the performance of decentralized systems under the assumption of benevolent social planners. Second generation fiscal federalism (SGFF) builds on FGFF but also studies the fiscal and political incentives facing subnational officials.¹ The FGFF assumption of benevolent maximizers of social welfare ignores the actual goals of political officials who typically must run for election. This perspective also ignores the problem of how federal systems remain stable given the incentives of officials at the different levels to cheat on the rules; for example, by encroaching on power and prerogatives of another level. Students of SGFF study how behavior within real political institutions, such as democracy, interacts with federal institutions.

This paper adopts a SGFF perspective to address a subset of issues in the political economy of federalism, focusing on four related topics about how decentralization interacts with political institutions and incentives.² As this literature remains in the early stages, scholarship focuses on different pieces of the larger whole and does not, as yet, provide a general theory. My purpose is to pull together a few related themes in growing range of SGFF approaches to decentralization.

The first topic addresses the question, how does federalism become self-enforcing? This question explores the institutions and forces that provide incentives for political officials to honor the rules of federalism. As Riker (1964) observed, two problems pose challenges for federal stability, the centripetal forces whereby the center captures the powers of the lower jurisdictions; and fissionary forces whereby free-riding and common pool problems facing lower jurisdictions cause the federal system to fail. For example, many nominally federal countries have become highly centralized with respect to real power—including Mexico under the PRI (the Institutional Revolutionary Party that dominated Mexico from roughly 1930 through the mid-1990s; see Diaz-Cayeros, 2006) and India under the

Congress party (1950 through the late 1980s; see Roa & Singh, 2005). To remain stable, federal systems with significant policy decentralization must counteract both these forces.

Second, a related issue concerns the assignment problem. How are various policies in a federal system assigned to different levels of government in practice? FGFF has a well-developed normative theory of assignment. What explains why different federal systems assign policies in different ways? Models in the literature tend to reveal various political impediments to the efficient assignment and production of public goods. Unfortunately, students of fiscal federalism have only begun to point toward answers to these important questions.

Third, I discuss several problems involving how democracy interacts with decentralization. After observing that elections and democracy do not provide magic solutions to problems of development, I raise the issue of sequential decentralization rather than decentralization through one great leap. I next raise the problem of “tragic brilliance,” a pernicious use of decentralization by which political officials use elections in the context of decentralization to manipulate citizen behavior rather than the other way around. In many developing countries, local public goods are not administered to all citizens who can pay their bills or taxes, but instead are discretionary on the part of a highly centralized regime (Diaz-Cayeros, Magaloni, & Weingast, 2006). Specifically, the regime uses this discretion to convert democratic elections from a system of citizen choice to one controlling citizen electoral behavior. The regime does so by rewarding those districts that support it (with financing for local public goods) while punishing those which fail to support it (substantially less financing for local public goods). Because local public goods are highly valued, the threat of withdrawal if they vote for the opposition forces many citizens to support the regime.

Fourth, I raise political impediments to development and how decentralization can mitigate them. An important

* This paper draws on the author’s larger project on second generation fiscal federalism, especially (Weingast, 2009). The author thanks Jean-Paul Faguet for helpful conversations.

problem in development involves creating perpetuity, the idea that organizations and institutions are stable beyond the lives of those who create them. For example, business partnerships are finite lived (they must be dissolved or reconstituted when a partner dies); while corporations are perpetual (shares are typically inherited or sold when a shareholder dies). Most developing countries have limited or no perpetual institutions, so new leaders often alter institutions and policies to suit their purposes. An extreme version of this problem involves the predatory state, one whose leaders opportunistically change policies and institutions to extract rents from citizens. I suggest how decentralization can mitigate these problems under some circumstances. This discussion considers some normative aspects of the positive, SGFF ideas, drawing several implications for the design of decentralization. This discussion includes the idea of initiating federalism “one step ahead”—decentralization which first allows one region (such as that most likely to succeed in decentralization) to experiment with decentralization.

This paper reveals two general themes that arise from the various topics. One theme is that a wide range of incentives favor inefficient policy choice, especially the inefficient assignment and production of public goods. The other theme is centralization. The paper reveals several independent motives for political officials in the central government to centralize power, authority, and fiscal resources.

This paper proceeds as follows. Section 2 raises the issue of self-enforcing federalism. Section 3 discusses SGFF approaches to the assignment problem. Section 4 turns to problems of democracy, while Section 5 discusses how decentralization can mitigate the impediments to democracy posed by a predatory state and by the lack of perpetuity. My conclusions follow, including the theme of centralization.

2. SELF-ENFORCING FEDERALISM

How do federal states hold together? Riker (1964) and, more recently, Rodden (2006) and Stepan (2004), emphasize the *two problems of federal stability*. In some federal systems, the national government overwhelms the subnational governments, producing a centralized state. Others face intractable problems of free-riding by the subnational governments and dissolve into separate states. A federal system is *self-enforcing* when political officials at all levels of the hierarchy have incentives to honor the rules, including one another’s powers and authority. Self-enforcing federalism, therefore, requires incentives and mechanisms that mitigate or solve the two problems of federal stability.

No widely accepted theory of self-enforcing federalism exists. A large literature suggests that certain institutional features of democracy are more likely to preserve decentralization.³ The literature associates a range of institutions with stable decentralization; for example, when subnational officials are elected, in contrast to serving at the pleasure of the national government; or when the constitution designates that the subnational units have direct representation in the government (e.g., in a “senate”).

In this section, I summarize four theoretical ideas that contribute to self-enforcing federalism. The first considers the role of political parties in maintaining the federation. A host of writers follow Riker (1964) and argue that the form of the party system is essential to maintaining federalism.⁴ Some party systems allow national elites to dominate the parties; others allow local elites to dominate; and still others afford a balance of power among national and local elites. When na-

tional elites dominate parties, they are likely to force local leaders to accept (or acquiesce to) institutional changes that compromise local government powers (as in Mexico under the PRI, India under the Congress Party, or Russia under Putin). In contrast, a party system dominated by local elites is more likely to force national elites to accept subnational government common pool abuses, such as bailing out subnational deficits (as in Brazil in the late 1990s). Finally, a party system balanced between national and local elites is more likely to support decentralization, as both local and national elites guard their own prerogatives (as in the US). This perspective begs the issue of what creates different types of party systems (though see Filippov *et al.*, 2003, who argue that the electoral system generates the party system; see also Cox, 1997).⁵

No satisfying statement of the role of parties in preserving federalism exists. But the essence of the argument, I believe, can be summarized as follows. To succeed, federalism must have an integrated party system, which requires two conditions. First, politicians must have incentives to cooperate across political levels and jurisdictions in order to win elections; and second, once in office, political officials must have incentives to abide by restrictions on their power and refrain from encroaching on the powers and prerogatives of the other level. Such a system, for example, may have local politicians who rely on national brand name or reputation of their party; and national politicians, unable to create their own independent national organization to mobilize sufficient votes to capture power, who must cooperate and mobilize local political organizations in order to win national elections. In this setting, political officials across levels must cooperate with rather than attempt to take advantage of one another. This creates a vertically integrated political system.⁶

Incentives hold the federal system together. Politicians from the same party at both levels of the federation need one another to win national and local offices. Once in office, officials at each level are tempted to encroach on the powers and authority of the other. But each has countervailing incentives to resist such encroachment. The reason is that major encroachments usually create discord between levels; as the target of encroachment resists, cooperation fails. Discord and lack of cooperation between levels, in turn, gives the *opposite* party a competitive advantage in the next election. Because this outcome makes both national and local officials in the party worse off, they have incentives to forgo encroaching on the powers and prerogatives of the other level. In short, these scholars argue, federal parties are essential to the maintenance of a federal system.

This argument has some obvious missing links. For one, we know too little about how to assemble the institutions of federalism to balance these incentives in a way that holds the federation together.⁷ For another, this argument ignores the complication that politicians from the same party may be in and out of office. Thus, if party A holds power at the national level while party B holds power in most units at the lower level, might A be tempted to encroach on decentralization as a means of weakening the ability of party B to succeed in their policy goals?

In a second approach, de Figueiredo and Weingast (2005) model federalism as a repeated game with an initial constitutional period followed thereafter by the following repeated game (see also Bednar, 2009). In each stage, the federal units have opportunities to free ride; the center has the authority to police free-riding, but it may also abuse that authority by encroaching on the authority of lower governments. In the constitutional period, the federal states decide whether to create a federal unit, and if so, to create set limits on the

center's behavior on which they will coordinate against the center if ever the center violates these limits. These limits are not binding; they are instead constructed focal solutions to the coordination problem whereby the states can police the center if they react together in the repeated game to police the center's abuse of power. The model shows that, as long as the federation is sufficiently value-enhancing, an equilibrium exists in which all parties can police the federal bargain. Coordination is critical to this result, and hence the need for a constitutional moment whereby the federal units agree on how to coordinate.

Bednar, Eskridge, and Ferejohn (2001) provide an approach that complements the repeat play incentives highlighted by de Figueiredo and Weingast (2005) and Bednar (2009). The latter models involve a stable setting repeated over many periods. Bednar, Eskridge, and Ferejohn discuss the problem of adaptive efficiency (Hayek, 1960; Mittal, 2010; North, 2005); namely, adapting the Constitution to changing circumstances as ambiguities and unforeseen circumstances arise, potentially leading to disputes.

Bednar, Eskridge, and Ferejohn's approach to self-enforcing federalism centers on the role of the Supreme Court in interpreting the US Constitution; in particular, on the Court's role in policing the rules of federalism from encroachment by either the national or state governments. The Supreme Court, they argue, seeks to maintain its role as arbiter of the Constitution. It therefore has an institutional incentive to police federalism as part of its larger goal as arbiter. To succeed, the Supreme Court must provide significant value to citizens, and the Court adjusts federalism in parallel with the changing circumstances. To the extent that focal points help citizens coordinate, as in Bednar (2009) and de Figueiredo and Weingast (2005), then the Supreme Court provides value to citizens by facilitating coordination through the construction of new focal points and adapting existing ones to changing circumstances.

Inman and Rubinfeld (2011) study the important transition in South Africa from the minority white-dominated apartheid system to a democratic and federal government with a large black majority. A major problem arises in the new country because the median black voter is tempted to expropriate the whites, leading to many economic problems, such as decapitalization and the flight of highly skilled labor.

Inman and Rubinfeld argue that mixing blacks with whites in a white dominated jurisdiction limits the central government's incentives to expropriate the whites. First, whites have high human capital and are therefore low cost providers of redistributive public goods and services, such as education and health care. Second, if the center expropriates the whites, the whites will exit the public service economy (either to enter the private economy or to leave the country). Inman and Rubinfeld show under a range of plausible parameters that, if the center wants to maximize the welfare of the average black, it will want to take advantage of the white's ability to provide public services at low cost. Under these circumstances, democratic federalism is stable.

The models discussed in this section study different aspects of an important SGFF question, how is a federal system sustained given incentives by officials in different levels of government to encroach on one another's prerogatives. We know too little about this problem, and the models so far do not add up to a general theory.

3. POSITIVE MODELS OF THE ASSIGNMENT OF PUBLIC GOODS

Positive models of the assignment problem should represent a central topic in SGFF. These models attempt to parallel the

extensive normative literature on the assignment problem indicating which goods should be assigned to the different levels of government in a federal state (standard FGFF on this topic include Musgrave, 1959; Oates, 1972, 1999). Oates's (1972) famous "decentralization theorem" remains central to the FGFF approach; it holds that when differences in preferences across regions are large and spillovers are small decentralized authority over public goods is preferred. Unfortunately, the approach remains in its infancy. All of the models in the literature study special cases, and they do not add up to a general approach.

In recent years, a positive literature has begun to emerge that asks under what conditions, if any, does the decentralization theorem hold in practice (Besley & Coate, 2003; Cremer & Palfrey, 1996; Lockwood, 2002, 2008). The goal of these models is twofold: first, to explain the how assignment works in practice; and second, to evaluate whether public goods are provided efficiently. A central lesson of this literature is that introducing political mechanisms to decide on the assignment of policies leads to political biases and inefficiency.

For example, several scholars study the relationship between the distribution of preferences and the provision of public goods. Suppose there exists a significant skew in the distribution of voter preferences for public goods so that the median voter's preference lies above the mean preference. Then the median-driven majority over-provides public goods (Besley & Coate, 2003; Lockwood, 2002, 2008). In other words, majority rule fails to allocate public goods assignments in accordance with the decentralization theorem; SGFF results do not mimic those of FGFF.

In an important paper that investigates a model of political choice in a federal setting, Cremer and Palfrey (1996) provide a positive model of the assignment of public goods to different levels of government based on citizen preferences. The model abstracts from all considerations of efficiency, including differential costs of production based on local conditions or economies of scale. Citizens have the choice of voting between local production of the public good and national production. Voters vote for the level that provides them with the highest benefits, assuming that centralized provision involves uniform provision across all lower units. When lower units are homogeneous but differ markedly from one another, voters generally vote for decentralized production. Cremer and Palfrey also show that there exist cases where the lower units are heterogeneous so that most units choosing by majority choose decentralization, but a majority across all the units prefers centralization. In this case, voters choose to centralize. Their model is specialized, but provides the basis for more general positive models of the political choice of assignment.

Volden (2005) studies intergovernmental political competition in American federalism. His model suggests that competition between officials at different levels can lead to the over-production of public goods. The reason is that political officials from both levels of government, in their separate efforts to claim credit with voters, provide elements of the same public good. Efficiency in production matters as well. If one level can produce the good much more cheaply, then it dominates production and provides the efficient level of the public good. But when one level can produce the good somewhat more cheaply, both levels participate in production, leading to over-production.

Hatfield and Padro i Miquel (2012) study the relationship among the distribution of income, capital taxation, public goods provision, and investment.⁸ From the median voter's perspective, higher taxes have the prospect of more redistribution, but they also cause less investment. In other words, a

tradeoff exists between the size of the economy and the tax rate. Hatfield and Padro i Miquel (2012) then back up a stage to the const to infer the optimal degree of decentralization, which places limits on taxation and redistribution, allowing the median voter to commit to lower taxes and less redistribution.

As a final illustration, Wallis and Weingast (2012) examine the provision of infrastructure in the early 19th century US. The puzzle is that, despite the presence of large spillovers, the states provided the largest and most valuable projects. Using models of legislative choice, Wallis and Weingast show that Congress could not finance projects that provided benefits to a minority of districts while spreading the taxes over all. Although states faced the same political problems, they could use benefit taxation schemes that coordinated taxation and benefits—for example, by assessing property taxes on the basis of the increase in value due to an infrastructure investment. The US Constitution required that the federal government to allocate direct taxes on the basis of population, effectively prohibiting benefit taxation. Here, too, the SGFF results diverge from those of FGFF.

No general theory emerges from these separate models. Nonetheless, they all point in the same direction, emphasizing various political impediments to the efficient assignment and provision of public goods.

4. DEMOCRACY AND DECENTRALIZED GOVERNANCE

Democracy is perhaps the most celebrated form of governance and political accountability. Elections potentially allow citizens to influence their own destiny by choosing one set of officials instead of another. Citizens also use voting to help police their rights. As James Madison emphasized in the *Federalist Papers*, the threat of being thrown out of office provides political officials with incentives to make decisions that reflect their constituents’ interests, including honoring citizen rights (see Riker, 1982).⁹

Nonetheless, elections are not a cure-all; they do not automatically police elected officials, preserve citizen rights, and promote economic growth (Besley, 2006; Persson & Tabellini, 2000). This section discusses the interaction of decentralization and democratic governance. It suggests ways in which decentralization can strengthen democracy and ways in which centralization can weaken democracy. Before we turn to this interaction, however, we must understand some of the limits of democracy, elections in particular.

(a) Democracy’s limits

Small “d” democrats consider democracy such an attractive value that they too often fail to worry about the conditions under which it is more likely to succeed. Three aspects of democracy are critical for our analysis of democracy, one empirical and two theoretical.

Consider the empirical aspect first: Most new democracies fail, either due to coups or to “democratic set-asides” (incumbents cancel elections or refuse to step down after losing an election), especially in poor countries. Elkins, Ginsburg, and Melton (2009, p. 135) show that most new democracies fail. The average democratic constitution lasts but 16 years.

Moreover, the evidence is striking that democracy is far more likely to succeed in richer countries. Przeworski (2006) estimates that the frequency of a democracy failing each year in a country with a per capita income of less than \$1,000 per

Table 1. *Estimated probability of democratic survival by income level*
Source: Przeworski (2006, p. 314)

Income level	Estimated probability of failure per year	estimated probability of surviving 10 years
<\$1,000	.085	.41
1,000–3,000	.036	.69
3,001–6,055	.016	.85
>6,055	.00	1.00

Przeworski’s income figures are in 1985 purchasing parity dollars.

year is .085 or one in twelve (see Table 1); with a per capita income of \$3,001–6,055, it is .016 or one in sixty-one; while no democracy with a per capita income of greater than \$6,055 has failed.¹⁰ Put another way, the table also shows that a democracy in the poorest category has only a .41 chance of remaining a democracy one decade later; in the \$1,000–3,000 category, the probability is .70; in \$3,001–6,055, .86, and 1.00 for the highest income category.

The first theoretical aspect of democracy reflects the costs of democracy. This idea sometimes comes as a surprise, in part because scholars and policymakers focus on the benefits of democracy. Indeed, democracy has costs and can pose dangers to citizens. Elections empower governments to tax, regulate business, define property rights, and jail people. All these powers can be abused, as tyranny of the majority suggests. And even if not abused, these powers may impose sufficiently large costs that some citizens support extra-constitutional action and violence as a means of defending themselves.

The dangers of democracy are difficult for people in the developed west to understand because democracy in these countries allows citizens to determine their own destiny. But democracy in developed countries is embedded in a series of institutions and norms that complement elections by placing striking limits on government policymaking and therefore protecting citizens from many potential abuses. Courts and other institutions, for example, enforce a wide range of citizen rights; and elaborate procedures constrain the range of feasible policies. Indeed, the importance of legal systems in the developed west capable of upholding citizen rights against the government demonstrates that elections alone cannot sustain citizen rights. Yet democracy in the developing context typically lacks these complementary institutions that help sustain it.

The second theoretical aspect of democracy also concerns the costs of democracy. Specifically, all successful democracies satisfy the *limit condition*, namely, that various institutions and incentives limit the stakes of power by restricting the scope of policy authority of elected representatives (Mittal & Weingast, 2013). Successful democracies limit the stakes of power through the constitution and other institutions that protect a range of citizen rights and other aspects of the status quo. Events in Chile reveal the centrality of the limit condition, where in 1973 the legitimately elected government threatened landowners and others on the political right, leading them to support a bloody coup. When citizens believe they are protected under the system, they are far less likely to support extra-constitutional action, such as coups. Democracies that satisfy the limit condition are therefore more stable.

The absence of the limit condition in the developing context reveals a critical difficulty with sustaining democracy in the poorest and under-institutionalized countries—these states face grave difficulties maintaining institutions that satisfy the limit condition.

(b) *Limited vs. open access orders*

The single biggest element missing from the economic approaches to development is the problem of violence (Cox, North, & Weingast, 2011).¹¹ Such theories fail to take into account the systematic threat of violence. Violence is common, if episodic, in virtually all developing countries. To the extent that developing countries maintain peace for extended periods, they do so by taking great pains to limit violence.

Before we turn to how developing countries limit violence, we need a distinction between limited and open access. In *limited access*, only some individuals and groups can form organizations. These societies therefore limit the size and scope of their civil society. In *open access*, a society allows all individuals and groups to form organizations that can access support for organizations (such as contract law, corporate form, etc.). As North *et al.* (2009) show, almost all developing countries are limited access societies whereas the developed ones are open access.

Unfortunately, the means by which developing countries limit violence typically hinder development. In most developing countries, access to violence is distributed. The state rarely has a monopoly on violence. In this circumstance, creating peace and order requires that those with access to violence believe themselves better off cooperating than fighting. To create these conditions, these countries grant various forms of privileges to the powerful so that they value peace over attempting to use force to capture benefits. But granting privileges to factions with access to violence necessarily limits access. Moreover, attempts to create open access in such societies lead to many problems. First, open access conflicts with granting privileges to powerful groups—new organizations can compete with those supporting privileges to the powerful. Second, open access allows an opposition to organize and contest power, again threatening the privileges of those with access to violence.

A further aspect of using privileges to prevent violence is that agreements to create privileges and peace break down with some frequency. The reason follows North's (1981) emphasis on changing "relative prices," the omnipresent changes in various parameters underlying a society's equilibrium, including large swings in prices (e.g., for a country's primary products or inputs), weather disasters, demographic events, technological change, and so on. Each of these changes affects the relative power of various groups, often in asymmetric ways. When groups gain sufficient power, they are likely to demand greater benefits. Asymmetric information in this setting—for example, about the relative changes in power—plagues the peaceful renegotiation of agreements, potentially resulting in violence.

This perspective has an important implication for decentralization. To the extent that the national government in developing countries allocates resources and creates privileges in proportion to violence potential, then centralization of policy authority has significant political advantages. In this context, decentralization had disadvantages because it lowers the discretion of officials at the national level to manipulate policies so as to prevent violence.

Developing countries have two additional problems not widely recognized but which dramatically affect their performance. Both problems involve the relative inability of developing countries to make credible commitments, whether to institutions or to policies. The first aspect of credible commitments involves perpetuity. An organization or institution is *perpetual* if its existence does not depend on the individuals who created it. A business partnership is not perpetual because it must be dissolved or reorganized on the death of any partner. A corporation, in contrast, is perpetual; its shares may be

sold and inherited, so its existence has the potential to live beyond the lives of the individuals who create it.

The same concept applies to political institutions, including the constitution. A society that can create credible commitments to its constitution creates perpetual institutions that live beyond those who create them. Not only do today's political officials have incentives to honor them, but so too do tomorrow's. Similarly, a society without perpetual institutions means that tomorrow's leaders can alter the institutions to suit their purposes. In particular, institutions to control moral hazard by the executive are weaker or absent in countries lacking perpetuity.¹²

Most developing countries lack the ability to create credible commitments that endow their institutions with perpetuity (North *et al.*, 2009, chap. 2). The personal basis of limited access orders means that benefits flow to those who can disrupt the regime, for example labor unions through debilitating strikes or the military through coups. If such benefit-flows fail to occur, these groups use their ability to disrupt to gain more benefits.¹³ The threat of powerful groups in developing countries to create various forms of disorder and violence makes credible commitments difficult. The reason is that, as the identity of those with power to disrupt changes over time, so too must benefit-flows.

The lack of perpetuity means that new leaders can engineer major changes in political institutions almost at will. Needless to say, institutions are far less constraining in such regimes, including the ability to respect rights. Executive re-engineering of political institutions to suit their interests and remove constraints is relatively common in the developing world. Consider President Vladimir Putin's re-engineering of Russian institutions after his takeover from President Boris Yeltsin; President Hugo Chavez's institutional changes in Venezuela; Pinochet's in Chile following his coup in 1973; or, to mention a far more notorious one, Adolph Hitler's transformation of Weimar into Nazi Germany.

The main implication of the absence of perpetual institutions is that today's policies are highly vulnerable, especially to changes in leadership. The lack of credible commitments means an absence of rights that economic agents can count on. Threats of the outbreak of violence means some contracts creating value will not be written because they make one or both parties vulnerable in the event of violence.

(c) *Democracy and decentralization*

Democracy interacts with decentralization in a wide variety of ways. First, an odd feature of the promotion of democracy around the world is that these efforts nearly always focus on the national government. The absence of the limit condition and of a wide range of perpetual institutions to protect citizen rights implies that national elections create great risks and potential instability for citizens. Legitimately elected officials, acting within the political rules (given the relative absence of institutional constraints) can threaten various groups with legal confiscation of property and sources of income. In the presence of such threats, those threatened will support extra-constitutional action, such as coups and democratic set-asides. National democracy without the limit condition is likely to be unstable.

Second, democracy without the limit condition often conflicts with the need for most developing countries to sustain peace by distributing privileges to the powerful. As the median voter typically loses from these privileges, the logic of median-driven democracy directly conflicts with these privileges. Put another way, privileges often conflict with the goals of democracy—letting the people decide their fate. For this reason, creating stable

democracies in developing countries is more problematic than democrats acknowledge.

A special case of this problem arises in developing countries that need to use privileges to give those with access to violence the incentive to cooperate and maintain peace. Peace and order in these settings require that elected officials must have incentives to preserve the bargains that grant privileges to those with access to violence. Democracy that fails to impose various substantive and procedural limits to protect privileges is more likely to fail. Post-Mubarak Egypt has just this problem. The military has power and says it will help initiate democracy. But the military under President Mubarak was highly privileged, involved by some accounts in a third of the economy. Democracy that threatens such privileges (or that fails to compensate the military in some way), is therefore problematic. Indeed, because of the threat to the military's privileges, it is not clear at all that the military will make good on its promise to initiate democracy.

A final problem concerning democratization that focuses on the national level involves an issue discussed in the section, namely the role of parties in sustaining federalism. To the extent that the cooperation of political parties at the national and local levels helps sustain decentralization, democratization that focuses on the national level is likely to lead to greater centralization than democratization that emphasizes both national and local elections in the context of decentralized power over policymaking.

What is to be done? An alternative strategy is to initiate democracy at the local rather than the national level. Building democracy from the bottom up greatly reduces the risk, in part because subnational governments have less policy authority.¹⁴

Building democracy through decentralization has several advantages. First, a sequential program for democratization that begins at the local level is therefore an alternative to initiating unstable democracy at the national level. Once successful political competition emerges at this level, steps can be taken to open national politics to the democratic competition. Moreover, whereas most authoritarian regimes are unwilling to initiate full national democracy, these regimes may find a strategy of sequential democratization more attractive since initiating local democracy is less threatening.

Importantly, one of the most stable new democracies, Taiwan, made the transition to democracy through a series of steps that began at the local level and slowly built up to democracy at the national level (Diamond & Myers, 2001). Taiwan's sequential strategy has created a stable, modern democracy.

Hiskey (2006) and Thomson (n.d.) provide a variant on the theme of sequential democratization by suggesting that special districts provide an important way to initiate democracy in authoritarian regimes without a wholesale devolution of power or local democratization: "the creation of special districts that encompass multiple localities can provide a much needed 'training grounds for self-governance short of wholesale devolution of power and authority to all general purpose [Local Government Units] in a given country, the scale of the change is usually less extensive and more focused as regards special districts'" (Hiskey, 2006, p. 22, quoting Thomson *et al.*, 2004, p. ix).

Second, decentralization contributes to the limit condition in another way that involves party politics. In a centralized country, losing a national election is very costly to the incumbent and its supporters. Incumbents therefore have incentives to hold onto power despite losing. In the absence of the limit condition, it may simply be too costly to give up power.

In a decentralized state, however, losers can typically maintain a local power base from which to remain politically visible and to provide some benefits to their constituents. Local political strongholds also provide a base from which this party can

launch a future attempt to recapture national power. By lowering the stakes of power, decentralization makes it more likely that losers of national elections will give up power. Lower stakes also reduces the probability that challengers who lose elections will fight rather than accept their loss.

Third, a growing literature studies the relationship between decentralization and conflict in divided societies; that is, states with ethnic, cultural, or linguistic differences.¹⁵ In some cases, decentralizing authority to regions with more homogeneous populations allows these groups to live in harmony within a larger state, which seems to play a role in "holding together" Belgium, India, Spain, and the Netherlands (Lijphart, 1975; Stepan, 2004). The same held for the early US, where decentralization of some of the most divisive issues—such as slavery—allowed Americans to maintain their country united for three generations prior to the Civil War. Decentralization has also seemed to mitigate conflict in Indonesia and the Philippines. Inman and Rubinfeld (2011) argue that decentralization was essential to the democratic transition in South Africa. Whites were willing to promote the transition because decentralization provided sufficient security to them.

In contrast, decentralization sometimes exacerbates conflict in divided societies (Snyder, 2000; Treisman, 2007, chap. 10). Eaton (2006), for example, argues that decentralization in Colombia exacerbated its conflict because the control of local governments provided the different groups with resources and authority useful for fighting. The bottom line is that we know too little about whether decentralization—or under what circumstances in combination with which specific forms of decentralization—helps mitigate conflict.

Finally, Myerson (2006) argues that decentralization adds to the success of democracy in another way; namely, to help incubate candidates for national office. Subnational office allows officials to gain experience and reputation. Decentralization therefore provides national voters with more information about the candidates, and they can pick for national leaders those who have been especially successful at the subnational level.

(d) *Tragic brilliance: How insecure governments use centralized fiscal control to undermine elections*

Democracy has other potential liabilities that arise from decentralization in the developing context. In what follows, I summarize the "tragic brilliance" mechanism used by an authoritarian or weak democratic regime that allows the government to pervert elections so they serve as a mechanism of social control rather than citizen choice (Diaz-Cayeros, Magaloni, & Weingast, 2005).

As noted, democracy in the developed west satisfies the limit condition—these countries impose credible limits on what democratically elected representatives may do (Mittal & Weingast, 2013). Citizens enjoy a wide range of rights and public goods and services by virtue of citizenship, not based on a political relationship with those in power. In particular, standard local public services—such as water, electricity, education, sewage, garbage, and road maintenance—do not depend on whom an individual or a locality votes for.

Elections in many authoritarian and weak democratic regimes often differ dramatically from this ideal. In Mexico under the PRI—the Institutional Revolutionary Party that virtually monopolized power from 1930 through the early 1990s—elections served a very different purpose than citizen choice. Although Mexico has long been a federal system, the PRI engineered a very centralized one (Diaz-Cayeros, 2006), where the central government raises most of the revenue and finances most state and local expenditures through transfers.

In the 1980s, the average local government received over 80% of its revenue from higher governments.¹⁶

Although this pattern of revenue generation and spending conforms to that recommended by FGFF, its purpose was not to further citizen welfare. Instead, the PRI used its discretion over revenue to threaten localities who supported the opposition by withdrawing funds to finance local governments. Most local services require substantial revenue. The threat to withdraw revenue forced opposition-favoring citizens to face a dilemma: voting for the opposition meant a far smaller level of public services. This credible threat causes most moderate opposition-leaning voters to support the PRI. Revenue centralization thus afforded the PRI the discretion to force most voters to support it at the polls, even voters who preferred the opposition.

As evidence, the case study literature shows that when the first two cities, Ciudad Juarez and Chihuahua, voted in the opposition in 1983, the cities lost on the order of half their budgets (Rodriguez, 1995; Rodriguez & Ward, 1995). Similarly, in a study of approximately 1,800 of 2,400 Mexican municipalities from a more recent period, Diaz-Cayeros *et al.* (2005) provide econometric evidence showing that municipalities that supported the opposition received on average one-quarter less revenue.

Land reform in Mexico reveals another aspect of the tragic brilliance mechanism: reform policies often fail by design. Economists demonstrate that significant increases in the equity of land distribution improve both economic growth and income equality (Alesina & Rodrik, 1994), but this has not been the case in Mexico. Diaz-Cayeros *et al.* (2006) show that the central government designed land reform in Mexico to create political dependence. Peasants receiving land did so as communities rather than as individuals. Until recently, peasants could not sell, lease, or use the land as collateral. These policies created agricultural collectivities that were closer in spirit to the soviet collective farms than to the types of land reform that increased economic growth in Japan, Korea, and Taiwan (Alesina & Rodrik, 1994), where private property right systems created far more efficient land use.

Mexican land reform produced marginal farms, and a great many of the collectivities required subsidies in the form of water, seeds, and fertilizer to provide a living. The subsidies, in turn, created political dependence: as long as the farms remained marginal, the farmers had to support the PRI to maintain their subsidies.

The tragic brilliant mechanism represents the pathology of both democracy and decentralization. It is tragic because it forces opposition-leaning citizens to play an active role in maintaining a regime that they would rather replace; but also brilliant in that authoritarians use their policy discretion to create political dependence and subservience while providing the outward veneer of elections, choice, and democracy.

The tragic brilliance mechanism reveals a political motivation for why regimes in developing countries centralize policy and taxation authority in comparison with developed ones.¹⁷ Wholly apart from administrative efficiencies and fiscal equity, centralization affords insecure political regimes with political leverage over lower governments and citizens. By making the delivery of basic local public goods and services depend on whom citizens vote for, the incumbent regime at once restricts citizens ability to throw the rascals out, to exercise fiscal autonomy, and to influence public policies.¹⁸

The main lesson is that, for democracy to serve as a mechanism of freedom and choice, it must be embedded in institutions that constrain the government's use of discretionary fiscal authority to threaten voters who vote for the opposition. Preventing the operation of the tragic brilliance mechanism

therefore presents another SGFF rationale for decentralizing fiscal authority. Independent taxation authority allows local governments not only a fiscal interest in fostering local economic prosperity, but also a much greater degree of independence from a controlling (and potentially predatory) center.

5. IMPLICATIONS FOR DESIGN OF DECENTRALIZATION

Thus far, this paper has concentrated largely on positive issues associated with SGFF. It now turns to normative ones raised by the various discussions of potential problems associated with implementing or sustaining federalism. In this section, I consider several strategies for implementing decentralization, especially in the presence of predatory governments.

(a) *Political impediments to successful decentralization*

Predatory central governments are a problem throughout the developing world, and these governments hinder the operation of an otherwise well-designed federal system (see, e.g., Dixit, 2004; Shleifer & Vishny, 1998). A predatory central government that faces relatively few constraints on its behavior can reverse or compromise any and all of the benefits of decentralization. No magic cures exist for this problem. Further, even a developing country government that is not predatory is likely to lack perpetuity and other forms of credible commitments.

A common and yet insidious form of predation perverts the logic of innovation and competition in a local government exhibiting policy independence. Suppose a particular subnational government creates a thriving local economy that stands out in comparison with other regions. A predatory central government may well expropriate the value of successful firms. Moreover, this economic success potentially provides local political officials with a resource and political base with which to challenge national leaders, either to extract greater concessions or freedoms; or to challenge their leadership. Predatory or insecure central governments therefore have incentives to prevent local governments from succeeding. National leaders of predatory states may therefore use their powers to reduce or remove the authority of the local government; they can expropriate control of all successful enterprises; or they can take over the local government and reverse its policies. Crook and Manor (1998) provide an instructive example of how the dominant Congress party in India dismantled the successful opposition Janata Party's ruling of the state of Karnataka in the 1980s. But it is easy to see that local jurisdictional independence is highly unlikely in a great many developing countries. Mubarak's Egypt, Castro's Cuba, Qaddafi's Libya, Saddam Hussein's Iraq, present-day Iran, the PRI-dominated Mexico, and many others show that many rulers throughout the developing world countenance little local political and fiscal independence.

The economic side of this problem is even worse. Predatory governments often expropriate the value of new enterprises, especially ones not politically connected to the dominant coalition in power. The risk of a predatory reaction by the central government feeds back into the local economy, making it less likely that economic agents will make investments that can be expropriated even if these would be profitable under the local government's policies. It may well be that truly predatory governments have little hope of reform.

Furthermore, underlying the predatory government problem is a commitment issue. Reform-minded governments may create a new policy allowing entrepreneurs to make profitable investments, but they cannot commit to honoring that

policy. Economic agents are therefore reluctant to make investments even if they are profitable under the new law, fearing that the government will not honor the law or will revise it ex post in a manner unfavorable to them.

As noted at the outset, similar problems arise in non-predatory governments that lack perpetuity. The inability to bind today's rulers and their successors to institutions and policies means that even reform-minded governments cannot guarantee that their policies and institutions will survive their tenure in power. This source of political risk lowers the expected returns from investment.

(b) *Decentralization as a means to overcome predation*

China's successful creation of market-preserving federalism in the 1980s suggests one way around the commitment problems involving a predatory and hence non-perpetual government. SGFF logic emphasizes that, to be sustained, FGFF's normatively attractive form of federalism requires institutional limits that provide some form of credible commitment by the central government to honor the rules of the federal system. Whether by design of happenstance, China's reform-minded leaders accomplished this condition in two ways. The first and perhaps more important was fiscal; the second was unintended.

Communist China had a long history of anti-market policies, mass murder, and other forms of predation. This predatory behavior strongly impeded market reform, investment, and economic growth. Economic agents had no reason to believe that such a government would honor economic reform policies rather than, at some point down the road, reverse itself and punish those successful under reform. Communist China under Mao exhibited several massive policy reversals with exactly that type of punishment; notably, in the Great Leap Forward and in the Cultural Revolution.

This form of political risk meant that economic reform in the post-Mao era had, somehow, to limit the arbitrary authority of the central government.¹⁹ China's strategy in promoting economic reform was decentralization consistent with fiscal federalism; the central government devolved economic policy-making (policy authority condition) and fiscal authority (including the hard budget constraint) to the provinces (Montinola, Qian, & Weingast, 1995; Oi, 1992; Shirk, 1993). This new policy authority allowed the reform-oriented provinces to switch from socialist policies to pro-market ones. Provinces also faced strong fiscal incentives to promote reform under what the Chinese called the "fiscal contracting system," 1981–92 (see Oksenberg & Tong, 1991). Under this system, most provinces raised their own tax revenue under a fiscal contract with the central government. Many contracts took the following form: the province shared 50% of all revenue raised up to a specified revenue level with the central government and then the province to retain 100% of all revenue beyond that level. The average province faced a marginal tax retention rate of 89%; and 68% of all provinces faced a marginal retention rate of 100% (Jin, Qian, & Weingast, 2005). Reflecting strong fiscal incentives to promote reform, many provinces quickly grew rich as their economies mushroomed.²⁰

Per SGFF logic, as the reforms succeeded, fiscal authority granted the provinces both the incentive and political power to act independently of the central government. The fiscal incentives also had strong political effects on constraining the central government. Because most provinces benefitted from, had significant investment in, and grew rich from the fiscal system, they had the political power to counterbalance the central government. For example, a conservative reaction against reform followed the suppression of the protests in Tiananmen Square in

1989. Provincial leaders—in particular, the governor of the most successful reform province, Guangdong—used this power to prevent the proposed anti-reform reaction (Shirk, 1993, pp. 194–95; see also Montinola *et al.*, 1995).

A second mechanism arose to raise the costs to the central government of an anti-reform, anti-market reaction, although this one was not by design. An important aspect of Chinese economic reform is the floating labor population, workers from the interior who come to the coastal reform provinces to work. These laborers could not become local citizens but instead worked under a system of limited rights—effectively an intra-China guest worker system (Solinger, 1999). Host provinces retain the right to send these laborers back to their home provinces. This labor population is now huge—well over 100 million workers.

The existence of a huge floating labor system has a striking political implication: the most likely response to an anti-reform reaction by the central government is for the reform provinces to kick out many or most of the floating laborers. This means that 10s of millions of people—perhaps approaching 100 million—would instantly become a problem for the central government: how would they be fed, clothed, and housed? Because hungry people can topple governments, this potential reaction represents a significant hurdle before political leaders who might be tempted to impose an anti-market reaction to economic reform.

The main implications are twofold. First, although China's devolution of power to the provinces at the inception of economic reform was discretionary, the reform's success created strong power centers in the provinces that counterbalanced the center's discretion.

Second, the Chinese case has important lessons for the design of decentralization in poor countries traditionally plagued by predatory or under-institutionalized governments. One circumstance is a fiscal or other crisis. A crisis often means that the current government coalition cannot be sustained. As donor agencies have long known, such governments are often willing to exchange reform for aid. Imposing economic reforms without parallel political reforms leaves the political system in a position to undermine or sabotage economic reform. The alternative to imposing liberal reform alone is to combine policy reform with institutional reform that promotes decentralization. But as noted, not all decentralizations are equal, and many will only worsen economic performance. To succeed, decentralization must devolve real policy and fiscal authority to subnational governments.

(c) *Decentralizing one step ahead*

The Chinese case suggests another important strategy for implementing top-down decentralization. Many developing countries face strong resistance to decentralization, in part because it involves change and not everyone benefits from that change. Others may be uncertain about whether benefits will truly emerge from decentralization, for example because local governments currently exhibit little competence or are highly corrupt. Indeed, poorly designed decentralization has made things worse for a large majority in some countries; for example, due to soft budget constraints or to mismatches in responsibility and resources for subnational governments.

In many developing countries, an across-the-board decentralization may therefore be problematic. The political and economic situation of some localities is such that greater freedom will result not in greater responsiveness to local citizen welfare, but instead greater authority and resources allow

local officials to create a larger scope for the system of local rents and corruption (Haggard & Webb, 2004).

Decentralization in a series of steps provides an alternative to across-the-board decentralization. The idea is first to identify one (or a small number of) province or region that is most likely to succeed in fostering local economic growth; and then to design decentralization so that this province obtains new authority, incentives, and resources to reform “one step ahead,” to use the Chinese term. The purpose of this strategy is to create a demonstration effect that decentralization can work in this country.

The Chinese successfully employed this strategy, allowing Guangdong Province to reform one step ahead. Many other provinces were skeptical of reform, and used their increased powers to maintain or even reinforce the traditional system. But Guangdong’s quick success won converts around the country, and even some of the most traditional provinces embraced reform. For example, Heilongjiang Province reacted to Guangdong’s market reforms by increasing the standard subsidies of the socialist system. Yet Guangdong’s reforms lowered the market prices of the same goods below the subsidized price. Because Heilongjiang accomplished the same result at great fiscal cost, fiscal incentives led its leaders to dismantle their expensive subsidies and imitate Guangdong (see Montinola *et al.*, 1995).

A similar, one step ahead strategy has emerged in a de facto way in Mexico with the areas seeking to integrate with the US economy, and to a lesser degree, in India. In Mexico, the center actively sought to discourage this independent movement from below (as we illustrated above in the discussion of the tragic brilliance mechanism), but could not prevent it. Many of the export-localities wrestled political control from the dominant party, the PRI, in order to improve the delivery of local services necessary to foster the light export industry developing in Northern Mexico.

Although the central authorities punished these areas with a marked decline in revenue transfers, the localities made up the revenue deficit by removing corruption—the PRI used their control of local utilities to pad the labor budget by mailing money to supporters throughout Mexico—and by charging user fees for improved local services (Rodriguez, 1995 and Rodriguez & Ward, 1995). As Rodriguez (1995, p. 166) suggests, “Over the course of only a few years, the ratio of state to local revenues... changed from around 70% state funding to over 70% local funding.” Citizens and firms willingly paid user fees for reliable, valued services, such as solid waste disposal, water, and road maintenance.

Part of the reason this system works is the high local demand for more efficient services necessary to integrate the economy with the US. The success of the first two municipalities to attempt this strategy, Ciudad Juarez and Chihuahua in 1983, created the demonstration effect. By the mid-1990s, most of the larger cities in Mexico were governed by the opposition.

6. CONCLUSIONS

This essay surveys a range of new SGFF research, focusing on a set of related topics involving political decentralization. The hallmark of second generation models is that they trace the implications of incentives created by political and fiscal institutions. This work provides a series of natural extensions of first generation models. FGFF models assume policy choice by benevolent social planners. The normative component of SGFF models studies how to devise political and fiscal institutions to align the incentives of political officials with citizens so as to approximate the FGFF idea.

This paper uses SGFF approaches to study several related questions involving the political economy of fiscal federalism relevant for traditional issues in fiscal federalism. How do various forms of fiscal federalism work in the presence of political officials who, rather than being benevolent social planners, face various forms of political incentives?

The paper discusses four sets of positive models. It begins with theoretical approaches to self-enforcing federalism, that is, to the question of how federal systems are held together given various tendencies for federal systems to become centralized or fall apart. This discussion highlights the role of political parties and of coordination by subnational governments against the center when the center encroaches on their powers. Nonetheless, not all federal systems are stable: some become centralized states (such as Mexico and India) while others fall apart (as in the US under the Articles of Confederation or Yugoslavia after the collapse of socialism).

The next topic concerns positive models of the assignment problem. In contrast to the huge FGFF literature on, we have only a handful of recent models attempting to explain how governments allocate authority over public goods provisions in practice. These models generally exhibit political impediments to the efficient assignment of authority.

The paper then turns to the issue of how specific types of political institutions, such as democracy, interact with decentralized systems. This section reveals several problems with sustaining democracy in developing countries and then shows how decentralization can mitigate some of them. This section also discusses the tragic brilliance model, which shows how an authoritarian central government can manipulate the fiscal system to bind citizens who oppose it to take actions in support of the government.

Finally, the paper studies various forms of political impediments to economic growth, again highlighting the interaction with decentralization. In particular, this section discusses normative issues showing how decentralization has the potential to overcome political predation. It also presents some suggestions about how to implement decentralization in an environment of some or considerable political opposition to federalism. In short, SGFF approaches do not completely dispense with normative issues. Rather, they raise new ones of equal interest to those studied in FGFF.

Two general themes emerge from this paper. First, each of the discussions reveal various political impediments to the efficient provision of public goods in the context of developing countries.

Second, various political forces promote centralization in developing countries. As discussed in Section 4, developing countries with distributed violence potential use policies and privileges to create rents that go to the powerful so that they have an incentive to cooperate rather than fight. Decentralization limits the ability of the center to distribute rents and thus makes the country more vulnerable to violence. Political officials at the central government level therefore have incentives to centralize. To the extent that FGFF models of taxation correctly show that the central government can tax more efficiently than subnational governments, the central government has both greater fiscal power than subnational governments as well as the ability to buyout subnational government officials in support of centralization (see Diaz-Cayeros, 2006 showing how this happened in post-WWII Mexico). Section 4 discussed how international efforts to promote democracy tend to focus largely on the government. The absence of attention to the subnational governments implicitly promotes centralization. Democratization of this form therefore raises the stakes of national politics, so it fails the limit condition and is less stable. Finally, the tragic brilliance mechanism also fosters centralization: the larger the

discretionary resources available to the center, the greater the center's ability to manipulate citizens to support it. In sum, sev-

eral separate sources of political incentives favor centralization in the context of developing countries.

NOTES

1. Oates (2005) and Weingast (2009) provide surveys of SGFF ideas, although many SGFF ideas have a long history (see, e.g., Brennan & Buchanan, 1980; Inman & Rubinfeld, 1997a, 1997b; Wicksell, 1896). As Hatfield (2006) puts it, "Economic policy is not decided by benevolent social planners, but by government officials, usually with at least one eye to their reelection prospects".
2. Weingast (2009) focuses on applications of SGFF to fiscal issues.
3. Bland (2006) surveys this literature. See also Dillinger and Webb (1999), Garman, Haggard, and Willis (2000), and Stepan (2004).
4. See, for example, Filippov, Ordeshook, and Shvetsova (2003), Chhibber and Kollman (2004), Dillinger and Webb (1999), Enikolopov and Zhuravskaya (2002), Garman *et al.* (2000), Rodden (2006), Rodden and Wibbles (2002), and Tommasi, Jones, and Sanguinetti (2000). Volden (2004) traces the evolution of Riker's views on federalism.
5. Bednar (2009) and de Figueiredo and Weingast (2005) provide game theory models to study institutionalized autonomy, emphasizing the importance of states and the center using trigger strategies to police one another. Bednar emphasizes the importance of the center's policing the states, for example, with respect to the common market constraint. De Figueiredo and Weingast emphasize a balance between the center's policing the states and the states' collective ability to police the center from abusing its authority. Madison referred to this latter mechanism in Federalist 46, where he noted that potential abuses by the center would sound the alarm among the states and cause them to react in concert to prevent center abuse.
6. Standard works on the formation of party politics in India reflect this logic; see e.g., Weiner (1967).
7. Filippov *et al.* (2003) further argue that national electoral rules directly affect the degree of cooperation in federal systems. Some rules are more conducive to cooperation than others.
8. Koethenbueger and Lockwood (2010) provide a related work.
9. Riker (1982) provides a systematic analysis of these two aspects of democracy, emphasizing the importance of the second. Persson and Tabellini (2000) provide the most comprehensive analysis of electoral incentives, accountability, and responsiveness of electoral and political institutions; see also Besley (2006).
10. Przeworski's figures are in 1985 purchasing parity dollars. Moreover, for several reasons, these estimates should be taken as indicative. The data are necessarily derived from post-WWII history, so there is no event like the Great Depression in whose wake many democracies failed.
11. This subsection draws on North, Wallis, and Weingast (2009) and North, Wallis, Webb, and Weingast (2012).
12. Besley (2006) and Persson and Tabellini (2000) study the control of executive moral hazard, showing that the absence of constraints is inefficient.
13. Consider some of the sources of violence in Mexico, which has been relatively coup-free in comparison with the rest of Latin America. Labor unions have the power to disrupt; and have at times disrupted states attempting policies that unions dislike. Poor peasants have revolted at times (for example, in Chiapas). The state owned oil company, PEMEX, has what amounts to a private army, limiting the ability to reform this institution. Most recently, drug lords pose a new threat of violence.
14. Other prominent works considering the sequencing of democratization include Falleti (2005, pp. 52–60) and Linz and Stepan (1992), Linz and Stepan (1996, chap. 6).
15. Siegle (2006) and Treisman (2007, chap. 10) survey this literature.
16. Some of the transfers were by formula, but a large portion of it was discretionary, especially for local governments (Careaga & Weingast, 2003).
17. Indeed, in a classic study, Oates (1985) showed that poorer countries are on average more centralized than richer ones. North *et al.* (2009, table 1.4) provide similar evidence.
18. This discussion analyzes the tragic brilliance mechanism from the standpoint of democracy. But the tragic brilliance can also be analyzed as a patron-clientele exchange system in other regime types. The discussion above emphasized one side of this exchange, elections as a means of political control. The other side of this coin, however, is that, the mechanism requires that patrons deliver the goods. Seen in this light, the mechanism is a partially reciprocal one, if asymmetrical. The mechanism can therefore be interpreted as the means by which both sides of the patron-clientele relationship make a credible commitment to the exchange (see, for example, Chabal and Daloz's, 1999 study of patron-client relations in Africa). The new insight of the tragic brilliance approach is that patrons can create relationships with clientele even if the latter are worse off on average from the relationship.
19. The exercise of arbitrary power was the focus of many early modern theorists studying the dilemma's facing their societies as they were developing (e.g., 17th century England); including Harrington (1656), Locke (1689), and Montesquieu (1748).
20. The Chinese system is based on provincial revenue collection. The more common centralized revenue collection systems can use the same type of arrangements by keeping track of revenue collection by province.

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The Politics of Federalism in Argentina and its Implications for Governance and Accountability

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Summary. — This paper contributes to an agenda that views the effects of federalism and decentralization as dependent on the incentives of national and subnational political actors. It studies the mechanisms by which subnational actors affect decisions at the central level, in the context of a highly decentralized middle-income democracy, Argentina. In this federal country, provincial actors and concerns weigh heavily on national decisions. Most Argentine provinces are dominated by entrenched elites, with limited political competition, weak division of powers, and clientelistic political linkages. Provincial dominance and national relevance reinforce each other, dragging Argentine politics toward the practices and features of its most background regions.

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Key words — federalism, decentralization, governance, accountability, institutions, Argentina

1. INTRODUCTION

This volume is centrally concerned with the effects of decentralization on governance and accountability. In our view, in order to understand those effects it is necessary to have a diagnostic of the “general equilibrium” workings of political incentives across the different tiers of government, and to study the effect of a particular “decentralizing” change in the context of that broader set of incentives of national and subnational actors. The structure of incentives in a federation (including the degree of “decentralization” in its various meanings) will determine the behavior of political actors and hence the performance of the system both at the local and the central level.

In this paper we provide such an assessment of the workings of federalism and decentralization in one country, Argentina, with a focus on the incentives of the main political actors, the institutional sources of those incentives, and their effects on governance and accountability.¹ Since Argentina is one of the most decentralized countries in the world, our analysis of the Argentine case serves the purpose of showing the workings of one decentralized polity, identifying a number of pathologies that might serve as a warning for decentralizing efforts in the developing world. Our treatment of the Argentine case highlights the effects of subnational political incentives on the overall workings of the federation.²

Political and academic interest in federalism has grown a great deal in recent years. Federal institutional designs have become more prominent due to trends such as the third wave of democratization, decentralization in developing countries, European unification, post-Soviet boundary redefinition in Eastern Europe, and state-building efforts in progress in post-conflict countries. This renewed real world interest in federalism has been accompanied by various waves of academic research.³ Scholarly appraisals of the nature, origins, and effects of federalism are changing.

A first wave of modern studies, inspired in part by the experience of American federalism, tended to emphasize a

dichotomous contrast between federal and unitary systems and to portray federal institutions mainly as growth-promoting, redistribution-restraining political arrangements which facilitate democracy in large diverse polities.⁴ More recent analyses, building upon the findings of comparative studies, relax the stark distinction between federal and unitary systems (Rodden, 2004), underscore the differences across federations (Rodden, 2006b; Stepan, 2004) and question the portrayal of federalism as an always-effective tool for economic growth, obstacle to progressive redistribution, or democracy-enhancing institutional design.⁵ In this more recent perspective, the effects of decentralization upon development, equity, and the quality of democracy would depend on its interaction with underlying social, constitutional, and partisan conditions.

The new literature has moved from the classical normative roots of “fiscal federalism” in economics and of “federalism and democracy” in political science,⁶ both of which tended to build from models of a clear delineation of authority and programs among the levels of government, to more nuanced views that recognize that in most real world cases there is a mixing of authority and programs across levels of government (from “layer cake federalism” to “marble cake federalism”). The literature has come to recognize that the way these interactions develop, and hence the way federalism impacts on the outcomes of interest, depends crucially on political incentives, especially the incentives of professional politicians.⁷ As a result, it places much greater emphasis on political incentive structures like political party systems, legislative organization, and electoral rules. In looking at the determinants of these incentives, it is

* We thank the editor Jean-Paul Faguet and three anonymous reviewers for valuable comments, and Fernando Cafferata, Victoria Paniagua, and Guadalupe Tuñón for excellent research assistance. The information and opinions presented in this document are entirely those of the authors, and no endorsement by the Inter-American Development Bank, its Board of Executive Directors, or the countries they represent is expressed or implied.

becoming standard in the new literature to arrange such determinants around three grand themes: the institutions of representation, political parties, and intergovernmental fiscal structures (Rodden, 2006a; Wibbels, 2006).

These themes put the focus on the structure of the national government, the structure and degree of nationalization of political parties, and the (fiscal) inter-governmental arena. In this paper we add to this list a fourth component: the “domestic politics” of subnational units. This component, a natural focus for the study of decentralization, will also turn out to be crucial for aggregate outcomes in some cases. We attempt to provide an articulated treatment of these four components and their interactions, emphasizing in particular the systemic feedbacks between politics and policymaking at the national and subnational level for the case of Argentina.

In doing that, we draw from an important body of work conducted on Argentine federalism over the last decade. At some level, this paper works as a selective survey of that rich literature. It draws on Mark Jones for the argument that provincial leaders shape political careers in Argentina, Ed Gibson for the argument that governors use their control over provincial politics to leverage roles in the national political system, Erik Wibbels for the argument that limited political competition undermines accountability in the provinces, M. Tommasi on the perverse incentives provided by fiscal federal arrangements, Carlos Gervasoni on how the dependence on fiscal revenue transfers has undermined local accountability, Ernesto Calvo on how provincial institutions tend to generate majoritarian outcomes, and M. Leiras on the de-nationalization of the party system (see references below). But at another level, the paper provides a systemic and articulated view that clarifies the way in which all these various phenomena hang together in what we might dub “the Argentine federal equilibrium.” Furthermore, the paper develops an original theoretical proposition on the link between governors’ local dominance and a number of national level political distortions, and presents initial empirical evidence consistent with this argument.

We use the case of Argentina to put forth some tentative hypotheses of general interest to the literature on the political economy of federalism and decentralization. Clearly “one data point” is not sufficient to establish empirical regularities or for developing general theoretical insights, but we believe that this is a useful step toward richer comparative theorizing.⁸ Identifying the exact channels and the overall operation of “complex interactions between institutions, the economy, and the underlying features of the polity” (Wibbels, 2006, p. 166) requires a level of country detail that is hard to provide for various cases at the same time. Answering some of the key empirical questions well for even one country requires substantial digging and complex understanding.

The paper is organized as follows. Section 2 investigates the mechanisms by which provincial actors (especially provincial governors) are key players in national politics, while providing a general characterization of the institutional foundations and workings of Argentine federalism. Section 3 studies the domestic politics of the provinces. It argues that, even though there is an important degree of interprovincial heterogeneity, most provinces are polities with restricted political competition and high concentration of power in the hands of the governor. The section also argues that these features have reinforced over time through changes in provincial constitutions and electoral laws, as well as judicial manipulation introduced by powerful governors in favorable political junctures. Section 4 argues that there is a reinforcing connection between political dominance at the provincial level and political importance at

the national level and presents empirical evidence supporting this link. Section 5 explores the implications of such connection for governance and accountability at the subnational and (especially) federal levels. We conclude by connecting our argument to some of the key theoretical discussions about the consequences of decentralization.

2. INSTITUTIONAL FOUNDATIONS OF PROVINCIAL INFLUENCE AT THE NATIONAL LEVEL

“El Gobierno empieza a entender que los que garantizamos la *governabilidad* somos nosotros” (A. Rodríguez Saá, governor of San Luis).⁹

Until the last decade or so, the literature on Argentine politics barely focused on the role of subnational actors in national politics.¹⁰ A number of important works during the late 1990s and early 2000s dramatically changed this view¹¹: it is well understood today that the subnational political sphere, especially at the provincial level, is a key arena for Argentine politics and policymaking.¹² Almost every single important policy issue at the national level in the last two decades has been negotiated somehow by the President and his/her ministers (or operators) with provincial governors, who subsequently instruct national legislators from their provinces to go along. In this section we briefly summarize the mechanisms that make the province an important political space in national politics and policymaking.

Argentina is a federal democracy with a presidential form of government and a bicameral legislature. The federation consists of 23 provinces and a semi-autonomous federal capital.¹³ There were 14 provinces at the time the original Constitution was signed in the middle of the 19th century (1853–60), indicating that provinces are parties to the constitutional compact: they pre-existed and constituted the national government.¹⁴ Provincial governments are important political and administrative entities: they dictate their own constitutions (including electoral rules), enjoy authority over vital areas of public policy (e.g., education, health), and are also in charge of executing national public policies such as social welfare programs. This policymaking authority is complemented by the Constitution’s residual power clause: provinces reserve all powers not delegated to the federal government. As heads of provincial executives, *governors* are the main political figures in the provinces.

But the power of provincial actors (e.g., governors) extends well beyond their “natural” or direct sphere of influence (the province). This section presents the institutional foundations and channels by which provincial actors exert influence over national politics and over the policymaking process. In a nutshell, the national policymaking process can be characterized by the following features¹⁵:

- In many cases, it consists of exchanges between the president and provincial governors.
- In these exchanges, presidents and provincial actors trade support for policies devised at the national level for fiscal transfers.
- Congress is seldom the arena where such transactions take place. Instead, it formalizes deals that the President, provincial governors, and interest groups strike in informal arenas. National legislators tend to see party leaders in their province of origin as their principals, especially when these leaders are the provincial governors.

The rest of this section explains why the national PMP is organized along these lines. In particular, we explore the mechanisms through which provincial actors, especially governors, are able to influence decisions at the national level. These

channels of influence are of three types: electoral/partisan, legislative, and fiscal.

(a) *The electoral and partisan connection*

In contrast to the United States, where each state is divided into smaller electoral districts for the election of House representatives, each province in Argentina serves as a single constituency for all congressional elections (House and Senate).¹⁶ The fact that electoral districts conform to provincial boundaries makes the province the locus of party competition and the base of political support for politicians and parties (Benton, 2009; De Luca, Jones, & Tula, 2002).¹⁷ As a consequence, Argentina's large national political parties have been born and have recently evolved in such a way that their national governing coalitions are best described as little more than (potentially volatile) confederate alliances between largely autonomous and quite powerful leaders of provincial party branches (Calvo & Escobar, 2005; Leiras, 2007).

Argentina has two large parties of national scope: the Unión Cívica Radical (UCR) and the Partido Justicialista (PJ). They were forged as collections of bilateral bargains between extraordinarily powerful presidents at the center (Hipólito Yrigoyen, in the case of the UCR; Juan Perón, in the case of the PJ) and locally dominant provincial elites (Alonso, 2000; Macor & Tcach, 2003; Tcach, 1991). When they win the presidency, Argentine national parties function according to independent bilateral agreements between the President and provincial leaders. When they are in the opposition, they remain as nominally allied and loosely connected confederations among autonomous provincial organizations.

Argentine law reflects and helps reproduce the autonomy of the provincial branches of national parties. It is enough to constitute a party in just one province in order to present candidates for national legislative offices. Only "national" parties may field presidential candidates, but to achieve this status it suffices to be legally recognized in only five of the 24 provincial districts. Provincial viability is a sufficient condition to be a player in national electoral politics.

Regulations about electoral calendars enable provincial leaders to preserve local autonomy and allow them to decide whether to affect national electoral cycles (Oliveros & Scherlis, 2004). Provincial constitutions authorize governors to schedule elections for provincial offices. Thus, in most provinces,¹⁸ in every election year governors may choose either to isolate provincial outcomes from national electoral trends through the establishment of separate electoral calendars or to exploit the "electoral externalities" (Rodden, 2001) that derive from popular presidential candidates by holding concurrent elections. Additionally, until 2004, the national electoral law allowed governors to set the dates for national congressional elections.¹⁹ Provincial electoral dynamics effectively predict outcomes in national congressional elections: Jones (1997) shows that electoral fragmentation in national races mirrors fragmentation in provincial ones, and Leiras (2006) finds evidence that gubernatorial coattails are almost twice as strong as those of presidents for the election of national deputies. The influence of provincial candidacies on national outcomes is reinforced when national congressional elections are held on different dates in different provinces.

As Table 1 reports, only four of 14 national legislative elections since 1983 were held on the same date in every province and concurrently with provincial contests. On three occasions a significant proportion of provinces elected their deputies in different dates, and in every election since 1995 several provincial leaders have preferred to isolate local competition from

national trends. National party officials can neither force provincial leaders to link local elections to national campaigns nor can they prevent them from benefiting from electoral externalities of national campaign efforts. Provincial cooperation with national electoral campaigns needs to be motivated. Provincial politicians exploit this electoral source of leverage in their exchanges with national leaders.

(b) *The legislative connection: candidate selection methods and malapportionment*

In addition to electoral channels, there are political and institutional variables that enable governors, through their control of legislative contingents in the national Congress, to enjoy national leverage—mainly the control of candidate selection methods and legislative malapportionment.

(i) *Candidate selection procedures*²⁰

"the nature of the nominating procedure determines the nature of the party; he who can make the nominations is the owner of the party"
E.E. Schattschneider (1942).

Argentine law entitles political parties to determine selection procedures for both party leadership positions and candidacies for offices at every level of government. Thus, selection mechanisms often vary not only across parties but also across provinces and, within parties and districts, over time. The three basic mechanisms for the selection of candidates are elite arrangements, assembly election, and primaries. Elite arrangements encompass a variety of decision procedures, including unilateral nominations by a single powerful leader and agreements among party factions. Assembly election designates nominations made by party collective bodies such as congresses and conventions. Primaries are elections in which all party members are eligible to participate. On occasion, primaries are open to voters who are not affiliated with any political party.

From the point of view of accountability, candidate selection mechanisms may be ranked according to the size of the electorate involved—smallest in the case of elite arrangements, largest in the case of open primaries. The relevance of this ordering depends on the types of linkages that candidates establish with their constituencies. As several studies document (Calvo & Murillo, 2004; Stokes, 2005), conditional exchanges of club or private goods channeled through local machines settle internal disputes within Argentine political parties. Targeted goods motivate both turnout and voting decisions. As José Luis Lizurume, Chubut governor from 1999 to 2003, summarized, "La interna es aparato puro" (The primary is pure machine) (*Diario El Chubut*, July 18, 2003, in Jones, 2008). Thus, success in an internal contest depends almost entirely on a candidate's ability to garner resources to distribute through party machines. These resources are almost always financial and come mostly from public coffers (Leiras, 2007). Hence incumbents are typically able to either deter internal challenges or decisively incline electoral outcomes in their favor when they face a contested primary.²¹ Given the prevalence of clientelistic linkages and the financial advantage that incumbents enjoy, regardless of the size of the electorate, provincial party leaders are key players in the candidate selection process.²²

In sum, provincial party leaders decide whether to "send" someone to the National Congress and, controlling re-nominations, for how long (Jones, Saiegh, Spiller, & Tommasi, 2002). Therefore, political careers are structured at the provincial level

Table 1. *National and provincial electoral calendars*

Year	Uniform calendars national lower chamber %	Concurrent provincial and national elections %
1983	100	100
1985	100	100
1987	100	100
1989	100	93
1991	50	91
1993	100	100
1995	100	62
1997	100	73
1999	79	52
2001	100	85
2003	17	83
2005	100	86
2007	100	35
2009	100	75

Source: Dirección Nacional Electoral, Ministerio del Interior, República Argentina.

Note: Uniform calendars measures the maximum percentage of provinces that held national lower chamber elections on the same date. Concurrent elections measure the proportion of provinces that held at least one election for provincial offices on the same date as elections for national offices.

and political fates decided in provincial jousts. The importance of province-level decisions in the selection of candidates for the National Congress underscores the decentralized nature of the Argentine party system and highlights the prominent influence of provincial politics on national political careers. We now explore the particular way in which subnational interests are articulated in the national policy making process through legislative malapportionment.

(ii) *Legislative malapportionment*

Congress is composed of a Chamber of Deputies and a Senate. The 257 deputies are elected from closed party lists under a proportional representation formula for four-year terms. Although the Constitution states that the number of deputies should be proportional to population, in fact small provinces are overrepresented, because the electoral system establishes a minimum of five deputies per province. The Senate consists of 72 directly elected members, with three senators per province serving six-year terms.²³

Interprovincial variation in the size of the electorates is high; thus, severe legislative malapportionment characterizes the Argentine Congress. For example, according to *Samuels and Snyder (2001)*, the Argentine Senate ranked highest on a scale of territorial overrepresentation among the world's upper chambers, and out of a total of 78 lower chambers, the Chamber of Deputies was one of the 20 most malapportioned legislative arenas. *Figure 1* compares levels of malapportionment in both Upper and Lower Chambers across the Americas and shows the contrast between Argentina and other federal nations in the region, including the United States.

This level of overrepresentation has both fiscal and political effects. Fiscally, it affects the distribution of public resources and spending across provinces (*Gibson, Calvo, & Falletti, 2004; Jones, 2001; Porto & Sanguinetti, 2001; Rodden, 2010a*). When considering the sum of all fiscal transfers to provinces, these analyses find that provinces with fewer inhabitants per legislator—i.e., provinces that are overrepresented in Congress—receive more transfers per capita. This reflects the political power of local party bosses, especially governors, who are capable of trading their votes in Congress in exchange for a larger share in the allocation of funds to provinces.

Politically, it means that no national winning electoral or legislative coalition could be put together without the support of the regional structures of power in the overrepresented

provinces. This institutional overrepresentation, together with the subnational drag on legislators' incentives provided by candidate selection mechanisms, has an important implication: it means that legislative accountability exists in Argentina, but it is accountability to provincial party leaders (governors). To put it succinctly, Argentine legislators are the pawns of their provincial party leadership. Given that the electoral system for Congress gives large power over who gets nominated to local party bosses, this imposes loyalty and discipline on legislators, whose votes can be exchanged in negotiations between the provinces and the executive. The currency of these exchanges has much to do with the workings of Argentine fiscal federalism, whose structure we discuss next.

(c) *The fiscal connection: The workings of fiscal federalism*

Provincial governments undertake a large share of total spending in Argentina, yet they collect only a small fraction of taxes. Thus, provincial politicians enjoy a large share of the political benefit of spending, yet pay only a small fraction of the political cost of taxation. On average, provinces finance about a third of provincial spending with their own revenues. This fiscal imbalance is uneven across provinces and extremely large for some of them (see *Figure 2*). In a large number of less populous provinces, the transfers received from the federal government constitute over 80% of provincial revenue.

This mismatch between spending and taxation makes Argentina one of the countries with the largest *vertical fiscal imbalance* in the world (*Ter-Minassian, 1997*). The mechanisms utilized to cover that imbalance are very convoluted, politically contentious and the source of various incentive problems. The difference between spending and revenues is financed from a common pool of resources under the country's Federal Tax-Sharing Agreement. Even though the Argentine tax-sharing agreement appears on paper to be fairly automatic, in practice there has been over the years a number of channels by which the national government has had discretion at the margin in the allocation of funds to the provinces.²⁴ The methods by which these channels have been modified are multiple, and their relative use and importance has varied over time, depending on various economic and political circumstances, but the underlying political logic has always been the same.²⁵

In this logic, most provincial governments are resource-hungry political units eager to extract fiscal favors from the

Legislative Overrepresentation in the Americas

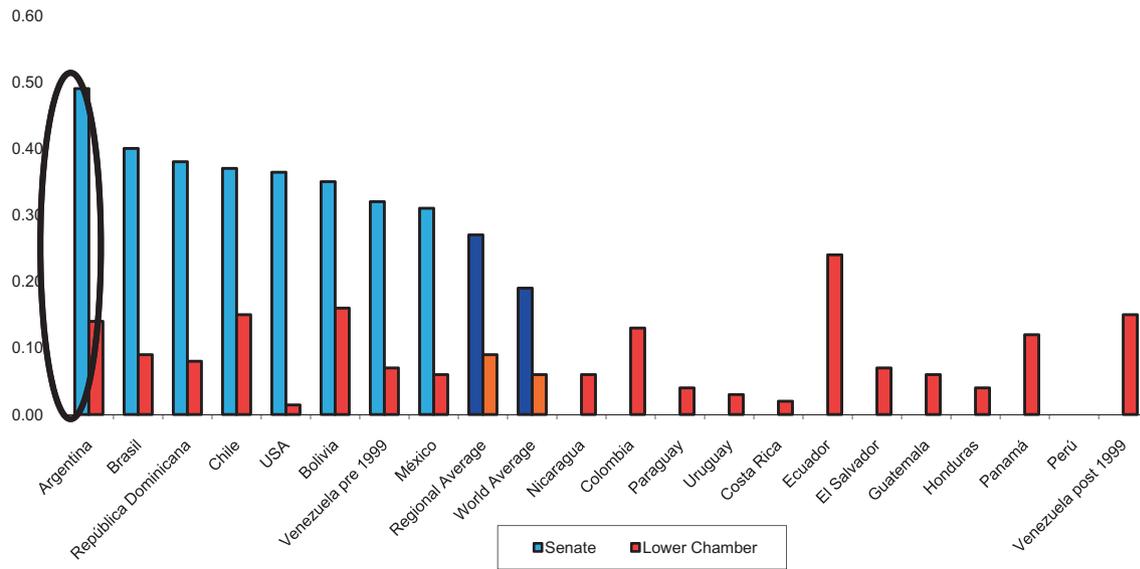


Figure 1. Malapportionment in comparative perspective. Source: Samuels and Snyder (2001) and authors' calculations for post-1999 changes.

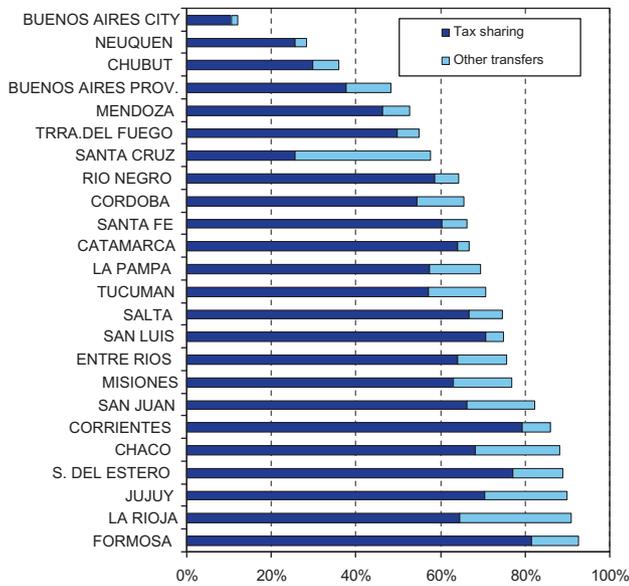


Figure 2. Vertical fiscal imbalance: federal transfers as % of total revenue (2008). Source: Secretaría de Coordinación Fiscal con las Provincias.

national government. In turn, the federal government needs votes in Congress to implement nationwide economic policies, cooperation in national elections, as well as general good will and compliance from provincial governments. This situation creates potential gains from trade between presidents and governors, while Congress merely serves as the “ratifier” of agreements that are struck in other more informal arenas (Sai-egh, 2004).

While this federal fiscal configuration has occasionally given provinces a weapon in their negotiations with the national government (Tommasi, 2006), it is not always the case that governors come on top or exploit “the center.” In fact, there are many instances (depending on what part of the budget cycle one is looking at) of political opportunism by the national

government. What matters from the point of view of this paper is that governors tend to be the actors of some of the main exchanges in Argentine politics, even when the national executive has the upper hand.

We turn now to a characterization of the local arenas from where governors construct their political power.

3. SCALING DOWN: PROVINCIAL POLITICS

In one of his many influential articles, Guillermo O’Donnell writes about the uneven territorial spread of democracy and rule of law across developing countries (O’Donnell, 1993). Using a geographic metaphor, he invites readers to imagine a map of each country in which the areas covered by *blue* would designate those where there is a set of reasonably effective bureaucracies and spread of the rule of law is high, both functionally and territorially; the color *green* would indicate a high degree of territorial penetration but a significantly lower presence in functional/class terms; and the color *brown* a very low or nil level in both dimensions.

Building on this metaphor, this section looks at the internal politics of the subnational political units and shows that the typical province in Argentina is “*brown*.” In other words, by exploring the way politics is played out at the subnational level, a common pattern emerges: *provinces are typically characterized by executive dominance, limited political competition, and clientelistic political linkages*. In particular, this section provides a comparative perspective on several features of subnational political systems since Argentina’s last transition to democracy: (i) structural features and political practices, (ii) who the governors are and the extent of partisan turnover at gubernatorial level, (iii) executive-legislative relationships and the degree of judicial independence, and (iv) citizen-party linkages and the prevalence of patronage and vote buying.

Even though our comparison follows mostly a cross-sectional format, we also show how these features have evolved over time. This latter focus on provincial dynamics allows us to show that many provinces have moved in the direction of restricted political competition and high concentration of

power in the executive branch, and to specify the mechanisms (changes in provincial constitutions, electoral laws, and judicial manipulation) by which governors have reinforced their grip on the politics of their respective provinces.

(a) *Entering the brown zones*

Santiago del Estero is Carlos Arturo Juárez. I say it without vanity.

—Carlos Arturo Juárez²⁶

Sergio, yo no te doy la provincia, te la presto

—Nestor Kirchner²⁷

Argentine federalism is characterized by large regional disparities (Porto, 2004; Sawers, 1996). Provinces vary greatly in their size and wealth, and strong inequalities persist in basic educational and health outcomes. Table 2 documents population and gross domestic product (GDP) figures in the 24 Argentine provinces in the year 2008. The four largest provinces, Buenos Aires, Santa Fe, Cordoba, and the City of Buenos Aires, account for 62% of the population and 71% of GDP. Furthermore, GDP per capita is on average 52% larger in these districts than in the rest of the provinces. The high-population or “metropolitan” provinces are at the top of the table, while other, less-populated provinces are endowed with strong natural resource bases (prime land in the humid pampas; oil in the south). In contrast, there is a concentration of less-developed or “peripheral” provinces in the north.²⁸

These structural characteristics may impact the way politics is played out at the subnational scale. While economic development is not a strong predictor of democratic governance in the Argentine provinces, in the typical peripheral province where poverty and lack of education among the majority of the population is widespread, a single leader (*caudillo*) or

family clan usually controls the political game. As shown by the quotations in the opening paragraph of this section, the dominance exerted by the heads of provincial governments reaches quasi-feudal levels, such that in some instances, outgoing governors are able to pass their office to family members or close friends.²⁹ These leaders usually control access to the state, the media, and business opportunities in a monopolistic fashion (Behrend, 2011). Control over fiscal resources (mostly of national origin) in turn gives provincial authorities the opportunity to finance their political machineries. In fact, provincial governments themselves commonly operate as large-scale political machines, particularly in provincial capitals and larger cities. The sizeable resources at their disposal to fund electoral campaigns and reward core constituencies have enabled the survival of subnational political dynasties (Gervasoni, 2010; Gibson, 2005).³⁰

The rest of this section characterizes several institutional dimensions of the “industrial organization” of government at the subnational level.

(b) *The executive branch*

In all provinces government is divided in three branches: a directly elected executive (governor), an elective legislature, and a judiciary. The governorship is the main political prize at the subnational level: gubernatorial elections define the head of office and the main source of resources, including fiscal revenue and patronage.

Table 3 shows the list of governors by province since Argentina’s return to democracy (1983). Regarding the partisan control of governorships, the first thing to notice is the dominance exerted by the two major “national” parties, the Partido

Table 2. *Selected economic and political indicators in the provinces (2008)*

Province	% Of population	% Of GDP	GSP per capita (pesos)	# Of senators	# Of deputies
Buenos Aires city	7.7	24	81319.4	3	25
Buenos Aires	37.9	31.8	21788.9	3	70
Cordoba	8.4	7.5	230651.1	3	18
Santa Fe	8.2	7.7	24476	3	19
Subtotal large (4)	62	70.9	37662.4	16.7%	51.40%
Mendoza	4.4	4.8	28544.9	3	10
Tucuman	3.7	2	133843.3	3	9
Entre Rios	3.2	2.2	17871.1	3	9
Salta	3.1	1.6	13910.8	3	7
Misiones	2.7	1.4	13533.9	3	7
Chaco	2.6	1.2	11695.1	3	7
Corrientes	2.5	1.3	13324.2	3	7
S. del Estero	2.2	0.7	8896.7	3	7
San Juan	1.8	1.1	16729.5	3	6
Jujuy	1.7	0.9	13059.9	3	6
Rio Negro	1.5	1.5	26757.2	3	5
Neuquen	1.4	2.8	52950.2	3	5
Formosa	1.4	0.6	12014.1	3	5
Chubut	1.2	1.6	35711.7	3	5
San Luis	1.1	1	22844.8	3	5
Catamarca	1.0	0.5	12590.9	3	5
La Rioja	0.9	0.5	14945.4	3	5
La Pampa	0.8	0.9	28455.6	3	5
Santa Cruz	0.6	1.8	83500.4	3	5
Trra. Del Fuego	0.3	0.7	53962.3	3	5
Subtotal small (20)	38	29.1	25984.2	83.3%	48.60%
Total	100	100	25984.2	72	257

Source: National Constitution and CIPPEC.

Table 3. *Provincial governors and partisan turnover (1983–2011)*

Province	1983-1987	1987-1991	1991-1995	1995-1999	1999-2003	2003-2007	2007-2011
Buenos Aires city				F. De La Rúa	A. Ibarra	A. Ibarra (1)	M. Macri
Buenos Aires	A. Armendáriz	A. Cafiero	E. Duhalde	E. Duhalde	C. Ruckauf	F. Solá	D. Scioli
Catamarca	R. Saadi	V. Saadi (2)	A. Castillo	A. Castillo	O. Castillo	Brizuela del Mor	Brizuela del Moral
Cordoba	E. Angeloz	E. Angeloz	E. Angeloz	R. Mestre	J. De la Sota	J. De la Sota	J. Schiaretti
Corrientes	J. Romero Feris	R. Leconte	R. Romero Feris (3)	P. Pocard (4)	R. Colombi (5)	A. Colombi	R. Colombi
Chaco	F. Tenev	D. Baroni	R. Tanguinas	A. Rozas	A. Rozas	R. Nikisch	J. Capitanich
Chubut	A. Viglione	N. Perl	C. Maestro	C. Maestro	J. Lizurume	M. Das Neves	M. Das Neves
Entre Rios	S. Montiel	J. Busti	M. Moine	J. Busti	S. Montiel	J. Busti	S. Urribarí
Formosa	F. Bogado	V. Joga	V. Joga	G. Insfrán	G. Insfrán	G. Insfrán	G. Insfrán
Jujuy	C. Snopek	R. De Aparici	R. Domínguez	G. Snopek	E. Fellner	E. Fellner	W. Barrionuevo
La Pampa	R. Marín	N. Ahuad	R. Marín	R. Marín	R. Marín	C. Verna	O.M Jorge
La Rioja	C. Menem	C. Menem	B. Arnauo	A. Maza	A. Maza	A. Maza	Beder Herrera(12)
Mendoza	S. Llaver	J. Bordón	R. Gabrielli	A. Lafalla	R. Iglesias	J. Cobos	C. Jaque
Misiones	R. Barrios	J. Humada	R. Puerta	R. Puerta	C. Rovira	C. Rovira	M. Closs
Neuquen	F. Sapag	P. Salvatori	J. Sobisch	F. Sapag	J. Sobisch	J. Sobisch	J. Sapag
Rio Negro	O. Álvarez	H. Massaccesi	H. Massaccesi	P. Verani	P. Verani	M. Saiz	M. Saiz
Salta	R. Romero	H. Cornejo	R. Ulloa	J.C. Romero	J.C. Romero	J.C. Romero	J.M Urtubey
San Juan	L. Bravo	Gómez Centurión	J. Escobar	J. Escobar	A. Avelín (6)	J. Gioja	J. Gioja
San Luis	A. Rodríguez Saá	A. Rodríguez Saá	A. Rodríguez Saá	A. Rodríguez Saá	A. Rodríguez Saá	A. Rodríguez Saá	A. Rodríguez Saá
Santa Cruz	A. Puricelli	R. Del Val	N. Kirchner	N. Kirchner	N. Kirchner	S. Acevedo (7)	D. Peralta
Santa Fe	J. María Vernet	V. Reviglio	C. Reutemann	J. Obeid	C. Reutemann	J. Obeid	H. Binner
Stgo del Estero	C. Juárez	C. Iturbe	C. Mujica (8)	C. Juárez	C. Juárez	G. Zamora (9)	G. Zamora
Tucuman	F. Riera	J. Domato (10)	R. Ortega	A. Bussi	J. Miranda	J. Alperovich	J. Alperovich
T. del Fuego			José Estabilllo	José Estabilllo	C. Manfredotti	J. Colazo (11)	F. Ríos
Number of Provinces	22	22	23	24	24	24	24
PJ	54.55%	77.27%	60.87%	58.33%	58.33%	62.50%	66.67%
UCR/Alianza	31.82%	9.09%	17.39%	25.00%	37.50%	29.17%	16.67%
PROVINCIAL PARTY/oth	13.64%	13.64%	21.74%	16.67%	4.17%	8.33%	16.67%

Source: Dirección Nacional Electoral, Ministerio del Interior, República Argentina.

Notes: (1) Impeached in 2005, replaced by J. Telerman; (2) Died in 1988, replaced by his son R. Saadi, federal intervention in 1991; (3) 1992–1993: federal intervention, served as governor 1993–1997 (4) Served as governor 1997–1999, federal intervention 1999–2001; (5) Served as governor 2001–2005; (6) Impeached in 2002, replaced by U. Acosta; (7) Resigned in 2006, replaced by C. Sancho. (8) Federal intervention 1993–1995; (9) Elected in 2005, after federal intervention in 2004 replaced M. Aragonés (“Nina”) Juárez; (10) Federal intervention in 1991; (11) Impeached in 2005 and replaced by H. Cocco (PJ), (12) Acting for suspended Maza to December 11.

Justicialista (PJ, Peronists) and the Unión Cívica Radical (UCR, Radicals) at the subnational level. The PJ controlled an average of 62.6% (ranging from 54.6% to 77.3%) of governorships during 1983–2011, and the UCR placed second with an average of 23.8% (ranging from 9.1% to 33.3%). In contrast, no other party ever possessed more than one governorship at any one time during this period.

Another noticeable feature in the table is the high degree of name repetition. This is an indication of the fact that single individuals (or families) are able to control many provinces over extensive periods of time. In fact, one can notice that incumbent parties and individuals rarely lose elections in the provinces. During 1983–2011, party turnover rates have been low in most of them. For example, only six out of 24 provinces had three party turnovers at the level of the Executive, three had two, while 15 provinces (63%) experienced one or no turnover in gubernatorial elections. Low party turnovers are paralleled by high rates of reelection at the executive level. For example, during 1983–2010, 40 governors ran for reelection and only six lost.

These patterns taking place since the return to democracy until 2011 have been confirmed and reinforced in the elections occurring during 2011. In that year, 22 of the 24 jurisdictions had elections to renew provincial authorities (the other two are due in 2012 and 2013). In 14 of those 22 cases the sitting

governor ran for reelection and won. In six other provinces the new governor is from the same party (and faction) as the previous one. The latter include cases such as Jujuy, where two-time governor Eduardo Fellner, not being able to reform the provincial Constitution for a third term, left the province in the hands of his follower W. Barrionuevo, while he went to become the President of the Chamber of Deputies in the Argentine National Congress from 2007 to 2011 and came back to be reelected in 2011; Chubut, where two-time governor Mario Das Neves, constitutionally forbidden to run for reelection, had his candidate M. Buzzi elected while he ran for Vice President; and San Luis where A. Rodríguez Saá had his heir-apparent C. Poggi elected while he ran for President. This makes a total of 20 out of 22 cases in which the same party retained the governorship. In the two remaining cases, candidates from Frente para la Victoria (the Kirchnerist PJ) defeated the incumbent Radical Party; in one of the two cases the incumbent himself ran and was defeated by a very slim margin. To put it in other words: 15 of 22 incumbents decided to run again, 14 of those won, and the fifteenth was a virtual tie. In six of the remaining seven cases the incumbent party retained the governorship, including cases in which the new governor is a pawn of the previous one as well as cases in which “the boss” came back after one term out of office (in fulfillment of the provincial constitution). The only two

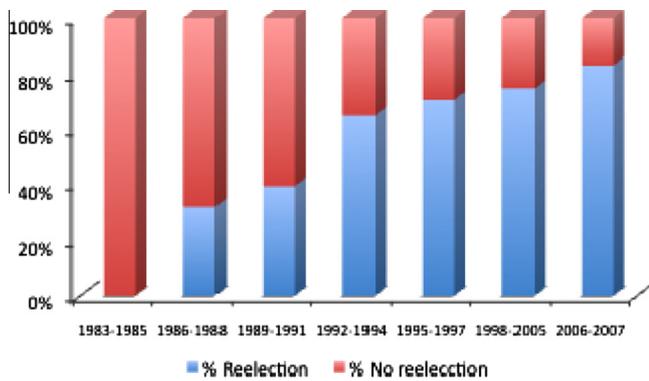


Figure 3. Increase in permitted reelection over time (Percentage of provincial constitutions allowing reelection, 1983–2007). Source: Provincial constitutions.

cases in which the party in power changed, the incoming governor is an ally of the dominant faction of PJ aligned with the national administration of Cristina Fernández de Kirchner.

The pattern of reelection is most striking in light of the fact that at the outset of the democratic transition, no provincial constitution allowed for the immediate reelection of the governor. However, changes to provincial constitutions in order to allow for reelection have been common since then.³¹ For example, Figure 3 shows the evolution of the percentage of provinces allowing for reelection of the governor since the return to democracy.

By 2007 all but three of the 24 provinces had provided for the immediate reelection of the governor, four of them without imposing restrictions on the number of terms that a governor could serve (see Table 4). Three of those four provinces with indefinite reelection were the home provinces of long-time provincial governors who became salient national figures and eventually presidents: C. Menem (La Rioja), A. Rodríguez Saá (San Luis) and N. Kirchner (Santa Cruz).

We now turn to the political conditions (i.e., particular power distributions) that make such institutional changes more likely to occur.

(c) Separation of powers? Executive-legislative and executive-judiciary interactions

The extent to which governors are able to tinker with provincial constitutions is in part a function of the way political power is distributed across the branches of government. With respect to the executive-legislative relationship, some particularities of electoral rules in the provinces lead to concentration and unification of power in the hands of the governor (Calvo & Escolar, 2005). For example, Calvo, Szwarcberg, Micozzi, and Labanca (2001) note that many provincial electoral systems are characterized by *majoritarian biases*, or properties such as high electoral thresholds or low effective district magnitudes that award seat premiums to winning parties and end up favoring large parties in legislatures. As a result of these biases, governors are endowed with large legislative majorities (Gibson & Suárez Cao, 2010). In fact, in 80% of provincial legislatures, the party of the governor fills 50% or more of legislative seats (see Figure 4).

Under conditions of political concentration, governors have been able to alter the parameters of political competition with significant distributive consequences and reinforcing effects (Calvo & Micozzi, 2005; Cruzalegui, 2009). Pro incumbent electoral reforms led by provincial governors have deeply affected the distribution of local power by limiting the number

of entrants in the electoral arena and by increasing their legislative majorities. Some electoral systems switched from proportional representation (PR) to single-member districts (SMD) or mixed formulas with majoritarian properties; district magnitudes have been reduced, and thresholds increased (Calvo & Micozzi, 2005). Moreover, gerrymandering was used as a mechanism for overrepresenting rural districts against the larger, typically more competitive districts in the provinces (Cruzalegui, 2009). In sum, partisan control of electoral reforms provided most governors with significant seat gains and allowed them to minimize the risk of electoral defeat, improve their control of local legislatures, and escape the negative externalities of more competitive national arenas (Calvo & Micozzi, 2005).

Executive control over the political system extends beyond the legislative branch to affect levels of judicial independence. Recent research focuses on the effects of different dimensions of political competition on supreme court (in)stability at the subnational level (Chávez, 2004; Leiras, Giraudy, & Tuñón, 2010). Chávez (2004) provides a comparative case study of two provinces located at the extremes of the political competition spectrum and studies their implications on levels of judicial autonomy, finding that monolithic party control damages judicial autonomy. Leiras *et al.* (2010) offer a more comprehensive study, finding that court-packing has been a common tool: governors rarely respect the composition of the supreme courts they inherit. Instead, they either replace some of the sitting justices or increase the size of the court, as Figure 5 illustrates.

(d) Further limits to political competition: patronage and clientelism

Manipulating apportionment, districting rules and electoral formulas, provincial incumbents gain part of the competitive edge that leads to infrequent turnover and executive dominance. The partisan allocation of public jobs and social assistance reinforces institutional advantages. As we argued above, these tactics persuasively deter intra-party challengers. They also tip the playing field in favor of governors and their organizations in general elections.

As heads of provincial executives and in the absence of civil service regimes, governors may hire public workers and determine their wage levels. Jobs in the provincial public sector, known as “contracts” in party vernacular, are distributed on strict party-based criteria, going to party activists (or their relatives) and rank-and-file party members (Calvo & Murillo, 2009; Jones & Hwang, 2005). These contracts often represent a family’s only income source. They are coveted political prizes and are electorally relevant in all provinces, but they have even more of an impact in those districts where the public sector plays a key role as an employer. As Figure 6 shows, this tends to be the case in many of them.

Several recent studies document the deleterious effect of patronage on political competition.³² But public employment does not exhaust the toolkit of investments at the governor’s disposal. It is supplemented with more flexible instruments like the clientelistic distribution of social assistance and public works.

Conditioning the distribution of goods or favors on electoral support and other forms of political cooperation has long featured prominently in the repertoire of Argentine political organizations. Changes in labor markets and social policies fed the “demand” for these types of exchanges, increasing their incidence. Administrative decentralization enabled provincial governments to respond to this amplified demand and to reap most of the electoral benefits deriving from the higher relevance of clientelism.

Table 4. *Provincial constitutions and reelection clauses*

One term, then...		Two terms, then...		
Lifetime limit	Eligible after one interim term	No reelection	Eligible after one interim term	No limits
–	Entre Ríos Mendoza Santa Fe	Misiones San Juan	Ciudad de Buenos Aires Buenos Aires Cordoba Corrientes Chaco Chubut Formosa Jujuy La Pampa Neuquén Rio Negro Salta Santiago del Estero Tierra del Fuego Tucuman	Catamarca La Rioja San Luis Santa Cruz

Source: Provincial constitutions.

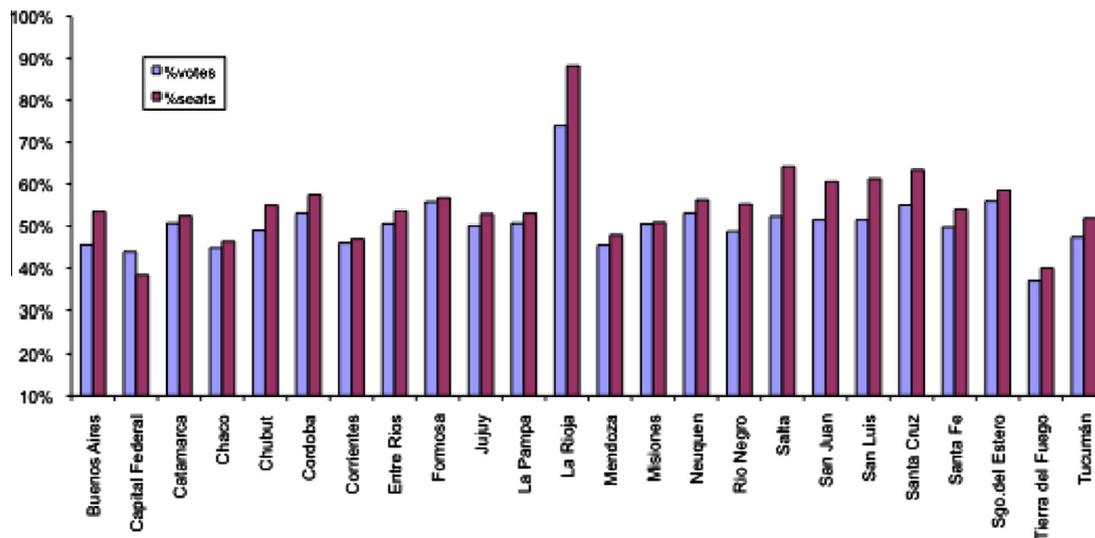


Figure 4. *Incumbent parties: average vote and seat shares in provincial legislatures (1983–2006)*. Source: Dirección Nacional Electoral, Ministerio del Interior, República Argentina.

Increasing informal employment and decreasing union density are two of the most significant novelties of the evolution of labor markets in Argentina since the return to democracy. Higher open unemployment levels, deriving first from structural reforms and later from recession, distinguished the 1990s (Altimir & Beccaria, 1999). These transformations eroded the structures of social protection established in the 1930s and 1940s. Access to health services, unemployment insurance, and pensions were usually tied to having a job in the formal sector, which in most cases also entailed being a union member. Deprived of formal contracts and union protection, increasing numbers of workers in the more developed metropolitan areas became exposed to the risks that had long threatened workers in peripheral provinces. As occurred in other Latin American countries, labor segmentation and exposure to new social risks prompted a shift in policies from nominally universal coverage to, first, targeted poverty alleviation programs and, more recently, conditional cash transfers.

These changes in labor markets increased the appeal and the efficacy of clientelistic networks. Informal workers usually earn

lower wages and tend to value more highly the commodities that circulate in these networks (Kitschelt & Wilkinson, 2007). Without union protection it is difficult for workers to enforce social rights or prevent arbitrariness in the delivery of social services. State structures are in charge of extending social assistance outside the formal sector of the economy. Most of these structures, dependencies of provincial or municipal governments, have access to the frequent personal contact that is required to establish and monitor clientelistic exchanges. They often also enjoy autonomy in deciding who receives assistance and who does not. Therefore, labor informality sets the stage not just for clientelism that any political party may practice productively, but for a game that incumbents, controlling both the crucial services and small favors on which the welfare of many depends, are likely to dominate.

Studies in both the qualitative and in the quantitative tradition have documented clientelistic usages of social programs at the provincial level. Lodola (2005), Weitz-Shapiro (2006) and Giraudy (2007) analyze the distribution of emergency employment programs (such as *Planes Trabajar*) across and within provinces. Brusco, Nazareno, and Stokes (2006) find

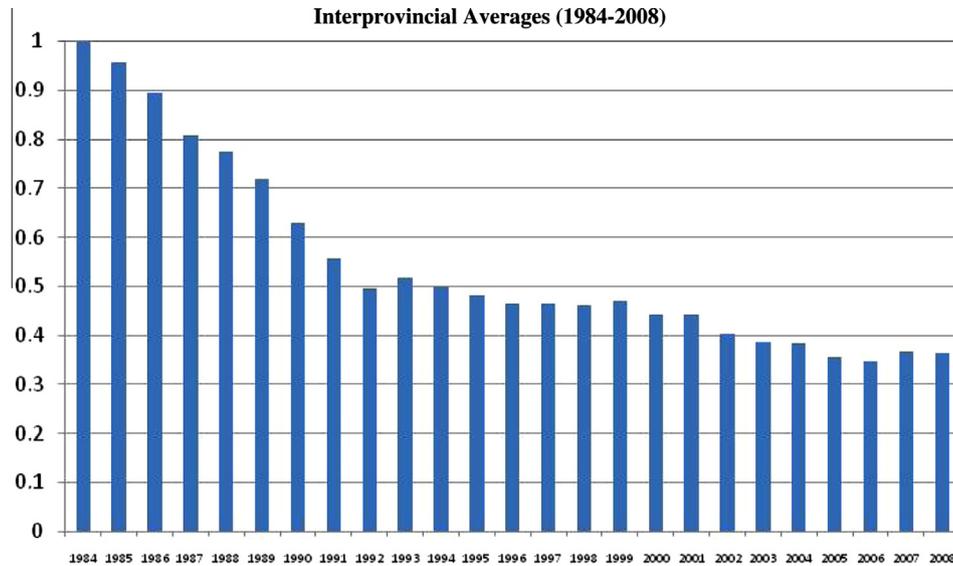


Figure 5. Tenure of justice in provincial supreme courts, interprovincial averages (1984–2008). Source: Leiras et al. (2010). Note: The indicator expresses average tenure of sitting justices as a proportion of the age of the regime. Tierra del Fuego and the City of Buenos Aires were excluded from the calculation.

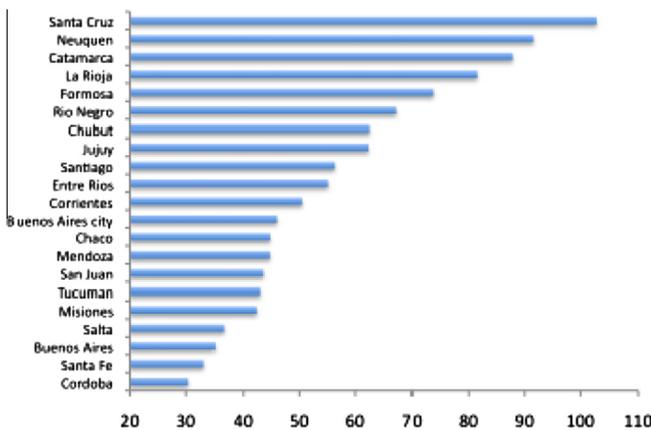


Figure 6. Public employees per 1,000 inhabitants (2007). Source: Dirección Nacional de Coordinación Fiscal con las Provincias.

evidence of an electoral drive: in electoral years there is a clear partisan bias in the distribution of those programs across provinces, as well as across municipalities within provinces. Calvo and Murillo (2004) show that these electoral investments do indeed help incumbents win elections.

Administrative decentralization has made governors crucial players in the social assistance game.³³ As our analysis and the cited evidence show, they have turned this central position into electoral advantage. In combination with timely institutional reforms, this advantage neutralizes competitive challenges and helps build the sizable majorities that keep legislatures and judiciaries in check and project incumbent rule over time. A tighter grip on the provincial polity is not only a promise of continuity but, as the next section shows, a quite effective predictor of influence at the national level.

4. THE NATIONAL VALUE OF PROVINCIAL DOMINANCE: ARGUMENT AND SOME EMPIRICAL EVIDENCE

Section 2 of this paper established the foundations that make subnational political units key arenas in national politics and policymaking. Powerful provincial-level political actors

are very important in the shaping of national level political coalitions supporting national policymaking. Section 3 looked into the internal politics of subnational units, most of which are characterized by executive dominance, limited political competition, and clientelistic political linkages. In the remainder of the paper we argue that there is a reinforcing connection between governors' local dominance and their national political importance, and, furthermore, that this connection lies at the heart of various distortions that weaken accountability and governance at the national level. Argentina is a country well-known for its instability and its pendulous policy swings, as well as for the fact that its public policies are of a quality much lower than its level of human development would predict. We suggest that the federal system we describe in this paper is one important factor behind such poor performance, and we do so in two steps. In this section we postulate the reinforcing connection between local dominance and national political weight, and we explore some of the channels and empirical correlates of such nexus. In the next section we develop the implications of that connection for governance and accountability in Argentina.

Coalition making is the conduit through which provincial politics permeates national governance. As established in Section 2, governing coalitions rest on bilateral exchanges between presidents and governors. Governors sit at those bargaining tables because they hold the keys to several gates: they control the vote of provincial delegations in Congress, the electoral machines in their districts and the bureaucracies that interact with national authorities in the implementation of public policy. Presidents are certain to pass through all these gates at some point in their administrations and therefore depend on the cooperation of governors.³⁴ Naturally, no governor has absolute dominion over these bargaining chips or can credibly threaten total withdrawal of cooperation. Similarly, though presidents would normally give some national assistance to all provincial governments, they should be more generous to those whose political support presidents value the most. A firm command of the provincial polity, free of the uncertainty that intense political competition brings about is, we argue, a central component of the political value of gubernatorial support. A governor who has clear control of the provincial contingent in national Congress can credibly exchange

future votes in Congress for current fiscal favors, and a governor who has a strong grasp on the provincial political machinery can credibly promise future electoral support for a president seeking reelection. More importantly, a firmly established governor may survive without support from national authorities and should therefore be taken seriously when he threatens withdrawal of cooperation. On the contrary, a governor whose authority is contested may have trouble bringing legislators into line legislators or getting electoral machines to work and would most certainly not do without assistance from national authorities.

In order to assess the validity of this argument empirically, we explore the effect of provincial domination on national influence over six gubernatorial periods (1987–2007). The dependent variable, our proxy for national level influence, is the average amount of real discretionary (i.e., non-automatic) fiscal transfers per capita received by each province in each gubernatorial period. By focusing on discretionary, as opposed to legally mandated transfers, we try to capture the differential value that the support of a particular incumbent governor represents for the president deciding on their allocation. According to this logic, a province that receives higher discretionary transfers per capita should be judged to weigh more heavily in national governing coalitions.

Our key explanatory variables measure the extent to which incumbent governors are able to dominate the provincial political arena. As a first approximation, we use three proxies: (i) the percentage of votes obtained by the political party of the incumbent governor in the previous gubernatorial election (*Vote Share*); (ii) the margin of victory, or difference between the vote share of the incumbent party and the runner up, in that election (*Margin*); and (iii) the number of party turnovers in the governorship up to the time of our measurement (*Turnover*).

We control for other political and economic factors that may affect the distribution of discretionary fiscal transfers. The first is the vote share of the incumbent's party in the Chamber of Deputies election held 2 years prior to the year of the respective gubernatorial election (i.e., in 1985, 1989, 1993, 1997, 2001, and 2005, respectively), reflecting the incumbent party's baseline level of electoral support (*Party Support*). Secondly, a dummy indicates that the sitting president and the incumbent governor belong to the same party (*Same Party*). As electoral externalities are expected to travel both downward and upward and extraordinary financial resources should be positively correlated with electoral gains, presidents' discretion should privilege copartisans. Finally, we control for whether there is any additional advantage to being a Peronist (*Peronist*) in the federal fiscal game. This variable is coded 1 when a Peronist governor is in office and 0 otherwise. Peronist provincial organizations have been identified as benefiting from the electoral investment of public resources to a greater extent than other parties (Calvo & Murillo, 2004). However, our argument transcends party affiliation, so we do not expect this variable to neutralize the effect of provincial dominance on national level influence.

In addition to political controls, we include two economic variables: the growth rate of real provincial GDP per capita (*GDP pc growth*) between gubernatorial periods and the provincial unemployment rate (*Unemployment*). To the extent that discretionary fiscal transfers may compensate negative economic shocks, we expect them to be negatively correlated with growth and positively correlated with unemployment.³⁵

Table 5 reports results from an OLS specification including fixed and time effects. We estimate one model (1–3) for each explanatory variable. Coefficients reflect only within province

variation in the outcome of interest. Thus, this empirical exercise asks: as incumbent governors become dominant players in their respective provinces, does their extent of national-level influence increase?

In line with our argument, we find that the different proxies for provincial dominance significantly affect the level of discretionary transfers per capita. When an incumbent obtains the median vote share in the sample (48%), transfers increase by half a standard deviation in the next gubernatorial term. However, when an incumbent's vote share reaches 80%, as it did in Tucuman in 2007, discretionary transfers per capita increase by a full standard deviation.

Similarly, when the distance between the winning candidate and the runner-up is about average (15%), transfers increase by only one tenth of a standard deviation. Yet, a governor who wins by a margin of more than 80% (as in San Luis in 2003) may expect transfers to his province to increase by two-thirds of a standard deviation in the next period. Finally, as parties rotate in the governorship and no party or individual can be identified as controlling the provincial game, discretionary transfers from the national government decrease.

We register a statistically significant (though quantitatively small) effect for only one of the control variables (unemployment) in only one of the models; even in that case the effect runs in a direction opposite to the one expected if transfers were driven by purely economic criteria. We interpret these results as evidence that extraordinary transfers from the central government to the provinces do not aim at redressing negative economic shocks. Rather, they seem to reward different forms of political cooperation from provincial governments. Significantly, the effect seems to be independent from the baseline level of support that parties enjoy in each province as well as from partisan affiliation: it does not change when governors and presidents belong to the same party, nor does it work differently when the governor is a Peronist.

An additional exercise lends credence to this interpretation. Table 6 lists results of correlations between discretionary fiscal transfers and other proxies of provincial dominance, for some of which we have only cross-sectional data (the top row presents a simple correlation and the bottom one, a partial correlation, controlling for the same variables we used in the regressions above). The first proxy is the index of subnational democracy calculated by Gervasoni (2010). We calculated a second index that includes both political competition measures and institutional leverage variables, such as the extent to which the constitutions include soft term limit clauses.³⁶ We also use the proxy of judicial autonomy proposed by Leiras *et al.* (2010), which measures the average tenure of justices sitting on provincial supreme courts. Finally, we explore the effect of partisan fragmentation, as measured by the effective number of parties among which the gubernatorial vote is distributed. In all cases we expect a negative coefficient: higher competition and more stringent rules of the game, higher political fragmentation and more autonomous courts should be associated with more open provincial arenas and, then, fewer transfers to the provincial government.

With one exception, all coefficients achieve statistical significance and present the expected sign, even when we include economic and political controls. The association between provincial political dominance and prevalence in the national fiscal game withstands changes in measurements and sample coverage. Our results are consistent with evidence presented in other recent studies. For example, Giraudy (2010) and González, Leiras, and Mamone (2011) find that the distribution of infrastructure investment by the national government privileges provinces where political competition is limited.

Table 5. *Determinants of discretionary transfers per capita: fixed effects*

	1	2	3
Vote share	1.071** (0.531)		
Margin		0.760** (0.374)	
Turnover			-0.227** (0.0932)
GDP pc growth	0.0235 (0.0253)	0.0176 (0.0250)	0.0208 (0.0248)
Unemployment	-0.0318 (0.0194)	-0.0304 (0.0195)	-0.0405** (0.0188)
Same party	0.160 (0.233)	0.228 (0.237)	0.193 (0.232)
Party support	-0.005 (0.006)	-0.005 (0.006)	-0.005 (0.006)
Peronist	-0.308 (0.245)	-0.364 (0.245)	-0.404 (0.244)
Constant	5.720*** (0.433)	6.119*** (0.327)	6.421*** (0.308)
Prov. FE?	Y	Y	Y
Time FE?	Y	Y	Y
Observations	109	109	109

Standard errors in parentheses.

*** $p < 0.01$.

** $p < 0.05$.

* $p < 0.1$.

Table 6. *Correlations of provincial dominance and national influence*

	Discretionary Transfers per capita	# Obs.
Gervasoni (2010) index	-0.475**	21
	-0.4911**	21
Provincial dominance index	-0.475**	24
	-0.4911**	24
Share seats won by gov. party in provincial legislature	0.178**	129
	0.148*	129
Average tenure of provincial Supreme Court ^a	-0.07	124
	-0.213**	124
Effective number of parties	-0.22**	105
	-0.188*	105

** $p < 0.05$.

* $p < 0.1$.

^a Weighted by age of regime.

Are we getting the actual causal story backward? Is it not the prevalence in the fiscal game that allows governors to buy and consolidate political support, thus rendering them dominant in their provinces? Studies such as Gibson (2005) and Gervasoni (2010) present strong arguments along those lines, on which we comment more extensively in the next section. Here, we emphasize that, in our view, the results of our study do not contradict the existence of an impact of fiscal advantage on political dominance at the provincial level. Though we analyze in closer detail the “upward” effect, we believe there is a complex of mutually reinforcing dynamics which could be set in motion either by upward or downward shocks. Let us illustrate this point.

Figure 7 displays the evolution of the relationship between one of our indicators of provincial dominance, the incumbent’s margin of victory, and relevance in the national fiscal

game, as measured by the change in discretionary transfers from one gubernatorial period to the next across provinces and over-time. Not surprisingly, these indicators tend to evolve in the same direction. Significantly, there is only one clear case of a persistent reduction in the margin of victories of incumbent parties: the province of La Rioja (LR) where Partido Justicialista suffered a split in 2003 that transformed its overwhelming dominance into merely robust dominance. There are several cases of margins that oscillate around the same average levels but do not decrease and then many cases of parties that, after facing a few competitive elections, turn increasingly dominant: Formosa (For), La Rioja before 2003, Santa Cruz (Sc), San Juan (Sj), San Luis (Sl), Santiago del Estero (Sgo). In all of those cases transfers tend to grow faster when margins become wider. These are the cases that more clearly illustrate the dynamic to which we refer.

Consider, for example, the case of San Luis. In retrospect, it seems odd that the Justicialista Party of the Rodríguez Saá brothers won the 1983 gubernatorial elections by less than three percentage points. The same organization fell to second place in the 1985 midterm national legislative elections. A few months before the first executive term was set to expire and at the request of Adolfo Rodríguez Saá, then sitting governor, the provincial legislature approved an initiative to reform the provincial constitution. The incumbent party prevailed by a small margin in elections to the constitutional convention but controlled most committees (Suárez-Cao, 2001) and had approved a bill that allowed for the immediate reelection of the governor; it was also grossly overrepresented in the provincial legislature (Cruzalegui, 2009). This institutional transformation helped turn around the situation for the incumbent party and turn the small advantage of 1983 into a 20 point difference 4 years later. San Luis received very favorable treatment in most special regimes sanctioned by the national government (such as “industrial promotion schemes”³⁷) and, in spite of the colorful discursive challenges which its authorities presented to at least the last four national administrations, its share of discretionary transfers kept growing.

Consider, next, the case of Formosa. The incumbent Justicialista Party won by a comfortable 15 point margin the 1983 provincial elections. The distance shrank to just nine points in 1987 and, after several institutional reforms, including the adoption of double simultaneous vote (or *Ley de lemas*) started growing to hover around 50 points in the most recent elections. As the data in the figure suggest, discretionary transfers seem to have helped consolidate Justicialista dominance in Formosa.

In San Luis the effect seems to run upward: a change in the provincial structure of power seems to feed national relevance. In Formosa, national discretionary monies seem to reward and eventually to enlarge the incumbent’s already notable prevalence. Yet it is difficult to clearly identify the igniting shock. More importantly, both “ignition” mechanisms seem both theoretically sound and consistent with the available evidence. In our view, in order to account for the workings of federations such as Argentina, it is more important to understand the mutually reinforcing effects of provincial dominance and weight in the national fiscal game than to get the exact causal sequence right. As we explain in the next section, provincial dominance in some sections of a federation may compromise democratic governance at all levels.

5. IMPLICATIONS FOR ACCOUNTABILITY AND GOVERNANCE

The dynamics described above suggest an interpretation of the way in which the politics of federalism and decentralization in Argentina impinges upon the quality of its democracy. The reinforcing dynamics between political dominance in the province and bargaining power in the national sphere tend to strengthen the pivotal role not only of governors in general, but in particular of governors of those provinces with the weakest democratic credentials and the least accountability. This means that the “darker” sides of the Argentine political system tend to have a stronger influence on national politics and policymaking. Influence in the national arena is exploited both fiscally and politically, in terms of resources for further

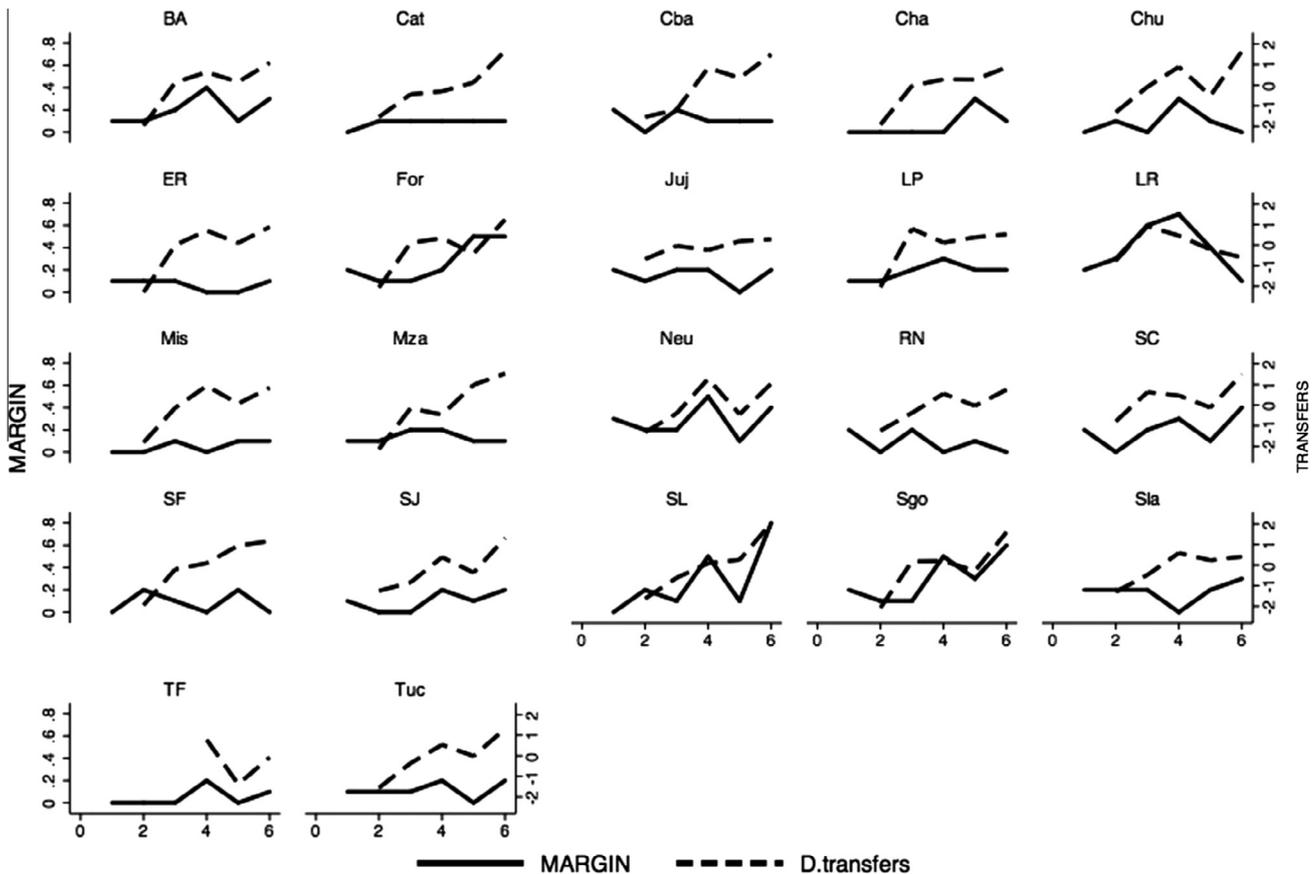


Figure 7. Margin of victory and transfers per capita by province.

developing local dominance, as well as in terms of building national-level political careers.

This leads us, more generally, to refer to some of the implications of the peculiar political and fiscal federal arrangements of Argentina for governance and accountability at the provincial and at the national level. In a nutshell: the peculiar exchanges of tax federal fiscal money and selective national government intervention (or lack thereof) in provincial political affairs for votes in a weak national Congress (populated by legislators responsive to provincial party bosses) and local political mobilization for national elections combine to produce both poor governance and weak accountability at both levels.

We have already established that many Argentine provinces are local bastions of power dominated by political elites, characterized by scarce political competition, weak division of powers, clientelistic political linkages, and often dominance of the media and of business opportunities by those same elites. The construction and maintenance of this political dominance is largely subsidized by intergovernmental fiscal transfers and other forms of assistance from the national political arena.

Gervasoni (2010) presents a compelling argument using rentier theories of the state to explain the weaknesses of democracy in the Argentine provinces as a consequence of the fact that governors finance most public spending from resources not obtained from direct taxes on the province's citizenry. Low levels of democracy are to be expected when subnational units enjoy plentiful central government subsidies and have a weak tax link with local citizens and businesses. The governments of some provinces in Argentina are relatively rich *vis-à-vis* their societies and fiscally independent from their constituencies. These rentier subnational states (Gervasoni, 2010, p. 303) tend to sustain less democratic regimes because incumbents can rely on their privileged fiscal position to restrict political competition and weaken institutional limitations on their power.

Politicians and aspirants to public office have a variety of motivations and bring to the table a vector of various personal characteristics. Different political systems tend to select individuals with different characteristics to public office. Casual observers often find the Argentine political class somewhat lacking compared to what one might expect from the country on the basis of some educational and human development indicators. Relatedly, Argentina is a country that systematically presents governance indicators (corruption, judicial independence, bureaucratic capabilities) which are consistent with those of countries with lower levels of development.³⁸ We believe this "discrepancy" is anchored in the selection of some peculiar type of politicians to become successful at the subnational level, a tendency to further select on those peculiar characteristics at the national level, and a tendency of the subnational actors who reach national power to import into the national level some of the "backward" practices that made them successful.

Successful governors tend to be selected on their ability to play this two-level game of dominating local politics while milking the federal cow. Behrend (2011) argues that in many provinces, which she characterizes as those with "closed games," voters vote for ruling elites because they know through experience that the ruling elite delivers even if what they deliver is not that much, and they cannot be certain that the opposition will be willing and able to do the same.³⁹ In a similar vein, Jones, Meloni, and Tommasi (2012) provide evidence that voters reward those governors with greater ability to obtain additional resources from the federal fiscal game.

As long as this ability is not perfectly correlated with honesty or good administrative skills, this is a further mechanism that weakens the ability of citizens to select and reward good government.⁴⁰ This provincial selection effect "on the wrong characteristics" is consistent with the evidence of the last two sections, which relates weaker institutions and less competitive democratic processes with success in the federal fiscal game, so that the most successful politicians in the provincial game are those best able to subjugate other republican institutions and civil society.

Sadly, the Argentine federal system has various channels by which these problematic provincial politics impinge upon the quality of democracy and of governance at the national level. One such channel is a selection bias on what it takes to become a successful national political player and, in particular, what it takes to become a successful president. De Luca (2008) explores the pathways leading to the presidency in Argentina and emphasizes the provincial-centeredness of those paths and of the construction of political power. The type of ability and political construction that are reinforced and rewarded at the provincial level constitutes a natural springboard from which to develop national influence and, eventually, to reach the top echelons of national power.⁴¹ Relating this with our previous point on "the dark-side effect," it is notable that some of the most successful national level politicians since the return to democracy emerge from the provinces with the weakest democratic credentials; notably, former presidents Carlos Menem, Adolfo Rodríguez Saá and Nestor Kirchner hail from the three provinces (La Rioja, San Luis, and Santa Cruz) which rank the lowest in the index of subnational democracy compiled by Gervasoni (2010).⁴² None of these three provinces has experienced a change in the party in government since the return to democracy (Table 3), and in all of them, the sitting governors Menem, R. Saá, and Kirchner managed to modify the provincial constitution to allow for the indefinite reelection of the incumbent. In addition, these three provinces have been big winners in the federal fiscal game (Tommasi, 2006).

Powerful national leaders, who built their power by playing subnational closed games and by managing to be successful in the exchanges with the national government, seem to have a tendency to import into the center the practices that made them successful in the first place. These tendencies have been identified and stated eloquently by Sawers (1996, p. 13): "The personalistic, corrupt, and elitist politics of the interior is transmitted to the pampas not just by the impoverished migrant but by the local *caudillo* who finds himself in Buenos Aires in a powerful position in the national government."

Menem managed to have the national Constitution modified in 1994 to allow him to run for reelection, and attempted to seek an unconstitutional third term in 1999. The Kirchner family managed to circumvent the two-period limit by rotating the post between husband and wife. Menem and Kirchner, who (like the interim president Rodríguez Saá) had been notorious for their manipulation of judiciaries and of the press in their provinces, continued such practices at the national level during their presidencies.⁴³

Beyond the presidential selection effect, problematic provincial politics also have implications through their link to legislative careers and profiles, with implications for the overall characteristics and importance of the Argentine legislature. The practices that provincial (!) parties use to select candidates for national Congress tend to make most national legislators rather obscure political figures subservient to those provincial political elites (Jones, 2008). Argentine legislators devote relatively little energy to influencing public policy, developing

policy expertise, or providing constituent services; their main operating principle is satisfying the provincial-party boss.⁴⁴ Consequently, these deputies' modest level of constituency service and personal vote-seeking behavior is marginal in scope and impact compared to the amount of resources the provincial bosses obtain in exchange for the ongoing support of "their" legislators (Jones, 2008, p. 72).

Once again, negative selection effects appear to be in operation. The types of personal characteristics required to be pawns of subnational leaders do not seem to be the same personal characteristics which might draw individuals into the national legislature in other competitive contexts.⁴⁵ Studies have shown, for instance, that Argentine legislators are among those with lower levels of education in Latin America (Inter-American Development Bank, 2006; Saiegh, 2010). In addition, Argentine legislators tend to have short stays in Congress and tend not to specialize in legislative committees (Palanza, Scartascini, & Tommasi, 2012). All of these patterns reflect the fact that the Argentine Congress is an arena of secondary importance in the making of national policies.

The weakness of the national Congress has several reinforcing implications which weaken the separation of powers and lower the quality of national policymaking. One of the functions underperformed by the national Congress is that of controlling the President and the various agencies dependent upon the Executive.⁴⁶ In that manner, one of the most important mechanisms of democratic accountability, *horizontal accountability* (O'Donnell, 1998) is weakened. The weakness of the national Congress has also permitted the executive to tinker with the Supreme Court when it is not pliant enough, replicating at the national level those practices of backward provinces.

The weaknesses of the national legislature and the main focus of the powerful governors on fiscal favors leaves the national policymaking arena of Argentina inhabited by short-sighted executives, transient by nature, who try to maximize political advantages in the short term. The two most successful presidents of the post-democratization period, Carlos Menem and Néstor Kirchner, undertook important changes in national policies of exactly opposite sign utilizing the same political logic of exchanges with their fellow provincial barons. This mode of policymaking is one of the explanations for Argentina's infamous policy volatility, which in turn relates to the lack of credibility of its policies, and hence to the failure to achieve desirable economic and social outcomes.

One can put the argument about the sub-national drag to national policymaking in more abstract terms. Following the logic of the geography of political preferences (Rodden, 2010b), one might expect that equilibrium policies in the national domain would somehow represent a weighted median voter, with the weights reflecting malapportionment in favor of the backward provinces. In this way, Argentine problems will just relate to the underrepresentation of its more densely

populated and modern segments, actors who have been dubbed "the orphans of partisan politics in Argentina" by Juan Carlos Torre (2003). But the problem goes beyond that. On the one hand, given the way politics is played within the provinces, and how those provinces' national legislators are selected, it turns out that the actors actually overrepresented are not the median voters of some poor provinces, but rather those provinces' political elites. Additionally, given the fact that, for many small and overrepresented provinces, most national policy issues are not nearly as important as getting a bit more money from the federal pie, it turns out that the decision table is full of actors who have only a marginal interest in the particular policy issue in question. The need to get the approval of some coalition of these actors leads to a pattern of coalition formation that quite poorly represents the substantive interests and opinions behind any specific issue. Such interests enter, if they can, through the executive, and the ways to access or to call the attention of the executive such as lobbying, bribing, and protesting in the streets, turn out to be much less institutionalized and transparent than the Congressional arena (Scartascini & Tommasi, 2012)

6. CONCLUSIONS

This paper adds to the new literature on federalism documenting that real world federal structures are more a story of self-interested politicians involved in a multi-arena contest for political benefits than an exercise in optimal institutional design. This means that institutional reforms such as various forms of decentralization should be interpreted in terms of the broader political context and the incentives it generates, rather than aseptic technical discussions. One of the main aspects emphasized in this paper is that the institutional structure "of decentralization" has implications not only for sub-national, but also for national governance and accountability.

This paper has illustrated the workings of incentives in a highly decentralized federation, one in which these incentives do not align in a direction of good governance and accountability. In that sense, our paper should be read in conjunction with other pieces on this volume (such as Myerson's and Weingast's) that identify potential channels by which a decentralized democracy can allow for better accountability at the national level. For example, Myerson (2006) argues that federal democracy opens career paths for ambitious politicians, who can become strong candidates for national leadership by developing reputations for good government in the province. We highlight the exact opposite channels, where political success at the provincial level is based on weak local accountability financed by common pool resources obtained from the center.

NOTES

1. We draw from and contribute to two literatures, one on the political economy of federalism, and the other on politics and policymaking in Argentina. Both literatures are quite rich, and that enables us to develop an integrated argument in a relatively brief manner, by referring to results and arguments in previous scholarly work.

2. In the words of Snyder (2001, p. 95) "the interconnection among subnational units in a federal system has also upward implications."

3. Excellent (and complementary) recent surveys include Beramendi (2007), Rodden (2006a), Weingast (2005), and Wibbels (2006). In addition to these surveys, there are by now a number of high quality edited volumes containing theoretical and comparative insights and in depth country analyses of some issues in federal politics. See for instance Gibson (2004), Montero and Samuels (2004), and Wallack and Srinivasan (2006).

4. Oates (1972, 1999), Qian and Weingast (1997), Weingast (1995), Boix (2003), Riker (1964).

5. See for instance Cai and Treisman (2004, 2005), Rodden and Wibbels (2002), Wibbels (2000), Bailey (2007), Dixit and Londregan (1998), Obinger, Leibfried, and Castles (2005), Pierson (1995), and Volden (2004).
6. Oates (1999) and Riker (1964).
7. The key to capturing efficiency gains through decentralization is “getting the incentives for local government officials right” (Careaga & Weingast, 2003, p. 403). “Returning to a classical theme of *The Federalist*, the central challenge is how to structure incentives so that local politicians are inclined to collect information to better serve their constituents, while minimizing incentives and opportunities to exploit common-pool problems and undermine the provision of national collective goods” (Rodden, 2006a, p. 361).
8. Work on Mexico has also addressed the unevenness of democracy across subnational units (see for instance Cornelius, Einstadt, & Hindley, 1999), and national level effects of local undemocratic practices (Benton, 2012).
9. “The (National) Government starts to understand that we are the ones guaranteeing governability.”
10. One early exception is the reference to subnational “brown areas” in O’Donnell (1993). Another pioneer effort is the book by economist Larry Sawers (1996) *The Other Argentina: the Interior and National Development*.
11. Benton (2003, 2009), De Luca *et al.* (2002), Eaton (2002), Falletti (2010), Levitsky and Murillo (2005), Gibson (1997), Gibson and Calvo (2000), Jones *et al.* (2002), Remmer and Wibbels (2000), Spiller and Tommasi (2007), Tommasi (2006) and Wibbels (2005).
12. This shift has obeyed in part the dynamics of scholarly discovery, but also the dynamics of democratization. As we argue later in the paper, this dynamic has tended to strengthen the role of subnational actors in national politics.
13. From now on, we will treat the Capital city as a 24th province for brevity.
14. During the 20th century, eight additional provinces were created out of formerly national territories during the presidency of Juan Domingo Perón (from 1951 to 1955), while in the 1990s the national territory of Tierra del Fuego became the 23rd province. The 1994 Constitution granted autonomy to the capital city of Buenos Aires.
15. Benton (2009), Jones and Hwang (2005) and Spiller and Tommasi (2003, 2007), among others.
16. Only three of 17 other federations for which we have data elect all of their legislators in districts that conform to state boundaries (Austria, Brazil, and Switzerland).
17. Until the Constitutional reform of 1994, provinces also sent representatives to the Electoral College to select presidents.
18. Except those few where the constitution prohibits holding elections for national and provincial offices on the same day.
19. To our knowledge, Argentina was the only federal country in the world where this feature held.
20. This subsection draws heavily on De Luca *et al.* (2002) and Jones (2008).
21. In line with this interpretation, De Luca *et al.* (2002) find that contested primaries are less frequent when incumbent governors are able to run for reelection and more frequent in parties that are in the opposition at the provincial level.
22. During the 2011 electoral cycle, candidates for all national offices and from all political parties were elected in open primaries with mandatory vote for all citizens. Some provinces adopted this regime to select candidates for their offices. The significant increase in the size of the selectorates seems to have done little to dilute the dominance of party bosses in the candidate selection procedure, as the overwhelming majority of these races featured only one list in each party (Pomares, Page, & Scherlis, 2011).
23. Until the constitutional reform of 1994, senators were indirectly elected by provincial legislatures.
24. As argued later in the paper, and more deeply in Gervasoni (2010), Jones, Meloni, and Tommasi (2012) and Tommasi (2006), even the automatic part of the sharing system is the source of various incentives that weaken accountability and induce loose fiscal behavior.
25. In an excellent overview on the sources of subnational soft budget constraints across countries, Wibbels (2003, p. 9) states: “Soft budget constraints have historically taken on a number of forms in various national contexts, including rediscounts of local debt by central banks, intergovernmental transfers that reward local budgetary disequilibria, the assumption of local debt by national governments, lack of controls on subnational borrowing autonomy, and even the issuance of script by some provincial governments.” After that general statement, Wibbels goes onto describe one archetypical case in which all these channels have been utilized at some point, and his country of choice is ... Argentina! (Wibbels, 2003).
26. Cited in Gibson (2005). Carlos Arturo Juárez was the longtime strong figure in the politics of the province of Santiago del Estero. He was first elected as governor in 1949 and regained control of the province after the country returned to democracy in 1983.
27. “*Sergio, I’m not giving you the province; I’m lending it you.*” Nestor Kirchner was governor of Santa Cruz for three periods from 1995 to 2003, when he became President. Sergio Acevedo was his successor in the province.
28. Even in the more developed regions migration has created pockets of poverty. In the province of Buenos Aires, for example, there are densely populated slums outside the federal capital.
29. Some examples of local hegemonic party rule include the Juarez family in Santiago del Estero, the Rodriguez Sáa brothers in San Luis, the Menem brothers in La Rioja, the Saadi brothers in Catamarca, and the Romeros in Salta.
30. The endurance of subnational “authoritarian enclaves” is (also) extended when provincial conflicts can remain localized and the opposition can be cut off from allies and resources in the national arena (Gibson, 2005). Giraudy (2009,2010) explores the configurations under which national executives promote the continuity of weakly democratic subnational regimes.
31. Note that the changes in this regard in the US States have been precisely in the opposite direction: that of imposing term limits on governors.

32. Using data from 1987 to 2005, Scherlis (2005) shows that provinces in Argentina with higher levels of patronage present lower levels of political alternation and more “closed” and stable party systems. Similarly, building on “rentier” theories of the state, Gervasoni (2010) finds a negative relationship between the size of the provincial payroll and levels of subnational political contestation. Calvo and Murillo (2004) show that public employment boosts incumbent electoral support when the Peronist party is in power.

33. By 1999 provincial governments were in charge of 96% of overall education spending, 70% of overall health spending, and 62% of spending on social programs related to various forms of poverty relief.

34. There are also instances of the president trying to circumvent the province and going directly to the lower level of government, the municipalities. But even that channel is conditional on the strength of the grip of the governor. If the majors of most important municipalities are aligned with the governor, such “bridging” will not take place.

35. To address potential endogeneity and simultaneity problems that may bias our estimation, two of our three key explanatory variables (*Vote Share* and *Margin*) precede in time the observation of national level influence. While this does not guarantee that the independent variables are not correlated with the error term, it certainly makes this problem less likely.

36. In particular, the index is a composite index of the following measures: *Gov Votes*: measures the average % of votes received by the winning party for gubernatorial elections; *Victory Margins*: measures the average vote difference between the winning party and the runner-up party for gubernatorial elections; *Turnovers*: This variable measures the extent of political alternation; *Seats*: measures the average % of seats controlled by the governor’s party during 1983–2003; *Constitutions*: Measures the extent to which provincial constitutions allow for the governor’s reelection; and *Effective Number of Parties*: Measures the average degree of fragmentation in the provincial Chamber of Deputies.

37. Industrial promotion is a system of tax exemptions that dates back to the mid-1950s. During the 1990s, the system was extended to include more sectors. San Luis, along with La Rioja, and Catamarca, were the main beneficiaries at that time (Tommasi, 2006).

38. See for instance Inter-American Development Bank (2006), Spiller and Tommasi (2007), and Saiegh (2010).

39. Behrend uses the concept of ‘closed game’ to refer to sub-national political regimes where a family, or a reduced group of families, dominates politics controlling access to top government positions, the state apparatus, the media and business opportunities; and where through their control of the provincial state, they develop a political clientele.

40. This is consistent with the argument in Careaga and Weingast (2003) who show that the larger the share of subnational revenues that comes from central sources, the lower the ratio of public good provision to rents to maintain power.

41. Clearly, being the dominant boss of a province is neither necessary nor sufficient for bidding to the Presidency or for becoming a salient national figure. But it is also clear that being a dominant governor is a natural springboard for that. Furthermore, since the return to democracy, presidents with such pedigree have been the only ones able to ensure governability in Argentina, in what has been dubbed as a possible “new iron law of Argentine politics” (Calvo and Murillo, 2005).

42. Adolfo Rodríguez Saá had a brief stint as interim President during the emergency of December 2001. At that point he was the most salient of Peronist provincial governors, at a moment in which that deep force of Argentine politics emerged to the fore in the midst of the institutional crisis after the fall of President de la Rúa. Rodríguez Saá, descendant of a family that has dominated San Luis politics since the creation of the province in 1860, had been governor of San Luis since the return to democracy in 1983 until his accession to the Presidency in 2001. At that time he was replaced by his Vice-Governor, and at the next election his brother Alberto Rodríguez Saá became Governor, a post he left after two terms to run for President in 2011.

43. See for instance Chávez (2004), Chávez, Ferejohn, and Weingast (2011), and Pérez-Liñán and Castagnola (2009) on the Judiciary, and Committee to Protect Journalists (2009), Di Tella and Franceschelli (2009) and O’Grady (2009) on the press.

44. The statement in the text is a characterization of a majority of legislators, but not necessarily of all of them. Micozzi (2009) provides a rich characterization of different career paths through the Argentine legislature and identifies a minority of legislators with *subnational* executive ambition who attempt to provide some constituency services. Even then, given the workings of Argentine Congress and policymaking, those “services” are more in the nature of signaling and credit claiming through declarations than actually “bringing home the bacon” (Micozzi, 2009, p. 33).

45. A position in the national congress is sometimes even a punishment for important provincial figures. Lodola (2009) cites opposition Santa Cruz leader as saying “This happened twice. When Eduardo Arnold was vice-governor and started to be a nuisance, [governor Néstor Kirchner] sent him as national Representative. That was it, he killed him. It didn’t matter that he was his deputy. At another time, Vice-governor Sergio Acevedo started to grow in the province. He was also sent as national Representative” (Lodola, 2009, p. 263).

46. For example, the Argentine Congress plays a marginal role in the formulation and execution of one of the most important pieces of legislation decided each year, the national budget (Abuelafia, Berensztein, Braun, & di Gresia, 2009; Bercoff & Meloni 2009; Spiller & Tommasi 2007).

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Constitutional Structures for a Strong Democracy: Considerations on the Government of Pakistan

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Summary. — I consider structural reforms to democracy in Pakistan using ideas from the analysis of oligopolistic competition and game theory. Successful democracy requires strong, flexible political parties and high-quality, responsible leaders. Parliamentary responsibility for government helps develop strong parties. National parties should be able to nominate candidates in all elections at all levels. For flexibility, members of the National Assembly should be free to form new parties. With federalism, provincial and local democracy also reduce political entry barriers. Approval-voting open-list proportional representation can strengthen democratic leadership in all communities. Runoff elections would allow more flexible party competition in single-seat districts.
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Key words — Pakistan, Asia, political competition, political party system, federalism, local democracy

1. INTRODUCTION

How can constitutional reforms improve the chances for successful democracy? The importance of this question has never been greater anywhere in the world than in Pakistan today. It demands our best efforts to answer it, but we do not know enough. Democratic constitutional structures can differ in a bewildering variety of dimensions, each of which can subtly affect the incentives of political leaders. In this paper, I consider some of the important constitutional questions that face Pakistan today. I try to offer some specific suggestions, based on economic and game-theoretic analysis, but I cannot claim to have proven optimality of any suggestion here. Indeed, an American author cannot offer anything but general analytical principles and tentative suggestions to great political questions in this country. But these questions are so important, to Pakistan and to the world, that we must all offer our best analytical efforts to study them.¹

My hope is that the suggestions here may be worthy of serious consideration by concerned citizens of Pakistan, and that such consideration may help to extend the focus of political debate. Readers may find merit in some of my arguments and may disagree with others, but I hope that a reader who considers carefully his reasons for disagreeing may thereby gain a deeper understanding into the vital constitutional questions that face this country today.

To think about democratic political competition, we can begin with ideas that economists have developed for studying competition in markets. Political parties or factions are suppliers of government services to the public in the political market, but profits to political suppliers are generally called corruption. In a nondemocratic one-party state, the ruling faction has a political monopoly and can extract such corruption-profits from the general public, like the monopolistic supplier of any essential service. The basic rationale for democracy is that political competition should motivate democratic political parties to offer their constituents better public service at a lower corruption-price.

National democracy can never approximate the economic ideal of perfect competition, however. The difficulties of assigning distinct accountability for many aspects of public policy severely constrain the ways that public power can be

divided among different independent suppliers. National government is too complex to be entrusted to any group that has no proven record of administrative competence. Smooth transitions of power require that outgoing parties should have some hope of returning to power, provided that they do not abuse their power at the end. For all these reasons, national democratic competition can never involve more than a relatively small number of serious political parties. So it may be misleading to describe democracy as “government by the people”; instead we should see democracy as government by political parties which must compete for popular approval. In terms of economic analysis, democratic competition should be understood as a kind of imperfect oligopolistic competition, in which several large suppliers may expect to earn profits that are positive but less than what a monopolist could take.

There are several general lessons of oligopoly theory that may be taken from economics to the analysis of democratic systems. In the short run, given the terms that other suppliers are offering to the public, any one supplier’s competitive incentive to offer better service at a lower price depends on the *elasticity of demand* that the supplier faces. In the longer term, however, if the set of suppliers is fixed, then they could try to establish a collusive agreement to share monopoly profits among themselves, deterring competitive deviations by threats of competitive responses that would reduce profits for all of them. Such collusive agreements are difficult to sustain, however, if the elevated profits would attract new competitive suppliers to enter the market. So the level of profit-taking by suppliers in a long-term equilibrium may ultimately depend on *barriers to entry* against new competitors. In general, these demand elasticities and entry barriers can depend on many details of market structure, which can thus affect the competitive conduct of oligopolistic suppliers and their performance in serving the public.

* This paper was written for presentation at Lahore University of Management Sciences on April 7, 2009, and it has been profoundly influenced and improved by comments and suggestions from Adnan Khan, Ali Chema, and Asim Khwaja. The author gratefully acknowledges their help but accepts all responsibility for any errors that remain.

So the effective force of competition in a democracy may depend on structural details of the constitutional system. The elasticity of demand for a political party is its possibility of gaining or losing offices in future elections, and such possibilities depend on the division of power among offices in different levels or branches of government. Barriers to entry are lowered when more political leaders have independent opportunities to demonstrate their governing capacity, and such opportunities are regularly found in independently elected provincial governments of federal democracy, and in ministries of multiparty parliamentary government. Thus, federalism and multiparty parliamentary government can enhance the competitiveness of democracy.

Although the basic purpose of democracy is to compel politicians to compete for the benefit of the public, democratic constitutional structures are principally designed by politicians who are not normally interested in making the system more competitive for themselves. But in this regard, the difficult circumstances in Pakistan today may contain a deep source of hope, as leaders in all major parties understand now that the survival of democracy itself depends on the public seeing some real benefits from democratic government. So today, Pakistan's democratic politicians and voters may all share a stake in reforms that can make democracy more competitive.

The suggestions that are considered here may be grouped into two categories: provisions that can foster a flexible system of strong political parties at the national level, and provisions that can extend the supply of democratic leadership more deeply to provincial and local levels. Democracy begins with political options being offered to voters, and so my review of constitutional questions begins by considering the nomination of candidates by parties and the formation of parties by coalitions in the National Assembly. Then I review the advantages of parliamentary government for developing strong cohesive national parties. After noting that a democratic system based exclusively in one assembly could be very susceptible to collusion, I then discuss the importance of a federal division of powers, which creates autonomous units of government where more politicians can prove their qualifications for leadership. I then focus at length on how to design local elections so that parties will build a stronger base of local democratic leadership, which can become the primary point of entry for new political talent. I next review the problem of entry barriers against third parties in plurality elections for provincial and national assemblies. Finally, broader regional ties are briefly discussed.

2. NOMINATION OF CANDIDATES AND FORMATION OF PARTIES

A system of democratic political competition must be ultimately based on two kinds of fundamental democratic rights: the rights of voters to elect their representatives by freely choosing between candidates nominated by different parties, and the rights of politicians to organize parties that nominate candidates for election.

The basic democratic incentive for leaders to improve government services for the public cannot apply to members of the public who lack the right to choose freely between candidates of different parties. The argument for universal adult suffrage is derived from this basic fact. It is easy to see how established local leaders might induce some of their clients to testify against the extension of full voting rights into their community. But when voting rights are limited or denied for any group, members of this group will be exposed to greater

risks of being ignored or ill-served or exploited by their leaders. This argument strongly suggests that individuals' rights to vote and political parties' rights to compete should be extended fully to the Tribal Areas, as to all other parts of the country.² An individual's right to vote is incomplete without the right to have major political parties competing for this vote. So nothing should prevent any national political party from nominating candidates in all elections throughout the country, as long as the party is endorsed by at least some minimal number of members of the National Assembly (say, more than one-eighth of the Assembly). In particular, rules that have prevented political parties from sponsoring candidates in Tribal Areas and in local elections should be repealed.

The integrity of elections can be more strongly defended when two or more national parties have a recognized stake in their rights to nominate competitive candidates. Democracy has sometimes been undermined by abuses of nomination rules, for example in some Russian provincial elections, by disqualifying opposition candidates, or by adding similarly-named candidates to confuse their supporters. Konitzer (2006) has argued that such abuses depended on the absence of strong competitive parties in Russian democracy. A national party should have an interest in maintaining a national reputation for resisting such abuse of democratic rules, which could undermine the party's ability to compete democratically for power. A political party clearly needs a reputation for defending its own candidates' rights to compete freely and fairly in elections, but its national reputation could also be tarnished if it tolerated such abuse by local officials whom it has sponsored.

This essential investment in the democratic process can be strengthened when party leadership is based in an elected assembly. When party leaders owe their positions to success in popular elections, they have a direct personal stake in maintaining the system of electoral competition. Members of a legislative assembly regularly develop working relationships that cross party lines, and such connections can help members of the assembly to identify their shared interest in maintaining a system of elections in which they all can compete fairly. Thus, as suggested by Benazir Bhutto and Nawaz Sharif's Charter of Democracy, election commissions should be constituted with transparent and effective input from all major parliamentary parties.

For a flexible system of parties based in the National Assembly, with low entry barriers, members of the National Assembly should be free to form new political parties. Unfortunately, the right of elected representatives to change parties is restricted under Article 63A in Pakistan's constitution. I would suggest that this provision, from the 14th amendment, may deserve serious reconsideration. This amendment may have been justified by an intention to prevent members of the National Assembly from being corruptly induced to undermine the governing coalition by changing their votes. But by limiting the freedom for MNAs to make independent political decisions, this article concentrates more power in the hands of a few party leaders and makes it harder for National Assembly to generate new political coalitions.

The adverse effects of Article 63A could be somewhat mitigated by requiring that a party's action against a defecting member should be approved by a supermajority (say two-thirds) of the party's members in the National Assembly, and by allowing any defecting members to retain their seats until a by-election is held in their district, where they should have a right to run for re-election as independents or members of another party. Thus modified, the article would apply only against defecting votes that would not be approved by the

member's constituents. In any case, this article should not provide sanctions that deter members of the Assembly from endorsing a new party and carrying its banner in future elections.

Given that corrupt floor-crossing transactions must involve a rival party leader as well as the defecting MNA, one could also suggest, as an alternative, that the prime minister's oath of office might include a pledge that he has never recruited any parliamentary support by bribes or threats. In the long run, however, there is a more reliable deterrent. A politician cannot hope to win free elections without a reputation for reliably fulfilling promises to the voters, and the need to maintain this reputation should be the essential deterrent against selling public parliamentary votes for corrupt private benefits.

3. ADVANTAGES OF PARLIAMENTARY GOVERNMENT

Pakistan's 1973 constitution has been written as a parliamentary system, in which executive authority is exercised by ministers who are responsible to the National Assembly. This constitutional choice seems wise, as evidence indicates that vesting executive authority in a popularly elected president can significantly increase the risk of democracy breaking down.³ Any government is sustained by the work of many political agents who must have general confidence in their leadership, but presidential democracy overlays an assumption that one leader can create a government by his personal mandate from the population at large. When a president is tempted to rely on this personal mandate instead of maintaining broad political support, the result is to weaken party discipline or convert it into personal loyalty.

Parliamentary responsibility requires that the leadership of a governing coalition must be based in the National Assembly. Parliamentary democracies have stronger and more cohesive political parties, because back-benchers in the parliament know that their party leaders cannot hold power without maintaining their confidence, and so parliamentary leaders can make more credible long-term promises to motivate party discipline. Thus, as we look for ways to sharpen democratic competition among parties, we should appreciate the way that a parliamentary system helps to make the parties more coherent and more firmly based in the elected assembly.

Another advantage of parliamentary systems may be seen in the political crises that occur when a senior political leader suffers a personal scandal or is convicted in a court of law. A presidential system can make such crises even more severe, because it is very difficult constitutionally to replace a popularly elected president before the end of his term, even after he has lost most of his political support. Under a parliamentary system, in contrast, the ability of a party or coalition to exercise government authority should not be affected by the personal problems of one leader. From this perspective, it seems that a court's conviction of Punjab's chief minister should have been less problematic for democracy than the centrally-appointed governor's subsequent action to take power from the governing coalition in the province (as occurred in early 2009).

In a parliamentary democracy, the president is supposed to serve as a nonpolitical head of state, above the process of parliamentary coalition-building. To fulfill this role, it is essential that the president must not interfere with the ability of a majority coalition in the National Assembly to give its chosen ministers full authority over all executive agencies of the national government. The constitutional requirement (from

Article 48-(1)) that the president must act only in accordance with the advice of the prime minister or cabinet should be consistently applied to all executive functions of the president. In this regard, the most problematic section may be Article 58-2(b), which allows the president to dissolve the National Assembly even when its cabinet retains the confidence of a parliamentary majority. The mere threat to apply this power could be used by a president to coerce leaders of the National Assembly. So the basic principle of parliamentary sovereignty provides substantial reasons for recommending that this clause 58-2(b) be repealed.⁴ If it were not, I would suggest that it could be mitigated by adding a requirement that, when a president invokes this clause to dissolve the National Assembly, the president must also resign his own office within 120 days, unless his act of dissolution is validated by a majority vote in the new National Assembly after the general election.⁵ With this modification, a president would be unlikely to use this clause against a parliamentary majority unless he expected his action to get broad popular support in the subsequent election.

To strengthen the party system at all levels, I would suggest that the principle of parliamentary responsibility can be equally recommended for provincial and local governments, just as at the national level. Under this principle, a provincial chief minister or local nazim (mayor) should exercise executive authority only with the confidence of a majority in the respective assembly or council. If the difficulties of coalition formation seem problematic, the governing coalition could be given more stability by requiring (as in Germany) that parliamentary votes of no-confidence must be constructive, that is, that any motion of no-confidence must also name a new leader (prime minister, chief minister, or nazim) to form the next government.

There may be risks from basing national political competition too exclusively in the national assembly, with its strong parliamentary parties. If entry into the democratic arena is only through the national assembly, then the major factions of the assembly could maintain a collusive agreement to share the benefits of power among themselves and avoid costly competition to better serve the public. (The French Fourth Republic, for example, has been seen as a case where the concentration of political power in one assembly may have allowed democratic politics to become less focused on interests of the public.) Competitive democracy needs some other route for candidates to enter the national political arena. In a federal democracy, provincial and local governments can provide such alternative routes for competitive entry into national politics.

4. FEDERAL DIVISION OF POWERS

Federalism is widely admired by political scientists.⁶ From our perspective, the significant political benefits of federalism are in the ways that it affects democratic competition. For example, a regional ethnic group's identification with one political party can be broken by the development of multi-party competition in provinces where this group is predominant. Most importantly, provincial and local democracy in federalism can make national democracy more competitive by lowering barriers to entry into national politics.⁷

In a federal democracy, if corrupt noncompetitive government was generally expected at both national and provincial levels, then a provincial leader who provides better public service could become a serious contender for national political power. Thus, provincial democracy can make national

democracy more competitive, by creating more opportunities for independently elected politicians to demonstrate their abilities to govern. (See Myerson, 2006, for a rigorous formulation of this argument.)

Similarly, elected members of local councils who improve public service in their local government can develop reputations that make them stronger candidates for power at the provincial level. Thus in a federal system, local, provincial, and national democracy should create a natural ladder on which politicians can hope to advance by providing better public service. That is, the possibility of democratically advancing to higher levels of power in a federal system increases the elasticity of political demand for politicians at each level below the top, and thus it increases their competitive incentives to offer better public service.

This principle of democratic advancement in federalism may sometimes seem to threaten the interests of established national leaders. When top political leaders fear potential rivals from below, they may prefer to exercise direct political control over lower levels of government, to make political advancement from lower levels depend more on demonstrations of loyalty to superiors than on service to the public.⁸ But a party can be competitively weakened if its leaders try to regulate advancement within the party in this way. The party's competitive strength depends on its local agents' efforts to win popular support, and their incentive to win such support by local public service is increased by the principle of democratic advancement. Thus, although the competitive pressures of local democracy may sometimes seem to threaten the short-term interests of some party leaders, local democracy can strengthen a party in the long run, by providing a better measure of how successful its local agents are in winning popular support. However, back-bench members of the national and provincial assemblies may also have some incentive to resist any devolution of power to locally elected councils, which could compete with the assembly representatives as local distributors of political patronage.

At the end of General Pervez Musharraf's regime in 2008, Pakistan had an established framework for democracy at the local, provincial, and national levels. Although local elections were introduced during the period of military rule,⁹ my analysis would suggest that local democracy can greatly strengthen the entire democratic system and so should be maintained.¹⁰ But local democratic competition under the Musharraf regime was weakened by restrictions against parties' participation in local democracy. The rights of national parties to sponsor alternative candidates in local elections can be vital to sustaining local democracy. In all countries, local governments can often become dominated by one local leader, but such local bosses should know that, if they fail to provide good public services to the voters, then they could face serious challengers sponsored by a rival national party.

Conversely, any party that is endorsed by at least some minimal number of members of a provincial assembly should be able to nominate candidates for any election in the province, including the election of National-Assembly representatives for districts in the province. Such potential for provincially-based parties is essential for provincial democracy to create autonomous routes for new parties to enter into national politics.

Officials of local and provincial governments must be subject to higher national law, but local and provincial governments must also have some constitutional protection against selective politically-motivated interference in their domain. There is always a risk that national leaders may be tempted to use the power of the national government to undermine a

provincial or local leader who is seen as a potential political rival. In some countries, leaders of the national government may try to exercise control over provincial governments, by threats of budgetary reductions and administrative actions against provinces that are controlled by political rivals of the national leadership. But the political benefits of federalism depend on voters having the right to entrust their local and provincial governments to local leaders who may become rivals for higher national power. So it is important that some scope of administrative and budgetary authority for provincial and local governments should be defined and protected by the constitution.

The constitution of Pakistan includes provisions that define separate administrative responsibilities to the national and provincial governments. From our perspective here, it is only essential that the scope of administrative and budgetary authority for provincial governments should be substantial enough that a record of successful leadership in provincial government can be a strong qualification for national leadership. For democratic accountability, the scope of responsibility for each level of government needs to be clear, and so it may be desirable to keep the concurrent list small. It can be suggested also that the constitution should similarly define and protect a scope of authority for elected local governments.

The integral autonomy of a local or provincial government requires that its administrative staff must know that their long-term careers are dependent on the elected leaders of the unit of government that they serve, not on a wider government bureaucracy. Agents of higher levels of government should not directly interfere in the administrative work of provincial or local governments within their constitutionally mandated domains. As a general principle, legal actions by the national government against lower levels of government should require some independent sanction, either from an independent judiciary¹¹ or from the voters. When a provincial government is in crisis, for example, this principle could support Pakistan's centrally-appointed governors having powers to call new provincial elections, but not to take direct control of the provincial government without giving voters an opportunity to judge.

Provincial budgets should not be subject to political manipulation by federal officials. Under the constitution, rules for distributing revenues to provincial governments are to be formulated by the National Finance Commission at 5-year intervals. Given the vital importance of these budgetary distributions, the commission's work will inevitably require difficult compromises, as there is no perfect formula. The essential requirement is to establish a distribution rule that is transparently verifiable, so that budgetary deviations from this rule can be publicly scrutinized for any indication of the federal budget being used to influence provincial politics.

One potential risk of federalism is that it can exacerbate threats of regional secessionism.¹² This risk is greatest when individual provinces are large enough to be viable as independent states, so that a provincial leader could be tempted by the possibility of becoming the leader of a sovereign country. The straightforward remedy for this risk, I would suggest, is to have smaller provinces. From our perspective, decreasing the size of provinces increases the number of opportunities for different provincial leaders to demonstrate their ability to offer good government, and so it can also make democracy more competitive. It is essential only that individual provinces should be large enough that a record of successful provincial leadership can be recognized evidence of a politician's qualifications for higher national leadership.

It is always politically difficult to consider changes of provincial boundaries, because so many politicians have vested interests in the existing structures. (In Pakistan's constitution, Article 239-(4) specifies that a constitutional amendment that would alter the limits of a province must be passed by a two-thirds vote in the provincial assembly as well as in each house of parliament.) But a subdivision of Pakistan's largest provinces might not have much effect on the distribution of power among the major political parties, as each party could expect to retain power in most parts of the provinces that it currently controls. So there may be some hope that the question of increasing the number of provinces could be seriously considered in Pakistan today. It would seem potentially important. Pakistan inherited its provinces historically from the much larger British Raj, and now Punjab alone includes about half of Pakistan's population. Even when separatism is not in question, the prospect of one provincial government having power over so much of the country creates political tensions that can destabilize democracy. (See Hale, 2004.) Provincial leaders should be able to challenge national leaders democratically, by providing better public service in their province, but not by contesting the national government's authority over so much of the country. As a general rule, one might suggest that no province should include more than 20% of the national population.

5. SYSTEMS OF ELECTION FOR LOCAL COUNCILS

The electoral system is an essential component of the political game by which power is allocated in a democracy. We should consider features of electoral systems in some detail, because electoral rules can fundamentally influence the competitive conduct of politicians and ultimately the performance of democratic government. (See also Myerson, 1999.)

Under Pakistan's local government reforms since 2000, local union councils have been popularly elected by a voting rule called single nontransferable vote or SNTV. (See Cheema, Khwaja, & Qadir, 2006; Keefer, Narayan, & Vishwanath, 2006.) SNTV is a kind of multi-seat proportional representation system, but each voter must cast a ballot that endorses one single candidate. There is no option to vote for any party list; each voter must choose one individual candidate among those available for the seats. Historically, SNTV was introduced in Japan in 1900 by oligarchic rulers who had an interest in keeping democracy weak (Ramseyer & Rosenbluth, 1998), and it is important to understand how it can do this.

Under Pakistan's original local-election system from 2000, for example, a voter could cast one vote for a candidate to fill the eight general unreserved seats on the council, plus separate votes for several other categories of reserved seats for women, minorities, and disadvantaged groups. To see the problems with SNTV, imagine that two factions are competing to control the council, and each has nominated enough candidates to take a majority of the council. Suppose that one faction is preferred by a majority of voters, but this faction has not organized its supporters or directed them how to vote. Without organizational discipline, it could easily happen that most of this faction's supporters might give their general-seat votes to the faction's most popular candidate. Then the other faction could win all the other general seats, even with support from less than half of the voters, by organizing its supporters into seven equal-sized subgroups and directing each group to cast its ballots for one of seven candidates for the faction. Such a victory for the minority faction would depend on its leaders knowing accurately how many supporters they have

in each subgroup, and on these supporters being ready to obey their leaders' directions about how to vote.

Thus, in the contest for power, SNTV favors factions that have supporters who will obey their leaders' coordinating directives about how to vote. So SNTV tends to reinforce the power of corporate or tribal leaders who exercise authority in patron-client relationships. Democratic elections are supposed to be opportunities for people to choose their leaders, but this basic function of democracy is undermined when SNTV compels voting blocs to identify their coordinating leadership before the election.

These coordination problems under SNTV become more severe when the number of seats being allocated is larger. So the problems of SNTV may have significantly contributed to the decision in 2005 to decrease the size of the local union councils from 21 to 13.

This bias against less-organized groups of voters can be eliminated by changing to a proportional representation system in which people vote for an entire party list, so that the list that is endorsed by the most voters will always get the most seats.¹³ But if people can only vote for a party list, then there is no electoral competition between members of the same party list (as the party's leadership decides how the party's seats are allocated among its listed candidates). For intra-party democracy, I would suggest, it may be better to use an electoral system in which people can vote both for a party and for individual candidates within the party's list. Under such an open-list proportional-representation system, seats are allocated to each party in proportion to the total number of voters who support it, and then the seats of each party are given to the candidates in its list who get the most individual votes.

In the open-list proportional-representation system that is used in Brazil, for example, a voter must name one candidate on one party's list. (See Ames, 2001.) So the Brazilian system looks very similar to SNTV, in that each voter expresses a preference for one individual candidate. But in the Brazilian open-list system, a party's supporters can make independent uncoordinated choices among the candidates in the party's list without affecting the total number of seats that the party gets. Thus, the Brazilian open-list system seems a clear improvement over the single nontransferable vote system that has been used in Pakistan's local council elections (and in Afghanistan's legislative elections).

When a voter can support only one individual politician, however, the voter becomes dependent on this politician to represent the voter's interests. So like SNTV, the Brazilian rule of voting for only one individual candidate can reinforce patron-client relationships of political dependency.

The unique-dependency problem can be solved, I would suggest, by allowing each voter to express approval for any number of candidates in the party list that he supports. Under such an approval-voting open-list system, after each party gets seats in proportion to the number of voters who support it, then the party's seats are allocated to those among its candidates who are approved by the largest numbers of party supporters. In contrast to the Brazilian single-vote system, which encourages each candidate to cultivate a small bloc of voters who look exclusively to him for representation, this approval-voting system encourages all candidates in a party list to cultivate good reputations for representing all their party's supporters. Thus, allowing voters to approve as many candidates as they want in their chosen party list can help reduce narrow dependency on patron-client relationships.¹⁴

(One might also consider a nonlist approval-voting system in which a voter can approve candidates from many parties, and then the available seats are allocated to the candidates

who are approved by the most voters, regardless of party. Such a system would encourage all candidates to cultivate broad popular approval, but it could not guarantee any proportional representation of political minorities. In a union that includes just two villages, for example, if people prefer candidates from their own village then a likely result would be to elect a council entirely from the larger village. Under a proportional-representation list system, however, such a situation would encourage the formation of a new list for the smaller village, whose residents could then get representation in proportion to their size.¹⁵)

Allowing major national parties to nominate candidates in local elections gives the national parties a vital interest in supporting the institutions of local democracy and in making sure that local elections are fair. The participation of major parties can make local democracy more competitive, when rival parties sponsor challengers to established local leaders. But I have also argued that competitive local democracy can provide the basis for strengthening national political parties. Any political party must rely on the efforts of its local agents to build popular support in their communities, and these local agents must be motivated by an understanding that their long-term career rewards in the party will depend on some effective measure of their service. The approval-voting open-list elections can provide a particularly effective way for a party to measure the breadth of support that each of its local candidates has helped to bring to the party. Thus, a party can be strengthened when its local activists know that their political advancement may depend on their success in local elections. The promotion of successful local candidates might reduce the importance of personal loyalty to superiors in the party hierarchy, as an alternative criterion for political advancement. But party leaders who recognize the contributions of their successful local candidates should be rewarded by a stronger and more competitive party.

We have focused on local council elections because they can provide the primary route for thousands of local leaders to enter democratic politics, thus lowering political barriers to entry and strengthening the entire democratic system. The significance of these local councils has been substantially reduced, however, by the system of giving executive authority to a local union nazim (or mayor) who is separately elected (in a joint ticket with the assistant naib nazim). When one local official's election matters so much more than all the others, the basis of local democracy becomes narrower. So to strengthen the local base of democracy, I would suggest that local councils should be given the power to elect and replace their local nazim, instead of having nazims separately elected. That is, the arguments for parliamentary democracy should be applied equally to local governments at all levels, including the local union governments as well as the larger units of local government at the tehsil and district levels.¹⁶

At the district level of government, under the recent rules, the district council is formed by the nazims of all local unions within the district, plus a small number of other representatives elected by the union councilors. This system of constituting district governments from union governments seems well designed to encourage cooperation between the different levels of local government. Certainly, a district nazim should have a strong incentive to maintain cooperative relationships with the local union nazims when they are members of the district council that elects him. But I would suggest that the district council should also include some representatives who are elected at large by the voters of the whole district, using the approval-voting open-list proportional representation system. Even if these at-large representatives constituted only a small

fraction of the district council, they could make a vital contribution to district politics, as representatives with broad approval from voters throughout the district. It would be natural to suggest that the district nazim should be chosen by the district council from among these at-large representatives. Then the position of at-large representative in a district council could become an important step in the ladder of democratic advancement (between local union councils and provincial assemblies) for politicians who earn the trust of voters in the district.

6. PROBLEMS OF PLURALITY VOTING IN NATIONAL AND PROVINCIAL ELECTIONS

General seats in Pakistan's National Assembly and provincial assemblies are elected in districts, where each district elects a representative to fill one seat in the assembly. (A small fraction of the seats, those reserved for women and minorities, are allocated by proportional representation based on the allocation of general seats.) The simple plurality or "first past the post" system of election in single-seat districts has been widely used in many countries throughout the world, but it creates substantial barriers against the entry of more than two serious parties in any district. In India before 1967, for example, the Congress party could regularly win over 70% of the legislative seats with less than 48% of the vote as long as the opposition votes were split among many parties' candidates (Guha, 2008, p. 420). For the opposition's popular support to be expressed effectively in plurality elections, the various opposition parties had to negotiate agreements to have only one among them competing in each district. In any other competitive market, such agreements to restrict competition would be considered a conspiracy against the public, but in plurality elections such noncompetition agreements are considered responsible political leadership. In plurality elections, voters must be focused on two serious candidates, with an understanding that a vote for any other candidate would be wasted, as it could not influence the serious race.

There may be some advantages to organizing the great issues of politics into a simple choice between two parties, each of which offers a coherent political plan aimed at a majority of voters. But the strong incentive against supporting third-party candidates in plurality elections should be recognized as a political entry barrier that weakens democratic competition.

To permit more flexibility in the number of serious candidates who can compete to represent a single-seat district, one could suggest a two-round runoff system, in which a second election is held if no candidate gets a majority of the votes in the first round. The candidate with the most votes in the second round wins the seat, as in plurality voting, and so voters generally focus on two serious candidates in the second round, but more candidates can be seriously considered in the first round. In French assembly elections, any candidate with over one-eighth of the first-round vote can compete in the second-round runoff, but the voters generally understand that the first-round results determine which two candidates are serious contenders in the second round.¹⁷ One could also suggest an instant-runoff election, in which voters rank the candidates, ballots are counted as votes for the top-ranked candidate, then are recounted iteratively after eliminating low-scoring candidates and transferring their votes to the next-ranked candidate.

An alternative system that I would suggest is approval voting, where a voter can approve any number of candidates (but giving just one approval vote to each) and the candidate who

is approved by the most voters in the district wins the district's seat. Approval voting would allow more than two serious candidates to compete for broad popular support in the center of the political spectrum, but it has not yet been widely applied.

If a change from single-seat districts can be considered, I could also suggest open-list proportional representation in small districts that have (say) three seats for each district. Just as plurality voting in single-seat districts can deter voters from seriously considering more than two parties, so proportional representation in districts with M seats tends to deter voters from focusing on more than $M + 1$ parties. (This $M + 1$ rule has been analyzed by Cox, 1997.) So when each district has three seats, the number of serious parties in any region could range from two to four, which could enable the democratic system to respond more flexibly to new political forces.

7. BROADER REGIONAL CONNECTIONS

In recent decades, democracy in Europe has been consolidated by a system of gradually expanding political and economic ties between neighboring countries based on their shared commitment to democracy. Such a plan might also be worth suggesting to consolidate democracy in Pakistan and Afghanistan. A joint commission could explore ways to build democratic political ties between Pakistan and Afghanistan, even if the prospect of a federation or union between them might seem as remote as it once seemed between France and Germany. Ideally, such a system of regional political integration could be extended to include all democratic countries in the Southern Asian Association for Regional Cooperation. The essential key is that political connections should be formed gradually, in small steps, and that each country's participation should be conditional on its retaining a democratic system of government.

Afghanistan established a presidential form of democracy in 2004, and then in 2005 it used the flawed SNTV form of proportional representation in its legislative elections. As we have seen, presidentialism and SNTV both discourage the formation of strong political parties. Perhaps these constitutional structures were adopted precisely because they are so bad for political parties, as President Hamid Karzai reportedly hoped that democracy could be established in Afghanistan without strong parties, which Ahmed Rashid (2008, p. 258) has called Karzai's biggest mistake. Democracy was going to be difficult enough to establish in Afghanistan, but its chances of success could have been greater with a well-designed constitutional system. Parties become channels of political privilege (and perhaps that is why Karzai might have considered them distasteful), but such channels are essential to mobilize a network of agents who have vested interests in sustaining democratic government. For healthy democracy, I have argued, the goal is not to abolish parties but to make sure that there are at least two strong national parties, each of which includes many politicians with good reputations for public service, and that new parties with new leadership can develop when old parties do not meet voters' expectations. Afghanistan's experiment with centralized nonparty presidential government has been a tragic disaster for that desperately poor country, which deserved a better chance for successful democracy. Now Pakistan may have the best opportunity to positively influence its northern neighbor by cultivating shared aspirations for Islamic federal democracy in both countries.

Democratic governments are established, not by development assistance nor by military operations, but by political parties. Even the great counterinsurgency theorist Galula

(1964) observed that the essential goal of counterinsurgency is to build a political machine from the population upward, and that political machines are networks of patronage. Military operations can contribute to the establishment of democracy only when their mission is to protect local agents of democratic parties and government as they extend their political networks into every community. In such a mission, cooperation with elected local councils can be vital. Unfortunately, recent military operations against insurgents in Tribal Areas have not been followed by reforms to build local democratic governance there.

8. CONCLUSIONS

Democracy is worth cultivating because the competitive rules of the political game can affect the behavior of political leaders, who determine the performance of government in service to the public. The constitutional allocation of powers and the electoral system define the rules of the game in a democracy. Any change in these constitutional rules could affect the chances for democracy to pass its ultimate test of delivering better government services for the public. Understanding the importance of current efforts to consolidate effective democracy in Pakistan, I have tried here to suggest various ways that the rules of the political game in Pakistan might be reformed to increase incentives for effective democratic competition.

The challenges to democracy in Pakistan are formidable. Intervals of military rule have ended with recognition that effective stable government must be based on civilian political organizations that are widely trusted by the voters. Now many areas of Pakistan are threatened by violent guerrilla forces, and such insurgencies can be defeated only by effective cooperation between national military forces and local political leaders who are trusted by their communities. Thus, the country urgently needs its political parties to develop broad networks of national and local leaders who have earned the trust of voters throughout the country. In particular, the Tribal Areas should not be excluded from the country's democratic political system.

So the most important suggestions here may be those for fostering strong local democracy. I have suggested electing local councils by a system of open-list proportional representation with approval voting, as a mechanism for inducing parties to strengthen their base of local democratic leadership in all communities. Such local democratic leadership should become a primary source of candidates who can advance democratically to higher offices, after first proving their ability to earn popular approval at the local level.

Other suggestions here have been aimed at strengthening the principle of parliamentary responsibility in government, to foster cohesive assembly-based parties. To reduce barriers against new parties, I have argued that members of the National Assembly should be free to change parties, and I have suggested that runoffs or approval voting could allow voters to consider third-party candidates more seriously in assembly elections. In Pakistan's federal system, local and provincial democracy also help to reduce political entry barriers, by creating opportunities for responsible leadership which can qualify politicians to become candidates for power at higher levels. But there may be advantages to subdividing provinces that contain too large a portion of the national population.

The analysis here has been based on a perception that successful democracy requires a flexible system of strong competitive parties and a plentiful supply of candidates who have

good reputations for responsible public service. The details of such suggestions are important, and they should be subject to much more scrutiny and debate. My essential point is that parliamentary government, federalism, local democracy, and

open-list electoral systems should be seriously considered as constitutional structures for lowering entry barriers into politics and for developing the country's supply of responsible democratic leadership.

NOTES

1. Since this paper was written, Pakistan has ratified the 18th Constitutional Amendment (2010), which addresses some of the concerns that are discussed here. Indeed, this paper was originally written with the hope that it might contribute to the broad discussion that led to this amendment. But the issues of constitutional design that were raised in this discussion and that are covered in this paper should remain relevant to democracies throughout the world.

2. It is difficult to see any fundamental reason why normal legal and political rights have been denied to people in the Tribal Areas, other than to create an ill-governed space from which guerrilla forces could destabilize Afghanistan. Certainly such destabilization has been the result for decades, and thus the costs of this policy have extended far beyond these poor border areas.

3. Przeworski, Alvarez, Cheibub, and Limongi (2000, p. 130) and Boix (2003, p. 154) have observed average annual failure rates of about 4% among presidential democracies but only 1% among parliamentary democracies.

4. Since this paper was written, Articles 48 and 58 were indeed amended in 2010 by the 18th Amendment.

5. Here 120 days is the sum of the 90 days allowed for a general election to the national assembly in Article 48 plus the 30 days allowed for electing a president after a general election in Article 41.

6. For a contrary view, see Treisman (2007), who questions some common reasons for advocating federalism. He cogently argues that the national leadership of a unitary state could just as well apply different government policies in different provinces, to accommodate regional differences, or to find better policies by local experimentation.

7. For example, see Faguet's (2012) study of how local democracy and political party competition have affected government responsiveness and accountability in Bolivia.

8. Michels (1915) called this the "iron law of oligarchy."

9. Bardhan and Mookherjee (2006) cite several cases where military rulers have introduced local democracy, perhaps to gain some democratic legitimation for their regime. Local elections may be more readily manipulated by a military ruler when national democratic parties have made no previous efforts to cultivate local democracy. Regardless of the ruler's original motives, the introduction of local democracy can strengthen the foundations for national democracy in the long run.

10. Sadly this remark has become obsolete since it was written in April 2009. The locally elected councils that had been established under military rule in 2001 were dissolved by Pakistan's civilian leaders in late 2009. See Cheema, Khan, and Myerson (2010).

11. This paper's focus is on democratic competition for political power, not on the judiciary. Still we should recognize the vital importance of an independent judiciary, in which professionally committed individuals, without other administrative responsibilities or powers, must examine and

judge compliance with the law in government and society. But who will judge the judges? Ultimately, the public must be able to judge the integrity of the judicial system. So no part of government has greater need for transparency than the judiciary. Article 204-2(b), which forbids anyone from doing anything to bring a judge into contempt, can seriously inhibit public scrutiny of judicial decisions, and one may strongly suggest that it should be repealed. Freedom of speech and the press, guaranteed in Article 19, are vital for reducing political barriers to entry. They should not be abridged with regard to the judiciary.

12. See also Brancati (2006), who argues that decentralization is less likely to cause secessionism in a political system that has strong national parties. This observation should reinforce our focus on parliamentary structures that can foster a flexible system of strong national parties.

13. We need a formula for approximating proportionality in a council with a finite number of seats. A good commonly-used formula is that of d'Hondt. Under this formula, the available seats in the council are allocated sequentially, one at a time. The first seat is given to the party with the largest number of votes in the election. Then to allocate each subsequent seat, we divide each party's number of votes by one more than the number of seats that the party has already gotten, and the next seat is given to the party for which this ratio is greatest.

14. The allocation of seats that are reserved for disadvantaged groups needs some discussion. Under the d'Hondt system (described in the previous footnote), seats are allocated to parties one at a time, and one possibility is that the reserved seats may be allocated last. When some of a party's seats are reserved seats, the allocation of the party's seats to its candidates can be determined by the principle of maximizing the sum of approval votes for all its seated candidates, subject to the constraint that a reserved seat cannot be given to a candidate who is not qualified for it. Such allocations must be feasible if every party list is required to include enough qualified candidates for all reserved seats. But if a party failed to nominate enough qualified candidates to fill its reserved seats, then these seats could be re-allocated to other parties that can fill them, according to the d'Hondt ratio rule.

15. In the recent SNTV system, the reserved seats for disadvantaged groups can actually reduce the ability of political minorities to get representation in a union council, because each category of reserved seats is elected at large by a separate nontransferable vote, with fewer seats than in the unreserved category. In contrast, the reserved seats in the National Assembly are elected by list PR, and so they can increase representation for dispersed minority parties that cannot win many seats by plurality voting.

16. Under the recent local government system, the union councilors in a district together elected their district nazims, but the nazim thereafter was not responsible to these councilors. Vote-buying may have been more problematic in these nazim elections than in a normal parliamentary system because the union councilors were not subject to any party discipline (given the Musharraf regime's restrictions against parties in local politics) and because the union councilors were electing a leader over whom they would subsequently have no influence. It would be more difficult for councilors to corruptly sell their votes for electing a nazim if the councilors could subsequently replace the nazim at any time.

17. The serious candidates at the second round are usually the two who got most first-round votes, but not always. With three leftist and two rightist candidates, for example, if the two rightists scored highest in the

first round then the voters might focus in the second round on the strongest rightist against the strongest leftist. Party primaries in the United States have a similar function to first-round elections in France.

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<http://dx.doi.org/10.1016/j.worlddev.2013.01.006>

Decentralization and Veiled Corruption under China's “Rule of Mandates”

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Summary. — This paper shows why corruption is especially difficult to detect under China's system of decentralized authoritarian rule, which I call a “rule of mandates.” Local officials must pursue high priority political targets but have immense discretion over which laws to implement. A relative standard for corruption consequently arises since non-implementation of laws may be mandate-serving or may be corrupt; and determining which requires extra information on *why* non-implementation occurred. The theory is supported by evidence from original survey and case research on the implementation of the village elections law. I discuss implications for anticorruption efforts, development patterns, and future research.

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Key words — Asia, China, corruption, authoritarianism, decentralization, rule of law

1. INTRODUCTION

Corruption in China is widely seen as an intractable problem despite the fact that the ruling Communist Party has publicly prioritized fighting corruption and issued ambitious reforms to do so. While studies of corruption in China have illuminated much about the patterns, causes, and consequences of corruption, there remains the puzzle of why the regime has so much difficulty fighting corruption despite the use of its powerful oversight and disciplinary systems. Prominent existing explanations for the regime's failure focus on lack of central commitment, resistance from local officials, and too-limited strategies. Beyond these factors, in this paper I propose an underappreciated institutional explanation: that China has a governing system in which it is inherently difficult to even *identify* corruption.

This explanation may seem counterintuitive, given the reputation of the Chinese Communist Party for invasive monitoring, but here I show why it may be an important missing part of the equation. My reasoning is *not* premised on the notion that the party's information on its officials is especially poor, but rather on the idea that the information the party requires to identify what it would count as “corruption” is unusually great and hard to obtain. This additional information burden arises, I argue, as a consequence of China's particular governing system, which I call a “rule of mandates” system, as opposed to a more familiar rule of law system.

Under a “rule of mandates,” the regime does not hold its officials accountable to fixed standards but rather to relative standards. Instead of directing officials to implement the regime's laws and policies unconditionally, the party directs them to implement a subset of “mandates” according to their relative prioritization. As I invoke the term here, mandates do not simply represent an alternate set of laws parallel to the public body of laws. In contrast to a body of laws, mandates are directives that are hierarchically ranked against each other. Lower officials are expected to give more weight to the higher priority mandates, and they are authorized to adjust the implementation of laws and lower priority mandates to aim at the desired ends. In this system, the implementation of laws is thus conditional on their compatibility with higher priority mandates.

Under both a rule of mandates and a rule of law, we can think of corruption as occurring when officials deviate from the duties of public office for personal gain. Yet, identifying such a deviation from the duties of public office is much more straightforward under a rule of law system than under a rule of mandates system. When laws govern, the failure to implement laws and policies—a readily observable measure—is an indicator of a potentially serious problem, likely corruption. Yet when mandates govern, officials' failures to implement policies and laws are not red flags for corruption, so long as the deviations do not involve policies designated with the highest priority. The officials might have exercised their discretion to decide that a lower priority mandate, like environmental protection programs and the relevant laws, should not be locally implemented lest it hinder a higher priority mandate, like economic growth. Thus, in a rule of mandates system, the standard for corruption is a *relative* one. To have reasonable suspicion that officials are corrupt, leaders also need to evaluate *why* a law or policy was not implemented (unless the policies are designated as highest priority), not just see that it was not implemented. The information needed to make such an evaluation is detailed, costly to collect, difficult to analyze, and often unavailable.

In Part I of this paper, I develop the theoretical argument above and relate it to different ways of defining corruption and the problem of detecting corruption.

In Parts II, III, and IV of this paper, I ground the theory in survey and case evidence consistent with its arguments. While the data are not adequate to establish where corruption exists, it does establish that, under a rule of mandates, lower officials can easily veil corruption behind the rhetoric of meeting mandates. Original evidence pertaining to the implementation of China's village elections law is used to show that the rule of

*I am very grateful to numerous colleagues for their invaluable input, most especially Pierre Landry, Susan Rose-Ackerman, Ian Shapiro, Shiru Wang, and Lynn White. Many thanks also to the Yale MacMillan Center, the Yale Center on East Asian Studies, the Brookings Institution, the Princeton Society of Fellows, the Princeton University Committee on the Humanities and Social Sciences, and the London School of Economics' STICERD Research Centre for generous funding and support.

mandates system makes corruption particularly difficult to detect in China. First, I show that it is difficult for higher officials to obtain accurate information on the base line situation, the extent to which the election law was implemented in locales. Reports from local officials often seem unreliable when compared to reports from surveyed villagers.

Second, I show that it is even more difficult to interpret *why* the elections law was poorly implemented, as local officials generally claim that their interference with village elections was for the purpose of promoting one of the highest priority mandates, namely political “stability,” even as the evidence is that their interference does not do so. Case study evidence shows how local officials may actually sometimes be hiding behind the mandates to shelter their own corruption.

In Part V, I conclude with a discussion of three implications. First, I underscore how the relationship between decentralization and corruption depends on broader governing institutions. Second, I discuss the possibility that a rule of mandates might be used in developmental ways and yet still destabilize over the long term. Third, I discuss why common approaches to anticorruption that are compatible with a rule of law are in tension with a rule of mandates.

2. THE RULE OF MANDATES AND THE CHALLENGES OF DETECTING CORRUPTION

China is relatively decentralized fiscally, yet centralized politically, in large part through a system of targets and incentives that control local cadres and influence which policies and laws they implement. Collectively, we can think of the targets and incentives as authoritarian mandates from above. Mandates differ from laws principally in that they are attached to hierarchical rankings such that higher priority mandates take precedence over lower priority ones. In practice in China, mandates are also typically hidden from the public, regard fewer issues in less detail, and call for adherence to particular outcomes rather than particular processes. These additional features also distinguish typical mandates from typical laws, but should not be mistaken for their defining feature. The key fact that mandates are ranked against each other means that not all policies need to be, or should be, pursued locally, depending on how they interact with each other and local conditions.

Under a rule of mandates, lower officials are given significant discretion; they are authorized to adjust the implementation of laws and lower priority mandates as they aim at the desired outcomes. This means that the standards for corruption are effectively relative rather than absolute, as explained below. This system is useful for the regime because it ensures that high priority targets will be locally implemented even when central officials have little knowledge of the local implementation challenges. Yet, I argue, one major drawback of the rule of mandates paradigm for China is that it makes it especially difficult to reliably detect potentially corrupt behavior. Because variations in the local implementation of central policies are *supposed* to occur under a rule of mandates, higher officials must know *why* variations occur in order to judge if the variations are the result of good-faith efforts to meet mandates or corruption. In this system, local corruption can easily mask itself as deference to the centralized mandates.

(a) *The rule of mandates model in China*

China’s system for maintaining political control of lower level officials relies on well-defined incentives and sanctions

designed to uphold party directives (Landry, 2008). Broad party directives, which are separate from if sometimes consistent with the public law, are issued at the highest level. Consistently among the highest national priorities are economic development, social stability, and the birth control policy, which are measured by figures such as income per capita, incidences of collective protests, and the population growth rate. At lower levels, more specifics are developed about the exact targets, priorities, reporting requirements, rewards for success, and penalties for failure; these thus vary from area to area. Local leaders now actually sign contracts that acknowledge the targets and terms surrounding them. The most serious targets are those with veto power (*yipiao foujue*), followed by hard targets (*ying zhibiao*), and soft targets (*yiban zhibiao*) (Heimer, 2006). Some laws and issues are such low priority that there are no targets corresponding to them.

Most important of all for cadres are the veto-level targets. If a township fails to meet targets with veto power by the end-of-the-year evaluation, the failure would eliminate all credit to township leaders for other successes achieved that year (Edin, 2003). Poor performance evaluations may not only result in the loss of an annual bonus or prospects for promotion of individual officials, but may even result in large fines and penalties for all their colleagues. In other words, the “cadre responsibility system” makes extensive use of strict liability, collective liability, and vicarious liability (Minzner, 2009). Collective responsibility implies that officials have an institutionalized individual incentive to aid their colleagues—or equally, to overlook or assist false reporting by their colleagues.

Mandates are pre-set, often by formula, and cover only a limited number of items that are hierarchically ranked against each other. For items that are high priority, accountability is tightly tied to apparent outcomes; for items that are low priority or not explicitly mentioned, there may be limited or no accountability at all. For instance, in one Shanghai county studied by Susan Whiting, growth in township- and village-run industries was worth up to 33 points, and “party building” activities like educating party members were worth 21 points—and provision of public education was worth only nine points (out of a possible total of 200 points). The specific formula used to evaluate performance in these areas was further specified, and depended on quantitative data such as the “increase in industrial profits” and “the completion rate for compulsory education” (Whiting, 2004). With such criteria, at its best, the cadre responsibility system is set up to incentivize a precise but narrow space of accountability. At its worst, it does not incentivize actual accountability but only apparent accountability, since the criteria for evaluation are often not directly visible to higher cadres so data may be easily fudged or made up by lower cadres.

Variation in the local implementation of laws is thus an inherent outcome of the rule of mandates, even in the absence of corruption. To meet the mandates, cadres are supposed to adjust the implementation of lower priority laws and policies to better meet higher priority targets. Moreover, unless public grievances pertain to a target, public pressure may be safely ignored by cadres. Effective public grievances are partly managed by secrecy; as explicit as the targets are to cadres, they remain mysterious to the public. Party directives and contracts are generally treated as confidential internal documents, so that the public generally remains unaware of the specifics or even the existence of them. At the same time, targets do not necessarily correspond to public laws let alone local public preferences, nor are they subject to them. In fact, in indicating to cadres which laws and issues to prioritize, and which they

may safely ignore, the mandates drive deeply political choices about which the public is usually in the dark.

(b) *Relative standards for corruption*

Since local variation in the implementation of laws and policies is an inherent goal of the rule of mandates, impermissible variations—those implying corruption—must be distinguished from permissible variations. Accordingly, common definitions of corruption take on a different meaning in the context of a rule of mandates. Definitions of corruption that are understood to invoke an absolute standard elsewhere actually invoke a relative standard under China's rule of mandates. By a relative standard, I mean that activities that are officially viewed as corruption under certain circumstances are not viewed as corruption under other circumstances, since local officials are given discretion to adjust the implementation of laws to achieve higher political priorities.

To illustrate this, consider one widely used definition of corruption, as the "misuse" or "abuse of public office for private gain" (Manion, 2004; Rose-Ackerman, 1999; The World Bank, 1997). Under this definition, the law is commonly used as the absolute benchmark for corruption. As Svensson writes, "Misuse, of course, typically involves applying a *legal standard*" (*italics mine*) (Svensson, 2005). By a legal standard, this definition of corruption encompasses practices that are against the law, such as bribery, extortion, embezzlement, or manipulating elections. However, in China, these practices may not always be against the mandates, because, first, the mandates set different standards than the law, and second, the standards they set are relative ones.

On the first point, mandates may set different standards than the law or imply contradictory standards. For instance, even though the law states that village heads should be elected by villagers and that any eligible voter can be elected, one common mandate states that village heads should be party members, implying that electoral choice might need to be curtailed. For another instance, even though embezzlement and extortion are against Chinese criminal law, mandates sometimes distinguish minor malfeasances as a separate, less significant category. Officials are often given exemption from prosecution for cases involving limited monetary amounts, sometimes even if legal action has already been started (Manion, 2004). Instead, they might be modestly disciplined by the party. Although this approach might appear to represent a corrupt "rule of man" in which officials are modifying rules at whim, it is in fact rule-abiding if the relevant rules are mandates rather than laws. Thus, when mandates are used as the standard for corruption, as they are by the Communist Party in China, the meaning of "abuse" or "misuse" of public office is often different than when laws are used as the standard. The same technical definition of corruption—as the abuse of public office for private gain—takes on a different, non-law-based meaning under regime standards.

Second, under mandates, the standards for corruption are relative rather than absolute. Since the distinctive features of mandates is that they are hierarchically ranked, what constitutes "abuse" or "misuse" may additionally depend on circumstances and motives. Recognizing that implementing the full slate of mandates is impossible for most local governments, the rule of mandates allows non-implementation of lower priority mandates including laws. For instance, officials do not have to implement village elections, even though it is the national law, in places where they might threaten the highest priority mandate, social stability. However, officials are not supposed to cancel or undermine elections for the sake of

personal gain, versus party objectives. The same logic may be applied to whether or not low priority laws like environmental protection, historical preservation, or government open information acts should be implemented when they potentially create a conflict with higher priority goals like economic development or social stability.

This relative standard for corruption grows out of an institutional difference, a mandate-based governing system versus a law-based governing system. Thus, it is distinctive from cultural explanations for shifts in the meaning of corruption, although both provide reasons why corruption and law implementation might vary across units under a single governing structure. While cultural differences may also generate relative standards for corruption (Triesman, 2000), the degree of corruption in China cannot be fully explained by the values of the Chinese public (Sandholtz & Taagepera, 2005). Indeed, from a cultural standpoint, the Chinese public may be increasingly inclined toward an absolute legal standard for corruption. O'Brien and Li argue that public laws have set new expectations for the public, such that they feel entitled to rights they never historically enjoyed (O'Brien & Li, 2006). This means there is a potential gap between what the public might count as corruption and what officials might count as such. The former might be concerned with what we could call law-violating corruption (an absolute standard) whereas the latter are focused on mandate-violating corruption (a relative standard).

(c) *Higher information requirement to detect corruption*

A consequence of the relative standards for corruption is a heightened information requirement to detect corruption. Since the system authorizes uneven implementation of non-priority laws and policies, officials must generally not only know that a law or policy was violated, but why it was violated. As I explore below, non-implementation of the village elections law would be acceptable if in the service of a higher mandate like stability or development, but corrupt if designed to facilitate personal theft of village assets. For another example, if illegal taxes are levied, the action could be viewed as accountable if the funds were redirected to support a priority unfunded mandate, perhaps a capital outlay for an infrastructure project. Even if the funds were redirected into the salaries of local officials, this still might accord with mandates, since local officials' salaries are often unfunded or underfunded, plus more officials might have to be hired to ensure tax collection (Lin, Tao, & Liu, 2003). But if the reason for the illegal taxes was so an individual official could simply pocket the funds, the behavior would be more akin to extortion or corrupt rent-seeking. Thus, depending on circumstances, an identical activity could be interpreted as mandate-abiding or as a form of corruption. Such activities could range from graft to rent-seeking to prebendalism (Lü, 2000), i.e., non-monetary corruption.

This heightened information burden (that more information is needed) is in addition to any information detection problems (that information is hard to obtain), so the corruption monitoring problem is magnified under a rule of mandates. Standard methods of detecting corruption in a rule of law context, such as investigating deviations in implementation, noting illegal fees and transfers, and public oversight, do not provide the required information on why laws and policies may have been violated with reference to mandates. Consistent with this, in recent history, China's approach to detecting corruption relies on party agencies that begin investigations in response to reports of party member misconduct, in contrast to the public security approach of beginning with a crime

and investigating to find a criminal (Manion, 2004). The need for greater information and the difficulty of obtaining it mean that corruption in a rule of mandates environment is more easily veiled.

3. THE RULE OF MANDATES AND VILLAGE ELECTIONS IN CHINA

In this and the following two sections, I use empirical evidence to ground the theory that corruption in China is particularly hard to detect because it can mask itself as mandate-driven variations in policy implementation. I choose to examine evidence surrounding the implementation of China's national law requiring village elections, for three reasons. First, the national law sets a universal standard for when village elections should be held. Since 1998, all administrative villages, which are the lowest administrative units in rural areas, should have competitive public elections that meet minimum procedural requirements set out in the Organic Law on Villager Elections. Second, the extent of implementation is widely observable by villagers, so it is possible to assess implementation without relying on official reports, through surveying villagers as I do here. Third, there are two main competing reasons for officials to fail to implement village elections: they might be corrupt, or they might be trying to meet party mandates that subordinate village elections to critical targets such as social stability. By exploring the gap between the legal standard for village elections and the reality of their implementation, and by examining the ambiguity over why this gap exists, I illuminate how China's rule of mandates can veil corruption.

Village elections are useful to the CCP overall, and local officials are expected to implement them unless they conflict with higher priorities. The establishment of village elections in China was the controversial solution to a crisis of party legitimacy in the countryside that was believed to be driven by parasitic local leaders (Wang, 1997). By effectively delegating to the public certain duties normally performed by township and county authorities (to select, discipline, and monitor certain village leaders), top authorities hoped to overcome the authoritarian system's information problems, save the energy and political capital of higher officials for other tasks, and shed responsibility for disliked village leaders and contentious politics (Alpermann, 2003; He & Lang, 2002; O'Brien & Li, 2000). In essence, they hoped to enlist villagers as occasional agents of the higher government in disciplining its everyday local agents, the village officials. For the elections to achieve this objective, they would need to be at least semi-competitive—not just for show. In line with this, an increasing body of evidence is showing that village elections are able to challenge village establishments and create better governing at the village level. At that lowest level, elections seem to bring about more trustworthy leaders, more political responsiveness, fairer land allocations, and increases in public goods (Birney, 2007; Brandt & Turner, 2003; Luo, Zhang, Huang, & Rozelle, 2007; Martinez-Bravo, Miquel, Qian, & Yao, 2011; O'Brien & Han, 2009).

To the extent that elections are effective in creating weak accountability to the public, they serve both the public and regime interests in political stability. Consistent with this role of village elections, central authorities have established minimal incentives for lower officials to implement village elections, at least to some degree. For instance, two of the variables that may figure into the evaluation of township and county governments are the percentage of turnout in the village elections and the percentage of "failed elections" (elections not held to

completion). The former has resulted in heavy mobilization of voters. While many voters may be reluctant or uninterested, especially when the elections are not particularly competitive, the relatively high turnout rates and public awareness of voting is certainly partially attributable to the turnout targets. Failed elections may occur when the township decides to cancel an election, when no one candidate gets a majority in the first round and the township does not bother to hold a second round, when voter turnout is below 50%, or when serious problems occur.

At the same time, the regime appears wary that village elections may create accountability that is much stronger than it would like and ultimately destabilizing for Communist Party rule. After all, if the elections are not somewhat controlled, wouldn't villagers be able to use the elections to instead demand that village officials act as *their* own agents in interfacing with higher levels of government? This possibility that elections would inspire elected officials to try place pressure on higher officials, working together with villagers or collectively across villages, is not just hypothetical. In one dramatic example in Shandong province, 57 elected village heads in the Qixia area resigned en masse to make a statement, following repeated and unsuccessful petitions to higher levels to discipline local party officials for the embezzlement of public funds, political violence, and other illegal activities (Beech, 2001; Eckholm, 2002). The mass resignation can be taken as both evidence of their own abilities to coordinate and the unwillingness of the party at any level to address their grievances. The idea that village elections would facilitate significant political pressure beyond the village level is contrary to the purpose for which the regime created them. Elsewhere, I have argued that China's system of internal authoritarian rule, the rule of mandates system described above, places a dynamic check on the possibility of unintended consequences of village elections beyond the village level. Therefore, instances such as the Qixia one are not as common as they would otherwise be. This is because township or other mid-level officials can adjust the implementation of the village election law in their area, should they expect that the outcomes would hinder their top priority objectives.

Thus, the optimal situation for the regime is that the village elections law be implemented to the degree it helps create stability (by generating weak accountability of poorly-monitored village officials to the public), and no more than that (in order to evade the destabilizing effects of strong accountability). In short, the optimal situation is to strike a balance. China's rule of mandates system allows this balance to be achieved with a fair amount of precision, as it incentivizes local officials to adjust village election implementation in order to meet centrally-mandated targets.

The regime effectively delegates to township-level officials the responsibility for striking a balance between the stabilizing and destabilizing effects of village elections. It does so through the high prioritization of the "social stability" mandate, which in China, refers to a directive to maintain *political* stability. This central directive to avoid political tensions with the public translates, at lower levels, into specific targets to prevent collective public political activities. Typical stability targets mandate a low threshold for the manifestation of collective protests, collective complaints, and petitions to higher levels. These targets seem to be generally set as veto-level (the highest) targets.

The social stability veto targets may sometimes help and sometimes hinder the implementation of the elections law, depending on local circumstances and the discretionary judgment of local officials. Mid-level officials realize that good

elections could result in better leaders and reduce tensions with the public, whereas a highly controlled or missing election might spur protests and complaints. But, especially when there is a contentious issue like a land dispute with the higher government, authorities might also fear that the election of an outsider would provide stronger leadership and organization to discontented villagers. Or, even if an elected outsider did not threaten the stability target, he might use his position within the system to threaten other priority targets like economic development plans. The requirements of the elections law have less relevance to implementation than calculations about the degree of implementation that is most likely to meet the social stability target and minimally threaten other targets. As one county official in charge of overseeing village elections explained to me, an official like him would never gain much from implementing elections well according to law, but his evaluation would take a severe hit if there were even a single protest or piece of negative media coverage that could be related to an election.

At the same time that township leaders are supposed to adjust the implementation of the village election laws to meet central mandates, they may be tempted to curtail elections for personal gain. There are certainly strong incentives for corrupt officials to interfere with village election to gain control of the village committee. Control of the village committee facilitates control of all the village lands (villagers do not own their land, but rather the village does); access to the village coffers; the power to assess fees, spend and borrow; and the ability to fabricate or conceal village records. Control of the village land is especially valuable to corrupt officials when land sales, land leasing, or enterprises are possible. For instance, given the lack of transparency around transactions and accounts, a typical problem is that village officials will report that village land was sold for much less than the actual price in order to pocket the difference. Government grants from above may also be skimmed; for instance, farmers in Henan province in particular benefit from direct cash payments for grain subsidies, cash that must first travel through the county and village coffers, making tempting opportunities for corrupt officials (Cheung, 2004).

Under a rule of mandates, identifying corruption would require, first, determining that elections fell short of the law, and second, determining that the reason was not a good faith effort to meet higher targets. Below, I show how difficult it is establish both of these matters, lending support to my theoretical argument that the rule of mandates system veils corruption through imposing a higher information requirement for identifying corruption.

(a) *Description of the data*

To understand the extent of interference in village elections and assess the possibility that corruption plays a significant role, I use original survey data from the 2005–06 China Village Democracy Survey in Shandong and Henan. Shandong and Henan provinces border each other, well-represent China's heartland, and at the time of the survey were the country's two largest provinces; together, they encompassed 14% of the country's enormous population. The multilevel spatial survey was collaboratively designed and implemented; analyses are my own. The data are usual in their depth of political content, and also in containing village- and township-level information on top of individual-level information. It includes individual surveys of 574 respondents over 14 townships and 26 administrative villages; qualitative interviews with the village leaderships; village election historical data; and interviews

with supervising township officials in China's two most populous provinces.

These data are not sufficient to establish where corruption really occurred—though it would be ideal to examine data that could do so in a future study. Yet, it is sufficient to test the theory that corruption is veiled under a rule of mandates, that is, that because of relative standards of accountability, it is near impossible to distinguish corruption from mandate-compliance.

4. DETERMINING IMPLEMENTATION UNDER A RULE OF MANDATES

Simply determining whether or not a law was implemented can be a challenge in China's system of top-down oversight, which relies largely on reports by cadres who may have an incentive to mislead higher officials. Information that is revealed by the public—through petitions, protests, hotlines, and other self-initiated contact with officials—is frequently used as a check on reports that lower officials provide. In exceptional situations, investigatory teams may be sent to specific locations to collect more information from locals, but ordinarily higher officials would not have much access to the information that villagers have on the local implementation of laws, as it is too costly to systematically collect, as we have done in the China Village Democracy Survey. Yet, much information is lost when the party relies so heavily on internal reports, as discrepancies often exist between the reports of cadres and the reports of villagers, sometimes substantial ones.

As shown in the charts below, local officials seem to over-report the degree to which they implement elections laws. As Table 1 shows, official records on the village elections in the China Village Democracy Survey indicated that all the villages had held elections. However, when interviewed, village leaders in one village admitted theirs had never been held. Moreover, the quality of the elections is often not in accordance with the national law, which demands that 100% of registered adult villagers be allowed to vote. When asked if they were allowed to vote in the village election, in only 38% of the villages did 100% of registered adult villagers say they were allowed to vote. While enfranchisement was generally high, it was not uniformly so. In 15% of the villages, less than two thirds of registered adult villagers said they were allowed to vote. Among the reasons why villagers were effectively disenfranchised were "there was no election," "only the men vote," "only party members vote," "only one member of each household can vote," and "I was never informed that there was an election."

From the standpoint of higher leaders, the fact that many villagers are effectively disenfranchised is not a central concern. The mandates do not require that the letter of the election law is upheld, although they generally seem to award credit for holding an election on schedule, require 50% turnout for elections to be deemed "successful," and award modest bonuses for meeting an array of other conditions. For instance, extra evaluation points might be obtained for holding the elections within a certain timeframe or should it produce a winner who is a party member.

Local officials are even brasher in misrepresenting the nomination process that they employ in village elections. As Table 2 shows, official records on the village elections in the China Village Democracy Survey indicated that 85% of the villages had held a "sea election"-style (*haixuan*) nomination, that is, a nomination in which all villagers are eligible to vote for who they want the candidates to be. Yet, in only 69% of villages

Table 1. *Reports from different sources on whether a public village election was held*

Village #	Village records or interview with record-keeper	Open-ended interviews with village leaders	Estimated enfranchisement based on survey of villagers** (%)	Discrepancy between records, reports of village leaders, and/or reports by villagers?***
S1	Yes	Yes	95	Some
S2	Yes	Yes	100	No
S3	Yes	Yes	100	No
S4	Yes	Yes	100	No
S5	Yes	Yes	92	Some
S6	Yes	<i>nr</i> *	100	No
S7	Yes	Yes	88	Some
S8	<i>nr</i> *	Yes	95	Some
S9	Yes	Yes	100	No
S10	Yes	Yes	100	No
S11	Yes	No	0	Large
S12	Yes	Yes	61	Large
S13	Yes	Yes	100	No
H1	Yes	Yes	86	Some
H2	Yes	Yes	100	No
H3	Yes	Yes	100	No
H4	Yes	Yes	95	Some
H5	Yes	Yes	82	Some
H6	Yes	Yes	86	Some
H7	<i>nr</i> *	Yes	94	Some
H8	Yes	Yes	90	Some
H9	Yes	Yes	87	Some
H10	Yes	Yes	81	Some
H11	Yes	Yes	100	No
H12	Yes	Yes	62	Large
H13	Yes	Yes	44	Large
%Total	92	92	86	
Percent villages with large discrepancy				15
Percent villages with any discrepancy				62

Note: Sx villages are in Shandong province; Hx villages are in Henan province.

* *nr* indicates a non-response

** The total estimated enfranchisement is one minus the percent of villagers who reported being disenfranchised for reasons other than being registered as a member of a different village.

*** Discrepancies were coded as large if more than one third of surveyed villagers registered in the village reported being disenfranchised in practice.

did village leaders make the same claim when interviewed. Meanwhile, only 15% of surveyed villagers across the villages reported being allowed to participate in a nomination process. In all, in 92% of villages, leaders or village records claimed a sea election nomination was held even though the reports from villagers did not sustain the idea that a true sea election nomination had happened in any of them. In 23% of villages, no one surveyed said they could participate in the nomination process, and in only one village did more than a third of surveyed villagers say they could participate in the nomination process. The discrepancy between the reports and the reality might be driven by the contradictory mandates that lower leaders face. While they are encouraged to hold sea election nominations—indeed, it is the official policy in Shandong province—they are also held accountable for which types of people win the elections and the actions they might take later, so they have strong incentives from their mandates to control the openness of the nomination process in reality. Alternatively, they might choose to control the elections for reasons of corruption—a possibility taken up in the next section.

The data above suggest how difficult it is for the government to obtain accurate information on whether laws are being fully implemented. But the difficulty that higher officials face in assessing the performance of local officials is far greater than

this problem alone. Under a rule of mandates, to detect corrupt behavior, the party must determine not only whether laws were ignored, but also *why*. As the next section shows, this is a massive additional challenge.

5. SUSPECTING CORRUPTION UNDER A RULE OF MANDATES

When officials fail to implement the elections law, is it because other mandates take priority or because the official is corrupt or sheltering corrupt officials? Both are plausible. On the one hand, limiting the competitiveness of the elections reduces the probability that villagers could elect assertive village leaders who would stand in the way of the highest-priority mandates, like political stability, or the implementation of the one-child policy, or the pursuit of economic growth over economic equity. On the other hand, limiting the competitiveness of the elections increases the likelihood that corrupt officials can control the village committee with an eye to raiding the village coffers or making under-the-table real estate deals over valuable village land.

In this section, I show how lower level officials in our sample normally explained their violations of village elections laws as

Table 2. Reports from different sources on whether the public could vote in the nomination process

Village #	Village records or interview with record-keeper	Open-ended interviews with village leaders	Estimated inclusion** of public based on survey of villagers (%)	Discrepancy between records, reports of village leaders, and/or reports by villagers?***
S1	No	No	0	no
S2	Yes	Yes	26	Large
S3	Yes	Yes	6	Large
S4	Yes	Yes	26	Large
S5	Yes	Yes	13	Large
S6	Yes	<i>nr</i> *	46	Large
S7	Yes	Yes	25	Large
S8	<i>nr</i> *	Yes	11	Large
S9	No	No	14	no
S10	Yes	Yes	0	Large
S11	Yes	No	0	Large
S12	Yes	No	5	Large
S13	Yes	Yes	0	Large
H1	Yes	Yes	10	Large
H2	Yes	Yes	0	Large
H3	Yes	Yes	11	Large
H4	Yes	Yes	17	Large
H5	Yes	Yes	60	Some
H6	Yes	No	13	Large
H7	<i>nr</i> *	Yes	21	Large
H8	Yes	Yes	13	Large
H9	Yes	Yes	33	Large
H10	Yes	Yes	16	Large
H11	Yes	Yes	13	Large
H12	Yes	No	10	Large
H13	Yes	No	0	Large
%Total	85	69	15	
Percent villages with large discrepancy				88
Percent villages with any discrepancy				92

Note: Sx villages are in Shandong province; Hx villages are in Henan province.

*nr indicates a non-response

**The total estimated inclusion of the public in the nomination process is the percent of surveyed villagers who reported they were allowed to participate in the nomination process.

***Discrepancies were coded as large if fewer than half of surveyed villagers concurred with village leaders or village records that the public could vote in the nomination process.

being in the interests of stability, when they explained it. Whether their claims are true or not is difficult to assess—which is precisely the problem that higher officials face when trying to identify corruption by lower officials. One piece of evidence that is suggestive of either corrupt or incompetent behavior is that interference with village elections does not seem to produce the results claimed; that is, interference does not increase stability over time. This evidence cannot conclusively reveal why interference actually occurred; but the point of this analysis is not to actually do so, but rather to reveal how difficult it is to ascertain why officials violate elections laws.

(a) *Township interference in village elections*

Because township governments—the level of government directly above the village level—are charged with overseeing village elections, in this section I analyze what causes townships to limit the implementation of village elections, and to dismiss or replace elected leaders. To do so, I analyze the qualitative reports from each of the villages in the sample. These reports are based on both close-ended interviews with township officials and open-ended interviews of village heads and village party secretaries, both conducted as part of the China Village Democracy Survey. One of the most striking revelations from

these interviews is the astonishing amount of township interference in village elections and the results. The interference, when explained, is usually justified by the purpose of maintaining “social stability,” the euphemism in China for the prevention of collective citizen activity and civic unrest, as shown in Table 3.

The open-ended interviews underscore the enormous importance of concerns about social stability in how the township engages with village politics and, in particular, implements village elections. Most townships seem to believe holding elections will foment rather than limit further unrest. For instance, one township refused to allow a village election after villagers successfully petitioned them to dismiss a corrupt village leader. There is not clear evidence that the township was pursuing corrupt ulterior motives through its actions; after all, it supported the villagers in dismissing the allegedly corrupt leader. Rather, it seems to have wanted to avoid the possibility that villagers might collectively petition again—something that would be a black mark on the township’s record—by removing any flashpoints for grievances. In doing so, the township overstepped the bounds of the law, but not necessarily the mandates, by refusing to hold the election.

When the targets that are set up in China’s rule of mandates system are taken into account, the power and propensity of

Table 3. *Unlawful official interference with village elections*

Village #	Township selects election candidates	Township approves election candidates	Township approves election oversight committee	Township refuses to hold election or invalidates election	Township dismisses or appoints elected offices	Explanations by village leaders (open-ended interviews)*
S1	—	—	—	—	—	—
S2	—	—	—	—	—	—
S3	—	—	—	—	—	—
S4	—	—	—	—	—	—
S5	—	—	—	—	—	—
S6	—	—	—	—	—	—
S7	—	—	—	—	—	—
S8	—	—	—	—	✓	Stability
S9	—	—	—	—	✓	Stability
S10	—	—	—	—	—	—
S11	—	—	✓	✓	✓	Stability
S12	—	—	✓	✓	✓	Stability
S13	—	—	✓	—	—	na
H1	—	—	✓	—	—	na
H2	—	—	✓	—	—	na
H3	✓	—	—	—	—	na
H4	✓	—	—	—	—	na
H5	—	—	✓	—	✓	na
H6	—	✓	✓	—	✓	Ineffective official
H7	—	✓	✓	—	✓	Stability
H8	—	✓	✓	—	—	na
H9	—	✓	✓	—	✓	Election failed
H10	—	✓	✓	—	✓	Stability
H11	—	✓	✓	—	—	na
H12	✓	✓	✓	—	✓	Stability
H13	✓	✓	✓	—	—	na
%Total	15	31	54	8	31	

*na indicates that the respondent was not asked to provide an explanation, as the information provided came via a closed-end questionnaire. Only those respondents interviewed for the last two questions (on whether an election was held and whether Village Committee members were dismissed or appointed) were asked for explanations during open-ended interviews. Note that unlawful official interference was not observed in villages S1–S7, and S10, so no explanations were required.

the townships to violate elections laws makes sense. With social stability such a critical target for local officials, townships seem to try to do as little as possible to rock the boat—which may mean avoiding elections much of the time or ignoring problems around them. For example, a top village official reported that township officials did not bother to organize a second round of a recent election after the initial vote was unsuccessful, reportedly due to ballot stuffing. Instead, they asked the incumbent village head, who was not even seeking re-election, to continue in office. In another township, a top village official reported that the township had asked the elected village head to resign in the name of social stability, after some election problems that the township had earlier declined to resolve led to villager complaints. He refused, yet the instance demonstrates the township's disregard for the national village elections law that only permits the voting public to recall elected officials, as well as its reactivity to potential instability.

Much of the time, the actions of the township in the survey were justified as necessary to block or remove corrupt officials who might create local instability. Sometimes, townships seem to benevolently remove corrupt officials; in one village I visited outside the survey, a village party secretary was dismissed after it was discovered that he had secretly rented out the village hall to a business and was pocketing the rent. Consistent with the claim to be fighting village-level corruption, the evidence is that townships interfere more in elections when there are high levels of local corruption, as measured by the reports of surveyed villagers. The relationship shown in Figure 1 is a statis-

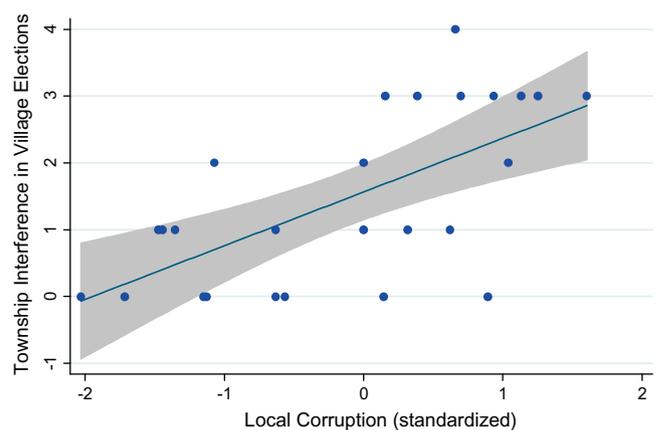


Figure 1. *Township interference in village elections coincides with local corruption. Note: shaded area indicates a 95% confidence interval.*

tically significant one. But what is not clear from this data is whether townships typically interfere to deter and punish corrupt officials—versus to protect and assist corrupt allies.

Certainly, cases in which allegedly corrupt townships interfere with village elections are widely reported in China. For instance, in another village that I visited outside the survey sample in Shandong province, higher officials allegedly refused to provide villagers with the legally required levels of compensation for land seizures, keeping the money for themselves.

After an independent elected village head challenged them to provide the compensation and produce the past village accounting books, the next village election date was conveniently moved by a year for supposedly administrative reasons, and widespread bribery ensued. Some villagers claim the township orchestrated the bribery, which they say ensured that the independent village head lost his re-election bid to a township lackey. The corruption accusations are unresolved, but resemble many other stories in which township officials control elections in order to sell land in a corrupt deal, or fake village records in order to skim funds rightfully belonging to villagers.

Within the survey sample itself, the evidence also suggests not all townships intended to uphold stability or other high-priority mandates when they curtailed the implementation of elections, removed elected officials, or appointed officials to supposedly-elected offices. Villagers and village leaders in one surveyed township have accused it of being in league with local mafias. What we know from the aggregate data is that the elections in one of their villages failed after the alleged widespread illegal use of proxy voting, the alleged cooperation of corrupt election officials, a spontaneous villager protest at the election, and the dramatic theft of one of the ballot boxes with all its ballots. The township responded by annulling the election and taking over the village government directly, filling the posts with township officials. From the standpoint of higher officials, the township's actions may seem designed to prevent further demonstrations, contention, public accusations, and such "instability." Yet those same actions might instead, or in addition, be sheltering the corruption of township officials who could have orchestrated the ballot box theft so that they could install their own people in control of the village. The evidence is inconclusive. But this example well-illustrates that one price of a rule of mandates system is a substantially reduced ability to monitor and check corruption. At least in a rule of law system, deviations from the law would be easily recognized as corrupt or suspect. In a rule of mandates system, they are likely to be given the benefit of the doubt—making corruption both more pervasive and harder to root out.

There is a further reason to wonder if some townships in the survey are acting in a corrupt manner when they undermine elections: township interference in village elections does not seem to decrease friction between village leaders and the public, as one might expect it to do if done in order to achieve so-

cial stability or root out corrupt elements. As Figure 2 shows, township interference does not increase the extent to which villagers trust the village committee members, who are legally supposed to be elected. That relationship is statistically insignificant; and if anything, the raw data seem to suggest a possible *negative* relationship, which would be consistent with corrupt behavior. That said, because the *n* of this analysis is small, containing 26 villages, it is possible that a larger *n* is necessary to detect the true relationship if the true relationship is not strong. Yet, even if this is so, the weakness of the relationship is consistent with the idea that township interference has limited impact either way, implying either a corrupt motivation or limited ability, and underscoring the difficulty of determining whether illegal township actions are corrupt or mandate-complying.

Altogether, the qualitative and quantitative data underscore that it is highly difficult to obtain information on *why* the elections law was poorly implemented. Local officials often claimed that their interference with village elections was for the purpose of promoting one of the highest priority mandates, namely political "stability," even as the evidence is that their interference does not do so. Case study evidence suggests that local officials may actually sometimes be hiding behind the mandates to shelter their own corruption. While we cannot say for certain whether this happened in the surveyed villages nor estimate the extent to which it happens, the relevant point is that it is very hard to tell why lower officials do what they do.

And yet, under a rule of mandates system, it is essential to know what officials' motives are since the standard for corruption becomes a *relative* one. That is, the very same type of violation of the village elections law would be viewed differently by overseeing officials depending on the motive. If the deviation from the national elections law were driven by an attempt to meet higher mandates given local circumstances, it would not be considered to constitute an "abuse of public office for private gain." Otherwise, it would be considered corruption, invoking the same definition.

Higher level officials would have the same difficulties that we confront here in trying to determine why township officials curtail village elections. Under a rule of mandates system, mandate-driven variations in the implementation of the election law are very difficult to distinguish from corruption-driven variations in implementation.

6. IMPLICATIONS

In the paper, I have argued that China's rule of mandates paradigm makes it particularly difficult to identify corrupt official behavior with certainty in China. The problem is not that the party has less information on its officials than it would under a rule of law paradigm, but rather that more information must be processed to identify corrupt behavior. Since a rule of mandates encourages officials to adjust the implementation of laws and policies in order to meet priority targets, variation in implementation is not an innate problem. In such a system, for all but the highest priority issues, officials must also know *why* variation occurred in order to determine how likely it is that corruption is present. A rule of mandates thus effectively veils corruption.

What are the implications of this research for approaches to fighting corruption? Here I discuss, first, that it underscores how the relationship between decentralization and corruption depends on broader governing institutions. Second, I discuss the possibility that a rule of mandates might be used in devel-

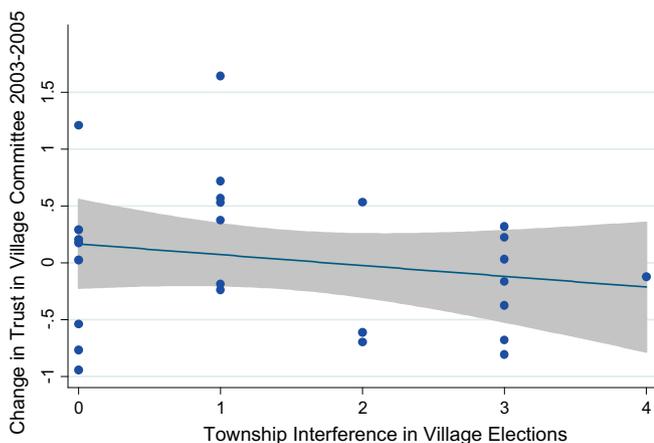


Figure 2. Township interference in village elections and local political tensions. Note: shaded area indicates a 95% confidence interval. The relationship is insignificant at the 95% confidence level.

opmental ways yet still destabilize over the long term. Here, I raise the question of whether it may be possible to strategically shift the locus of predatory corruption away from priority issue areas even as overall corruption is harder to control over the long term. Third, I discuss whether new models of anti-corruption reforms are needed for a rule of mandates.

(a) *How governing institutions shape the impact of decentralization on corruption*

A rule of mandates governing system represents a non-law-based form of decentralization in which some aspects of political accountability remain centralized, especially the determination and enforcement of political priorities, even as other dimensions may be highly decentralized. This balance of centralization and decentralization serves a purpose; it drives variations in the local implementation of laws in such a way that they serve regime priorities. Others have noted that the system of cadre accountability in China is robust, even when regime priorities change dramatically (Nathan, 2003); for instance, when top leaders switched their objectives from building a communist state to building a capitalist state, the system responded (Heimer, 2006). Yet, attention has not been brought to how, given an agenda that is set at the top, the system contributes to difficulties in observing and thus controlling corruption. One of the main lessons of this paper is that corruption may be particularly difficult to root out in a political system like China's, because the governing system inherently imposes a higher information requirement for detecting corruption.

This finding contributes to an emerging literature on the impact of decentralization and governing systems on corruption. To date, much of the research on how governing institutions affect corruption has focused on democratic and/or liberal institutions (Svensson, 2005), such as the design of electoral systems (Kunicova & Rose-Ackerman, 2005; Persson & Tabellini, 2004) and press freedom (Besley & Burgess, 2001; Brunetti & Weder, 2003). Similarly, much research on how decentralization affects corruption has taken place in democratic and/or law-based contexts. This has illuminated a debate about whether and when improved accountability occurs under centralization versus decentralization (Bardhan, 2002; Gerring & Thacker, 2004; Seabright, 1996). Yet non-law-based contexts also merit further independent attention as they may contain different dynamics, as I hope I have shown in this paper. As I discuss below, these distinct dynamics may imply a different pattern of impact and call for different anticorruption strategies.

(b) *Is a rule of mandates developmental, corruption-enhancing, or both?*

While this paper has been about the detection of corruption, it also raises an intriguing pair of hypotheses about the impact of corruption on development and stability in China. Since officials might care to shift corrupt behavior into less detectible arenas, could it be that the rule of mandates moderates the nature of corruption in high priority versus lower priority arenas? At the same time, since the rule of mandates veils corruption, might it increase the aggregate amount of corruption? These hypotheses present avenues for further research and speak to major debates in the literature.

One major puzzle about China is how development has proceeded so rapidly in recent decades even as the state has been characterized as extensively corrupt. Some have postulated that corruption might be less harmful in China, perhaps due

to high party discipline or a particular cultural heritage (Rock & Bonnett, 2004; Sun, 2004; Svensson, 2005). While illuminating, this literature has had difficulty explaining why China's top-down monitoring and disciplining system would be ineffective at controlling corruption if party discipline is so high (Dimitrov, 2005) despite an array of apparently sincere anti-corruption reforms in recent years (Wedeman, 2012; Yang, 2004). Similarly, it is puzzling that economic development targets do not incentivize more effective anticorruption work when corruption might threaten development and development is a high priority mandate (Manion, 2004). The concept of a rule of mandates offers a possible explanation for why there is party discipline in achieving high priority goals alongside enormous difficulty in identifying and fighting corruption. The mandates may effectively demand that a few high priorities are met, even as the resultant relative standards for corruption help veil corruption.

At the same time, the degree to which corruption is veiled by a rule of mandates—and thus patterns of corruption—might vary between the highest priority issues and lower priority issues. Since veto targets are mandatory or near mandatory, whereas other targets are discretionary, the simple existence of deviations from veto targets are sufficient to constitute red flags for corruption or incompetence, whereas reliably detecting corruption in other arenas requires information on the reasons for deviations. This raises the question of whether a rule of mandates shifts corruption out of high priority areas into lower priority ones, or perhaps changes the nature of corruption from predatory to developmental forms in high priority areas. Comparative evidence already suggests that officials will shift corrupt activities away from higher detection activities toward lower detection activities (Bardhan, 1997). For instance, large infrastructure projects may harbor more corruption because it is easier to maintain secrecy in this arena (Shleifer & Vishny, 1993). Research in China indicates that patterns of corruption and developmental activities are responsive to institutional restructuring (Ang, 2012; Chen, 2004). Further research might explore whether a rule of mandates limits predatory corruption in veto-target, highest priority areas in China (where less information is needed to detect corruption due to more absolute standards for corruption) even as it might increase it overall and in other areas (where more information is needed to detect corruption due to relative standards for corruption). In doing so, such research would also help elaborate the particular costs and benefits of a rule of mandates.

(c) *Political stability and anticorruption reforms under a rule of mandates*

How can effective anticorruption measures be pursued under a rule of mandates system? This study implies that reforms should look for ways to diminish the additional monitoring problem that is created by the system's relative standard for corruption. Also, since mandates regulate which laws are implemented, reforms should engage the mandates system, not simply the legal system. Two prescriptions that are typically applied in rule of law situations—limiting the discretion given to local officials and enlisting the public in actively overseeing local officials—are solutions that may be especially difficult to apply under a rule of mandates, as I discuss below.

When it comes to village elections, reports to higher officials contain inaccurate—sometimes highly inaccurate information—on the implementation of provisions of the elections law. Reports from villagers may be more reliable but are costlier to obtain and interpret. Yet might there be a way for the

party to reduce the costs of collecting and applying villagers' local knowledge by, for instance, institutionalizing more participatory processes? After all, comparative research has shown that one of the most effective ways of preventing corruption is to institutionalize local public oversight using democratic processes, at least under a rule of law paradigm.

Unfortunately, unlike under a rule of law, higher leaders in a rule of mandates system do not seem to have incentives to directly enlist the independent public, media and civil society as monitors of corrupt officials. An authoritarian rule of mandates system makes it harder for the public to play a useful role in identifying corrupt officials. In part, this is because the authoritarian regime is generally wary of allowing the public to organize around corruption concerns, especially as the public might be inclined to seize the opportunities with ferocity as they have in decades-past anti-corruption mass campaigns (Li, 2001). Yet, even beyond this are difficulties particular to the rule of mandates environment. First, the public does not generally know the mandates that local officials are given, so they have no way to judge how conscientiously an official met the mandates. So, while higher officials may wish to collect the information that locals have on local conditions—through welcoming and recording complaints for instance—they have no reason to expect that the public, politically excluded as it is, could distinguish between mandate-driven and corruption-driven behavior by officials who fail to implement laws. Second, if the public were told the particulars of the mandates, many might object to the priorities implicit in them, exacerbating the party's difficulties. Indeed, the public's own policy priorities are diverse and often differ from the priorities in the mandates. For instance, while the central mandates most strongly prioritize order and economic growth, 51% of respondents thought that rights protections should be among

any society's top two priorities, and 24% thought that public participation should be.

Another policy solution that could make it easier to monitor local officials would be to give them less discretion in deciding how to pursue their mandates. Indeed, corruption control measures often emphasize the need to limit the discretion given to lower officials. Of course, such a policy would be difficult for China to implement because it undermines a crucial feature of the rule of mandates paradigm, which is that lower officials must have the flexibility to adjust which laws and policies they follow in order to focus on the highest priority outcomes. This paradigm has benefits for the Chinese regime that it may be loathe to part with in the short term. For one, it helps the regime to achieve high priority outcomes without central officials having to understand specific local areas of the country. Second, as I have argued elsewhere, it stabilizes the regime in the short run by preventing the unwanted spillover effects of policies like village elections.

In the long run, however, if the system consistently faces overwhelming information challenges in detecting corruption—as I have suggested in this paper—the rule of mandates may undermine China's long-term prospects. In the end, the policies that are needed to greatly reduce corruption in China may not be neutral or quick fixes. Rather they may need to be fundamentally related to political reform, not only in terms of methods of choosing and overseeing officials, but also in terms of whether officials are held to absolute or relative standards. Further research is needed to determine empirically how much corruption is sheltered by a rule of mandates system, to measure the extent of any development benefits or costs of a rule of mandates, and to assess the extent to which various reforms might help fight corruption. Yet, I hope that this study has laid out clear reasons to believe that a rule of mandates system helps to veil official corruption.

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APPENDIX A

The Village Democracy Survey in Shandong and Henan was implemented in three stages, beginning in November 2005, as a collaborative effort with the Research Center on Contemporary China at Peking University, Pierre Landry, and Shiru Wang. Stage One was an in-person survey of a random sample of individuals in Shandong and Henan. These individuals were selected through a geographic sampling technique that proceeded as follows: within each of the provinces (Shandong and Henan), seven counties were selected at random according to a population-density weighting scheme that made it more likely that densely populated counties would be selected. Within each county, a township was selected at random, again according to a population-density weighting scheme. Within each township, two geographic squares, delineated by GPS measurements, were randomly selected; and the dwellings within those squares were enumerated. In practice, the 28 geographic squares, 14 in each province, encompassed 26 villages, 13 in each province. This is because, in two townships, both of

the selected geographic squares randomly happened to fall within the same large village. Within each of the dwellings included in the final sample, one resident was randomly chosen to be interviewed. Because the interviews were conducted in person and multiple attempts were made to contact each individual, the overall response rate to the survey is quite high, at about 65%. One township was resurveyed in November 2006, as some rural respondents had originally been inadvertently administered an urban version of the survey.

In Stage Two, qualitative interviews were conducted of the Village Committee Chairs (Village Heads) and Village Party Secretaries of the administrative villages included in the survey. Shiru Wang conducted these personally in November and December 2005. Knowledgeable residents were also interviewed about village facts and local politics, by the team leaders and enumerators in charge of the individual level survey. Information from these additional interviews provides a qualitative supplement to the leadership interviews.

In Stage Three, which took place in November 2006, all of the townships in the sample were re-visited; and a survey was administered to a senior township leader with the responsibility for overseeing village elections. At the same time, detailed election histories were collected on all the villages in the sample, through township and village official records where available, along with interviewing of local officials.

(a) Individual-level survey questions used to measure village election implementation

The following measures were used to assess the quality of the latest Village Committee election. These measures were constructed from the responses to individuals' survey questions, specified below, or from information from qualitative interviews, as noted.

(i) Latest election—contestation

Qualitative information from leadership interviews was used.

(ii) Latest election—enfranchisement

Responses to the following questions were used, in combination, to determine the percentage of villagers, by village, who believed they were welcome to vote in the election.

C4: Have you ever voted in a Village Committee election?

C4a: Why haven't you voted? Is it because you don't have the right to vote, or for another reason? (*open-ended responses noted*)

C10: Did you vote in the last village election?

C10a: Why didn't you vote in the last village election? (*open-ended responses noted*)

(iii) Latest election—nomination openness

C11: In the last election, could you directly nominate a candidate?

(b) Survey questions used to measure township intervention

Township checkpoints for intervening in village elections (asked of township official in charge of election oversight).

A count index (0, 1, 2, 3) was created to represent the number of checkpoints revealed in response to the questions below.

T8: In the last round of village committee elections in this township, which department or leaders were responsible for confirming the members of the village election organizing committees? (coded 1 if any, coded 0 if none)

T9: In the last round of village committee elections in this township, which department or leaders were responsible for suggesting the lists of candidates for village committee chair? (coded 1 if any, coded 0 if none)

T10: In the last round of village committee elections in this township, which department or leaders were responsible for confirming the lists of candidates for Village Committee Chair? (coded 1 if any, coded 0 if none)

Open-ended Interviews with Village Committee Director (aka Village Heads) and Village Party Secretaries were used to determine whether or not elections had not been held as scheduled, whether or not elected village leaders had been dismissed or new ones appointed, and the explanations for why.

(c) *Survey questions used to measure local corruption*

(i) *Public perceptions of local corruption: (asked of surveyed villagers; and then averaged by village)*

H6: How much corruption would you say there is among officials in this area?

1. None

2. There's very little
3. There's some amount
4. It's very common
5. Don't know

(d) *Survey questions used to measure public's priorities*

(ii) *Public priorities: (asked of surveyed villagers)*

G5: In any society, not everyone can receive everything they want. Let's consider society that has the four goals below; which do you think is the most important goal?

1. Giving people more input when the government is making a decision.

2. Economic development.

3. Protecting people's basic rights.

4. Upholding social order.

G6: And what do you think is the next most important goal?

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Water Reforms, Decentralization and Child Mortality in Colombia, 1990–2005

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Summary. — This paper attempts to determine the municipal level impact of the 1994 Law 142 water and sewerage services reforms on child mortality and service coverage. The objective of these reforms was to transfer service provision from the municipalities to specialized companies. These reforms were undertaken within the 1990s decentralization process which established that the provision of water and sewerage services was the responsibility of local governments. The results obtained indicate that municipalities that reformed exhibit a slower reduction of child mortality rates and lower increases in water coverage than the ones that did not reform.

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Key words — child mortality, water reforms, decentralization

1. INTRODUCTION

High quality provision of water and sewerage services is fundamental to overcome poverty and to improve quality of life. In particular, access to potable water and basic sanitation facilities is strongly related to the prevention of gastrointestinal diseases in children and adults¹ (Esrey, Potash, Roberts, & Shiff, 1991). The World Health Organization estimates that 1.8 million people die every year from diseases related to an inadequate provision of water and sanitation; 90% of them are children under five (OMS, 2004). As part of the Millennium Goals, Colombia committed to reduce mortality in children under five from 37 to 17 deaths per 1,000 live births. Achieving such an objective inherently entails improved provision of water and sanitation services.

By the late 1980s, Colombia had already begun to reform water and sanitation service provision through two strategies. First, the central government sought to enhance service provision by gradually transferring it to the local governments. Second, the government also transformed the regulation of the service provision sector in order to allow for the participation of specialized private or mixed firms. The final stage of the latter strategy was the enactment of Law 142 of 1994 which established a new institutional framework for the provision the services. One key aspect of the Law was to authorize the participation of private capital in the provision of those services. In this regard, the Law facilitated the creation of companies specialized in the provision of water and sewerage services as a way to stimulate coverage expansion and quality improvement. The entrance of specialized companies would lead eventually to the gradual elimination of local governments as direct providers of those services. To date, however, local governments remain the principal providers, as specialized companies mainly operate in municipalities with more than 20,000 subscribers (Roda, 2004). The reform was implemented more than 15 years ago, yet as of now its impact is not completely known.

The objective of this paper is to empirically evaluate the impact of the reforms on water and sewerage service provision, as well as on child mortality from 1990 to 2004. We find that the municipalities that chose to reform by incorporating specialized providers experience less progress in their indicators of child mortality and water coverage than municipalities in which local governments continued providing services. Thus,

the incentives that a private maximizing specialized firm experiences do not lead by themselves to more coverage or better quality of water and hence to lower child mortality. It may be, in fact, that the incentives that a local politician has—accountability, reelection, etc.—may bring about better water and sewerage services, which in turn may lead to better indicators of child mortality.

Almost at the same time that Law 142 was enacted, Law 60 of 1993 determined the complete decentralization of the provision of water and sewerage services. More specifically, Law 60 established that municipalities were obligated to assure service provision either as direct providers or in association with other public, private, or communal entities. Thus, when specialized public, private, or mixed firms began to operate, it was within a decentralized environment. As a consequence, local governments have had full autonomy to choose either to contract the specialized providers or to remain service providers themselves.

The paper consists of eight sections, including the introduction. Section 2 presents a short review of the literature on international water and sanitation sector reforms. Section 3 describes the water sector reform process prompted by Law 142 in relation to public utilities provision by private parties. Section 4 presents descriptive statistics on water and sewerage coverage and child mortality. Sections 5 and 6 present the methodology of estimation and the econometric results for child mortality. Section 7 analyzes the effect of the reform on service coverage, and its relation to child mortality. Finally, Section 8 summarizes results and presents concluding considerations.

2. LITERATURE ON THE IMPACT OF WATER AND SANITATION REFORMS: INCONCLUSIVE EVIDENCE

The relationship between the availability of potable water and sewerage and a population's quality of life is well

* The authors thank Jean-Paul Faguet, three anonymous referees, and the participants in the Initiative for Policy Dialogue workshop on decentralization at the Columbia University for the very useful and insightful comments to previous versions of this paper. We also thank the Superintendencia of the Public Utilities of Colombia for the information provided.

established in the literature (Abou-Ali, 2002; Esrey *et al.*, 1991; Fajardo, 2004; Jalan & Ravallion, 2003; Lavy, Strauss, Thomas, & Vreyer, 1996). Specifically, a lack of potable water and sewerage systems is strongly related to an increased incidence of infectious and transmissible diseases, including diarrhea and cholera. While children are especially vulnerable to such diseases, previous research suggests other factors, including parental education level, hygienic practices, and proper medical care, may also contribute to the prevalence of these diseases in children (Payment & Hunter, 2001). Most studies show that the availability of potable water and sewerage services reduces the child mortality rate by 5–27%, reduces overall disease incidence by about 20% (Galdo & Briceño, 2005¹), and reduces disease duration by 29% (Jalan & Ravallion, 2003). The provision of water and sewerage services is undertaken within different institutional setups—public, private, and mixed providers—each of which may affect differently the coverage and the quality of the service according to the set of incentives the providers experience. This paper attempts to explain those issues in the case of Colombia.

Since the late 1980s, a process of reforms on the provision of public utility services including water and sanitation, electricity and telecommunications began in many developing countries. One of the cornerstones of the reforms was the involvement of private providers using diverse participation models. As described below, evaluations employing diverse methodologies and approaches have been carried out in the 20 years since the reforms began. In the cases of electricity and telecommunications, evidence concurs that private participation yields positive effect on service efficiency and coverage. However, in the case of water and sanitation the impact of private sector involvement remains controversial as evaluation of the reforms have not shown conclusive results as shown below.

Arguments in favor of private sector provision of water and sewerage services can be summarized by stating that the most important incentive to increase efficiency is the possibility of financial profits (De Alessi, 1980). Public provision of services lacks this incentive and hence exhibits low levels of efficiency and quality. On the other hand, opponents of reforms that increase private provision claim that water and sanitation services should be public goods because they generate environmental and health externalities. Under this premise it is not possible to reach a socially optimal level of private sector service provision because of the difficulty in efficiently internalizing and regulating those externalities (Noll, Shirley, & Cowan, 2002). Moreover, researchers have identified several limiting factors related to the private provision of water and sewerage services, including its characteristic of natural monopoly, the low elasticity of demand and the high risk of nonfee payment among lower-income sectors (for discussion see Galiani, Gertler, & Schargrodsky, 2005). The reforms implemented in Colombia fall between these two extremes for and against private service provision. These reforms recognize the government's responsibility—particularly the local governments' responsibility—to ensure the universal provision of quality services. At the same time, however, they promote private involvement in the water and sewerage sector while still demanding good performance and positive outcomes no matter the type of service provider.

Regardless of the discussion on its potential benefits, private involvement in the provision of water and sanitation services took place in 140 countries from 1990 to 2003 (Prasad, 2006). These reforms considered different models for the participation of private capital such as sales of equity of state-owned companies, concession contracts, and Build, Operate, Manage, Transfer contracts (BOMT). According to Prasad

(2006), the literature on the implementation of water and sanitation reforms has focused on the performance of provider companies from a microeconomic point of view, analyzing efficiency and productivity indicators although the results are not conclusive in the case of private capital involvement. Moreover, the impact of those indicators on the population quality of life and on the decrease of poverty levels has not been studied in-depth.

De Alessi's (1980) hypothesis that the maximization of profits drives increased efficiency of private water provision firms has been empirically tested in studies across multiple countries. Bhattacharya, Elliot, and Raffie (1994) show that public companies in the US exhibit higher efficiency in the use of production materials and have better technical capacity, though the dispersion of results for public companies is higher than for private companies. Estache and Rossi (2002) analyze the performance of 50 Asian water companies to demonstrate that private companies are not more efficient than public ones. Coelho, Da Silva, and Moreira (2005) find that private water companies in Brazil are only marginally more efficient than public companies. The African case presented by Kirkpatrick, Parker, and Zhang (2006) finds no evidence of superior performance of private companies over public companies. Clarke, Menard, and Zuluaga (2000) use household surveys from Brazil, Argentina, and Bolivia to show that there is no correlation between private participation and the coverage achieved by water and sewerage systems. Clarke *et al.* (2000) and Shirley, Xu, and Zuluaga (2000) examine the private provision of water and sanitation in Conakry and Santiago de Chile and find that reforms benefited consumers, local governments, and private investors. In sum, these studies indicate that there is no clear evidence of greater efficiency or coverage in regions or countries with private sector participation. When outcomes are widened to consider quality of life, Galiani *et al.* (2005) find that in Argentina, private participation is associated with a 9% decrease in child mortality, with stronger effects on municipalities with higher poverty levels.

In the Colombian case, Silva and Andia (2006) analyze the relationship between resources transferred to municipalities and water and sewerage service coverage during 1998–2002, as well as the link between the latter and under five child mortality. The authors find that the relationship between the allocated resources and the change in coverage is weak, which indicates the existence of sharp spending inefficiencies. There is a similarly weak relationship between the latter and under five child mortality.² Barrera and Olivera (2007) find private participation on coverage has a positive effect on service quality, particularly in urban areas,³ yet the authors find only inconclusive evidence on the link between private participation and the incidence of diarrhea in children. Giraldo and Rosales (2004) analyze the effect of access to electricity and potable water on the productivity of households in Colombia; they find that the productivity differential explained by the access to these services is equivalent to 10.5% of the monthly minimum legal wage. Arevalo and Schippener (2002) explore the experience of private sector participation in the administration and operation of water and sanitation services in the department of Antioquia. Specifically, the authors analyze the evolution and performance of 11 small and medium-sized providers serving 38 municipalities, and evaluate users' satisfaction. Their results indicate that the highest satisfaction is found under mixed management strategies, as they combine the joint interests and efforts of both the public and private sectors (Arevalo & Schippener, 2002). Finally, Krause (2007) finds that quality of governance such as strong civil society, control of corruption, and low activity of illegal armed groups favor

efficiency of specialized providers and widen population's service access.

The wide range of approaches to analyze water and sanitation reforms across national settings, as well as the results obtained, clearly show that the debate on the impact of such reforms is ongoing. The Colombia context is particularly complicated because water and sewerage service decentralization were carried out in parallel to regulatory reforms, creating the need for a more nuanced analysis of the impact of the latter. Central to this analysis is consideration for the relationship between local governments and service providers. This paper proposes an empirical measurement of the impact the regulatory reforms on child mortality, within the context of the 1990s decentralization reforms that characterized the Colombian case.

3. REFORMS TO THE PROVISION OF WATER AND SEWERAGE IN COLOMBIA

(a) *The decentralization reforms*

Since 1950 decentralization has been a key policy for the provision of drinking water in Colombia. Since this time, there has been an ongoing shift of responsibility for water and sanitation services management to local governments (Faguet & Sánchez, 2008; Maldonado & Vargas, 2001). Nonetheless, the water and sanitation investments necessary to increase service coverage have been influenced by political and electoral interference, much as in other countries in the region that decentralized during this period, given the potential for electoral gains represented by the provision of such essential services.⁴

More specifically, until 1950 central government resources for water and sewerage systems were managed by the *Fondo de Fomento Municipal* (Municipal Development Fund, or FFM). Decentralization in this sector began when the *Instituto de Fomento Municipal* (Municipal Development Institute, or INSFOPAL) was put in charge of designing, operating, maintaining, managing, and financing water and sewerage services at the municipal level (Maldonado & Vargas, 2001). In 1968, the creation of the *Junta Nacional de Tarifas* (National Board of Pricing, hereafter the Board) addressed the need to "lower the political interference on the pricing process" of water and sewerage systems. The Board ranked the service use and the payment capacity of the user-households, commerce, industry, and government. Based on these rankings, both rates and subsidies were defined. At this time, the Board and INSFOPAL actions actually excluded the municipalities from service provision, and the system shifted briefly toward centralized management. However, this trend reversed in 1975 when service management control was transferred to *Empresas de Obras Sanitarias* (Sanitary Work Companies, or EMPOS), and *Sociedades de Acueductos y Alcantarillados* (Departmental Water Supply and Sewerage Companies, or ACUAS), INSFOPAL entities at the department and municipal levels (Domínguez & Uribe, 2005).

By the late 1980s the services management resembled what Spiller and Savedoff (2000) have called a "low-level equilibrium" in which tariffs were low and did not match the costs of coverage expansions and quality improvement. Additionally, the system lacked a pricing mechanism that would allow for the rationalization of consumption. System reform was needed, and it was then undertaken within the broader framework of decentralization. The foundation for these service reforms was the enactment of Law 11 of 1986, which authorized

municipalities to deliver water and sewerage services without interference from the central government. In 1987, Decree 77 liquidated INSFOPAL as the final step toward service decentralization. The central government bailed out EMPOS and ACUAS, and their equity was transferred to municipalities (Domínguez *et al.*, 2005). Despite these steps, the INSFOPAL's legacy after 40 years of centralized management was one of low coverage and bad service quality (Maldonado & Vargas, 2001).

The municipalities in the worst situation at the time of decentralization were those with populations from 2,500 to 100,000 individuals that had been served directly by INSFOPAL, and hence faced greatest change in the face of the reforms (Maldonado & Vargas, 2001). The reforms transferred to the municipalities both the related public works and the operation and management of the service. Simultaneously, central government resources that had been allocated to municipalities were increased in order to support their new responsibilities. Thus, under this new institutional framework, municipalities became autonomous although the central government remained the main source of funds to finance sector-specific investments. With the 1993 enactment of Law 60, municipalities started to receive transfers specifically allocated for water and sewerage services. In 2001, Law 715 which modified Law 60, maintained transfers destined for water and sewerage services for the poorest and less populated municipalities.⁵ Those transfers were to be spent either in infrastructure building or to subsidize a portion of the water and sewerage service fees paid by the poorest households. Thus, the Colombian user fees system takes a cross-subsidization approach, with residential users from low socio-economic strata (1–3) receiving fee discounts that are in turn covered by higher fees for high socio-economic strata (5 and 6)⁶ and commercial and industrial users. Since the implementation of this scheme, most municipalities run deficits that are partially covered by central government transfers. The remaining resources cover a portion of the investments needed to provide the services, either through direct subsidies to the provider (including the municipality itself), or through the delivery of physical infrastructure (Silva, 2007).

(b) *The regulatory reforms under Law 142 of 1994 and the business transformation of the providers*

The Colombian Constitution of 1991 provided for the possibility of service provision by nongovernmental agents, as well as the creation mechanisms to facilitate user participation in the management and oversight of service providers. In 1994, these Constitutional provisions were regulated further by Law 142, *Régimen de Servicios Públicos Domiciliarios* (the Household Public Utilities Regime). Specifically, this law introduced a new institutional framework for household public utilities provision with the creation of regulatory boards for the telecommunications, energy and gas, and potable water and sanitation and the Superintendence of Household Public Services (SSPD) sectors. Under this new framework, the central government was made responsible for the planning, regulation, oversight, and control of services while service provision was to be carried out by one of the following by providers: (1) public service companies incorporated as public limited liability companies (ESP S.A.), (2) municipalities as direct providers, (3) *Empresas Comerciales e Industriales del Estado* (government-managed industrial and commercial companies, or EICE), (4) marginal or independent producers, or (5) organizations authorized to provide service in rural areas or specific urban areas.⁷

The process of drafting Law 142 assumed that *empresas de servicios públicos* (companies of public utilities, or ESP) should be in charge of service provision, as the adoption of a business-like model was considered the best way to reach high levels of efficiency.⁸ It was then expected that the existing municipal or regional entities that provided public services would transform themselves into ESPs. Though service provision through ESPs was intended to be the main mean of service delivery, municipalities could also be direct providers when setting up an ESP was not possible. Nonetheless municipalities were obligated—so as to improve efficiency—to comply all the regulations and obligations determined by Law 142.⁹ In the case of decentralized entities, the Law's Article 17 offered the option of setting up an EICE.¹⁰

The adoption of business-like management model for water and sewerage service provisions by the municipalities has been rather sluggish. In fact, municipalities still represent nearly 51% of direct providers (Silva, 2007). Law 142 incentivizes the replacement of the municipalities as direct providers with public utility companies, which is intended to improve service coverage and quality, in turn engendering increases in measured quality of life. However, as our review of the literature suggests, there is not conclusive evidence of this occurring.

This paper seeks to determine whether water and sewerage service provision reform, specifically service provision by an entity other than the municipal government, may lead to better quality of life. The indicators to be examined in this paper will be the total mortality rate for children under five, and the mortality rate of children under five from infectious and transmissible diseases in each municipality. These indicators were selected based on the established, close relationship between child mortality and access to water supply and sewerage services.

(c) Trends of the reforms of water and sewerage services

Water supply and/or sewerage service provider data was collected from the Super Intendancy of Public Utilities (SSPD). At the time of collection (March 2007), there were 780 registered companies, including 422 that provided both services, 345 that provided only water services, and 13 that provided only sewerage services. Table 1 contains the distribution of companies according to provider type as defined by Law 142.

The number of municipalities served according to provider type is also summarized in Table 1. The 780 companies registered before the SSPD operated in 623 municipalities. The providers included in Table 1 are either those companies operating as EICE, or ESP S.A. or the municipality as direct provider. Authorized organizations and marginal producers were excluded because they could not be incorporated. Thus, the total sample consists of 550 municipalities, including both those that underwent service provision reform during 1994–2004 and those in which service provision remained with the local government.

The analysis of water service provision covers 545 municipalities, while analysis of sewerage service provision covers 484 municipalities. The period under examination is from 1990 to 2004, with an emphasis on the period after the 1994 enactment of the Law 142 which allowed municipalities to reform service provision. The year of the reform of each service in a municipality was simply the year in which new companies (EICE or ESP) began operating. Thus, the variable *water reform* is equal to one in a given year if during that year the service was delivered by an EICE or ESP previously incorporated. If the service was delivered by the municipality, the variable reforms take value zero. The sewerage reform variable was built in a similar fashion. Figure 1 illustrates the percentage of municipalities that undertook service provision reform for each year from 1994 to 2004.

The number of municipalities in which water and sewerage services were provided by the local government dropped from 416 to 220 from 1993 to 2004. For sewerage services only, the reduction was from 367 to 191. Thus, 47% of municipalities undertook service provision reform, including 194 that reformed water provision and 174 that reformed sewerage provision. Larger municipalities were more attractive to provider companies, and as a result, this group experienced more reforms than other groups. Out of the reformed municipalities, 87% is served by companies with more than 2,500 subscribers.

As shown in Table 2, the majority of municipalities (57%) that implemented a service provision reform set up an EICE while the remaining (43%) established an ESP. Private participation (total or partial) in service provision took place in 80 out of the 84 municipalities that reformed by setting up of an ESP. S.A. (Company of Public Utilities, Inc). Thus, only four (5%) municipalities created an ESP. SA with exclusively public funds. As Table 2 summarizes, around half of the sampled municipalities implemented water and/or sewerage service provision reform during 1994–2004, while complete private investment occurred in only about 35% (69) of the reformed municipalities, or close to 11% of the of total sample (623).

4. CHILD MORTALITY AND ACCESS TO WATER AND SEWERAGE SERVICES

The relationship between potable water and sanitation service provision and public health indicators is widely acknowledged in the related literature (Esrey *et al.*, 1991). Specifically, the lack of access to water and sewerage services is associated with an increased incidence of infectious and transmissible diseases because the absence of these services increases the possibility an individual will ingest contaminants in unclean water, as well as suffer from poor personal hygiene (Payment & Hunter, 2001). Trends across of water and sewerage service coverage and the evolution of child mortality rates in the 550

Table 1. Number of companies registered before the SSPD and municipalities served by type of provider in 2007 Source: SSPD, own calculations

Type of provider	Registered companies			Municipalities served	
	Water and sewerage	Only water supply	Only sewerage system	Water supply	Sewerage system
EICE	142	14	2	169	154
Municipality	190	21	7	213	188
Authorized organization	32	292	0	329	32
Marginal Producer	3	11	0	14	3
Sociedades (ESP)	55	7	4	163	142

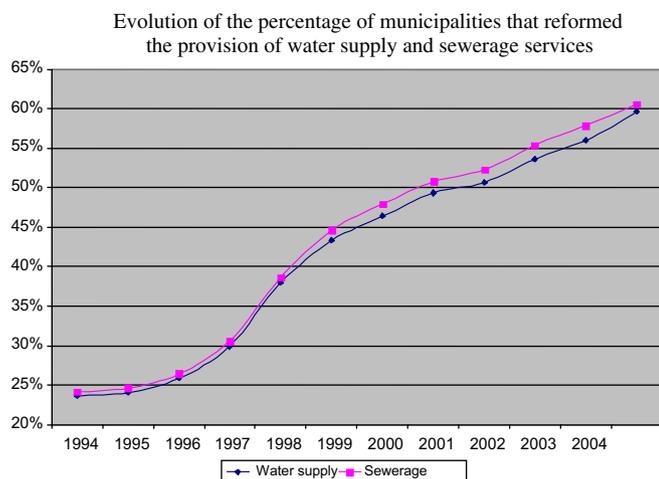


Figure 1. Evolution of the percentage of municipalities that reformed the provision of water supply and sewerage services.

municipalities included in the study are presented and described below.

(a) Evolution of coverage of water supply and sewerage services

Figure 2 presents the percentage of households with water and sewerage services calculated from census data for the years 1993 and 2005. The percentages only measure access to services, but do not account for quality of services. Coverage of water and sewerage services in the analyzed municipalities increased by 7.8 and 9.8 percentage points respectively, during 1993–2005. During that period, water service coverage rose from 64.8% to 72.6% and sewerage coverage rose from 42.5% to 52.3%. Figure 2 shows coverage differences among municipalities according to the implementation of service provision reforms. Although in 1993 reforms had not been yet implemented, “municipalities with reform” represents municipalities in which service provision reform occurred after 1994.

As shown in Figure 2, municipalities that continued to directly provide water services increased coverage by 3.4 percentage points, in contrast to municipalities that implemented service provision reform, in which the increase was only 0.52 percentage points. An opposite trend is observed for sewerage services; coverage in the former group of municipalities only increased by 0.47 percentage points, but in the reformed group, the increase was 4.24 percentage points. Differences in coverage increase may be influenced by starting levels (i.e., it is more difficult to increase coverage if it is already at relatively high levels), and in fact these levels were lower in unreformed municipalities. However, the methodology used in Section 6 allows us to capture the effect of the reform on service coverage by controlling for socio-economic characteristics and fixed effects.

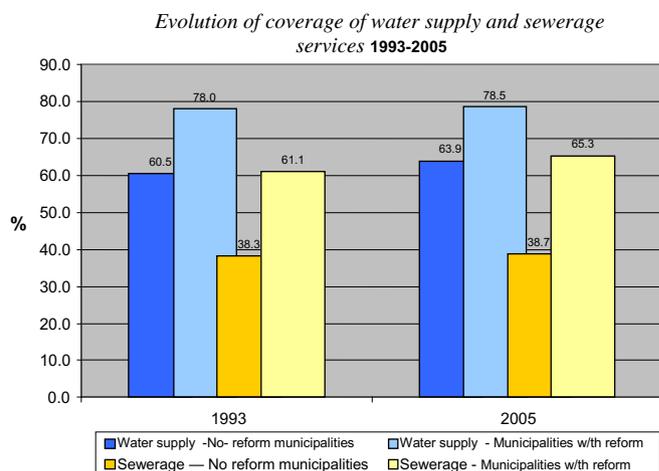


Figure 2. Evolution of coverage of water supply and sewerage services 1993–2005.

(b) Evolution of child mortality rates

The mortality rate was constructed based on the number of deaths of children under the age of five registered in the sampled municipalities during 1990–2004. Data included 184,007 deaths sorted by cause of death, according to List 6/67 of International Classification of Diseases, ICD-10 used in the Vital Statistics. The child mortality rate was calculated for each year as the ratio between the number of deaths registered in a municipality and its overall population between 0 and 4 years old.¹¹ From 1990 to 2004 the deaths of children under five dropped from 13,382 to 10,381, a 19% decrease. However, the decline in the infectious and transmissible diseases child mortality rate was much more significant, falling from 1.27% in 1990 to 0.20% in 2004. In 1990, 8.4% of child deaths was caused by infectious and transmissible diseases, and by 2004, the percentage was down to 4.4%.

For analysis purposes, we constructed two child mortality variables. The first one covered all registered deaths, except those classified as “deaths from external cause” ($n = 12,947$). The second variable only included the reported 23,595 deaths from infectious and transmissible diseases, as these diseases are directly associated with a lack of water and sewerage services. During the time period under study the sample municipalities demonstrated a decrease in the child mortality rate from nonexternal causes from 1.16% to 0.15%, while the mortality rate from infectious and transmissible diseases declined from 0.15% to 0.03%. However, there were salient differences in the behavior of child mortality rate between r municipalities that reformed and those that did not reform water and/or sewerage services provision, as shown in Figures 3 and 4.

In 1990, municipalities that would continue to provide services directly exhibited an average higher mortality rate than

Table 2. Type of provider set up by municipalities that reformed service provision in 2007 Source: SSPD, own calculation

Tipo de prestador	Servicio			Total	%
	Water supply and sewerage	Only water supply	Only sewerage		
EICE	101	9	2	112	57
Incorporated companies (ESP)	71	13		84	43
Official	4			4	5
Private	58	11		69	82
Mixed	9	2		11	13

those in which a company would become the service provider. However, this pattern changed, and in 2004 direct service provider municipalities (i.e., municipalities that did not reform) exhibited lower child mortality rates than reformed municipalities.

Figures 3 and 4 present the descriptive evidence of the apparent response of child mortality rates to the implementation of reforms in water and sewerage services provision. In order to obtain a more precise estimate of the impact of the reforms on child mortality rates, we employ an econometric approximation that incorporates the particular characteristics of each municipality, the overall tendencies of child mortality and an exact measurement of the year the reforms were introduced in each municipality. Section 6 describes the methodology used and the results obtained.

5. THE DECISION TO REFORM THE PROVISION OF WATER AND SEWERAGE SERVICES

Law 142 stipulated that a municipality could continue as the direct provider of water and sewerage services if: (i) no company was interested in providing the service; (ii) the municipality, the department, or other entities were not interested in creating a public utility company; or (iii) if companies were willing to provide the service, but the costs of direct provision would be lower than those the willing company reported.¹² Given these restrictions, it is likely that a greater number of ESPs would be created either in the largest municipalities or in municipalities grouping themselves so as to have a single low cost providing company. Indeed, as mentioned above, in the sample under analysis, 87% of reforms were implemented in municipalities served by companies with more than 2,500 subscribers.

Thus, it is necessary to determine the set of variables linked to the reform decision. Conceptually the decision may be associated, on the one hand, with the socio-economic characteristics of municipalities and to its evolution in time and, on the other hand, with a particular political juncture in the municipality that promotes or facilitates the participation of a company in water and sewage services provision. Taking into account these two sets of variables we estimate a xtlogit probability model of the municipality's decision to reform service provision through the creation of a company. As shown in Table 3,¹³ two models were estimated. In the first, the socio-economic characteristics of the municipality (Unmet Basic Needs—UBN, rurality rate, land distribution, tax revenue,

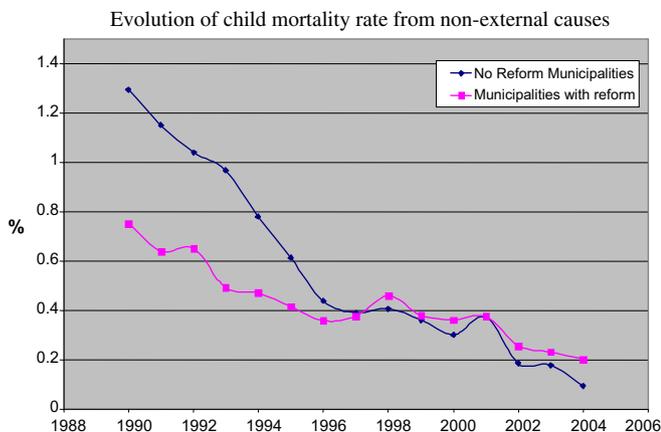


Figure 3. Evolution of child mortality rate from nonexternal causes.

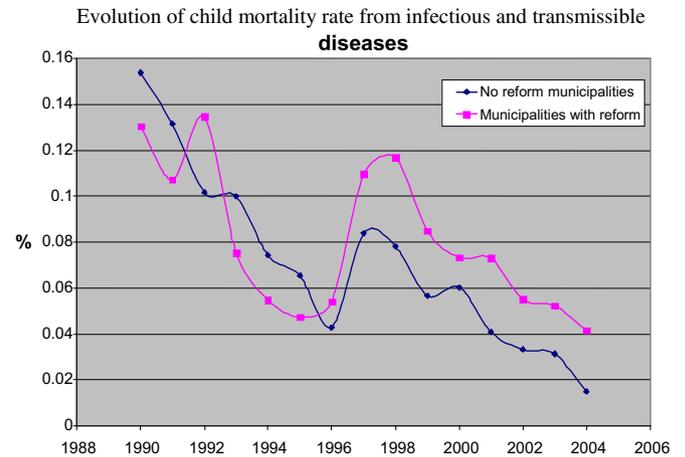


Figure 4. Evolution of child mortality rate from infectious and transmissible diseases.

and child mortality rate) vary through time. In the second one, we use the 1993 values of these variables and the lagged first difference of land distribution, tax revenues, and child mortality. The inclusion of these three lagged variables seeks to determine if the decision to reform is related to changes of municipality's socio-economic indicators.

Both models include service coverage, percentage of dwellings sheltering more than four households, and percentage of population with a complete high-school level education in 1993. Additionally, two variables were included as indicators of the municipality political circumstances: electoral turnout in local elections, and effective number of political parties (ENP) with representation in the city council. Finally, as time dependency or duration variable we use the number of years until the reform is implemented (fixing 1995 as equal to one). It is expected that as time goes on the likelihood of engaging in reform increases.

Results in Table 3 indicate that probability of reform exhibits a positive dependency on duration. For the two services and in both models, initial coverage is significant and positively affects the probability of reforming. This result does not support the objective of the Law that attempted to promote access to these services through the creation of public utility companies in the municipalities with lower coverage. This result is also consistent with the negative impact of the percentage of rural population in both models for the case of water service reform. In other words, a municipality with a high rate of rural residents would have low water coverage and be less likely to implement reform. In regard to the political variables, higher electoral turnout is negatively related to reform implementation. If turnout represents the population's greater awareness of and participation in public issues, this result suggests it may be more difficult to convince citizens or win their support for changing the traditional water provider. By contrast, when the local political process exhibits more competition (more effective number of parties), it is more likely to reform. This result may suggest that the cost of the decision to reform would fall not on a few political groups, but rather on the many groups active in the municipality, and thus no one political party would be electorally punished (i.e., bear the cost) for the reform decision.

Finally, neither the child mortality rate nor its change is correlated with the decision to reform service provision in any of the models estimated. This result would allow us to establish a causal relation between service provision reform and mortality rate without having an endogeneity problem.

Table 3. *XTLogit models of the likelihood of reforming service provision*

	Descriptive statistics	Water		Sewerage	
		(1)	(2)	(3)	(7)
Log time	1.242 (0.72)	1.906** (0.913)	2.231* (1.204)	1.996** (0.926)	2.351* (1.250)
<i>Municipal Characteristics 1993</i>					
Coverage	59.4 (22.1)	0.0163** (0.00813)	0.0182* (0.00987)	0.0167** (0.00838)	0.0187* (0.0103)
% of Home with more than four household	0.346 (0.67)	0.274 (0.251)	0.445 (0.284)	0.282 (0.259)	0.453 (0.296)
% of Population With High School	6.37 (4.08)	-0.00345 (0.0462)	0.00861 (0.0526)	-0.00316 (0.0479)	0.00923 (0.0548)
Poverty rate	49.7 (16.1)		0.0126 (0.0125)		0.0130 (0.0130)
% Rural	60.2 (24.3)		-0.0161 (0.0118)		-0.0165 (0.0124)
Gini of land	0.69 (0.1)		0.417 (1.375)		0.395 (1.422)
Tax revenue (millions of \$ COL)	0.018 (0.023)		3.530 (6.003)		3.953 (6.229)
Infant mortality rate (per thousand)	1.12 (1.16)		-0.143 (0.129)		-0.149 (0.134)
<i>Variables that change over time</i>					
Electoral participation	0.55 (0.13)	-2.452** (1.023)	-2.651** (1.131)	-2.603** (1.031)	-2.808** (1.157)
Mayor's proportion of votes	0.51 (0.12)	0.592 (0.862)	0.572 (0.913)		
Change in Gini (-1)	-0.00038 (0.004)		18.85 (31.91)		19.22 (33.30)
Change in tax revenue (-1)	0.002 (0.026)		-1.369 (3.528)		-1.445 (3.581)
Change in mortality rate (-1)	-0.106 (0.97)		-0.203 (0.191)		-0.208 (0.195)
Effective numbers of parties	2.07 (1.01)	0.330** (0.133)	0.342** (0.148)	0.330** (0.131)	0.344** (0.149)
Poverty rate	46.3 (16.1)	0.00594 (0.00974)		0.00594 (0.0100)	
Rurality rate	58.7 (24.1)	-0.0170* (0.00984)		-0.0172* (0.0102)	
Tax revenue	0.029 (0.044)	3.945 (2.486)		4.089 (2.531)	
Gini of land	0.69 (0.10)	0.703 (1.236)		0.708 (1.264)	
Infant mortality rate	0.569 (0.73)	-0.0381 (0.244)		-0.0483 (0.250)	
Constant		-6.183*** (2.366)	-6.894** (3.003)	-5.972** (2.325)	-6.754** (3.041)
Observations		2018	2018	2018	2018
Number of municipalities		318	318	318	318

Standard errors in parentheses.

* $p < 0.1$.** $p < 0.05$.*** $p < 0.01$.

6. EFFECTS OF REFORMS ON CHILD MORTALITY

Due to the strong relationship between lack of water and sewerage services and infectious and transmissible diseases, child mortality caused by these diseases is the variable used to evaluate the effect of service provision reform on population quality of life. We seek to estimate the difference in child mortality between the reformed and unreformed municipalities, namely those that continue providing services directly. It is

necessary to note, however, that child mortality may be affected by nonobserved variables, which in turn may have affected the decision to reform service provision. These nonobserved variables may be typical of each municipality but constant through time, or may be shared by all municipalities and change over time. In order to determine the reform impact controlling for nonobserved variables, we estimate a difference-in-difference panel data model with the following specification:

$$\begin{aligned}
m_{it} = & \alpha_0 + \alpha_1 * Before94 + \alpha_2 * Reform_{it} + \alpha_3 * Reform \\
& * Dummy2500_{it} + \alpha_4 * Reform * Private_{it} + \alpha_5 \\
& * Reform * Private * Dummy2500_{it} + \sigma * x_i + \gamma_t + \delta_i \\
& + \varepsilon_{it} \quad (1)
\end{aligned}$$

Where m_{it} is the child mortality rate in the municipality i in year t ,¹⁴ *Before94* indicates whether the municipality already had a specialized provider before 1994, *Reform_{it}* is a categorical variable of reform constructed as described in Section 3(b), *Reform*Dummy2500_{it}* indicates if the reformed municipality has more than 2,500 subscribers,¹⁵ *Reform*Private_{it}* denotes whether the provider is completely private, *Reform*Private*Dummy2500_{it}* is the interaction of a private provider with the dummy of more than 2,500 subscribers, x_i is a vector of characteristics that change in different municipalities and through time, γ_t is a temporal effect common to all municipalities, δ_i is a municipality fixed effect that controls for the non-observed time invariant characteristics, and ε_{it} is the error term. Coefficient α_2 is the difference-in-difference estimator which indicates the average effect of the reform on child mortality rate. The other α 's coefficients stand for heterogeneous effects of the reform.

Although terms γ_t and δ_i in (1) capture the effect of nonobserved variables, the estimation entails an additional problem which arises from the heterogeneous distribution of variables that influence the decision to implement a reform of the reformed and unreformed municipalities. As a result of this heterogeneity, comparing municipalities that reformed water provision with others that did not would be a source of bias as the latter municipalities may not be comparable to the reformed ones. In order to single out the noncomparable municipalities and find a common support that allows the comparison, we follow Rosenbaum and Rubin's (1983) methodology. Accordingly, we estimate the probability of provision reform using as regressors a set of observed variables from a year previous to the reform implementation. Thus, we estimate a probit model of the variable "Reform in 2004" using the 1994 local socio-economic and political characteristics as independent variables. The estimated probability based on the coefficients of Eqn. (2) is known as the "Propensity Score" (PS) and allows for identification of the noncomparable municipalities, thereby establishing the common support.

$$PS_i = p(X_i) \equiv P\langle R = 1X_i \rangle \quad (2)$$

According to estimated PSs, two groups of municipalities were excluded from the sample: (1) unreformed municipalities with a PS lower than the minimum (0.07) of the municipalities that reform, and (2) reformed municipalities that have a PS higher than the maximum (0.95) of the unreformed municipalities. As observed in Table 4 more than 20% of the municipalities did not fall in the common support and hence were excluded in the common support regression.

The models shown in Table 4 were estimated for mortality rate from nonexternal causes and from infectious and transmissible diseases as dependent variables.¹⁶ For the latter case, the regression was restricted to nonzero values because in many municipalities there were no records of deaths caused specifically by infectious or transmissible diseases for one or more years. In both cases, estimation was performed with the total sample and with the restricted sample, according to PSs of municipalities.¹⁷

There are several variables that seek to determine the impact of the reform. The dummy variable *Reform before 1994* was used to control for municipalities where service provision was already in the hands of a company prior to Law 142. A

dummy variable was created for all the municipalities that reformed after 1994, with various interactions that capture whether the providing company involved private capital and whether the latter is located in a municipality with more than 2,500 subscribers. These variables help determine if within the municipalities that reformed, the effect on mortality is different if the provider company is private or mixed, or if it offers the service to relatively large number of subscribers (2,500 subscribers or more).

Results in Columns 1 and 2 of Table 4 show that reform after 1994 did not significantly affect the mortality rate from nonexternal causes. Nonetheless, if the municipality reformed but private capital was involved in services provision, the mortality rate in fact decreases in 0.22, though this effect is offset in the municipalities with private providers and more than 2,500 subscribers. Moreover, in the latter municipalities and with private capital involved in reform implementation, there may be a slower drop in infant mortality compared to the rest of the municipalities (see Table 4).

According to estimations of the model for the mortality rate based on infectious and transmissible diseases (Columns 3 and 4 in Table 4), reform is associated with a decrease of 0.073 percentage points in the mortality rate and a decrease of 0.046 percentage points when the common support sample is used. The interactions indicate that the effect of private capital is not significant, but the impact of the reform in municipalities with more than 2,500 subscribers is indeed positive (0.14) and statistically significant. These results demonstrate that the municipalities that use public utility companies (EICE or ESP) as providers experienced an additional fall in mortality rate from infectious and transmissible diseases of around 0.05 percentage points as compared with the unreformed municipalities. However, such impact may have occurred only in the small municipalities; according to the results, mortality rates from infectious and transmissible diseases in reformed municipalities with more than 2,500 subscribers is 0.14 percentage points higher than rates in reformed municipalities with less than 2,500 subscribers.

Finally, the coverage rates of the subsidized health regime (government-financed health insurance for the poor) is strongly associated with lower child mortality rates—both the total and infectious diseases-based rates—and its impact is negative in both the complete and the common support samples.

7. EFFECT OF REFORMS ON WATER AND SEWERAGE COVERAGES

The impact of reform on child mortality explained in the preceding section could occur through different mechanisms, in particular service coverage and improvements (or deteriorations) in water quality and hours of service. In this section, we will attempt to determine the effect of the reform on water and sewerage coverage. We will use data of water and sewerage systems coverage from the 1993 and 2005 censuses. A model of difference-in-difference with a panel data from two time periods was estimated following the specification:

$$\begin{aligned}
Cov_{it} = & \beta_0 + \beta_1 * Year2005 + \beta_2 * Reform_{it} + \beta_3 \\
& * Reform * Dummy2500_{it} + \beta_4 * Reform * Private_{it} \\
& + \delta_i + \varepsilon_{it} \quad (3)
\end{aligned}$$

In this case, the independent variable, Cov_{it} is the coverage of service (water or sewerage system) of municipality i in year t . The estimator of difference-in-difference α establishes the

Table 4. *Impact of reform on child mortality rates*

	Descriptive statistics	Infant mortality rate		Infant mortality for infectious diseases	
		Total sample	Common support	Total sample	Common support
Reform	0.3 (0.48)	-0.0570 (0.0525)	-0.0164 (0.0534)	-0.0733*** (0.0224)	-0.0463* (0.0265)
Reform before 1994	0.06 (0.24)	-0.384*** (0.0436)	-0.359*** (0.0506)	-0.0718*** (0.0159)	-0.0758*** (0.0227)
Reform* private or mixed	0.07 (0.25)	-0.225** (0.0985)	-0.221** (0.0992)	-0.0308 (0.0394)	-0.0307 (0.0458)
Reform* more than 2500	0.29 (0.45)	0.264*** (0.0739)	0.257*** (0.0800)	0.142*** (0.0272)	0.142*** (0.0342)
Reform* more than 2500* private or mixed	0.05 (0.22)	0.305** (0.127)	0.245* (0.142)	0.0484 (0.0464)	0.0434 (0.0609)
Proportion of poor with health insurance	0.25 (0.26)	-0.419*** (0.0710)	-0.400*** (0.0846)	-0.211*** (0.0380)	-0.184*** (0.0495)
Tax revenue	0.031 (0.04)	1.037*** (0.402)	1.287*** (0.436)	0.308 (0.205)	0.257 (0.288)
Gini of land	0.70 (0.10)	-1.042** (0.449)	-1.068** (0.504)	-0.208 (0.176)	-0.0726 (0.266)
Poverty rate	43.1 (17.8)	0.00517* (0.00275)	0.000763 (0.00298)	0.00181 (0.00136)	0.000385 (0.00174)
Log population	9.73 (1.13)	0.280*** (0.0864)	0.0562 (0.0956)	-0.0407 (0.0395)	-0.119** (0.0524)
Rurality rate	53.6 (25.2)	-0.000717 (0.00298)	-0.00155 (0.00331)	0.00200* (0.00111)	0.00173 (0.00149)
Constant		-0.997 (0.867)	1.540* (0.929)	0.712* (0.418)	1.497*** (0.526)
Observations		7725	6435	3332	2386
Fixed effect of year		Yes	Yes	Yes	Yes
R-squared		0.198	0.222	0.163	0.182
Number of municipalities		515	429	380	307

Standard errors in parentheses.

* $p < 0.1$.

** $p < 0.05$.

*** $p < 0.01$.

change in coverage in municipalities that reformed provision *vis a vis* those that did not. Variable *Year_2005* summarizes the change in coverage common to all municipalities. Two interactions of variables *R* (Reform) were included: the first one is the interaction with *More_than_2500* and the second with *Private_Mixed*. The first equals one if the company providing the service in the municipality serves more than 2,500 subscribers, and the second equals one if the company partially or totally involves private capital. These terms of interaction allow for the determination of differences in coverage changes related both to the number of subscribers served and to the public and private character of the Company of Public Utilities among the municipalities that implemented reforms. Finally, δ_i is a vector with other time invariant characteristics of the municipality.

The econometric results are shown in Table 5. Inter census water coverage increased in average by 11 percentage points (column 1) and sewerage coverage by nine (column 2). Reform only has a significant impact on sewerage coverage; Municipalities that reformed increased sewerage coverage by an additional 4.0 percentage points.

Table 5 also demonstrates that in municipalities that undertook reform and had more than 2,500 subscribers, the increase in water supply coverage was 6 percentage points lower (Column 2) than the municipalities that did not reform. Sewerage service difference is positive and statistically significant, particularly for the municipalities with more than 2,500 subscribers.

These results are consistent with the ones obtained for the impact of the reform on child mortality (Table 4). It was found that reformed municipalities with more utility companies with more than 2,500 subscribers experienced a lower reduction of child mortality rates. Additionally, municipalities that reformed and contracted new mixed- or public capital-based providers demonstrated 2004 water coverage that was 4.5 percentage points lower than those that did not reform. Thus, the econometric results for coverage in 2005 suggest that one likely mechanism of the lower reduction in child mortality in the reformed municipalities may have been the smaller increase in water coverage.

8. CONCLUSIONS

This paper has attempted to evaluate impact of the water and sewerage services reforms of *at municipal level* established in Colombia by the Law 142 of 1994 on child mortality. The timing of these reforms coincided with the strengthening of the national decentralization process that began in 1993. In fact, the municipalities' burgeoning autonomy in relation to water and sewerage provision allowed them to decide whether to reform or not. The results obtained indicate that municipalities that reformed with more than 2,500 subscribers and with some degree of private participation in providing company provision experience a lower reduction of child mortality rates

Table 5. *Impact of reforms on service coverage*

	Water						Sewerage					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Reform before 1994	18.97*** (1.780)		6.454*** (2.086)		6.475*** (2.084)		23.55*** (2.085)		9.577*** (2.421)		9.592*** (2.421)	
Dummy Year 2005	11.49*** (1.325)	11.67*** (1.340)	11.56*** (1.307)	11.67*** (1.324)	11.56*** (1.301)	11.67*** (1.319)	9.387*** (1.310)	9.186*** (1.318)	9.501*** (1.310)	9.186*** (1.319)	9.501*** (1.309)	9.186*** (1.320)
Reform Dummy	-4.798*** (1.691)	-4.766*** (1.707)	0.148 (2.311)	0.950 (2.382)	0.998 (2.332)	1.901 (2.413)	3.026* (1.671)	3.395** (1.679)	3.246 (2.327)	4.292* (2.372)	3.666 (2.360)	4.627* (2.414)
More than 2500			19.83*** (1.988)		19.84*** (1.986)				22.24*** (2.326)		22.24*** (2.326)	
Reform* more 2500			-6.955*** (2.226)	-7.928*** (2.331)	-6.563*** (2.225)	-7.460*** (2.332)			-0.458 (2.254)	-1.244 (2.322)	-0.258 (2.261)	-1.079 (2.333)
Reform* mixed or private					-4.504** (2.034)	-5.230** (2.427)					-2.255 (2.138)	-1.844 (2.428)
Constant	53.16*** (1.394)	64.76*** (0.593)	51.43*** (1.316)	64.75*** (0.586)	51.43*** (1.315)	64.76*** (0.584)	29.36*** (1.630)	43.75*** (0.583)	27.39*** (1.519)	43.75*** (0.584)	27.39*** (1.519)	43.76*** (0.584)
Fixed effects	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes
Observations	932	932	932	932	932	932	932	932	932	932	932	932
R-squared	0.194	0.210	0.301	0.230	0.302	0.238	0.278	0.080	0.391	0.073	0.392	0.073
Number of municipalities	484	484	484	484	484	484	484	484	484	484	484	484

Standard errors in parentheses.

*p<0.1.

**p<0.05.

***p<0.01.

Table 6. *Sources information*

Variable	Source
Child Mortality	Vital Statistics for 1990–2005. National Statistical Office (DANE)
Coverage of water and sewerage	National Censuses of 1993 and 2005. National Statistical Office (DANE)
Effective number of political parties	Electoral Results in Local Elections. National Electoral Office. (Registraduria)
Electoral participation	Electoral Results in Local Elections. National Electoral Office. (Registraduria)
Gini of Land	Economic Development Research Center (CEDE)—Universidad de los Andes
Health Insurance for the Poor	National Planning Department (DNP)
Local tax revenue	Statistics of Local Finances. National Planning Department (DNP)
Population	National Censuses of 1993 and 2005 and Population Projections. National Statistical Office (DANE)
Percentage of population with secondary education	National Censuses of 1993 and 2005. National Statistical Office (DANE) and Economic Development Research Center (CEDE)—Universidad de los Andes
Poverty rate	National Censuses of 1993 and 2005. National Statistical Office (DANE) and Economic Development Research Center (CEDE)—Universidad de los Andes
Rurality Rates	National Censuses of 1993 and 2005. National Statistical Office (DANE) and Economic Development Research Center (CEDE)—Universidad de los Andes
Type of water and sewerage provider	Superintendence of Public Utilities
Year of Reform	Superintendence of Public Utilities

than the municipalities that did not reform. Child mortality from infectious and transmissible diseases in the municipalities that reformed and had more than 2,500 subscribers also exhibited as a smaller drop than the rates observed in municipalities that maintained service provision in the hands of the local government. The estimated difference was 0.096 mortality rate points (approximately 19% of the mean mortality rate for 1990). Private sector participation in the provision of water and sewerage services in the reformed municipalities was not related to child mortality from infectious and transmissible diseases.

As for the expansion of service coverage the results are mixed. The reform had a positive impact on sewerage coverage. Municipalities that reformed sewerage increased coverage levels by 4 percentage points compared to municipalities that did not reform. The number of subscribers or the mixed or pri-

vate nature of the providing company had no impact on sewerage coverage. In the case of water service, however, the opposite effect took place. Municipalities with mixed or private capital and more than 2,500 subscribers experienced a lower coverage increase than those that did not reform the provision. In this case, the estimated difference is 6 percentage points (or 12 percentage points in the municipalities that exhibited both features).

Evidence found suggests the direct provision of water and sewerage services by local governments may yield better results both in terms of child mortality and water coverage than the ones achieved when specialized companies are in charge of such services. For future analysis, sector policies and incentives for municipal providers should be examined to determine what may bring about such undesirable outcomes.

NOTES

1. These figures correspond to results found by Galdo and Briceño (2005) in a literature review of numerous studies from different countries.
2. Silva and Andia (2006) conclude institutional adjustments that it is needed to promote of efficient administration of resources in the municipalities as well as to improve the coordination between health policies and the basic sanitation.
3. Barrera and Olivera (2007) find moreover that there was no difference in coverage in municipalities with private providers as compared to those with public providers exhibiting high technical capacity. According to the authors, these results suggest that municipal governments are able “to compete” with private companies in the provision of the service.
4. Faguet (2012) provides an extensive discussion of the political economy of the provision of water and other basic services.
5. The Law 715 of 2001 was supported on the so-called General System of Revenue Sharing (*Sistema General de Participaciones*) established in the 2000 Constitutional reform and determined the criteria to distribute the transfers going to the departmental and municipal governments. For a more detailed description of SGP’s resources, see Silva and Rozo (2005).
6. Level 4 does not receive subsidy or pay contribution, that is to say, the service corresponds to the service provision cost.
7. Law 142 of 1994, Article 15. Other changes introduced by Law 142 were: (a) the definition of a pricing regime based on the cost of providing the service, (b) the creation of a control mechanisms of the provider performance enforced by citizens, (c) establishment of a regime of free enterprise which constitutes the base for the entry of the private sector to as a provider and, (d) for the implementation of management control and internal control systems within the provider companies.
8. Statement of Motivations, Regime of Household Public Utilities (Exposición de Motivos, Régimen de Servicios Públicos Domiciliarios)—Draft Law.
9. Law 142 states clearly on Article 6.4 that direct provision by municipalities is subject to the same terms and conditions as any other kind of entity, such as Public Utility Companies (ESPs).
10. Law 286 of 1996 ordered that all decentralized entities and companies that provided services, including Empresas Industriales y Comerciales del Estado EICE (*Government-owned industrial and commercial companies*) formed after 1994 should be transformed into empresas de servicios públicos, ESP (*public utilities companies*). For the purposes of this paper, the transformation process was accomplished with the initial setting up of an EICE, and not with the subsequent change in legal status to become an ESP.
11. In this document, we will use this definition of child mortality rate. However, in the literature, child mortality rate is defined as the number of deaths of children between 0 and 1 per 1,000 born live.
12. Law 142 of 1994, Article 6.
13. In the Table 6 Definition of Variables, a detailed description of each one of the variables used and its corresponding source is included.
14. As Miller and Piedad (2010) pointed out the vital statistics from the National Statistical Office (DANE) may underestimate the infant mortality figures which may lead to bias the estimators especially if the reforming municipalities exhibit better recording of child mortality. We believe that the collection of infant mortality should not improve or worsen after adopting a reform. In other words, there is no reason to expect any correlation between the water reforms and better information of infant mortality which mean that existing biases are likely to remain after the water reforms. Besides, the below econometric exercises control for municipality fixed effect which contribute to reduce the biases originated from sub reporting. Moreover, we also perform regressions with common support that further helps to reduce the mentioned biases.
15. 2,500 subscribers is the threshold established by the Colombia’s Superintendence of Public Utilities to determine whether a provider is a “big” one. These providers have the obligation to report regularly to the Superintendence information on their finances, operation, and fees.
16. In Table 6; we provide the sources of information for the different variables used in the present paper.
17. Estimations were made using data for the reform in water service, as in most municipalities, both services of water and sewerage are delivered. Results are the same when the model was estimated using only data of sewerage service.

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Traditional Governance, Citizen Engagement, and Local Public Goods: Evidence from Mexico

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Summary. — We study the governance of public good provision in poor communities in Oaxaca, Mexico. We estimate the effect of *usos y costumbres*—a form of participatory democracy prevalent in indigenous communities—on the provision of local public goods. Because governance is endogenous, we address selection effects by matching on municipal characteristics and long-term settlement patterns. Using a first-differences design we show that these municipalities increase access to electricity, sewerage, and education faster than communities ruled by political parties. We also show they are places of vibrant political participation, not authoritarian enclaves protecting the political monopoly of local bosses.

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Key words — public goods, participatory democracy, traditional government, Mexico, Latin America

1. INTRODUCTION

The goal of this paper is to assess the effects of traditional governance on local public good provision. We ask whether poor indigenous communities are better off by choosing to govern themselves through “traditional” customary law and participatory democracy, versus delegating decisions concerning the provision of public goods to “modern” forms of representative government, structured through political parties. This is a crucial question for developing countries seeking to enhance accountability, and a central problem in the theory of participatory democracy.

Our research design takes advantage of an important institutional innovation in the state of Oaxaca, Mexico, that in 1995 allowed indigenous communities to choose their forms of governance. The reform gave full legal standing to a form of traditional indigenous governance called *usos y costumbres* (*usos* hereafter), which entails electing individuals to leadership positions through customary law in non-partisan elections, making decisions through participatory democracy, and monitoring compliance through a parallel (and often informal) system of law enforcement and community justice. If they did not choose *usos*, municipalities could opt instead for party governance, which entails the selection of municipal authorities through electoral competition among political parties and the adjudication of conflicts only through the formal institutional channels, namely the state and federal judiciary.

This constitutional change provides a unique opportunity to understand the effects of giving full legal status to local participatory democracy vis-à-vis representative democracy through political parties in a developing country setting. After the reform municipalities in Oaxaca differed by their type of governance, but still retained the same formal municipal

institutions. That is, the structure of municipal government (e.g. having a municipal president holding executive functions), the legal provisions of municipal authority (e.g. being responsible for water, sewerage, and other public services), and the fiscal relationship with the state and the federal governments (e.g. receiving revenue sharing and compensatory development funds) remained the same across the state. Most studies of governance are fraught with the difficulty of isolating the effects of governance from more structural differences in institutional and political context. We are hence able to study governance through observational data, instead of relying on field experiments or other strategies of identification that, while enlightening about the mechanisms of accountability, often have very limited external validity beyond the context where they were implemented.

Mexico underwent a gradual process of democratization during the 1990s which culminated with the defeat of the hegemonic Partido Revolucionario Institucional (PRI) in the 2000 presidential elections. In the state of Oaxaca the transition to democracy, understood as alternation in

* This research has been made possible by the generous support of Stanford University, the University of California Office of the President (UCOP), and the Center for US-Mexican Studies in the University of California, San Diego (UCSD). A very preliminary version of the research project was presented at the Initiative for Policy Dialogue Decentralization TF Meeting on 10–11 June 2009 at Columbia University and at the Faculty Research Seminar of the School of International Relations and Pacific Study (IRPS) at UCSD. We thank comments and suggestions by all participants, and in particular Vidal Romero and Jean-Paul Faguet, as well as three anonymous reviewers. Of course, all errors remain our responsibility.

political power at the governor's office, was delayed for almost a decade, until the arrival of a non-PRI governor in 2010. There is a lively debate as to whether the constitutional recognition of traditional forms of governance had a positive effect on electoral accountability or may have reinforced the entrenchment of local bosses. We take advantage of the federal structure of electoral processes, which ensures that even when a municipality opts for non-partisan *usos* as a form of local governance, federal and state level electoral processes remain in place, to test whether traditional governance limited the functioning of political party competition.

Before 1995 all municipalities in Oaxaca were formally governed by political parties. However, most municipalities informally incorporated traditional elements of governance. Such practices were not legally sanctioned or protected by the state constitution or the courts. After the constitutional reform municipalities had to choose whether to maintain a party-based system of governance, or to exclude political parties and switch to *usos*. Our research design addresses a concern with selection bias, by creating treatment and control groups matching on observables through a propensity score. We estimate the average treatment effects on the treated (ATT) of governance on public good provision measured in first differences, in order to attenuate concerns of omitted variable bias. Namely, we do not try to explain the absolute levels of public good provision across municipalities, but rather the change in provision before and after the 1995 reforms. Unobservable variables remaining fixed across the two time periods would not affect the estimation of the causal effects of governance on changes in public good provision.

Our results show that electricity provision increased faster in those municipalities governed by *usos*. They also suggest that traditional governance may improve the provision of education and sewerage. With respect to citizen engagement and elite capture, contrary to existing scholarly work, we find no evidence of entrenchment of local bosses (*caciques*) associated with the former ruling party, the Institutional Revolutionary party (PRI) in places ruled by *usos*. Our findings suggest that traditional participatory forms of governance do not handicap democratic development. Furthermore, municipalities governed by *usos* are more likely to hold open council meetings allowing citizens to participate in decision-making processes. We attribute better public goods coverage to differences in local governance and collective decision-making practices.

We suggest three specific channels through which traditional governance affects local public good provision: the social embeddedness of municipal presidents, broader civic engagement in collective-decision making, and credible social sanctions. We argue that traditional governance practices (which include in our setting decision-making through direct participatory practices, the obligation to provide services for the community, and the establishment of a parallel system of justice), allow poor communities to better hold their political leaders accountable, prevent elite capture, and monitor and sanction non-cooperative behavior.

This paper is structured as follows. The next section introduces the scope and limitations of existing hypotheses on the effects of local governance on the provision of public goods. The third section presents a typology of traditional and party-based governance systems in Mexico. We then describe our data and elaborate on the methodology used to create the counterfactuals to assess the effects of governance. The last section discusses our results and concludes.

2. TRADITIONAL GOVERNANCE

Understanding the effects of traditional governance on public good provision is important both from a theoretical and policy perspectives. As noted by Besley (2006), a general shortcoming in development research is that we know far less about local public good provision than about policy interventions aimed at income support, even though the former have equally important effects on well-being. Well-being hinges not just on individual income, but on access to public goods and services such as potable water, sewerage, electricity, schools, and health clinics. Furthermore, a better understanding of governance and public good provision in highly marginalized villages brings us closer to addressing crucial issues about poverty and improvements in material well-being.

The provision of public goods and its relationship to governance has received increased attention by the academic and policy communities. The most influential hypothesis in the last few years has been one associated with Alesina, Baqir, and Easterly (1999), which proposes that greater social heterogeneity—as measured through an index of ethnolinguistic fractionalization (ELF)—makes it harder for communities to provide public goods. Such failure is attributed to increases in the cost for groups to engage in collective action when the marginal utility of a public good differs across sub-groups. In Alesina *et al.* preference heterogeneity is driven by ethnic fractionalization. Studies finding evidence of the impact of social heterogeneity in public good provision across nations and within countries include Alesina and La Ferrara (2000), Khwaja (2009), Miguel (2004), Miguel and Gugerty (2005), Dayton-Johnson (2000), and Baqir (2002).

The most recent research agenda on the role of ethnic diversity and public good provision moves away from cross-sectional variation to a focus in local experimental settings, in which scholars have tried to understand the conditions under which communities are more able to create networks of trust. Habyarimana, Humphreys, Posner, and Weinstein (2007) in particular, performed experiments in Kampala, Uganda, testing the willingness of co-ethnics and nonco-ethnics to cooperate. Their results show that co-ethnics cooperate more, and they attribute this finding to the existence of denser ethnic-based institutions that allow for monitoring and sanctioning of non-cooperative behavior. Confirming older psychological findings, recent economic experiments also show a higher level of pro-social behavior within ethnic groups than between groups (Bernhard, Fischbacher, & Fehr, 2006; Glaeser, Laibson, Scheinkman, & Soutter, 2000).

While in this literature social (or group) structures are the main explanation of failures in public service provision, another alternative is to consider shortcomings in public administration. There is a long tradition of research, especially among political scientists, which has seen public good provision through the lens of state capacity (Kohli, 2001). The general thrust of that literature has been to suggest that failures in the provision of public goods reflect underlying problems arising from weak states that are incapable of taxing, running a bureaucracy, or in general, fulfilling basic public functions. However, when it comes to unpacking state capacity—its elements, causes, and consequences—the literature remains quite underdeveloped.¹

Policy makers have increasingly paid more attention to local power structures and corruption as explanations for the difficulties governments face in providing public goods and services.² In a particularly poignant example, Reinikka and Svensson (2004) measured an astounding leakage of 87% in a program in Uganda meant to provide grants to schools for

non-wage expenditures. Such leakage was successfully reduced through greater citizen involvement and information regarding the allocation of funds to the local schools (World Bank, 2003).³ Olken (2006) similarly found that the leakages in a poverty relief program delivering rice in Indonesia were large enough that they offset the welfare gains from having the program in place at all.

As a result of these findings, many scholars are now pointing to both top-down and bottom-up accountability mechanisms and their impact on local public good provision such as auditing to local officials (Ferraz & Finan, 2005); providing citizens with increased access to information about government performance; and community monitoring at the local level, especially of service providers. In the case of India, Chattopadhyay and Duflo (2004) have argued that female leadership in Village Councils led to greater investments in infrastructure related public goods (water, fuel, and roads), while men tend to favor investments in education. This suggests that the composition of deliberative and decision-making bodies is important in determining the allocation of public works.

However, participatory processes in public works are not a sure mechanism to generate accountability. In a particularly creative study, Olken (2006) found that grass roots participation through assemblies had only limited effects in reducing corruption in Indonesian village road projects. In this field experiment participatory grass roots methods of social control for the oversight of public projects through popular assemblies are compared to more conventional bureaucratic auditing randomly assigned treatments. He finds that auditing is more effective as a mechanism to curb corruption than assemblies of participatory democracy.⁴ Although Olken's study provides some of the most compelling findings in the literature, the assemblies created as a "treatment" in the experimental design are somewhat artificial and not clearly connected to the prevailing forms of political organization and intermediation that already exist in the villages.

Overall dynamics of party competition might in fact be particularly important factors that enhance accountability. Chhibber and Nooruddin (2004) found that Indian states where patterns of electoral competition are stiffer, in the sense that the incumbent faces strong contestation from one single challenger, are more likely to provide public goods. Díaz-Cayeros, Magaloni, and Estévez (2007) also demonstrate that there is more investment in public good provision relative to clientelistic or particularistic transfers in more competitive races in Mexico. Cleary (2004) does not find this effect of electoral configurations on public service provision, although he shows that variables related to political participation, such as literacy and turnout, improve public service delivery.

Hence, the literature thus offers primarily three explanations for the differential provision of public goods. First, ethnic diversity seems to make public good provision more difficult. Second, governments that in some measurable way are more capable might be better able to provide public goods. Third, local government accountability and civic engagement, particularly by women, are essential to curb rent seeking and capture in the provision of public goods.

Our paper seeks to contribute to this body of research by focusing on the effects of local governance on public good provision. Our empirical analysis builds on ethnographic and aggregate data of the southern state of Oaxaca in Mexico, one of the most impoverished and indigenous in the country. The state constitution allows municipalities since 1995 to select among two very different types of governance structures—those we have referred to as "traditional indigenous" and "party" governance. We ask two things. First, whether communitarian

self-rule improves local government accountability and the provision of local public goods; second, whether as the conventional view holds, self-rule represents a form of autocratic enclave that works to protect entrenched local power structures and *caciques* allied with the former ruling party.

The first hypothesis follows from a body of literature linking increased democratization and electoral competition to better government performance and outcomes related to the provision of public services (Bueno De Mesquita, Smith, Siverson, & Morrow, 2005; Lake & Baum, 2001; Díaz-Cayeros *et al.*, in press; Banerjee & Somanathan, 2007; Stokes, 2005). In a democracy, party elites survive by competing for the popular vote, and have an incentive to cater to as many constituents' as suggested. This shapes their budget-allocation strategies to minimize electoral risk while maximizing the coalition-building potential of their spending, which is partially done by spending less in targeted goods and more in (semi) public goods.

Democratization also benefits voters because it reduces the costs of entry to the political game, the relative number of players increases, and the ratio of winning coalition to selectorate is reduced. More players in the political game involve less incentive to coalesce around inefficient policy, promotes the cross-monitoring of political parties and politicians for inefficiencies and corruption, and the design of policy to cater to the widest coalition of voters.

As will be discussed in more detail in the next section, indigenous self-rule in Oaxaca is based on community assemblies where discussion over public priorities shapes the decision about budget spending. These communities solve their collective action dilemmas by engaging most of the community in the process of deliberation about how to spend the municipal monies. This participatory flavor of municipal democracy is intertwined with a high level of public knowledge about who participates and who does not, simply because assemblies are public and mandatory. Defectors are easily detected and sanctioned.

Thus, we argue, municipalities ruled by *usos* are an example of participatory democracy where municipal presidents and local authorities are more tightly under the supervision of the communities, and where monitoring and sanctioning costs are low by design. Knowledge about public budget is also easily spread in the assemblies, and corruption more easily contained.

But this by itself does not necessarily imply a better performance of local governments in the provision of basic infrastructure. Another necessary condition is that municipalities must have funds which are (a) targeted for infrastructure, and (b) isolated from the political game at the state and federal level. Research shows that public spending and transfers from the federal level to the states and municipalities during the authoritarian phase in Mexico served as coalition-building incentives that depended on discretionary decisions at the central level (Díaz-Cayeros, Magaloni, & Weingast, 2000; Costa-Font *et al.*, 2003).⁵

Since 1997 the fiscal arrangement in Mexico includes a direct transfer from the federation to the municipalities exclusively for the development of social infrastructure. By law, 20% of total revenue from federal taxation—as well as rights to oil extraction and mining—is constituted every fiscal year in a General Participations Fund (*Fondo General de Participaciones*). Then, 2.5% of shared revenue is constituted in a Contribution Fund for Social Infrastructure (*Fondo de Aportaciones para la Infraestructura Social*—FAIS), divided into state (.0303%) and municipal (2.197%). Funding for municipalities in Mexico is substantial, amounting to 43.5 billion pesos (around 3.4 billion dollars) for fiscal year 2012, or around 0.2% of GDP.

FAIS municipal funds are specifically targeted for the provision of running water, sewerage, piping and latrines, urbanization, electrification for rural and poor areas, basic health and education infrastructure, household improvements, rural roads, and productive rural infrastructure. At the state level, they are targeted for regional development and inter-municipal projects. These municipal funds are assigned with formulas and flow directly from the federal to the municipal treasury, bypassing the political game within the state government and between states and federation.

Our first hypothesis builds on the fact that the particular type of democracy of *usos y costumbres* at the municipal level involves the communities in a direct participatory way that spreads information about municipal governance and federal transfers. It is surprising to see in our own field research how people from *usos* municipalities are sometimes impressively aware of the specific amount of transfers they receive from the federation, which is conspicuously absent among people from party-based municipalities. Higher information, better monitoring, and community involvement in the definition of municipal spending curbs corruption and makes municipal governments more responsive to their constituents needs. In our framework, we would expect then a higher rate of change in these goods when looking at traditional municipalities.

Our second hypothesis is that these traditional arrangements are not authoritarian enclaves manufactured to protect coalitions friendly to the PRI. For most of Mexico's modern history, forms of indigenous communitarian self-rule have been extra-constitutional, although it has been widely practiced and tolerated *de facto* by the federal regime (Cleary, 2007). In the mid-1990s, the state government of Oaxaca formally recognized *usos y costumbres* departing from constitutional doctrine and practice dating back to the 19th century, through which state authorities forbade indigenous communities from exercising formal autonomy over local political affairs along with the ability to use their own chosen institutions of governance.

Existing evaluations of this form of governance by political scientists are unfavorable. The prevailing view is that the reform in Oaxaca attempted to limit the extent of the anti-PRI vote (Benton, 2012) and insulate local PRI-supporting indigenous *caciques* by taking partisan elections off of the table entirely (Cleary, 2004). The argument is that the PRI allowed indigenous communities to choose *usos* in order to prevent opposition political parties from entering these impoverished political markets. In impeding opposition parties from competing in these elections, so the argument goes, the PRI was better able to sustain its political monopoly in the state of Oaxaca. Scholars also have found that this form of indigenous self-rule is highly discriminatory of women (Eisenstadt, 2007).

A key limitation of much of the existing research is that it ignores the problem of selection bias. Since the presence of *usos y costumbres* is non-random⁶ it is not possible to claim any causal effects without properly addressing the problem of self-selection first. For example, when scholars argue that traditional governance works to protect the monopoly of the PRI, it is not clear if these municipalities exhibit significantly less political competition (as measured by vote shares in federal elections as in the existing scholarly work) because the PRI purposely designed *usos* to take the opposition out of the local political landscape or because these communities are intrinsically less likely to divide along partisan lines.

Since random assignment of treatment is impossible in our setting, we work with observational data and use a multi-method approach to address the problem of selection bias

based on two strategies. First, we estimate the effects of indigenous autonomy through propensity score matching. Matching on observables is done including municipal sociodemographic characteristics as well as geographic and long-term historical settlement patterns. Second, we use matched data in a first differences design that allows us to control for fixed unobservables.

Our results are the following: municipalities governed by traditional collective-choice methods exhibit larger improvements in electricity provision during the last two decades, and faster improvements for sewerage from 2000 to 2010. They also show no differences in "political entrenchment" by local *caciques* than their matched "party municipalities". These results run counter to the notion that indigenous autonomy works to insulate authoritarian enclaves and entrench local *caciques*. To the contrary, poor indigenous communities exhibit higher civic engagement and enjoy better governance—and hence better access to local public goods—than similarly poor communities that are ruled by political parties.

3. VARIATION IN LOCAL GOVERNANCE

All municipalities in Oaxaca—regardless of whether they are ruled by parties or *usos*—share the same formal institutional structure: they all have a municipal president and a set of aides whose attributions stem from the federal and local constitutions, and they all share a similar legal and fiscal relationship with their state and the federation. Importantly, there is a constitutional prohibition for reelection in Mexico, which means that municipal presidents cannot run again for that position in the consecutive term.

Municipal presidents are in charge of making decisions over investments in local public good provision or social infrastructure projects that the constitution reserves to this level of government (roads, markets, public lighting, sewerage, street pavement, granary, slaughter houses, and the like). In poor municipalities, funds for investment in social infrastructure overwhelmingly come from federal transfers within the FISM (*Fondo de Infraestructura Social Municipal*, sometimes also referred to as FAISM), which is governed by a formula that is based on poverty indicators. These transfers are given by the federation directly to the municipalities, which retain ample discretion with regard to how these funds are distributed and used, the only restriction being that they need to be spent in social infrastructure projects. Federal transfers for social infrastructure projects within the FISM have significantly increased since 1997, allowing municipal presidents to play an increasingly more important role in the provision and distribution of local public goods. They also have an increasing role in reducing extreme poverty indirectly by investing more in infrastructure such as roads or markets.

Despite an identical formal institutional setting, there are important informal institutional differences among party and *usos* municipalities. The latter is not a homogeneous set of practices. There is ample variation in the mechanisms by which people under *usos* solve their collective action problems. We can nevertheless find general shared patterns and contrast them with party-based electoral competition. We highlight the following key differences:

(a) Selection of political leaders

Party municipalities select leaders through partisan elections. Political parties channel the progressive ambition of these politicians, solve collective action dilemmas and bargain-

ing among different levels and branches of government, and hold their politicians accountable through the threat of loss of future utility streams through the assignment of office. In Mexico, the rule of no-re-election implies that municipal presidents interested in a career in politics need to service the leadership of their parties rather than their constituencies to get promoted to higher office. Governors are often the key figures determining who gets promoted.

In the state of Oaxaca, the long-lasting PRI had been the dominant political party and had never lost the governorship of the state—until the 2010 gubernatorial election. The absence of consecutive re-election has generated a very deficient accountability mechanism at the municipal level in Mexico. The perverse system implies that if their parties decide to renominate non-responsive, incompetent, or corrupt officials for higher offices, there is virtually no way for the electorate to directly punish municipal presidents who underperform or even steal government funds.

Usos municipalities, in sharp contrast, choose representatives in assemblies. Citizens meet in a public assembly, deliberate, and vote. There are no uniform rules with respect to how this collective decision-making should take place. In some municipalities, the main neighborhoods nominate a number of candidates for the office of the mayor, and the full assembly then discusses each candidate until they are able to whittle the list down to four or five. “They then vote ‘por terna’, which is a form of approval voting in which the assembly considers one candidate at a time and counts affirmative votes. The candidate with the most approval votes wins, and serves a single three-year term” (Cleary, 2008: 15). In other municipalities, the serving municipal president proposes the names of three or four candidates, and the assembly then decides. In yet others, potential candidates must come from those who have a long and well-established record of serving the community. For the most part, women are not considered for the municipal presidency.

A key difference in the *usos* municipalities is that municipal presidents are members of the community, and although these cannot get re-elected either, most of the time they will continue to live and to participate in collective decision-making even after they step down from their posts. Moreover, our ethnographic research reveals that those who get elected to the municipal presidency normally have a record of servicing the communities in previous “cargos” or mandatory community services. Municipal presidents in *usos* municipalities are hence generally better embedded in their communities, which we believe, contributes to generate better accountability mechanisms than in party municipalities.

Voting can be secret or not. Most of the time a long deliberation takes place that can last up to ten hours and citizens raise their hands to vote. Formally, all such elections are supposed to be non-partisan, and the parties are not allowed to support candidates or run campaigns; in practice, however, political parties are sometimes associated with some candidates.

(b) *Solution of collective action dilemmas*

Municipal authorities are appointed every three years. In election-based municipalities, executives usually make political decisions without much public scrutiny once in office. Formally, the municipality is composed of a president (the executive) and a separate “cabildo” (assembly), although by design the largest party has the majority and the government is always unified. The usual monitoring and sanctioning mechanisms are performed by political parties.

In *usos* municipalities, collective decisions are taken item by item, mostly in assemblies where there is a process of collective deliberation. Assemblies meet regularly and citizens are allowed to participate; they are usually well attended (in most cases attendance is mandatory) and often last hours. This publicness of political assemblies reinforces the collective monitoring mechanisms that elsewhere fall on political parties. Traditionally, women were excluded from participating in assemblies.⁷

The ranking of public projects in *usos* is done in public deliberation in these assemblies. These communities are tightly knit, and in the smaller ones everyone knows each other personally and are sometimes related to each other. The discussion over public works and other public issues disseminates information about the state of the public finances, and provides a channel with which to match them with the preferences of the citizenry.

(c) *Taxation*

In party municipalities, taxation is mostly exogenous to the provision of public goods: political leaders decide tax bases and rates, and investment decisions are often made independent of these.

By contrast, in *usos* municipalities, the community decides tax structures, which include non-pecuniary contributions that are endogenous to the level of public goods provision. For example, when the community decides that a road needs to be repaved, or that garbage needs to be picked, some or most members of the community will be asked to pay with their own labor—a practice called “tequio”, which is usually not remunerated. The authorities provide the construction material and some amenities during the workday.

Additional to these short-term contributions, people from *usos* in Oaxaca engage in two distinct types of community service: a committee-style post in charge of specific tasks (“cargos”) and a long-term community service (“servicio”).

(d) *Servicio and cargos*

A key difference between party and *usos* municipalities relates to public jobs. In party municipalities, all public services are performed by municipal employees, who are remunerated with public funds. Political parties have ample leeway to distribute these public jobs to their clientele.

In *usos* municipalities, members of the community are expected to perform public services, and with the exception of the municipal presidency, they are usually mandatory, often without remuneration. Citizens become deeply involved in the life of the community, either organizing religious festivities, coordinating public works, cleaning the roads, policing the streets, rural roads and fields, repairing the school, organizing the public market, decorating the church, etc.⁸

Our field research shows that the mandatory character of these public services is so binding that men and women living illegally in the United States are also summoned to participate in a “cargo” or “servicio”, and they usually comply to avoid having their families incur in sanctions. Migrant men and women are also deeply part of the community even if living abroad. Nevertheless, in our field experience municipal presidents tend to have been residing in the community for at least some years prior to their election.

(e) *Monitoring and sanctioning*

Party municipalities have a professional armed police force. Conflict resolution and adjudication takes the regular judicial

channels, which are often located outside of the communities, and are administered by judges that have little knowledge of the locality. *Usos* municipalities have a parallel system of conflict resolution and adjudication and a parallel security system. The community charges men (so-called “topiles”) with the task of protecting the security of its people, although they are seldom armed. The assembly, a counsel of elders, or an indigenous tribunal hear the conflicts and impose sanctions.

Those who refuse to perform their “cargos” or “servicio” are normally sanctioned. Traditionally, sanctions included imprisonment, disruption in the supply of water, physical punishment,⁹ or in extreme cases, expulsion from the community. In our ethnographic work we found evidence of a gradual abandonment of the latter sanctions. We also found that “servicio” is intimately linked with cross-border dynamics. For example, some migrants will return to their home-towns specifically to perform “servicio” for free, and consume a substantial amount of their savings, reinforcing a cycle of decapitalization.

These structural differences between *usos* and parties shape perceptions of the responsiveness, corruption, and availability of information for the citizenry. Table 1 shows the simple cross-tabulation of responses to a survey we conducted in Oaxaca during 2009. Striking differences emerge across governance systems. In all cases, people living under participatory democracy show much more lenient opinions about their municipal government than people ruled by political parties.

Almost 20% more people under *usos* believe that their municipal presidents serve to govern the community. This is about 50% increase with respect to parties. The perceived benefit of public spending for “people like me” shows a 10% difference between types, and there is a 15% difference in positive perceptions of how honest the municipal president is. In all these categories, more than half of respondents in *usos* agree with the statements in the survey question, and less than half agree in parties. This is a coarse but eloquent measure of how perceptions of agency loss and corruption change across governance type.

The fourth line in Table 1 reports perceptions about the “closeness” of local politicians to their constituents. Around 14% more people living in *usos* believe that their municipal presidents consult or listen to people when deciding how to spend municipal funds on public projects. Finally, the last item shows a 12% differential in perceptions of being informed about the decisions of the municipal government. In the last question all responses remain nevertheless below 50%, suggesting that overall levels of political information remain low regardless of the political processes.

These differences can be explained with the framework we lay out in this section. Whereas in the typical party-based sys-

tems voters elect leaders and then only rarely become involved in the process of policy formation, *usos* is an assembly-based system where people publicly discuss both the allocation of budget and public priorities. The structure of policy-making in the latter requires people to gather and discuss. In this process, individual information is shared, and overall levels of information about money and policy increase. Because the municipal president is present in these discussions, he is recurrently held accountable to the assembly for his decisions.

To sum up, all municipal governments in Mexico share the same formal institutions per constitutional mandate. After the 1995 constitutional state amendment in Oaxaca, municipalities were given the choice to switch to a traditional system of local governance. This system is loosely organized around the concept of *usos y costumbres*, but it encompasses a panoply of practices and rules to select leaders and solve collective-choice dilemmas. Once collective decisions are taken according to these informal rules, they are expressed in the formal apparatus of the municipal government.

Usos y costumbres is thus a system of informal rules and practices which are embedded in the formal, constitutional rules of municipal operation, and provides a rich example of the multiple nature of institutions (Greif, 2006).

This embeddedness provides a unique research design opportunity because formal institutions remain fixed while the informal practice of day to day governance varies. Formal rules are fixed within the municipality (regarding for example the nature and powers of municipal authorities) and they are the same across municipalities in how they relate fiscally or legally to the state or the federation. Despite these similarities, there is variation within Oaxaca in the way formal authority is selected and exercised: parties and electoral competition in some municipalities, and assembly-based, participatory rules in others. We exploit this variation to generate inferences about the effects of governance types on participation, provision of public goods, and women participation in government.

Our theoretical expectation is that traditional governance institutions will be able to better provide local public goods because of their superior capacity to solve collective action problems, engage citizens in collective decision-making, and monitor and sanction non-cooperative behavior.

These theoretical expectations build from the work by Olson (1971) on the structural characteristics of groups that can foster the individual provision of public goods (i.e. monitoring and sanctioning) and the more recent extension by Ostrom (2009) on governance of natural resources, which shows the conditions under which communities can sometimes device informal direct participatory practices and monitoring and adjudication devices to successfully administer public goods. It also builds on recent work by Olken (2008) on the effects

Table 1. *Perceptions of responsiveness, corruption, and information (% Yes)*

	<i>Usos</i>	Parties	<i>n</i>
Municipal president governs to serve community	59 (187)	41 (132)	506
Municipal president benefits me with public works	55 (175)	45 (144)	525
Municipal president handles public money honestly	56 (114)	42 (66)	362
Municipal president consults people for public works	66 (196)	52 (122)	533
How informed are you about decisions in the municipality	38 (117)	26 (68)	568

Note: Figures in parenthesis correspond to cases in each cell.

of direct (but plebiscitary) democracy over allocation of community resources. The complex social organization of *usos* seems to allow indigenous communities to better coordinate collective action toward the provision of public goods, often in the face of marginalization, poverty, and adversity.

4. PROPENSITY SCORE MATCHING USING AGGREGATE DATA

Our analysis assesses the advantages and disadvantages of traditional governance relative to the institutions of representative democracy prevailing today. Given that traditional authorities are more likely to be present in extremely poor, indigenous and isolated communities, we make use of a matching procedure to create an appropriate counterfactual through which equally poor, isolated, indigenous communities can be compared in their forms of governance.

The fundamental problem that needs to be addressed is that *usos* is not randomly assigned. In fact, when the constitutional reform was carried out in 1995, indigenous communities in Oaxaca were asked to select whether they wanted to be ruled by one form of governance or the other. Recondo (2007) suggests that this selection was relatively autonomous, and although there were some adjustments in the numbers, as some municipalities shifted between governance regimes, since 2000 the communities ruled by *usos* have remained fixed at 418. Given the lack of records of the decision-making process that led communities to choose one or the other governance system, we make use of geography and long-term settlements patterns in order to find a counterfactual of what the social outcome would be of making collective decisions under systems of governance based on political parties, rather than *usos*. We rely on propensity score matching.

The greatest challenge with the validity of propensity score is to make sure that the balancing property is satisfied.¹⁰ Although this is not strictly a test of whether non-confoundedness actually holds, when the treated and control groups within the common support are balanced we can be more confident that the groups are actually comparable. In the end, however,

we must recognize that propensity score methods are matching on observable independent variables, so we are subject to what Ho, Imai, King, and Stuart (2007) call the propensity score tautology, namely that the method depends on believing that we have successfully estimated a probability of treatment that keeps the same ordering as the unobserved true propensity score. Exact and nearest neighbor matching have some advantages over propensity scores, particularly when dealing with data that fall within few categories in its heterogeneity. But as soon as observations can be characterized by several meaningful variables that distinguish their differences, and the differences are continuous rather than discrete, there is a curse of dimensionality typical of nonparametric estimation methods, which render the implementation of these other methods not viable.¹¹

Fig. 1 provides a sense of the spatial distribution of municipalities in Oaxaca governed through *usos* and political parties. The figure presents municipalities governed by *usos* in solid, while the ones governed by political parties are lightly shaded. The map also shows the municipal boundaries and the size of localities within the municipalities, where the circle diameter corresponds to the relative size. Two features become apparent from the map: *usos* is less prevalent in coastal areas and close to highways and large cities; and there is a spatial clustering (suggesting spatial dependence) in the distribution of *usos* across the territory. Although the figure does not depict this additional feature, municipalities ruled by *usos* are more likely to be observed in mountainous areas.

The propensity score we calculate makes use of these geographic features, the spatial dependence among observations, and the geographic distance of *usos* communities to features such as highways and large cities. Specifically, we calculate the propensity score as the predicted value of a probit estimation including the following variables:

(a) *Lag usos*

Usos municipalities are geographically clustered. This is a spatial lag indicating whether neighboring municipalities are ruled by *usos*. It is constructed through a weighting matrix

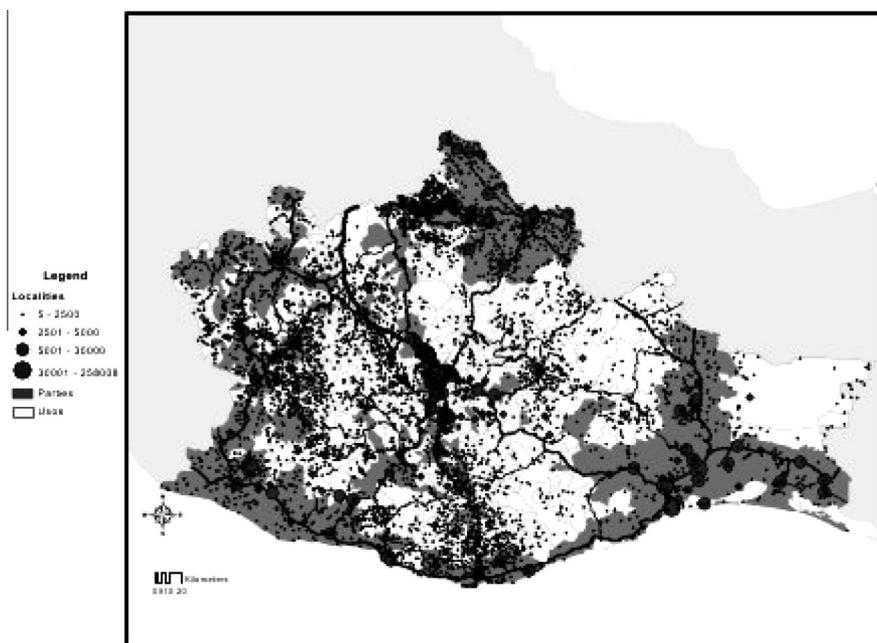


Fig. 1. Spatial distribution of *usos*.

that captures (queen) contiguity of order two, which means that a municipality is compared with the surrounding municipalities as well as those that surround the (first order) neighbors in the immediate vicinity.¹²

(b) *Territorial concentration*

Within each municipality, we calculated a Hirschman–Herfindahl index of concentration, which takes into account how scattered or concentrated the population is in localities within the political jurisdiction. Population at the locality level comes from the 2000 census, as reported by National Institute for Statistics and Geography (*INEGI* in Spanish), using localities with at least five inhabitants. This variable ranges from 1 (where all the population in the municipality is concentrated in only one locality) to a theoretical value of 0 (denoting total dispersion).

(c) *Distance city*

The Euclidean distance (straight line) in kilometers between the centroid of each municipality and the closest city with more than 100,000 inhabitants according to data from the 2000 census published by *INEGI*.¹³

(d) *Distance road*

The Euclidean distance in kilometers between the centroid of each municipality and the closest paved road. Roads and their quality come from *INEGI*.

(e) *Indigenous*

The presence of indigenous traditions is a precondition for the subsistence of traditional authorities. Unfortunately Mexico does not have a count of indigenous peoples based on self-ascription for 1990, although the census from 2000 and 2010 already include this information. We use the average percentage for 1990–2010 of municipal inhabitants over 5 years old who speak an indigenous language. This measure is consistent with recent conceptual clarifications in the literature on ethnic identity. *Chandra (2006)* argues that a proper conceptualization of ethnic identity requires to focus on descent-based features (genetic or cultural). Ethnic markers are the subset of those descent-based identifiers which are visible and costly to change in the short run.

Indigenous languages are reproduced inter-generationally within the household. Not all indigenous people speak an indigenous language, but it is reasonable to assume that people who speak an indigenous language are highly likely to be indigenous, especially given the fact that indigenous languages are not taught in Mexico's formal education system—except for special schools targeted to communities that are already indigenous. Therefore, indigenous languages in Mexico fall within the constrained descent-based category proposed by *Chandra*, and our measure would be a lower bound of more complete measures of ethnicity.¹⁴

(f) *Income*

This variable is meant to capture structural characteristics of modernization. Given that the correlation between municipal per capita GDP and the share of indigenous population is extremely high ($p = .47$), we use the residuals of a regression of municipal GDP on indigenous. Per capita GDP is obtained from the UNDP Human Development Report for Mexico, and is calculated on the basis of data from the 2000 census.

(g) *Religious and ethnic fractionalization*

Communities can be divided among ethnic, linguistic, or religious lines. *Trejo (2009)* has shown that the most relevant dimension of division among communities in Southern Mexico is related to the inroads of non-catholic Christian faiths. We measure a Hirschman–Herfindahl (HH) index of fractionalization with the share of religious faiths according to the 1990 and 2000 census, and use the average. We also include a coarse measure of ethnic fractionalization, which captures the average HH index of indigenous and non-indigenous populations in 1990 and 2000.

(h) *Altitude*

The average altitude of a municipality measured in kilometers above sea level.¹⁵

5. RESULTS

Table 2 provides the propensity score¹⁶ using the variables detailed in the previous section. The p -scores were obtained using all 570 municipalities in Oaxaca for which there are available data on every variable, and that fell within the range of common support, which is [.027, .997] in this case. The mean of the scores is .74 and its standard deviation is .271. After the score was calculated there were six non-*usos* observations that fell outside of the common support region and were dropped, which leaves the effective number of municipalities at 564 for the matching exercises below.

It is important to note that the propensity score does not include dependent variables of interest, such as coverage in the provision of public goods, political participation, or social change.

Table 2. *Propensity score*

	Usos
Lag usos	1.34 *** (.280)
Territorial conc.	.763 *** (.271)
Distance city	-.619 ** (.243)
Distance road	.019 ** (.009)
Indigenous	.768 *** (.20)
Income (res.)	-.00005 *** (.000008)
Religious Frag.	.232 (.567)
Ethnic Frag.	-.054 (.432)
Altitude	.523 *** (.119)
Constant	-1.24 ** (.534)
n	570
Prob > χ^2	0.0000
Pseudo- R^2	.3585

Significance: *.1, ** .05, *** .01.

Almost all the variables are statistically significant, and the fit in the estimation is very good. The specific signs are reasonable, given what we know about the historical processes that led to the retention of traditional methods of governance in indigenous communities. The positive sign of the territorial concentration variable suggests that *usos* is more prevalent in communities concentrated in one core town. Municipalities that are closer to big cities are more likely to retain traditional authorities. This variable is negative because it measures essentially distance from the capital Oaxaca City, located in the central valley. As can be seen in Fig. 1, the areas governed by parties tend to be distributed roughly in the periphery of the state.

Municipalities that have kept their linguistic distinctiveness according to the indigenous variable are more likely to keep *usos*. Richer places as denoted by the Income variable are likely to be governed by political parties. Higher places in the mountains are more likely to be ruled by traditional methods, and ethnic or religious conflict do not show any effect, although the measures we use here are coarse and need refinement.

Table 3 presents a test of balance in the propensity score over the common support. The table reports results of difference in means tests between the treatment and the control groups (*usos* vs. parties) in each of seven optimal blocks where the propensity score is not statistically different between groups, for each correlate. The table reports the difference in means and the standard errors. None of the differences is statistically significant at the 99% level.

The propensity score provides useful counterfactuals to compare matched places ruled by *usos* with others ruled by political parties. The 1995 political reform allowed municipalities to switch away from a party-based system in which the PRI used to control virtually all municipalities in the state of Oaxaca.

When the reform was carried out, some municipalities were perhaps already governed by traditional customs *de facto*. In those cases the reform might not have fully changed the system

of government, but provided legal certitude and backing to the traditional practices. More importantly for our own purposes, the reform allowed indigenous communities to retain autonomy and insulate decision-making in their municipalities from party factionalism by eliminating party elections altogether. Our relevant comparison is therefore between autonomous indigenous communities versus non-autonomous ones.

We can think of *usos* as a variable that captures underlying political practices and social capital that may influence the provision of public goods and other municipal characteristics. The variables of interest are the first differences and the rate of change of public good coverage between the census (or population counts) of 1990–2000, 1995–2005, 2000–2010 and finally the overall changes from 1990–2010.

Table 4 reports kernel density matching average treatment effects on the treated (ATT) on variables of public good provision.¹⁷ The propensity score is recalculated $B = 1000$ times in each matching exercise to measure the uncertainty surrounding the estimation. The table measures whether *usos* as a governance structure is significantly linked to the evolution of the provision of public goods. The variables reported are changes in the percentage of the municipal households who have water, sewerage, electricity, and that are illiterate.

The ATT are small and statistically non-significant for the provision of water, both for the change in levels and for the rate of change. The provision of sewerage shows a strongly positive and very significant change in levels and rate of change in the period immediate after the reform (1995–2005), and a lower rate of change for the period 2000–10, where the change in absolute levels is not significant.

Since the measures we use are percentages, in both groups the provision of sewerage is barely catching up with the increase in the number of households—we would otherwise see a non-zero effect in the *levels*. Nevertheless, a 5% increase in a place with high overall levels is different from a 5% increase in a place with low levels. Because the rate of change is simply the difference in levels conditional on the initial value, it is informative about the relative magnitude that the changes in

Table 3. Balance tests (Dependent variable: *usos*)

	Blocks						
	1	2	3	4	5	6	7
Lag usos	.028 (.085)	.077 (.223)	-.064 (.150)	-.111 (.072)	.057 (.047)	.019 (.040)	-.003 (.063)
Fragmentation	-.021 (.132)	-.052 (.283)	.102 (.176)	.01 (.074)	-.091 (.068)	.107 (.061)	-.019 (.172)
Distance city	.271 (.202)	.320 (.36)	.106 (.254)	.018 (.094)	-.057 (.081)	-.096 (.066)	-.012 (.125)
Distance road	.383 (1.76)	-2.06 (.88)	.409 (1.79)	4.55 (1.99)	.183 (1.61)	-2.05 (2.06)	-4.80 (6.18)
Indigenous	-.218 (.128)	.245 (.297)	.314 (.147)	-.076 (.084)	.054 (.077)	-.059 (.090)	.244 (.196)
Income (res.)	-10423 (5958)	3120 (9255)	2753.4 (10288.3)	1064.6 (2662.1)	801.6 (1683.7)	1053.8 (1363.5)	3710.8 (2939.4)
Religious Frag.	.076 (.049)	-.060 (.124)	.117 (.061)	-.066 (.033)	-.006 (.029)	.014 (.032)	.013 (.079)
Ethnic Frag.	-0.92 (.072)	.063 (.117)	-.108 (.088)	.025 (.047)	-.038 (.038)	.039 (.043)	.018 (.085)
Altitude	-.227 (.128)	.021 (.323)	-.155 (.315)	.329 (.164)	-.107 (.131)	-.046 (.112)	-.026 (.225)
Treated	5	2	7	31	71	90	212
Control	41	17	7	29	27	21	4
Observations	46	19	14	60	98	111	216

Table 4. *ATT for public goods*

	1990–2000		2000–10		1995–2005		1990–2010	
	Δ	% Δ	Δ	% Δ	Δ	% Δ	Δ	% Δ
Water	-.012 (.022) -.538	.062 (.129) .485	.000 (.054) .006	-2.64 (4.19) -.63	.041 0.049 .836	-.417 0.466 -.894	.027 0.03 .893	.17 0.285 .595
Sewerage	-.037 (.035) -1.077	-1.27 (1.72) -.74	-.008 (.022) -.371	3.401 *** (.871) 3.905	.086 *** .034 2.55	9.05 *** 2.18 4.15	-.04 .049 -.821	.851 2.99 .285
Electricity	.036 * (.019) 1.89	.982 *** (.381) 2.576	.031 *** (.012) 2.62	.217 (.148) 1.47	.022 * 0.011 1.895	0.337 .335 1.004	.07 *** 0.023 2.99	1.421 *** .428 3.32
Illiteracy	.007 (.010) .734	.03 * (.017) 1.81	-.009 (.010) -.926	-.01 (.016) -.61	-.004 .005 -.751	-.000 0.016 -.031	-.002 .019 -.118	.008 0.018 .423

Treated = 418, Control = 146 (over common support).

Note: Cells report ATT, bootstrapped standard errors ($B = 1000$) and t -value, respectively.

Significance: * .1, ** .05, *** .01.

level represent. So a zero effect in the ATT looking at changes in level means that services are being provided as fast as the growth in households, and a positive effect in the rate of change tells us that *usos* municipalities are growing faster.

A similar logic applies to the provision of electricity. *Usos* places seem to be more effective in finding ways to extend the coverage of electricity more widely among their inhabitants. Our results show a higher percentage of new households with electricity during both decades under study, and a faster rate of change for the 1990–2000 period, but no significantly different rate of change for the decades of 1995–2005 or 2000–10. Overall, electricity shows a positive net effect in the absolute levels and a faster rate of convergence in municipalities governed by *usos*. We acknowledge one reviewer in pointing out that such an effect would more convincingly relate *usos* to the provision of electricity.¹⁸ Finally, literacy (a proxy for schools) shows a positive effect only for the rate of change in the decade 1990–2000.

These results allow us conjecture that the effects of *usos* differ across time frames. In the short run, electricity shows a positive effect of .036 during 1990–2000, and then a slightly lower effect in the next decade, some ten years after *usos* was formally instituted. Sewerage is more difficult to provide than electricity, and so we see that the effects of direct democracy

take some time to show in the data, and can thus be considered long-term effects.

Table 5 makes a similar exercise for variables related to political participation. It reports the difference between the federal presidential electoral patterns in 1994 and 2000 at the municipal level.¹⁹ The first five variables are measured in first differences, testing whether electoral competition at the federal level was depressed, or parties became entrenched due to the *usos* reform. They report respectively the ATT for the differences in the margin of victory, the effective number of parties, the share of the PRI, the PAN and the PRD. None of these are statistically significant. If anything, the signs suggest a slight increase in competitiveness as denoted by the effective number of parties.

If we look at the historical evolution of the effective number of parties in Oaxaca²⁰ from 1980 to 2010 in Fig. 2, municipalities now governed by *usos* voted almost in block for the ruling regime-party, the PRI. As soon as the local congress allowed municipalities to choose their governance type, they defected *en masse* to the new governance system. Had these municipalities truly been PRI bastions we would expect a lower level of defection to traditional rules, and a significant result in Table 5: the political machinery of the PRI, had it really existed, would with some likelihood guarantee a disproportionate

Table 5. *Socio-economic and public good provision matching*

	ATT	SE	t
Difference margin	-0.011	0.035	-0.321
Diff Number of Parties	0.142	0.093	1.533
Difference PRI	-0.008	0.024	-0.33
Difference PAN	0.011	0.015	0.692
Difference PRD	-0.013	0.02	-0.671
Former Mayor	-0.011	0.022	-0.497
Sessions	-1.423	4.513	-0.315
Open Sessions	2.136	1.137	1.879
Female Council Members	-0.052	0.019	-2.727
Female mayors	-0.025	0.012	-2.08

Treated = 412.

Control = 228.

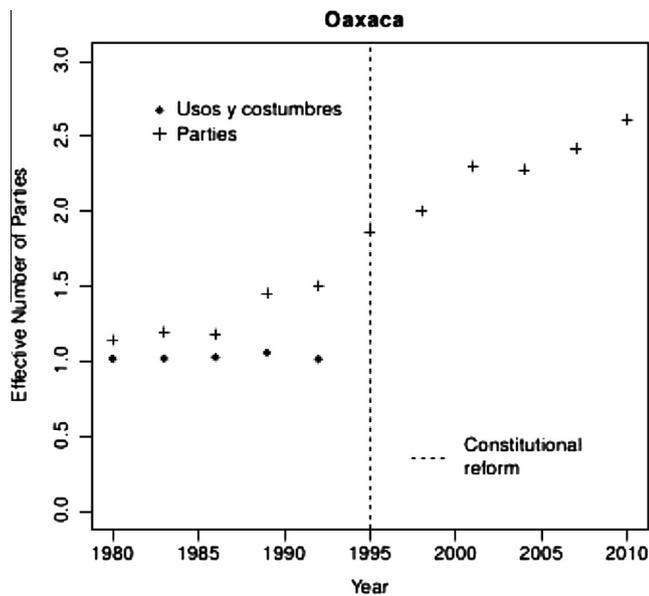


Fig. 2. Effective number of parties in Oaxaca for 1980–2010 by governance type. After the local constitutional amendment of 1995, which is marked with a dotted line, less than 10 out of the current 418 municipalities of *usos* kept the party system for some elections more, but are not shown for clarity.

share for the PRI in federal elections, particularly in the decade in which the PRI's hegemony was withering away.

Both results strongly suggest that there is no evidence of an entrenchment of PRI politicians, as has been generally argued by scholars such as Benton (2012) or Recondo (2007). *Usos* municipalities exhibit very similar levels of party competition at the federal level than party municipalities, which means that the PAN, the PRD, and other political parties have been able to make similar inroads in these impoverished communities than in the ones that allow political parties to contest for municipal elections.

The last five rows in Table 5 show results regarding civic participation in collective decision-making and whether there might be entrenchment or capture by local elites. We use data from the Survey to Municipal Presidents on Social Development.²¹ The first item asks whether the current mayor has previously held the post. Although there is no immediate reelection in Mexico, it is not uncommon for entrenched *caciques* to be mayors again after some terms. There is no evidence that in *usos* the same mayor has held office more frequently, and in fact, from the anthropological literature what emerges is more a sense of rotation in charges, including the duty of mayor.

The next variables are all related to political engagement at the municipal level. The Social Development survey asks mayors how often they carry out council meetings, and whether those are sessions open to citizens. Although there is no difference in the average number of council meetings, in municipalities ruled by *usos* those meetings are open to citizens more often. As shown in Table 1 above, data from our own survey research in the state of Oaxaca further corroborates that in *usos* municipalities there is ample civic engagement in collective decision-making whereas in party municipalities citizens remain frankly disengaged (Díaz-Cayeros, Magaloni, and Ruiz-Euler, 2010).

Finally, the table reports two indicators of governance where *usos* does not fare as well as places ruled by political parties. These are related to female participation in the top

echelons of municipal government. The variables measure the share of the municipal council made up by women, and whether the current mayor is a woman, as reported by the National Municipal Information System²² in 2002. The ATT suggest that in *usos* there is a smaller participation of women in high office. This is in keeping with the findings of Eisenstadt (2007).

6. CONCLUSION AND FUTURE RESEARCH

Previous research focusing on the provision of local public goods recognizes three main reasons for variation in the success societies have in providing them: ethnic diversity (or more in general, social heterogeneity), state capacity, and local government accountability. Our analysis contributes to this research agenda by focusing on the effects of local governance structures on the provision of public goods. The evidence we have presented points to a less pessimistic view about the effects of traditional governance systems in indigenous Mexico.

Our hypothesis was that municipalities governed by *usos* would show different overall levels and rates of convergence in the provision of public goods because of (a) the political processes that lead to the allocation of municipal funds to collective projects through direct democracy, and (b) because municipalities receive federal funds (bypassing the state coffers) specifically aimed at social infrastructure, that depend on a formula and that cannot be withdrawn for electoral purposes. Systems of governance based on electoral competition among political parties differ essentially from *usos* because decisions are taken by politicians without an ongoing process of consultation with the citizenry. The monitoring and sanctioning dynamics that come into play when citizens gather in public assemblies are usually absent in party-run municipalities, and thus the allocation of resources for public goods seems sub-optimal.

In order to assess the effects of local governance institutions on the provision of public goods we have used propensity-score matching and a first differences approach to generate inferences from observational data. Our research design exploited variation in informal collective-action solving organizations that can be characterized as a form of participatory democracy embedded in formal municipal institutions. *Usos* presents higher rates of change in the provision of services, no evidence of encroachment by local bosses (*caciques*), and higher overall levels of citizen involvement in municipal life.

Further research must deepen our understanding of the mechanisms and structural characteristics of *usos* that explain the differential rates of change in the provision of public goods and in particular electricity and sewerage.²³ Furthermore, attention should be paid to the nature of the public goods provided with regard to their spill-over effects, and the complex interaction they have with self provision. It is possible that different types of public goods might be impacted by governance type in different ways.

The differences between the two types of governance that we presented in the paper point to a broader discussion of the organization of democracy. The delegated format of decision-making in electoral democracies dominated by political parties seems to bear a higher risk of agency loss than deliberative decision-making of what is often referred to as participatory democracy.

Although modern societies are, by their size and complexity, not the ideal locus of participatory democracy, there are lessons to be extracted from the fact that, with regard to the provision of some basic services, a non-partisan political

arrangement presented some advantages over the widespread electoral and party-based democratic organization. Participation and collective monitoring of authority are hugely important to maximize collective well-being.

In the context of participatory budgeting, much has been discussed about the empowering role of deliberative bodies. However, as noted by Pateman (2012: 14): “The spread of ‘participatory budgeting’ around the world tends to involve measures that, rather curiously and despite their label, *do not involve the municipal or local budget*. Citizens are frequently discussing relatively small, discretionary sums of money that may or may not continue to be made available”. In contrast to examples like the much publicized case of Porto Alegre in Brazil, *usos* municipalities have truly adopted a form of participation that allocates through deliberation substantial amounts of funds that cannot be withdrawn for electoral purposes. In a very real sense, this challenges the role of political parties by reinvigorating democratic practices of deliberation and decision-making.

A related line of thought is that *usos* practices may teach some lessons to the profound crisis of political parties across countries, especially in new democracies (Hagopian & Mainwaring, 2005; Levitsky, 2005; Mainwaring, Bejarano, & León-gómez, 2006; Smith, 2005). When new democracies cannot

provide a minimum basis of material well-being, support for democracy erodes substantially, opening the door to clientelistic parties, anti-systemic leaders, and in extreme cases to authoritarian setbacks. The quality of new democracies seems directly linked to the perception of government capacity to provide minimal well-being. Public goods are an integral part of this function. Rethinking the way electoral and party-based systems of governance work, and contrasting their logic with other forms of participatory democracy (of which *usos* is a good example) should prove valuable in the ongoing effort of institutional design to which all democracies are subject.

Two policy prescriptions emerge from our results. First, development policy should take seriously the effects of real participatory democracy combined with funds that are shielded from electoral and bureaucratic pressures. Second, our results suggest the need to reevaluate the possibility of establishing *usos* beyond Oaxaca in Mexico, particularly in other indigenous areas such as Chiapas, where *usos* are not formally recognized. In that state the lack of reforms to grant municipal indigenous autonomy seems more a counterinsurgency strategy than about fulfilling developmental goals. Not recognizing traditional forms of governance might, paradoxically, work against the development needs that fueled the Zapatista rebellion of 1994 in the first place.

NOTES

1. For example, Acemoglu, Johnson, and Robinson (2001) deployed an instrument for good institutions (settler mortality rates) rather than any direct measure of it. In Fearon and Laitin (2003) the conditions that favor insurgency are linked to the “strength of the state” but the authors use a set of proxies (e.g., GDP/capita, mountainous terrain, reliance on oil revenues) instead of measuring state strength directly.
2. Bardhan and Mookherjee (2000) have shown, in a formal model, that centralized systems of public service delivery are more subject to corruption. However, they also note that local elites might capture governments making them less efficient than a centralized arrangement. Besley and Coate (2003) have provided a model in which the advantages of decentralization depend on legislative behavior and how jurisdictional spillovers and conflicts arising from the variance in preferences over public good provision across places are mediated by the political system. Despite these theoretical advances, we are only starting to understand the links between democratic accountability, local public good provision, and decentralization.
3. In an empirical evaluation of Sen’s (1981) influential hypothesis that democracy prevents famines, Besley and Burgess (2002) have shown that Indian states with greater freedom of the press are more likely to deliver disaster relief. Besley and Prat (2001) have similar findings for a cross section of countries.
4. For a general critique of participatory models of local level development see Platteau (2004).
5. While the allocation of funds across states has been historically characterized by a large degree of path dependence (Costa-i-Font and Rodríguez-Oreggia, 2006), in the sense that there has been a large degree of inertia in the way overall public expenditure has been regionally allocated, during the 1990s the architecture of fiscal transfers was transformed as a consequence of both the realities of international markets and the pressures of political change. Highly discretionary federal public investment used to comprise a very large share of the resources available for state and local governments. But since decentralization in the 1990s most of the transfers are fixed according to formulas.
6. The Oaxacan congress passed a law allowing for election by *usos y costumbres* in September of 1995, and in the municipal elections held two months later, 412 municipalities chose to select their leaders under this law’s provision (and as the details of the law were ironed out, six additional municipalities joined).
7. Although our field research revealed that this practice has changed in the last years, with women being allowed to participate and vote in most places.
8. Traditionally women were excluded from many of these duties. Field research reveals that since the introduction of conditional cash transfer programs in 1997 (*Progesa*/now *Oportunidades*), women got more deeply engaged in the life of the community, and now serve in health and education committees sponsored by the program. Women are also increasingly performing other important “cargos”, but evidence from our qualitative field work also suggests that it is usually not high-level responsibilities.
9. Our interviews attributed the gradual abandonment of physical punishment to the presence of the Human Rights Commissions, which received complaints of human rights violations from members of the communities.
10. Such that the conditional distribution of x given a balancing score $b(x)$ is the same for treated $z = 1$ and control $z = 0$ units (Rosenbaum & Rubin, 1983).
11. For additional discussions about the effects of multidimensionality on the performance of classifiers see Hastie, Tibshirani, Friedman, and Franklin (2005) and King et al. (2011).
12. The spatial lag was calculated using the statistical software GeoDA developed by Anselin, Syabri, and Kho (2006).
13. Distances for this and the next variable were calculated using the ArcGIS software from ESRI.

14. Provided independence across categories.
15. Calculated using ArcGIS on the basis of raster files from INEGI.
16. Calculated using Becker and Ichino (2002).
17. As calculated with the *attk* routine in Stata.
18. A simple OLS model regressing the rate of change for electricity on the previous level shows an effect of $\beta = -.53$ for both governance types in the first period, and of $\beta = -6.18$ for *usos* and $\beta = -.94$ for parties in the second period. For sewerage the coefficients are non-distinguishable from zero in the first period; and $\beta = -17.21$ for *usos* and $\beta = -8.83$ for parties in the second period. These coefficients point out the different rates of convergence toward full coverage across governance types.
19. It should be noted that the choice of *usos* did not limit partisan political competition for posts at higher levels of government.
20. Constructed using an inverse Herfindahl–Hirschman index with vote shares per party, per election, and averaging for each year.
21. *Encuesta Nacional para Presidentes Municipales Sobre Desarrollo Social* in Spanish, carried out by the Secretariat of Social Development in 2002.
22. *Sistema Nacional de Informacion Municipal* (SNIM) produced by the Secretariat of Government.
23. In a household level survey we conducted in the state of Oaxaca in 2009, we find higher levels of civic engagement and political participation and a more egalitarian distribution of public goods within communities governed by *usos*. Household-level data might shed more light on the interaction between individual-level characteristics (such as gender, age, income, political resources, or partisanship) and governance type.

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The Effects of Participatory Budgeting on Municipal Expenditures and Infant Mortality in Brazil

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Summary. — This paper investigates whether the use of participatory budgeting in Brazilian municipalities during 1990–2004 affected the pattern of municipal expenditures and had any impact on living conditions. It shows that municipalities using participatory budgeting favored an allocation of public expenditures that closely matched popular preferences and channeled a larger fraction of their budgets to investments in sanitation and health services. This change is accompanied by a reduction in infant mortality rates. This suggests that promoting a more direct interaction between service users and elected officials in budgetary policy can affect both how local resources are spent and living standard outcomes.

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Key words — Latin America, Brazil, participatory budgeting, accountability, local government, budgetary policy

1. INTRODUCTION

Public expenditures are a powerful tool to guarantee access to essential goods and services for all strata of society. However, in many cases distortion and misallocation of public monies—more often than the lack of resources—prevent this from happening. The lack of political accountability is a key problem in much of the developing world. Traditional mechanisms of horizontal accountability, via internal audits, checks and balances or constitutional constraints, are clearly not enough to make politicians take full responsibility and provide full justification for their actions and performance. Neither is electoral accountability in democratic countries: too often we see basic services failing to reach the poor even when they represent an important fraction of the electorate.

Identifying mechanisms to reinforce political accountability has been a key challenge for economists (and policy makers) and the object of intense research in the political economy literature. In the developing world several innovations to improve political accountability have been put into practice. Over the last decade these have tended to be bottom-up mechanisms that imply a greater involvement and participation of citizens, the ultimate service beneficiaries, in decision-making processes and service delivery.

One of the most famous innovations was the participatory budgeting model developed in Porto Alegre. This is an alternative budgetary process that allows citizens to negotiate with government officials over the municipality's budgetary allocation and its investment priorities. Participatory budgeting brings in two key elements to the traditional budgetary practices. First, it improves information flows between policy-makers and service users, leaving the former better equipped to provide goods and services that more closely match the citizens' needs and preferences. Second, it also strengthens accountability by functioning as a commitment device for the politicians as it stimulates more frequent checks on their (publicly promised) actions by the common citizen.

Despite having attracted considerable attention for the improvement in political accountability claimed to have been achieved,¹ and despite the fact that the participatory budgeting model spread across Brazilian municipalities in the 1990s and 2000s and was adopted in a number of other countries,

evidence of its impact on local public expenditures and living standard outcomes is still very limited. My contribution is to fill that gap by analyzing a panel of Brazilian municipalities for the period 1990–2004 in order to understand what effects participatory budgeting had on municipal public expenditures and associated living standard outcomes.

Brazil's decentralized politico-administrative system, in place since the late 1980s, provides an ideal setting for this analysis. All municipalities are entitled to ample powers in service delivery and can therefore be important players in fundamental sectors such as health or education. Furthermore, with the first experiences of participatory budgeting taking place in the late 1980s the data allow me to identify four different waves of adoption in the four legislative periods during 1989–2004, where each legislative period is bounded by a mayoral election. The decision to adopt participatory budgeting depends solely on the existing mayor, who is subject to election every 4 years, and it can be reversed.² For this reason, there exists substantial variation not only in the time of adoption but also in the length of the period in which participatory budgeting is in place. This variation in the use of participatory budgeting across municipalities will be important for the identification of the effects associated with participatory budgeting.

By observing the evolution of budgetary allocations across time in different municipalities I find a robust pattern linking the use of participatory budgeting to a change in the pattern of government expenditures within the period under analysis: the adopting municipalities tend to increase the spending on health and sanitation significantly more than their non-participatory counterparts. More precisely, my findings suggest that participatory budgeting increases the proportion of the public budget spent on health and sanitation by 2–3% points, which is as much as 20–30% of this category's budget share sample mean in 1990.³ This change in the pattern of government expenditures seems to be in line with the participatory meetings' outcomes that systematically place investments in

* I am grateful to Oriana Bandiera, Robin Burgess, Jean-Paul Faguet, Jakob Svensson and three anonymous referees for helpful comments and suggestions.

sanitation (i.e., improving water and sewage connections, drainage and waste collection) as a top municipal priority. Crucially, this result does not seem to be a consequence of adopting units having larger fiscal budgets. Participatory budgeting appears to be a “budget neutral” mechanism as it is not significantly associated with greater per capita budgetary expenditures.

To show that these changes do generate real effects I further investigate whether there was any subsequent impact on living conditions among the adopting municipalities. It is a well accepted fact that poor sanitation is a leading factor in infant mortality, mainly driven by higher vulnerability of this age group to waterborne diseases (see, for instance, Black, Morris, & Bryce, 2003; Sastry & Burgard, 2004; Victora, 2001). If we believe that the new spending pattern brought by participatory budgeting did result in better sanitary conditions as demanded in the participatory forums, a consequent fall in the infant mortality rates might be expected. My data set allows testing for this hypothesis by using a panel of municipal infant mortality rates for the period during 1990–2004. My findings suggest that municipalities that adopted participatory budgeting registered a significant drop in infant mortality of between 1 and 2 infants for every 1,000 resident infants—about 5–10% of the total infant mortality rate at the beginning of the period in 1990.⁴ This is a significant result for a nation like Brazil, which at the beginning of the 1990s was one of the worst performers in terms of infant mortality rates in the Latin American and Caribbean region with an average infant mortality rate of 48 out of every 1,000 newborns (World Bank, 1990).

These basic results were subjected to a series of robustness checks in order to address concerns about potential endogeneity of the participatory budgeting adoption decision and the validity of its estimated effects. Overall, the pattern of estimated results holds throughout. I interpret these findings as evidence that participatory budgeting can be an important tool in improving information flows between citizens and their political representatives, enhancing government accountability, and ensuring that citizens’ preferences are reflected in the actual implementation of public policies on the ground.

The work presented in this paper contributes to two main strands in the political economy of development literature.

First, given the focus of the participatory mechanism on improving information exchanges between elected politicians and common citizens, this work contributes to the literature that views citizens having information on the actions of politicians and bureaucrats as being key to improving political accountability and government responsiveness (see Besley & Burgess, 2002; Ferraz & Finan, 2007; Strömberg, 2003 and Bjorkman & Svensson, 2009).

Second, and fundamentally, this work contributes to the literature on the analysis and evaluation of mechanisms of participatory development. Influenced by the work of authors such as Chambers (1983), Hirschman (1970), Hirschman (1984), Sen (1985) and Ostrom (1990), theories of participatory development focused on principles of bottom-up decision-making and community empowerment have gained increasing popularity over the past three decades in the realm of development management and substantially affected the policies of governments, donors, and development agencies, such as USAID, the UN, and the World Bank (Mansuri, 2012). Advocates of this model of development argue that greater citizen participation promotes information transfers between government/service providers and final service users and, as a consequence, results in greater allocative efficiency and accountability. These views have been challenged by different authors, who stress the potential for local capture and

exacerbation of pre-existing inequalities (Bardhan & Mookherjee, 2000; Mosse, 2001; Platteau & Abraham, 2002) and a loss of technical efficiency (Bardhan & Mookherjee, 2006; Brett, 2003; Oakley, 1995) that can result from “shifting the locus of decision making downwards” (Mansuri & Rao, 2012).

This work fits within the growing literature that attempts to provide empirical evidence of the effects associated with different participatory mechanisms. This ranges from the setting of political reservations for minority groups in order to ensure that their interests are reflected in policy-making (e.g., Besley, Pande, Rahman, & Rao, 2004; Chattopadhyay & Duflo, 2004; Pande, 2003); the introduction of service report cards (e.g., Bjorkman & Svensson, 2009); the direct involvement of community members in school and health sector management (e.g., Banerjee, Deaton, & Duflo, 2004; Jimenez & Sawada, 1999; Kremer & Vermeesh, 2005); involving citizens and community organizations in the monitoring of public programs (e.g., Olken, 2007; Olken, 2008) or the setting up of participatory institutions (such as the Gram Sabhas in India (e.g., Besley, Pande, & Rao, 2005)). Participatory budgeting is most similar to this last mechanism for encouraging participation in policy making but is truly innovative in its scope and scale. Participatory budgeting aims to improve accountability and responsiveness by opening up the “black-box” of budgetary design and implementation to the whole of society. This allows narrowing down the information asymmetries between policymakers and citizens and encourages further checks by the latter on the former’s activities—particularly relevant in a context characterized by wide-spread clientelistic and corrupt practices as is the case in Brazil.⁵ It has been implemented on a large scale in Brazil—by 2004 about 30% of the Brazilian population lived in municipalities which used participatory budgeting as a means of deciding the allocation of local resources. Its objectives line up with those outlined in the 2004 World Development Report, “Making Services Work for Poor People”, of “putting poor people at the centre of service provision: enabling them to monitor and discipline service providers, amplifying their voice in policy-making, and strengthening the incentives for service providers to serve the poor”. The scope, scale and ambition of participatory budgeting twinned with the distinct lack of concrete evidence of its effects makes evaluation of this new form of encouraging citizen participation in public policy making all the more urgent.

In addition, my findings also contribute to a wider debate on the merits of the decentralization of government. Empirical results in this area have been divergent and inconclusive and have not crystallized into a coherent whole. This paper focuses on an institutional refinement within a decentralized governance framework (that is, the enhanced community participation) and thus provides an additional test of the (argued) advantage of decentralized and participatory regimes for tailoring policies to the demands and needs of the local population (see Ahmad, Devarajan, Khemani, & Shah, 2005; Faguet, 2012; Faguet & Sánchez, 2008; Foster & Rosenzweig, 2001).

The remainder of the paper is organized as follows. Section 2 focuses on background and data. I provide the necessary institutional background regarding participatory budgeting, public expenditures, and main socio-economic context, describe the variables used in the empirical analysis and examine how they have evolved over the period under analysis. Section 3 presents the results of the empirical analysis of the relationship between participatory budgeting, public expenditures, and associated living standard outcomes for Brazilian municipalities over the 1990–2004 period, including a description of the robustness tests performed. Section 4 concludes.

2. BACKGROUND AND DATA

(a) *Participatory budgeting*

(i) *Origins*

Participatory budgeting was one of several institutional innovations introduced in Brazil in the late 1980s which took advantage of the re-democratization process and its focus on decentralization.

During the two decades of military dictatorship (1964–85) Brazil's politico-administrative structure was centralized in the federal government and based on a network of political appointees in each state and capitals. Municipalities, the smallest politico-administrative division in Brazil⁶ remained responsible for the provision of some local services throughout this period (such as inner-city transport or waste collection and disposal), but the scope for locally-defined policies was very limited since municipal governments were mainly executors of the agenda set by Brasília. Following democratization and decentralization, in the late 1980s, considerable power and autonomy was devolved to the sub-national governments, which, as of 2008, are comprised of 26 states plus 5,562 municipalities. Municipalities, in particular, gained co-responsibility in the provision of several essential services, and greater fiscal autonomy to handle them. Moreover, they became freer to develop their own laws and to encourage new forms of democratic participation beyond those provided by mayoral elections.⁷ Community organizations, for example, were legitimated as active political actors with a role in the management of public expenditures (Wampler, 2004).⁸

In essence, through the decentralization effort municipal governments gained the status of fundamental players in the provision of basic services for households and communities. Municipalities were given access to increased levels of funds from upper-levels of government, along with the tools to implement their newly granted responsibilities. This context hugely facilitated the introduction of participatory budgeting programs, initially by mayors from the Workers' Party ("Partido dos Trabalhadores"), in different municipalities across Brazil. Porto Alegre, the capital of the southernmost Brazilian state, would become the benchmark for this model.

The Workers' Party was created in 1979 and it was often considered as a novelty among the Brazilian leftist parties for its origins in the union movements and its strong links to the nation's grassroot and community associations (Abers, 1996; Keck, 1992). Early on, in its political agenda, the Workers' Party emphasized the relevance of promoting government accountability, community participation, and the reversal of priorities away from the elites toward the poor and the working classes. Budgetary policy was a critical instrument in these goals (Abers, 1996).

The development of the participatory budgeting model was therefore in accordance with the party's platform and objectives. By promoting the joint management of public resources, participatory budgeting could not only make the municipal government more responsive and transparent but it could also reverse the cycle of patronage politics that was in danger of being perpetuated by the newly empowered local elites. As a result, the first experiences of participatory budgeting, in the late 1980s and early 1990s, took place as soon as the Workers' Party elected its first mayors, and participatory budgeting became the hallmark of the municipal governments controlled by this party. The successful results achieved under the participatory model fostered by the Workers' Party municipal governments "helped to define the meaning of "good government" in Brazil, which now emphasizes direct participation and

transparency" (Avritzer & Wampler, 2005). This point cannot be dismissed in understanding the party's steady trajectory from a few minor mayoralties, in the mid-1980s, to major capital and state governments, from the 1990s onwards, and the presidency, in 2002 (Santos, 1998).

(ii) *Operation*

In Brazilian municipalities, expenditures are mainly composed of four classes: (i) personnel, (ii) debt repayments, (iii) public services (health/sanitation and education taking the lion's share), and (iv) investments in works and equipment (including those in health/sanitation and education). It is precisely in these last two categories, which in financially healthy municipalities represent close to half of the budget, that municipalities have more autonomy and are therefore the focus of the participatory budgeting processes.⁹

The way participatory budgeting is implemented has had several variants across Brazil, tailored to each municipality's characteristics. There is variation in the structure and timing of meetings, in the rules for electing citizen representatives, in the manner in which municipal investment rankings are defined and even on the percentage and components of the municipal budget covered by participatory budgeting. Notwithstanding, the main features of participatory budgeting can be summarized as follows.¹⁰ The program is logistically structured by the city council, which is in charge not only of the organization and advertisement of meetings, but also of providing all the necessary technical information to any participant. For organizational purposes the council officials start by dividing the municipality into different "administrative" regions (roughly corresponding to the existing neighborhoods). Once the different administrative regions are defined, the participatory process formally begins with a set of parallel neighborhood assemblies, open to all residents, where an update of the previous years' approved works is given, local needs are discussed, desired investments are listed, and neighborhood representatives are elected by the attendants.¹¹

It is worth noting that in many municipalities, such as Porto Alegre and other large urban centers, this representation is made up of two tiers due to reasons of scale and the degree of technicality involved in the decisions at later stages. These two tiers are comprised of "councilors" and "delegates" and both are elected through popular assemblies. The councilors ("conselheiros") form the "participatory council" which together with elected municipal officials are responsible for defining the criteria used to rank demands and allocate funds, and vote on the investment plan presented by the mayor and her executive team. These councilors are the elected citizen representatives who interact directly with the elected bodies. The delegates ("delegados") function as intermediaries between the citizens and the participatory council (which are comprised of councilors and elected municipal officials) and supervise the implementation of the budget.

Following the round of neighborhood assemblies and the election of the respective representatives, the elected delegates take part in municipality-wide coordinating meetings, whose purpose is to draw up a final draft for the different regions' investment priorities, which is then passed to the executive and the participatory council.

Under the ordinary budget cycle (i.e., without formal citizen participation) the executive is solely responsible for the elaboration of the budget proposal, which has to include a plan of all revenues and expenditures programmed for the subsequent year. This proposal has to be approved by the city's legislature (comprised of elected municipal officials) in order to become official. Under the participatory model, the allocation of

investments in the budget proposal is defined by the executive together with the participatory council. Under this model public budgeting takes into account the popular priority ranking (obtained by the delegates) together with a set of weights (such as the share of population affected by the project, the index of local poverty and measure of need/shortage of the good demanded) which are designed to promote equity in the distribution of resources as well as to take account of the projects' technical and financial feasibility. The elected municipal officials also have the capacity to initiate projects of general interest or even works considered necessary for a given part of the city and these are also the object of discussion with the participatory council.

Finally, once the budget has been approved by the legislature, the elected delegates and councilors are responsible for supervising its execution and reporting any faults or delays to the mayor. It should be noted that public budgets are indicative, not mandatory, and as such the elected officials (i.e., the executive branch) may or may not abide to the investment projects listed in the budget. Notwithstanding, participatory budgeting does create an additional record keeping of promises between citizens' and elected municipal officials.

To summarize, compared to the ordinary budgetary process, differences can occur mainly at two stages: (i) the direct input of citizens' demands and the direct interaction between popular representatives and executive in the elaboration of the budget proposal; (ii) oversight of the approved works by the (elected) popular representatives (delegates and councilors) once the investment plans become public.

The role of the legislature is not affected, at least in theory, since the budget still has to be approved by this chamber. However, the fact that the budget proposal reaching the legislature comes, under participatory budgeting, with the direct approval and demands of the population may constrain the ability of the legislature to vote against it (Santos, 1998). This can be relevant since the decision of whether or not a municipality adopts participatory budgeting depends exclusively on the mayor and her executive team, and does not have to be at any moment ratified by the legislature. Participatory budgeting may therefore be seen as a means for the mayor and her executive to increase their public decision making power.

A scheme with a reference design of the year-round participatory process (based on Porto Alegre's schedule) is presented below (see Figure 1)

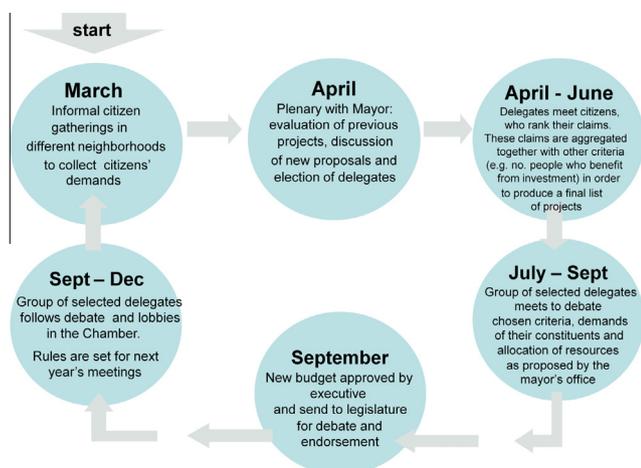


Figure 1. Participatory budgeting yearly cycle.

(iii) Adoption

The expansion of participatory budgeting across Brazilian municipalities closely matched that of the Workers' Party in the first years. Likewise, it evolved slowly, first in the southern urban centers, then in the smaller neighboring municipalities and northern municipalities. From the mid-1990s onward, as the publicity of the most successful experiences spread and participatory budgeting became internationally recognized, it started being replicated by other parties—most, but not all, with political orientations close to the Workers' Party. In fact, from the mid-1990s onward only roughly half of the municipalities with participatory budgeting were governed by Workers' Party mayors.

Table 1 shows the distribution of participatory budgeting experiences across Brazilian regions and time.

The maps in Figure 2 show the geographical distribution of participatory budgeting experiences across the legislative periods shown in the table. Municipal boundaries are shown in gray and the municipalities adopting participatory budgeting are indicated in a darker shade in the maps.

Table 2. shows the evolution of the number of municipalities adopting participatory budgeting and also of municipalities with Workers' Party mayors.

Although the total number of adopting municipalities (169 at the last available count in 2000–04) seems small in a nation as big as Brazil (which contained a total of 5,561 municipalities at the same date) it is worth noting that in 2000 the 169 municipalities that had adopted participatory budgeting accounted for approximately 27% of Brazil's 175 million inhabitants. It is worth noting that the number of participatory budgeting occurrences as shown in the table is not cumulative over time. At the end of every period there are municipalities dropping out of the program as well as new municipalities adopting participatory budgeting.

As can be seen from Table 2, not all municipalities with Workers' Party mayors used participatory budgeting (for example during 2001–04 only 78 of the 186 municipalities with Workers' Party mayors employed participatory budgeting). The reason for this typically lies with a fragile financial situation (where debt repayment obligations and labor costs did not allow for new investments) or with the Workers' Party mayor having to govern in coalition with other political parties (see Shah, 2007).

It should be noted that the group of municipalities that have used participatory budgeting in the period under analysis, is not a random sample of the 5,561 Brazilian municipalities. Besides being typically (but not always) governed by left-wing mayors, these group of municipalities was on average, at the beginning of the 1990s, wealthier, more urban and densely populated, and had better household infrastructure and higher levels of educational attainment than the average municipality that did not use participatory budgeting. The differences across a range of socio-economic indicators between adopting

Table 1. Adoption of participatory budgeting

Regions	1989–92	1993–96	1997–2000	2001–04
North	0	1	5	12
Northeast	2	9	18	30
Central-West	0	1	2	7
Southeast	8	27	50	86
South	2	13	44	34
Total	12	51	119	169

I take every 4-year legislative period bounded by a mayoral election as the indicative date for the beginning (or end) of a participatory experience.

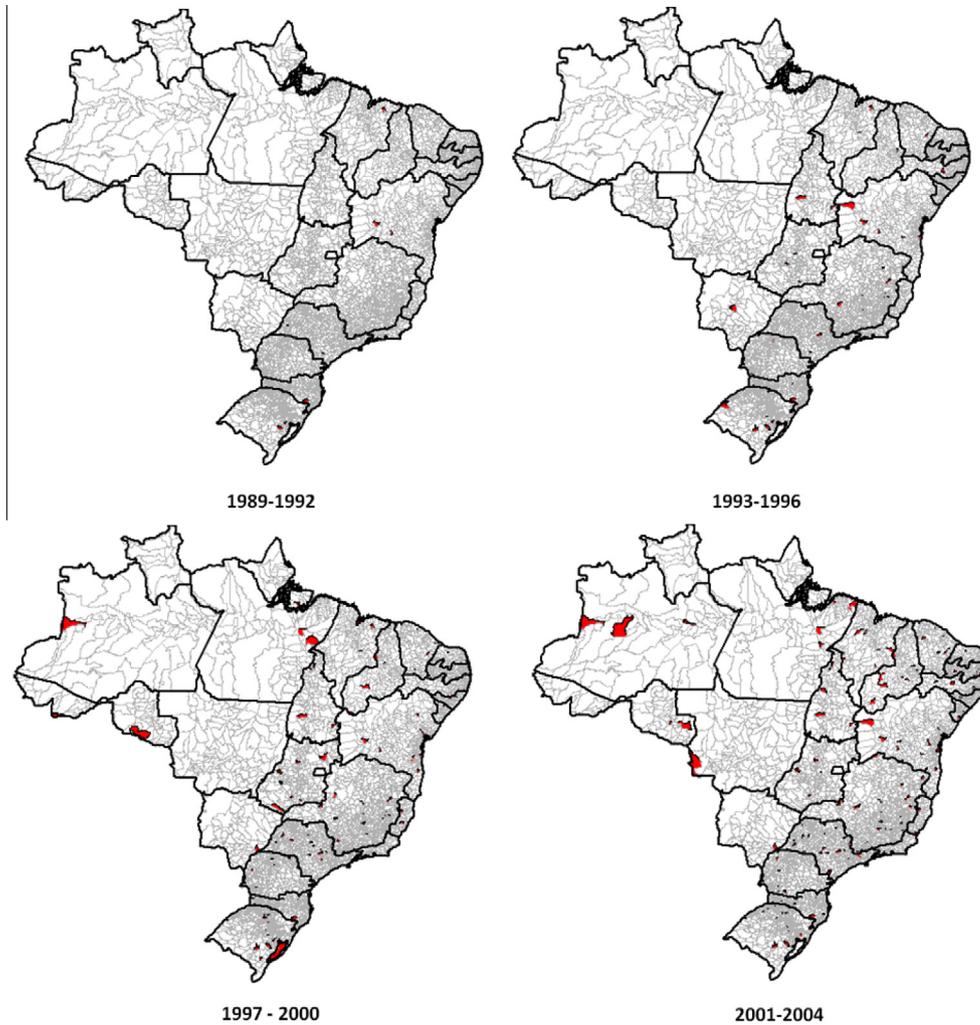


Figure 2. Geographic evolution of participatory budgeting experiences.

Table 2. Municipalities with participatory budgeting across time

No. of municipalities	1986–88	% Pop	1989–92	% Pop	1993–96	% Pop	1997–2000	% Pop	2001–04	% Pop
With PB	1	0.18%	12	9.31%	51	11.67%	119	15.62%	169	27.04%
With Workers' Party mayor	2	0.22%	37	10.44%	55	5.54%	115	5.04%	186	17.56%
Workers' Party and PB	1	—	10	—	20	—	55	—	78	—
Total no. municipalities	3,991	139,287	4,491	145,336	4,974	154,544	5,507	163,793	5,561	175,394

and non-adopting municipalities are presented in Table 4 and will be discussed in more detail in Section 3 of this paper.

The variation in adoption of participatory budgeting both across time and across municipalities is important to investigate the differential impact of participatory budgeting adoption with respect both to the allocation of public expenditures and to changes in infant mortality. To be precise the unit of the observation for the econometric analysis is the “MCA”, i.e., “minimum comparable area,” as opposed to the municipality. The use of MCAs is a standard practice in the analysis of panel administrative data for Brazil, as it allows tracking the same unit across the period under analysis. MCAs represent the municipal borders as of 1970 and typically contain one municipality, but owing to population growth and splits some MCAs can contain more than one municipality. This is because during the period under analysis, and in part resulting from the decentralization process, the nation's

2municipal divisions changed considerably mainly due to municipalities splitting due to population growth (for instance, during 1980–2004 more than 1,500 new municipalities were created). As a result, my econometric analysis is based on 3,651 MCAs, which I track across the 1990–2004 period.¹² Fundamentally for my analysis and conclusions, the patterns of change with respect to the evolution of participatory budgeting adoption across time (as shown in Table 2) look highly similar at municipality or MCA level.

The identification of the effects associated with the adoption of participatory budgeting by municipal governments will be discussed in further detail in the next section.

(iv) Participants and investment priorities

Although the participatory meetings are open to the whole municipal population, as described above, only a fraction of it does in fact participate. There is no available official record,

to my knowledge, about the magnitude and defining characteristics of this participation. The existing information comes from data collected and compiled by local NGOs interested in the subject of participation. For example, according to the NGO Cidade,¹³ as quoted by Abers (2000), in Porto Alegre (a city of approximately 1.2 million inhabitants at the end of the 1980s) in the first two years of participatory budgeting, i.e., in 1989 and 1990, less than a thousand people participated in the participatory budgeting forums. However, as the first demanded investments were undertaken by the municipal government, the number of participants jumped to 8,000 in 1992. After the re-election of the Workers' Party mayor in that same year, participation in the participatory budgeting forums gradually increased to more than 20,000 individuals per year in the late 1990s-early 2000s. In small and mid-sized municipalities, where the overall process of participation is usually simpler and less time-consuming or technically demanding, participation tends to be substantially larger often reaching 20% or more of the total population.

The surveys from NGO Cidade (Cidade, 1998; Cidade, 1999) also allow for a characterization of the average participants of the participatory budgeting forums. For example, data collected at the participatory budgeting forums in Porto Alegre, in 2002, reveal that the participatory assemblies tend to concentrate a higher proportion of (i) women, (ii) elders and retired workers, (iii) married people, (iv) non-qualified workers, (v) people with lower average income, (vi) higher rates of associative life, and (vii) stronger identification with the Workers' Party ideology than the city's average dweller. A comparison with data from earlier surveys shows that the differences between the average city dweller and the average participatory budgeting participant's profile have been decreasing over time, as participation in the participatory budgeting forums extends to different strata of the society. Similarly, the differences also tend to be less apparent at the "higher levels of participation," i.e., among the tiers of elected delegates and councilors. In fact, in Porto Alegre, the average participatory budgeting councilor typically ranks above the city's average with respect to education or income levels.

Information on the investment priorities voted by the participants is not made available by most of the municipalities in a systematic way. Table 3 illustrates a typical list of investment priorities as voted in the popular assemblies that are part of the participatory budgeting process. The information presented in the table refers to the municipality of Porto Alegre, but anecdotal evidence and the existing literature, as well as data published by other municipalities corroborate that it is

also representative of expenditure priorities among other adopting municipalities. The following investments are regularly top-ranked in the first rounds of participatory budgeting (across the full range of adopting municipalities for which there is data):

- basic sanitation, which mainly refers to extension and improvement of sewage networks, drainage, anti-erosion, anti-slippage measures, and waste removal;
- street paving, which usually accompanies installation of sanitation infrastructure;¹⁴
- land regulation, referring to the definition of property rights over occupied land - a major issue in the poor areas of Brazilian cities; and
- street lighting, which falls under the "Housing and Urbanism" class of municipal expenditures.

Investments in basic education and health are also demanded (usually referring to building and improvement of facilities), as the basic infrastructure (sanitation, paving, housing and lighting) needs are gradually met.

These voted priorities can be interpreted from different perspectives, which are not necessarily mutually exclusive. On one hand, they can simply reflect the preferences of the group of citizens that took part in the participatory forums, whose profile was described above, and on the other hand, they can indicate a clear bias toward very visible, easily monitorable works where checking the government's role is more easily done. In either case the relevance of the analysis proposed in this paper is not affected. It still remains important to investigate what average impact this additional information has had on the government's budgeting or, on the contrary, whether participatory budgeting has been in practice an empty populist trick with none or limited impact on the observed pattern of municipal expenditures.

(b) Public expenditures

(i) Decentralization

By law, the municipal executive has been responsible for the provision of goods and services considered to be of "local interest," that is, whose relevance is essentially restricted to the municipality. In practice, this has traditionally been limited to garbage collection, disposal and general cleaning services, sewerage networks construction and maintenance, public lighting, roads, general urban infrastructure works, public transportation and, in some cases, also water treatment and delivery. Although there was also some municipal activity in primary education and primary health care, these services

Table 3. Investment priorities voted at participatory forums

Year	1st	2nd	3rd
2004	Housing	Social	Education
2003	Housing	Education	Paving
2002	Housing	Education	Paving
2001	Paving	Housing	Basic sanitation
2000	Housing	Paving	Health
1999	Basic sanitation	Paving	Housing
1998	Paving	Housing	Basic sanitation
1997	Housing	Paving	Basic sanitation
1996	Paving	Basic sanitation	Land use regulation
1995	Paving	Land use regulation	Basic sanitation
1994	Land use regulation	Paving	Basic sanitation
1993	Basic sanitation	Paving	Land use regulation
1992	Basic sanitation	Education	Paving

Source: Municipality of Porto Alegre.

were far from being an exclusive municipal responsibility as there was a strong presence of state, and even federal, managed schools and health centers. The same was also true for water treatment and delivery services. Despite being considered a municipal responsibility, state companies were still the predominant provider of water services in the 1980s as a consequence of the model used for the development of this sector during the military regime, which was based on a state company's management through concession contracts.¹⁵

After the new constitutional charter of 1988, although the presence of federal and state governments was not completely dismissed (as they are still encouraged to intervene in case of insufficient local capacity), municipalities were strongly stimulated to enlarge their participation in the education and health sectors, and progressively received larger transfers from upper levels of government in order to assume those tasks.¹⁶ As a result, primary health care, pre-school and primary education are now (almost) exclusively municipal responsibilities. In the sanitation sector municipal governments have also been assuming an increasing role in the water services since the end of the existing contracts with state companies. This complements their pre-existing central role in providing local sewerage services.

(ii) *Composition and evolution of expenditures*

Figure 3 shows the allocation of municipal expenditures by category at beginning and the end of the period under analysis.¹⁷ "Education and Culture" absorbed the largest share of the budget during the whole of the sample period, accounting for 27% of the budget in 1990 and 30% of the budget in 2004. In contrast to the fairly stable budget share of the "Education and Culture," the share of the budget dedicated to "Health and Sanitation" rose from 13% to 23%—a 10% point increase over this 14 year period. The losing sectors in share terms were "Housing and Urbanism" and "Other Expenditures" (which includes the remaining classes). This observation is in line with the usual evaluation of the Brazilian decentralization process, which highlights the success achieved in health/sanitation and education sectors as opposed to the limited progress made as regards municipal housing or social welfare programs (see Souza, 2001).

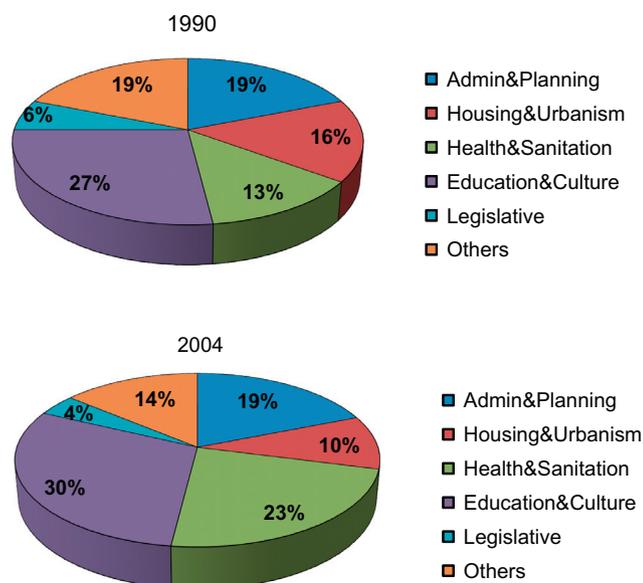


Figure 3. *Municipal expenditures by category.*

(c) *Socio-economic outcomes*

Indicators from the Brazilian Population Census and from international organizations show that, right after democratization in 1985 and prior to the first experiences with participatory budgeting, there was substantial room for improvement of social indicators on several fronts. Although access to goods and services and overall well-being varied vastly within the nation (as well as within states and even within municipalities), with the densely populated southern states performing significantly better, the level for most relevant indicators was generally low when compared to other Latin American countries. At the beginning of the 1990s the infant mortality rate was close to 50 infants for every 1,000 newborns (World Bank, 1990) with systematic high rates of morbidity and mortality from infectious and parasitical diseases (diarrhea being one of the most prevalent).¹⁸ At this time there was a major deficit in the sanitation infrastructure as less than 20% of the nation's households were connected to the public sewage network. According to the Census of 1991, there was also a serious lack of access to proper housing and education levels were extremely low as the average illiteracy for adults (over 25) and school drop-out rates were both above 20%. With such widespread deficiencies, it is not immediately obvious which investments should be prioritized. In this context, the information channels opened by participatory budgeting might serve as a useful tool for identifying what citizens in Brazilian municipalities saw as the expenditure priorities.¹⁹

(d) *Evolution and potential role of participatory budgeting*

Over the last 10–15 years, Brazil's commitment to improving educational and health outcomes yielded considerable gains. Infant mortality has decreased by almost 40% and overall mortality from infectious and parasitical diseases has been substantially reduced (World Bank, 2004). This decline in infant mortality rates is registered in the Brazilian Population Census (IBGE) data which show that the average infant mortality rate in Brazil dropped from 48 to 33 out of 1,000 newborns during 1991–2000—a decline of over 30%. During this period, there has also been a large expansion in basic school enrollments and widespread reductions in grade repetition.

The demands listed in the participatory forums suggest that improvements in basic sanitation were an early and urgent priority. Figure 4 charts the share of MCA budgets dedicated to health and sanitation separately for MCAs which adopted participatory budgeting and those that did not during 1990–2004. We can observe that there has been a gradual channeling of resources to this sector for all MCAs, but that among adopting MCAs the increase became more accentuated precisely at the point when adoption of participatory budgeting became more widespread, i.e., after 1996 (the bars in the graph indicate the percentage of municipalities that in each period were effectively using participatory budgeting, out of the total number of municipalities that have adopted participatory budgeting at some point in time during 1990–2004).

In the remainder of this paper I investigate in a more systematic manner whether this apparent divergence in budgetary behavior between adopting and non-adopting MCAs can be linked to the adoption of participatory budgeting. Following the existing consensus in the public health literature on the leading role of improved health and sanitation in reducing infant mortality, I also investigate whether the adoption of participatory budgeting can be linked to improvement in living standards along this key dimension.

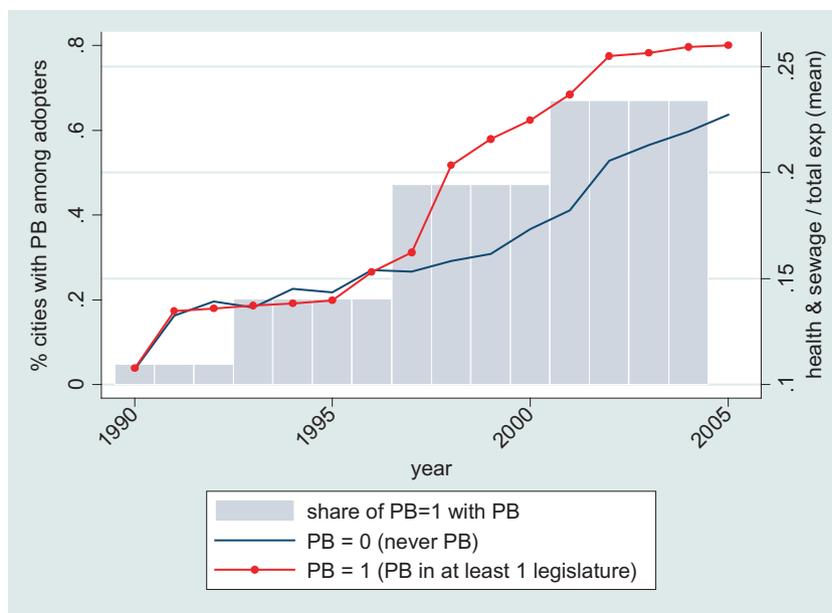


Figure 4. Evolution of municipal expenditures share in health and sanitation: adopters ($PB = 1$) vs. non-adopters ($PB = 0$).

The results presented in the following section should be interpreted as estimated average treatment effects associated with the adoption of participatory budgeting. The scarcity of quantitative data regarding the participatory experiences during the period under analysis does not allow me to exploit in the heterogeneity of participatory experiences' rules and procedures across time and municipalities with respect to elements potentially critical for the success of such experience (such as the percentage of the budget under discussion or the method used for the election of delegates/councilors).

The existing (and much more abundant) qualitative evidence on the participatory budgeting experiences in Brazil, obtained from case-studies and surveys based on a much smaller sample of adopting municipalities, has emphasized a number of critical elements for the success of a participatory budgeting experience across a range of municipalities, such as^{20, 21}:

- the political commitment of the municipal government to ensure the effective integration of projects arising from participatory forums within the overall government plan;
- the involvement of time and money by the municipal government to logistically organize forums and incentivize citizen participation;
- the proportion of the municipal budget subject to deliberation: typically the larger the proportion the greater the involvement of citizens and political agents in the participatory process, and, obviously, the greater the probability that popular demands will result in policy;
- the institutional design for the selection of citizen representatives (delegates/councilors) participation in the forums is typically preferred to a method based on secret vote for the election of representatives as the former increases accountability and civic engagement; and
- the method for aggregation of preferences: the method used to aggregate preferences is based on a set of criteria in order to promote fairness in the distribution of resources as well as to take into account the projects' technical and financial feasibility. These criteria need be as transparent as possible and also subject to popular debate, in order to avoid possible distortion of voter preferences under the guide of "technical" analysis, for instance.

These elements should be bear in mind when assessing the results presented in this paper.

(e) Data sources

The information on participatory budgeting adoption comes from the following sources: a compilation I made in collaboration with members of the Workers' Party, which provided data for the period 1986–92, surveys conducted by the "Fórum Nacional de Participação Popular" (National Forum of Popular Participation)—an association of NGOs interested in the theme of citizens' participation—for the period 1992–2000 (see [Grazia & Torres Ribeiro, 2003](#)), and data provided by [Avritzer and Wampler \(2005\)](#), for 2001–04. The survey studies are based on questionnaires sent to all municipalities in the nation and collected by local NGOs. For the years where there is overlap the data that I collected for the earlier years matched the survey based estimates.

The data set collected indicates for all Brazilian municipalities whether the municipal government engaged in any form of participatory budgeting during budgetary design and implementation. This data set refers uniquely to a listing of municipalities that in each year, from 1986 to 2004, reported using participatory budgeting, as further information regarding individual experiences is not publicly available. Therefore, it is not possible to identify potential nuances in the degree of participation mentioned above, nor the investment priorities voted for by the participants in each and every municipality. My knowledge about these issues is based on case study evidence and data published by some municipalities and NGOs for a subset of municipalities.

The financial data on public expenditures classified by the categories mentioned above and used throughout this paper are originally from the National Treasury ("Secretaria do Tesouro Nacional") and are available for every municipality since 1990. To simplify the data collection process I made use of the tabulations available from the Institute of Applied Economic Research (IPEA—"Instituto de Pesquisa Econômica Aplicada"). These data allowed me to build a panel of budgetary expenditures for 3,651 Brazilian MCAs for the period 1990–2004.

Infant and child mortality rates are the living standard or socio-economic variables of choice in the analysis. The reason for this is twofold: first, these variables are an important and globally accepted measure of the development and overall socio-economic level of a nation; and, second, infant and child mortality rates are available for all Brazilian municipalities on an early basis since the late 1970s, as opposed to other socio-economic measures, which can only be obtained at municipal level every 10 years with the population Census. The mortality rates used in econometric analysis are measured as a ratio of the number of deaths to the number of living residents in the same age group (up to 1 and up to 4 years old, respectively, for infant and child mortality). The infant and child mortality data used to evaluate health outcomes in this paper are from Datasus, the official data centre of the Brazilian Ministry of Health. Its database includes yearly mortality figures, by age group, for every Brazilian municipality since 1979, from which I compiled infant and child mortality for every MCA. The municipal infant and child resident populations, necessary to compute the mortality rates, have been available since the early 1990s from the Brazilian Institute of Geography and Statistics (IBGE).

Descriptive statistics for the variables included in the econometric analysis and for overall socio-economic and population indicators are presented in Table 4 for the cross-section of Brazilian municipalities (or, more precisely, MCAs) in 1990.

Table 4 also lists for each of the variables the mean difference between participatory budgeting adopters and non-adopters and associated standard error for the test of equality of means.

3. ANALYSIS: METHOD AND RESULTS

Participatory budgeting is expected to add two key elements to the conventional budgetary process. First, by bringing together citizens and elected politicians to discuss the allocation of public expenditures, participatory budgeting is expected to generate a pure informational gain regarding the citizens' needs and preferences. As a result, policy-makers are able provide goods and services and to develop policies that better match these preferences, as revealed in the participatory forums. This might be particularly useful in contexts characterized by several service failures and deficiencies. Second, by opening-up the "black-box" of budgetary design and implementation to the whole of society, participatory budgeting is expected to strengthen political accountability as it works as a commitment device for the elected politicians. At the end of each participatory cycle, the citizens know the amount of public money that is supposed to be spent and the exact projects or services that are supposed to result from spending that money. As a result, under the participatory budgeting model

Table 4. Descriptive statistics as of 1990

Variable	Obs	Mean (whole sample)	Mean difference (adopters—non-adopters)	Std. error
<i>Census data (1991)^a</i>				
Area (km ²)	3,650	2,336	7,221***	972.2
Resident population ('000)	3,650	40.2	228.3***	14.0
Urban population (%)	3,650	54.9	27.5***	1.5
Households w/ electricity (%)	3,650	73.4	17.8***	1.5
Households connected to public water system (%)	3,650	42.2	27.1***	1.6
Households connected to public sewage system (%)	3,650	18.0	20.5***	1.8
Average education adults more than 25 years old (no. years)	3,650	3.1	1.7***	0.1
Enrollment rate among 7–14 years olds (%)	3,650	72.7	10.4***	0.9
Illiterate population more than 15 years old (%)	3,650	30.1	-14.2***	1.1
Monthly per capita household income (R\$ 2000)	3,650	0.7	0.6***	0.03
Inequality (theil) index	3,650	0.5	0.0	0.01
Resident doctors per 1,000 inhabitants	3,650	0.3	0.5***	0.0
Graduate nurses (% total resident population)	3,650	7.2	0.0	0.0
Life expectancy	3,650	62.8	2.1***	0.2
Infant mortality (<i>UNDP</i>) ^b	3,650	49.7	15.6***	1.6
<i>Ministry of health data</i>				
Infant mortality (less than 1 year old) ^c	3,270	0.03	0.00	0.00
Child mortality (less than 4 years old) ^c	3,270	0.01	0.00	0.00
<i>Treasury data</i>				
Total per capita budgetary expenditure ^d	3,270	85.09	13.99***	4.51
Spend administration and planning (over total budget)	3,270	0.19	0.03***	0.00
Spend housing and urbanism (over total budget)	3,270	0.16	0.02**	0.01
Spend health and sanitation (over total budget)	3,270	0.11	-0.00	0.00
Spend education and culture (over total budget)	3,270	0.25	-0.02***	0.00
Spend legislative (over total budget)	3,270	0.05	-0.01**	0.00
New investment (over total budget)	3,270	0.25	-0.01	0.01

Based on minimum comparable areas (MCA's).

* Significantly different from zero at 10%.

** Significantly different from zero at 5%.

*** Significantly different from zero at 1%.

^a Census data is from 1991.

^b Infant mortality rate as defined by the UN—probability of death before reaching age 1 per 1,000 live births.

^c Mortality rate calculated as the ratio of number of deaths by the number of residents.

^d BRL at constant prices of 1994.

they can more accurately monitor and evaluate the elected politicians' actions.

These two mechanisms—the pure information mechanism and the increased accountability/commitment mechanism—have implications that can be tested empirically. The information mechanism predicts that when participatory budgeting is adopted we should be able to observe an allocation of expenditures that more closely matches the popular demands. As suggested in Section 2(a) this should imply a larger allocation of resources to the health and sanitation sector. The commitment mechanism in turn has implications not only on the allocation of public but also on the living standards resulting from the additional goods and services provided in line with the popular demands. In particular, given the association between improved sanitary conditions and infant mortality, a fall in the latter indicator might be expected.

This section investigates whether the adoption of participatory budgeting, and the associated information and accountability gains it is expected to generate, can be linked to any differentiated effect on public expenditure allocation and associated health outcomes by analyzing a panel of Brazilian MCAs during 1990–2004.

(a) *Baseline specification and results*

The econometric analysis is based on panel data regressions of the form:

$$y_{it} = \alpha_i + \gamma_t + \beta PB_{it} + \delta X_{it} + \varepsilon_{it}, \tag{1}$$

where y_{it} is the outcome variable interest in MCA i at time t and PB_{it} is a measure of participatory budgeting in the MCA at time t . PB_{it} would typically be a binary variable, indicating the use (or not) of participatory budgeting in the allocation of public resources. However, because some MCAs contain more than one municipality, this variable is the proportion of the MCA total budgetary expenditure that belongs to municipalities using participatory budget. Thus, this variable can assume any value between 0 and 1.

X_{it} is a vector of time-varying control variables including the mayor's party,²² the MCA's total budgetary expenditure²³ and state-specific time trends. The political controls allow me to ascertain whether participatory budgeting has had any effect on the outcome variables of interest which is separate

from that due to the political orientation of different mayors. The state-specific time trends, on the other hand, control for time-varying effects on the outcome variables of interest that are common within a given state, such as state-wide policies.

α_i is a MCA fixed effect to account for MCA-specific and time-invariant factors such as culture, geography or any other persistent characteristics, that might affect the outcome of interest, and γ_t is a year fixed effect that captures time-specific (but MCA-invariant) shocks, such as macro shocks, election years, or nation-wide policies.

Standard errors are heteroskedasticity-robust and clustered by MCA to deal with potential serial correlation (Bertrand, Duflo, & Mullainathan, 2004).

The baseline specification makes use of the full sample of 3,650 MCAs. The effects of participatory budgeting adoption on the allocation of public expenditures and on health outcomes are estimated both from the cross-sectional variation in adoption (adopting MCAs versus non-adopting MCAs) and from the within variation in adoption among the 228 adopting MCAs. It exploits the full sample variation in the decision to adopt participatory budgeting and in the timing and length of the adoption period.

(i) *Public expenditures*

Table 5 links the adoption of participatory budgeting to the allocation of budgetary expenditures. The left hand side variables (i.e., the explained variables) are the different classes of expenditures from the public accounts. More precisely, they measure the proportion of the MCA total budgetary expenditure ("BME") that is allocated to each one of those classes or categories. The right hand side variables are as described above. For brevity, out of the existing 16 expenditure categories that can be tracked across the 1990–2004 period, only the most important in size are shown in the table.²⁴

The findings in the table suggest that there are significant differences in the allocation of expenditures associated with adoption of participatory budgeting. MCAs with a greater share of participatory budgeting spend a larger proportion of their total budget on health and sanitation (see column 2), at the expense of education and culture (column 4), administration and planning (column 1), and housing and urbanism (column 3). The estimated effect suggests an average difference of above 3% points, between an MCA without participatory

Table 5. *The effect of participatory budgeting on the allocation of public expenditures*

OLS—fixed effects	Administration and planning/BME (1)	Health and sanitation/BME (2)	Housing and urbanism/BME (3)	Education and culture/BME (4)	Legislative/BME (5)	Others/BME (6)
PB ^a	-0.010** [0.005]	0.033*** [0.005]	-0.015*** [0.004]	-0.012*** [0.004]	-0.003 [0.002]	0.007 [0.004]
Control variables ^b	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes
MCA effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	47,707	47,707	47,707	47,707	47,707	47,707
No. categories (MCA's)	3,650	3,650	3,650	3,650	3,650	3,650
R-squared	0.43	0.50	0.46	0.49	0.30	0.50

Robust s.e. in brackets, clustered at "MCA" level.

The dependent variables measure the proportion of the MCA total public budgetary expenditure ("BME") allocated to each one of the categories.

* Significant at 10%.

** Significant at 5%.

*** Significant at 1%.

^a PB represents the % of budget within the MCA decided in municipalities with participatory budgeting. Typically this is a binary variable, but since some MCAs contain more than one municipality, it can assume any value between 0 (for years when participatory budgeting was not used anywhere in the MCA) and 1 (for any year when the whole MCA is using participatory budgeting).

^b Control variables include: political party of the mayor, MCA total budget, state-specific time trend.

Table 6. *The effect of participatory budgeting on per capita expenditures*

OLS—fixed effects	Total budgetary expenditure <i>pc</i>	Exp. on administration and planning <i>pc</i>	Exp. on health and sanitation <i>pc</i>	Exp. on housing and urbanism <i>pc</i>	Exp. on education and culture <i>pc</i>	Exp. on legislative <i>pc</i>	Other Exp. <i>pc</i>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
PB ^a	-0.524 [5.492]	-1.807 [1.454]	5.515*** [1.918]	-4.411*** [1.370]	-2.073 [1.866]	-0.239 [0.623]	2.491 [1.725]
Control variables ^b	Yes	Yes	Yes	Yes	Yes	Yes	Yes
year effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
MCA effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	34,798	34,798	34,798	34,798	34,798	34,798	34,798
No. categories (MCA's)	3,650	3,650	3,650	3,650	3,650	3,650	3,650
R-squared	0.83	0.73	0.65	0.62	0.79	0.48	0.50

Robust s.e. in brackets, clustered at "MCA" level. Per capita expenditures, at constant prices, for the period 1994–2004 (after introduction of Real). The dependent variables measure MCA per capita expenditures.

* Significant at 10%.

** Significant at 5%.

*** Significant at 1%.

^a PB represents the % of people within the MCA living in municipalities with participatory budgeting.

^b Control variables include: political party of the mayor, state-specific time trend.

budgeting and an MCA that adopts participatory budgeting, of the budget share allocated to health and sanitation, which is as much as 30% of the variable's sample mean at the beginning of the period (see Table 4).

Interestingly, it seems that this incremental effect does not follow from a superior financial capacity of adopting MCAs. When the same regression is estimated in per-capita terms instead of budget shares (i.e., using per capital expenditures instead of expenditure shares) as shown in Table 6 the pattern of coefficients for the key heads of budgetary expenditure is highly similar to that in Table 5, but participatory budgeting appears to be budget neutral as the per capita total budgetary expenditures are not significantly different between adopting and non-adopting MCAs.

(ii) Health outcomes

Table 7 looks at the link between the adoption of participatory budgeting and infant and child mortality. As before, the right hand side variable of interest ("PB") measures the presence of participatory budgeting within the MCA. The left hand side variables are the infant and child mortality rates at MCA level, which are measured as the ratio of the number of deaths to the number of living residents of age up to 1 and 4 years old in the MCA, respectively.

The results, in columns 1 and 2 of Table 7, suggest the existence of a negative association between infant and child mortality rates and the use of participatory budgeting. Moreover the magnitude of the estimated effects of participatory budgeting adoption on mortality reduction is considerable. They represent about 9% and 7% of the infant and child mortality rates sample means in 1990, respectively (see Table 4).

It is likely that these effects on the mortality rates arise from the greater expenditure on health and sanitation associated with participatory budgeting. To investigate whether this is the case, I also estimate the following regression that includes, in addition to the variables in the model above, an interaction term between the expenditure share on health and sanitation and the adoption of participatory budgeting:

$$y_{it} = \alpha_i + \gamma_t + \beta_1 PB_{it} + \beta_2 ExpShare(Health\&sanitation)_{it} \\ + \beta_3 PB * ExpShare(Health\&Sanitation)_{it} + \delta X_{it} + \varepsilon_{it},$$

where the coefficient β_3 captures the differential impact of this category of expenditures between MCAs with and without participatory budgeting.

The results in columns 3 and 5 of Table 7 display, not surprisingly, a negative association between having a greater proportion of the budget spent on health and sanitation and mortality rates. This estimated effect persists when a measure for the presence of participatory budgeting and its interaction with the health and sanitation budget share is included (columns 4 and 6). More importantly, in columns 4 and 6 we see that allocating more resources to health and sanitation (out of the total budget) seems to have a significantly larger effect on infant and child mortality rates when it appears together with the use of participatory budgeting. The estimated β_3 coefficient is negative and significant and three times larger than the estimated β_2 . This suggests that there is an efficiency gain from introducing participatory budgeting: every Real allocated to the health and sanitation sector has a larger impact on infant and child mortality when it is introduced in an MCA which has adopted participatory budgeting relative to one that has not.

It is important to note that the effects discussed above, both for the public expenditures and the health outcomes are estimated controlling for the political party of the governing mayors as well as state-specific time-trends. Given that in the period under analysis approximately half of the municipalities using participatory budgeting were governed by Worker's Party mayors, the inclusion of the political control allowed me to test whether or not participatory budgeting is simply a proxy for the presence of this party and its particular model of government, or alternatively, produces effects that are independent of the political orientation of the governing mayor. The results in both Tables 5–7 suggest that adoption of a system of local government based on participatory budgeting produces effects on public expenditures and health outcomes that are independent of the political orientation of a given political party. Moreover, these effects appear to be also beyond and independent from any state-specific policy that might be in place during the period under analysis and influence the allocation of the public budget or the trend on the infant/child mortality rates. This is important given that during the period under analysis, and particularly from the mid-1990s onwards, state public administrations went through major reforms which might have generated effects on living standard outcomes similar to those described above for participatory budgeting.²⁵

A plausible scenario is that demand for basic health and sanitation is high in a number of Brazilian MCAs, however the adoption of participatory democracy is needed to align

Table 7. *The effect of participatory budgeting and health and sanitation expenditures on mortality*

OLS—fixed effects	Infant mortality	Child mortality	Infant mortality	Infant mortality	Child mortality	Child mortality
	(1)	(2)	(3)	(4)	(5)	(6)
PB ^a	-0.002*** [0.001]	-0.0004*** [0.000]		0.001 [0.001]		0.000 [0.000]
Exp on health and sanitation/BME			-0.005*** [0.002]	-0.004** [0.002]	-0.001** [0.000]	-0.001** [0.000]
(Exp on Health & Sanitation/BME) * PB				-0.012** [0.005]		-0.003*** [0.001]
Control variables ^b	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes
MCA effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	47,707	47,707	47,707	47,707	47,707	47,707
No. categories (MCA's)	3,650	3,650	3,650	3,650	3,650	3,650
R-squared	0.44	0.48	0.44	0.45	0.48	0.48

Robust s.e. in brackets, clustered at "MCA" level.

Mortality rates calculated as the ratio of number of deaths by the number of residents in the relevant age group.

** Significant at 5%.

*** Significant at 1%.

^a PB represents the % of budget within the MCA decided in municipalities with participatory budgeting.

^b Control variables include: political party of the mayor, MCA total budget, state-specific time trend.

the preferences of citizens and politicians. In effect participatory democracy represents a mechanism for unlocking this demand and for allowing for it to be expressed in the actual public policies which are implemented at the MCA level in Brazil. Just electing mayors of a particular political hue is not sufficient to achieve this. What we are likely observing is the effect of changing the system of local government as opposed to changing the political orientation of the governing mayor. The fact that this may be a system effect is encouraging as it suggests that participatory democracy may be successfully adopted and implemented by a range of political parties as indeed has been the case in Brazil and elsewhere. In essence, it represents a system for potentially improving the aggregation of citizens' preferences in the formulation of public policy at the local level.

(b) *Robustness tests*

(i) *Nearest neighbors*

As discussed above the MCAs which adopted participatory during 1990–2004 do not seem to represent a random sample of the 3,650 Brazilian MCAs under analysis. The data from the Brazilian Census 1991 in Table 4 show that MCAs which adopted participatory budgeting tend to be, on average, richer, more educated, more urbanized, more densely populated and to have better housing infrastructure than non-adopting MCAs.²⁶ There is a concern that the differences between these two groups which pre-date the adoption of participatory budgeting may both affect the propensity to adopt and also influence public expenditure and health outcomes.

Brazil's huge territorial diversity in terms of socioeconomic development allows me to match adopting MCAs to non-adopting MCAs that are comparable in indicators considered relevant for the outcomes under analysis. I use two variables in this matching: per capita household income levels and average education among adults at the beginning of my sample period, as these are likely to affect both the propensity for an MCA to adopt participatory budgeting and the public expenditures and health outcomes under analysis. Separate matching exercises are carried out for each of these variables. In this exercise, all 3,650 MCAs are ranked based on the level of the two 1991 indicators and for each adopting municipality its nearest neighbor non-adopting counterpart is selected. This approach

produces a control group of non-adopting MCAs whose distribution of covariates (i.e., per capita household income levels and average education) is similar to that of the treated group of adopting MCAs. This considerably restricts the sample I have available for estimation but implies that I am comparing adopting MCAs to non-adopting MCAs that are similar in terms of these two indicators at the beginning of my sample period.

Panels A and B of Table 8 present the estimation results of the baseline equation, where the nearest-neighbor is defined according to, respectively, the MCA per capita household income level and the MCA average education level among adults over 25 years old in 1991. Columns 1–6 provide the estimated effects of participatory budgeting on public expenditures and columns 7 and 8 on infant and child mortality.

The main results I observe for the full sample go through for the restricted matched samples when I ex-ante match on either per capita household income or adult education level. More precisely, the estimation results suggest (i) an average difference of approximately 2% points on the budget share allocated to health and sanitation between an MCA that adopts participatory budgeting and an MCA without participatory budgeting (which is as much as 20% of the variable's sample mean at the beginning of the period, in 1990, for this sub-sample of "matched" MCAs), and (ii) an average reduction in infant mortality of approximately one infant for every 1,000 residents in the relevant age group (which is as much as 5% of the infant mortality rate sample means at the beginning of the period).

(ii) *Adopters only*

The nearest neighbors approach above relies on the assumption that selection into treatment (i.e., adoption of participatory budgeting) is exclusively based on observables. A separate and potentially more serious concern is that unobservable factors might be at the basis of the ex-ante differences between MCAs, conditioning both the outcome variables of interest and the decision to adopt participatory budgeting. Once again the timing and duration of the participatory budgeting adoption across the Brazilian municipalities provides us with a "natural" setting to address this problem. By taking advantage of the variation in the time of adoption I am able to restrict the analysis to the group of adopters (i.e., the 228 MCAs that have adopted participatory budgeting at least

Table 8. *Nearest neighbors*

OLS—fixed effects	Administration and planning/BME (1)	Health and sanitation/BME (2)	Housing and urbanism/BME (3)	Education and culture/BME (4)	Legislative/ BME (5)	Others/ BME (6)	Infant mortality (7)	Child mortality (8)
<i>A-Household per capita income</i>								
PB ^a	-0.007 [0.005]	0.020*** [0.006]	-0.012** [0.004]	-0.005 [0.004]	-0.003* [0.002]	0.008 [0.005]	-0.001* [0.001]	-0.0002 [0.0001]
Control variables ^b	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
MCA effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	6,248	6,248	6,248	6,248	6,248	6,248	6,248	6,248
No. of categories (MCA's)	453	453	453	453	453	453	453	453
R-squared	0.50	0.59	0.53	0.49	0.36	0.54	0.46	0.50
<i>B-Average education level</i>								
PB ^a	-0.006 [0.005]	0.019*** [0.005]	-0.012*** [0.005]	-0.004 [0.004]	-0.003** [0.002]	0.007 [0.005]	-0.001* [0.001]	-0.0002 [0.0002]
Control variables ^b	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
MCA effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	6,100	6,100	6,100	6,100	6,100	6,100	6,100	6,100
Nr of categories (MCA's)	440	440	440	440	440	440	440	440
R-squared	0.52	0.60	0.54	0.50	0.37	0.54	0.47	0.50

Robust s.e. in brackets, clustered at MCA level.

Sample restricted to 228 adopting MCA's and their nearest control neighbors based on household per capita income (panel A) and on average number of years of education in 1991 (panel B).

* Significant at 10%.

** Significant at 5%.

*** Significant at 1%.

^a PB represents the % of budget within the MCA decided in municipalities with participatory budgeting.

^b Control variables include: political party of the mayor, MCA total budget, state-specific time trend.

for one legislative period during 1990–2004)²⁷ and can then estimate, within this group, the effect of participatory budgeting. With such a procedure I am able to “control” for whatever particular non-observable factors the set of adopting municipalities share that may have affected both the decision to adopt participatory budgeting, the allocation of public expenditures and associated living standard outcomes.

Table 9 presents the estimation results of the baseline equation after imposing this sample restriction. Columns 1–6 provide the estimated effects of participatory budgeting on public expenditures and columns 7 and 8 on infant and child mortality.

Again the pattern of results I observe for the full sample holds with the restricted sample of municipalities that adopted participatory budgeting during my sample period. More precisely, with this “adopters-only” specification the estimation results suggest (i) an average increase of 1.2% points in the budget share allocated to health and sanitation once the MCA adopts participatory budgeting (which is about 11% of the “adopters-only” sub-sample average budget share in health and sanitation at the beginning of the period), at expenses of a reduction of the share of the public budget directed to housing and urbanism expenditures by around 1.2% points; and (ii) an average reduction in infant mortality of approximately one infant for every 1,000 resident up to 1 year old (which is about 5% of this sub-sample average infant mortality rate in the period).

(iii) *Different trends by socio-economic Level*

Finally, an additional concern is that the differences between adopting and non-adopting MCAs shown in Table 4 MCAs might not only affect the propensity of adopting participatory budgeting, but might also place these two groups of MCAs in different trends of public spending and infant/child mortality rates during the period under analysis. To address this

concern, I add to the baseline specification a time trend interacted with the different levels of socio-economic variables of interest at the beginning of the period under analysis, in the following manner:

$$y_{it} = \alpha_i + \gamma_t + \beta_1 PB_{it} + \delta X_{it} + \phi T * L_{i91} + \varepsilon_{it},$$

where T is a time trend, and L_{i91} is an indicator variable for high/low level MCA along the socio-economic variable of interest. L_{i91} is defined according to whether MCA i was above/below the mean level of that socio-economic variable of interest in the 3,650 MCAs in 1991. In line with the nearest neighbors approach above I chose the per capita household income levels and average education among adults as the relevant socio-economic variables at the baseline. Table 10 presents the estimation results of the equation above using the full sample of 3,650 MCAs.²⁸

The estimated ϕ coefficient appears significantly associated with a greater spending in health and sanitation, a lower spending in housing and urbanism and education and culture, and with a lower infant mortality rate. This suggests that MCAs with higher average income or education at the beginning of the period under analysis, do tend to allocate a greater proportion of their budgets to health and sanitation and register lower rates of infant and child mortality rates over time. However, the estimation results still suggest that there are significant differences in these outcomes variables associated with the adoption of participatory budgeting. In fact, the findings in Table 10 look fairly similar to those presented using the baseline specification in Tables 5 and 7 for the main coefficients of interest.

Overall, the baseline results and the associated robustness tests suggest that adoption of participatory budgeting by Brazilian municipalities results in a change in the allocation of public expenditures toward health and sanitation, in line with the popular demands expressed in the participatory forums.

Table 9. *Adopters only*

OLS—Fixed effects	Administration and planning/BME (1)	Health and sanitation/BME (2)	Housing and urbanism/BME (3)	Education and culture/BME (4)	Legislative/ BME (5)	Others/ BME (6)	Infant mortality (7)	Child mortality (8)
PB ^a	-0.002 [0.005]	0.012** [0.005]	-0.012** [0.005]	-0.003 [0.004]	-0.004** [0.002]	0.009* [0.005]	-0.001* [0.001]	-0.0002 [0.0002]
Control variables ^b	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
MCA effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,229	3,229	3,229	3,229	3,229	3,229	3,229	3,229
No. categories (MCA's)	228	228	228	228	228	228	228	228
R-squared	0.51	0.62	0.58	0.49	0.45	0.56	0.55	0.55

Robust s.e. in brackets, clustered at MCA level.

* Significant at 10%.

** Significant at 5%.

*** Significant at 1%.

^a PB represents the % of budget within the MCA decided in municipalities with participatory budgeting.

^b Control variables include: political party of the mayor, MCA total budget, region-specific time trend.

Table 10. *Controlling for different trends by socio-economic level*

OLS—fixed effects	Administration and planning/BME (1)	Health and sanitation/BME (2)	Housing and urbanism/BME (3)	Education and culture/BME (4)	Legislative/ BME (5)	Others/ BME (6)	Infant mortality (7)	Child mortality (8)
PB ^a	-0.010** [0.005]	0.031*** [0.005]	-0.014*** [0.004]	-0.011*** [0.004]	-0.003** [0.002]	0.008* [0.004]	-0.002*** [0.001]	-0.0003** [0.0001]
Control variables ^b	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
MCA effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	47,707	47,707	47,707	47,707	47,707	47,707	47,707	47,707
No. categories (MCA's)	3,650	3,650	3,650	3,650	3,650	3,650	3,650	3,650
R-squared	0.43	0.50	0.46	0.49	0.30	0.50	0.44	0.48

Robust s.e. in brackets, clustered at MCA level.

* Significant at 10%.

** Significant at 5%.

*** Significant at 1%.

^a PB represents the % of budget within the MCA decided in municipalities with participatory budgeting.

^b Control variables include: political party of the mayor, MCA total budget, state specific time trend, baseline average income specific time trend.

Moreover, the changes in the infant and child mortality rates associated with the adoption of participatory budgeting strongly suggest that the expansion in health and sanitation spending within adopting municipalities results in substantial declines in these important health and living standards indicators.

These latter improvements are likely to have come about because participatory budgeting led to more attention being paid to health and sanitation in the overall of public expenditures. Further, in MCAs that adopted participatory budgeting each Real spent on health and sanitation seemed to have a larger impact in reducing infant and child mortality than in non-adopting MCAs. This is possible not only because participatory budgeting narrows down the information asymmetries between citizens and elected politicians, but also because it promotes a greater monitoring on the projects that integrate the public budget.

It is also important to add that the existing statistical evidence does not support the hypothesis of a possible worsening in other living standard indicators associated with the adoption of participatory budgeting. Data from the 2000 demographic Census show that at this date there were statistically significant differences between adopting and non-adopting MCAs across the socio-economic variables listed in Table 4. Adopting MCAs still performed on average significantly better than non-adopting MCAs across the range of socio-economic indicators by 2000,

even though for the vast majority of the indicators (e.g., education, life expectancy, per capita income, most household infrastructure) the gap between adopters and non-adopters had narrowed down during 1991–2000. The one exception is actually with respect to the percentage of the households in the MCA connected to the public sewage network, for which the gap between adopting and non-adopting MCAs has actually widened during 1991–2000. This evidence increases my confidence that the adoption of participatory budgeting does skew public expenditures toward sanitation, in line with the citizen's demands at the participatory forums. Furthermore, even though this compositional change in the public expenditures takes place at the expense of (mainly) expenditures in housing and urbanism and education and culture, it is important to see that we do not observe any evidence of worsening of outcomes associated with these sectors for the adopting MCAs.²⁹ This suggests that participatory budgeting might be an important tool in reducing inefficiency/waste in the allocation of public expenditures.

4. CONCLUSION

The adoption of participatory budgeting has been a highly popular reform at the municipal level in Brazil. The perceived success of participatory budgeting in key municipalities like

Porto Alegre led to its widespread adoption across Brazilian municipalities and stimulated the development of similar budgeting programs across the developing and also the developed world.

However, very little evidence exists of its effects in Brazil, or elsewhere, on local finances and living standards. Despite all the praise and endorsement received from international organizations such as the United Nations (whose city development program praised participatory budgeting as an important innovative experience in city management) and the World Bank (which is a strong advocate of the relevance of community participation in improving development outcomes), whether participatory budgeting is effective in improving political accountability and government responsiveness is an open question.

To fill this important gap in the literature I have put together a municipality panel data set covering the whole of Brazil for the period 1990 to 2004. This data set includes municipal level information on adoption of participatory budgeting, public expenditures and health outcomes. Using this data set I identify the effects on public expenditure and associated living standard outcomes associated with adoption of participatory budgeting by exploiting the rich variation in time

of adoption and duration of adoption both within and across municipalities across time.

These results suggest that adoption of participatory budgeting at the municipal level is associated with increased expenditure on basic sanitation and health services (such as water and sewage connections, waste removal), an early and urgent demand in the participatory forums. These services accordingly take up an increased share of total municipal budgets. Associated with this reallocation of resources at the municipal level we also observe a significant reduction in the infant mortality rates among municipalities that adopted participatory budgeting. Participatory budgeting is no *magic bullet*, though (Boulding & Wampler, 2010). Simple adoption of this model of public budgeting does not translate into automatic welfare improvements. There is substantial evidence in the literature that participatory budgeting needs not only financial resources (to back the investment projects) but also, and crucially, political commitment from the local governments (Avritzer, 2010). However, the results presented in this paper, as an average effect of participatory budgeting, do suggest that this reform appears to have brought government functioning closer to citizens' preferences and to have resulted in improvements in living standards along at least one key dimension.

NOTES

1. For the city of Porto Alegre, for instance, the World Bank (Social Development Notes, Note No. 71, March 2003) reports that during 1989–96 the proportion of households with access to water services rose from 80% to 98%, the percentage of the population served by the municipal sewage system increase from 46% to 85%, the number of children enrolled in public schools doubled, and on average an additional 30 km of roads were paved every year.

2. This budgetary model can be dropped at any point by the adopter or one of the following mayors (more details on participatory budgeting functioning and variation in adoption are provided later).

3. To be precise, in my econometric analysis, the unit of observation is what I will designate by “minimum comparable area” (MCA), which I can track across the 1990–2004 period. The logic behind the use of MCA-level data and the methodology used for its calculation are explained in the next section.

4. These results are in line with recent estimates for the impact of improved sanitary conditions on infant mortality in Brazil in Soares (2007) and Gamper-Rabindran, Khan, and Timmins (2008).

5. There are well-known examples of these corruption scandals at different levels of government in Brazil. At federal level, for instance, they led to the impeachment of a President, in 1992, and to the resignation and expulsion of several members of the Brazilian Congress and of President Luiz Inácio da Silva's former cabinet in more recent years. At municipal level Trevisan (2003) provides a good account of different forms of corruption found in Brazil.

6. For administrative purposes municipalities can divide their territory into districts and sub-districts, as happens in São Paulo. These subdivisions have no political or financial independence from the municipal administration, though.

7. See article 14 in the Brazilian Constitution and Baiocchi (2001).

8. The constitutional text goes beyond the encouragement of new forms of popular participation. Article 26, for example, requires the participation of civic associations in city policies. Articles 204 and 227 require popular participation in the formulation and control of health and social security policies (Avritzer, 2006). Several governments have created these popular councils for issues of health, education, housing, and other fields. These popular councils differ from the institution under analysis in this chapter as they are not open to all citizens but rather made up of representatives of associations, which are “bequeathed the right to participate and that rarely have any decision-making power” (Abers, 1998).

9. In some municipalities, the participatory mechanisms also affect other spending categories and even the revenue collection. This usually happens when participatory budgeting has been in place for a longer period.

10. The purpose here is not to give a detailed description of a participatory budgeting process, especially given its specificity in each one of the adopters, but rather to underline the common features that constitute the essence of this participatory innovation in Brazil. For case studies with a thorough description of participatory budgeting (gross majority with reference to Porto Alegre) see Santos (1998) or Abers (1996), Abers (2000).

11. Only the registered inhabitants of the region have the right to vote. In order to promote participation, it is also usually the case that these neighborhood representatives are elected proportionally to the number of participants at a meeting.

12. For example, if municipality A splits into two municipalities (say B and C) in 1990 then, in order to have a comparable geographical unit across time, data from municipalities B and C will be added up for the years after 1990.

13. NGO Cidade: [accessed July 2012].
14. For that reason the expenditures in street paving usually fall under the “Health and Sanitation” class of the municipal accounts.
15. For its own nature, and different from the water services, during the military period the maintenance and enlargement of the sewage systems was kept mostly as a municipal responsibility. The delivery rates for this service (i.e., number of houses connected to public sewerage network) were in any case extremely low at the end of the dictatorship.
16. The level of fiscal decentralization in Brazil is considerably high. According to the BNDES (the Brazilian Development Bank) the transfers from central government amount on average to USD 35 billion per year, which represents approximately 15% of the federal government’s total revenue.
17. Brazilian public accounts have, by law and since 1990, assigned all the budgetary expenditures by “function”, depending on the governmental service/responsibility they refer to. As a result, a total of 16 expenditure categories can be effectively tracked across the whole of the 1990–2004 period, including: “Administration and Planning”, “Legislative”, “Judiciary”, “National Security”, “External Relations”, “Social Assistance”, “Health and Sanitation”, “Labour”, “Education and Culture”, “Housing and Urbanism”, “Agriculture”, “Industry”, “Services”, “Communications”, “Energy”, and “Transport”.
18. See, for instance, Simões (2002) or Sastry and Burgard (2004).
19. Verba, Scholzman and Brady (1995) highlight the relevance of this political participation by observing that “From the electoral outcome alone, the winning candidate cannot discriminate which of dozens of factors, from the position taken on a particular issue to the inept campaign run by the opposition. . . , was responsible for the electoral victory” (as quoted by Besley et al., 2005).
20. See Wampler (2003), Avritzer and Wampler (2005) and Avritzer (2010) for a review of the results and explanatory factors behind the success or failure of different participatory experiences across Brazil.
21. Note that “success” in this literature is assessed from a broader perspective than that of the analysis presented in this paper and includes not only improvement in living standards, but also democracy deepening, empowerment or increased redistributive justice.
22. More precisely, I control for the mayor’s party by adding a vector of variables for the percentage of the MCA’s budget which is under control of a mayor from party p . Given the large number of political parties in Brazil, I focus on the eight largest parties as defined by the performance in the last decade’s municipal elections. Therefore, $p = \{PMDB, PSDB, DEM, PL, PPB, PTB, PT, PDT\}$. Parties that merged or acted in coalition with any of these eight parties over the period under analysis are also taken into account. The remaining parties are the omitted category.
23. The total budget is at (constant) 1994 prices.
24. In Table 5 other expenditure categories are included under the header “Other”, which includes expenditures in “Social Assistance”, “External Relations”, “National Security”, “Judiciary”. “Labor”, “Communications”, “Energy”, “Transport”, “Agriculture”, “Industry” and “Services”.
25. The reform of the public administration was initiated in the mid-1990s (by Min. Bresser Pereira) and included, among other objectives, a greater emphasis on transparency and citizen participation in public affairs. The reform was aimed at different tiers of the public administration (including municipal governments) but its effective implementation in the field seems to have been far from homogeneous across the country both in its timing and effectiveness (Abrucio & Gaetani, 2006). Although the adoption of participatory budgeting by municipal government might be facilitated by this reformist trend, participatory budgeting seems to generate effects beyond those potentially associated with the reforms. In fact, the adoption of participatory budgeting preceded the major wave of reforms initiated in the mid-1990s (and effectively not implemented in the field before the late 1990s–early 2000s), and the results presented in Tables 5–7 do go through even when the sample is restricted to years before 1996 (i.e., to the first three waves of participatory budgeting adoption).
26. MCA level data on these variables are not available on a yearly basis which constrains my ability to include them in the panel specifications reported above. The Brazilian Demographic Census, which produces socioeconomic data for all municipalities in the country, are only available every 10 years.
27. The legislative periods are bounded by the mayoral elections, which take place every 4 years.
28. For brevity only the estimation results using the average per capita household income level at the baseline are shown. Using alternatively the average education level among adults at the baseline as the relevant socioeconomic variable produces the same results. In fact, the results are robust to the selection of alternative socio-economic variables among the ones presented in Table 4, which is unsurprising given the high level of correlation between them.
29. These results are in line with those presented in World Bank (2008) which showed that participatory budgeting in Brazilian municipalities is significantly and positively associated with improvements in housing infrastructures (i.e., access to plumbing and piped water) and with improvements in poverty rates. This World Bank study is however based on a much smaller sample than the one used in this paper as it only covers the period up to 1996.

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www.elsevier.com/locate/worlddev

<http://dx.doi.org/10.1016/j.worlddev.2013.01.001>

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SPECIAL ISSUE OF WORLD DEVELOPMENT ON DECENTRALIZATION AND GOVERNANCE

The Editor-in-Chief of World Development and Guest Editor of this Special Issue would like to thank the following for their expert advice during the preparation of this collection:

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