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Instrumental Incoherence in Institutional Reform:

Jean-Paul Faguet and Mahvish Shami

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Department of International Development

London School of Economics and Political Science

Houghton Street

London

WC2A 2AE UK

Tel: +44 (020) 7955 7425/6252

Fax: +44 (020) 7955-6844

Email: d.daley@lse.ac.uk

Website:

INSTRUMENTAL

1. Introduction

Why do elected leaders undertake institutional reforms? By *institutional reforms*, we mean changes to the ‘rules of the game’ (North 1990) that determine how collective decisions are taken, and resources raised and expended for public purposes. Why do senior politicians choose to modify the structures and patterns of governance by which a nation is run? Changes of this type, for example to voting rules (e.g. first past the post vs. proportional representation), presidential vs Westminster-style legislative and executive branches, or federal vs. unitary states, have deep, long-term consequences across a wide array of public and private activities, and policy areas, most of which are unforeseeable at the point of reform. That consequences should be so broad and deep is implicit in the ‘rule of the game’ concept of institutions. By contrast, politicians’ time horizons and incentives are famously short-term (Pierson 2004), prioritizing immediate electoral and transactional advantages over uncertain payoffs further in the future. The reasons for this are straightforward: in a democracy, elected politicians must win the next election or cease being politicians; in authoritarian regimes, politicians on the losing side of important decisions or transactions quickly lose relevance. And yet politicians persist in acting to change institutions. Why?

Institutional reform falls into an analytical category marked by serious *time-horizon mismatch* between the incentives of the reformers and the effects of the reforms. This is broadly related to the time inconsistency problem originally analyzed by Kydland and Prescott (1977), which produced a simple but powerful insight: it can be beneficial for policymakers to announce in advance a policy they expect to influence private agents’ decisions. But once private agents have made their decisions, it is in policymakers’ interests to renege and act differently. Over time, private agents see that policymakers are unreliable, and distrust any policy announcement. In such a context, it can be in everyone’s interest – including policymakers – to commit to a fixed policy rule at the expense of their own discretion. This is the crux of the argument behind, for example, independent central banking, and laws prohibiting ransom payments to terrorists.

The problem of time inconsistency in policy choice has been broadly analyzed by the economics literature, and is now well understood.⁴ We argue that it is but a special case of the broader problem of time horizon mismatch, where the incentives of agents pursuing a change, and the effects of that change, are temporally dissimilar, and at the limit can be wildly asymmetric. Indeed, where institutional reform is concerned, the problem is far more powerful than that analyzed by Kydland and Prescott, because – unlike inflation or the fate of hostages – the reform may have no agreed long-term objective, and the full effects of the change flow over far longer time periods, implying much greater uncertainty. Lastly, the

⁴ Good overviews of this and related topics are provided in Fischer (1980) and Lucas (1986), although this is just the tip of the iceberg.

leaders' motivations will provide insight into our second key question: Why do some reforms succeed while others fail? We define *success* as substantive change that persists over time, not just on paper in a law or decree, but as observable political economy facts: political and administrative changes bed down, and new patterns of governance emerge. *Failure*, by contrast, is when such changes wash away, reform is overturned, and resources and authority are recentralized.

We build most obviously on the work of Eaton (2004), who argues that decentralization is often driven by short-term political calculations, and is a convenient means for achieving a remarkably wide range of ends; and also Boone (2003), who analyzes decentralization as a nuanced political strategy for state-building in West Africa. We incorporate insights from both into a broader, consistent framework built around a simple game-theoretic model focusing on the incentives and interactions amongst ruling and opposition parties and civil society over multiple periods. Our framework analyzes decentralization as a solution to specific, well-defined, often short-term political problems. But the solution leaders reach for is a structural one, which, if successful, will have effects that are deep, long-term, and unpredictable on politics, governance, and society. This framework incorporates as a special case O'Neill's (2003) insight that parties decentralize when their subnational electoral prospects outshine their national prospects; and also Dickovick's (2011) insight that leaders decentralize when their parties are weakening, and recentralize when they are strong.

Section 2 develops the model, and sections 3 and 4 test it on detailed, contrasting case studies of decentralization in Bolivia and Pakistan. At first glance, this may seem an odd choice of countries. But on closer inspection, surprising similarities make them particularly rich, contrasting cases of reform. Both are lower middle income countries⁶ with highly diverse populations and geographies, the latter of roughly similar size. Both have suffered significant political instability marked by weak democracies and frequent coups. In both, decentralization was contentiously prominent in the policy debate since at least the 1950s. And both pursued significant decentralization reforms in the 1990s. We describe the

2. Theory

In the interests of analytical clarity and consistency, we place the decision to decentralize in a simple game theoretic framework, focusing on the incentives and interactions between the main actors in any decentralization: ruling and opposition parties, and civil society, over two periods, which can be thought of as electoral cycles (or periods in office). The version of the model presented here focuses on decentralization, in accordance with our evidence. But the model is easily generalizable to a much broader set of institutional reforms with long-term effects, undertaken on the basis of short-term political calculations. We consider three cases, corresponding to distinct types: (a) Reform intended primarily as a device to undermine opposition to the regime, which we call *Stifling the opposition*; at the other extreme, (b) Reform designed to promote citizen participation in competitive (local) governments, which we call *Participative local governance*; and (c) A middle road, reflecting the extensive political compromises required to pass such a reform, which we call *Muddling through*. It is presentationally convenient to discuss the three cases in this order: a, c, b.

The model

Consider a country with centralized government and three relevant actors: a ruling party, an opposition party, and civil society. The ruling party is currently in office, and the opposition seeks to gain power. Civil society, which mostly engages the state through informal clientelistic networks, is indifferent between ruling and opposition parties. The ruling party, when faced with falling popularity, can try to extend its term in office by decentralizing power to the local level. Decentralization can be designed so as to achieve either of two broad goals: (a) improving governance, and so winning civil society support; or (b) suppressing political competition by undermining the opposition. The two benefits are strict trade-offs. They cannot be jointly maximized because improving governance requires increasing political competition and citizen participation, which tends powerfully towards improved accountability (Faguet 2012, Putnam 1993). This is fundamentally inc

the state.⁷ By strengthening these networks, the opposition can persuade citizens to approach informal patrons for their needs, rather than local government officials⁸. If successful, informal mobilization undermines the ruling party's reform, as it steers c

J if the opposition opts to strengthen its networks. But informality is not costless. Citizens face a cost of Z if there is an operating, formal political market and they opt out of it. If, instead of strengthening informal networks, the opposition decides to participate in local government, civil society receives utility T_O from increased political competition. In round 2, citizens receive benefit X_K if decentralization is retained, but receive disutility R_{dis} if the opposition tries to discard it. X_K captures the advantage of maintaining the status quo; we assume the country is unable to return to the pre-reform equilibrium, requiring costly transition to a new centralized system. Protesting for the system's continuity incurs cost P. As with the opposition's utility function, round 2's payoffs are discounted by δ .

Case 1: Stifling the opposition

The value of payoffs, and the resulting equilibria, depend on the type of reform the ruling party enacts. The ruling party can benefit from reform by either being seen to improve governance, or undermining the opposition's power base. Case 1 assumes that the ruling party offers a reform designed

Table 1: Payoffs in Case 1

Ruling Party	Opposition Party	Civil Society
<p>$B=10, C_D=7,$ $(B - C_D) = 3$</p> <p>If the opposition rejects reform. $OP=10$</p> <p>If the opposition participates. $OP=1$</p> <p>If the opposition plays the game informally. $OP=5$</p>	<p>$C_O = 5$</p>	<p>If it participates in local government. $B_p=2, C_l=10,$ $(B_p-C_l)=-8$</p> <p>If it doesn't participate in local government. $B_p=0, C_l=0$</p>
	<p>If the opposition boycotts the reform. $S=7, R=5$ $(S-R) = 2$</p> <p>If it participates. $S= 0, R=0$</p>	
	<p>If it strengthens informal networks. $L=9$ and $I=5,$ if $(L-I)=4$</p> <p>If it does not improve informal networks. $L=0, I=0$</p>	<p>If it participates. $G=2$ and $A=10,$ $(G-A)=-8$</p> <p>If it boycotts the reform. $G=0, A=0$</p>
	<p>If Civil Society participates. $CS_p=1$</p> <p>If Civil Society rejects the reform. $CS_p=-1$</p>	

and a reduced utility of 5 if the opposition continues to play informally. If the opposition participates formally in local government, the ruling party gets 1. Civil society participation comes with a benefit of 1 (CS), and -1 otherwise. Although popular support was not the main objective, the ruling party nonetheless receives a small disutility from civil society rejecting the reform. If the ruling party decides not to implement decentralization, its utility is 0 (implying no change).

The opposition realizes disutility 5 (C) from enactment of the reform. The net gain from signaling discontent is 2 (S-R). Strengthening informal networks provides a net benefit of 4 (L-I), while accepting comes with a net cost of -8 (G-A), as high restrictions on the opposition's participation are built into the reform. If the opposition has rejected reform, civil society participation entails disutility 5 (CS_p). If, on the other hand, it accepts reform, civil society participation entails disutility 2, as in this case the opposition derives some benefit from its participation. In round 2, attempting to discard the reform gives a net utility of $13[D - D_C]$. If civil society then protests, the opposition receives disutility 1 (CS_{prot}). Keeping the reform in place entails a cost of 2 (K), from both lost political capital and the disutility of having to continue working with an exclusionary decentralization system. If the opposition's actions result in an early transition to round 2 then α takes the value of 1, otherwise it is assumed to be 0.8. If no reform is implemented, the opposition party gets an overall utility of 0.

For civil society, the complex nature of the reform entails high learning costs, leading to a net cost of -8 (B_P-C₁) if it participates. Staying in the informal sector implies a net utility of 3 (H-Z), increasing to 10 (H+J-Z) if the opposition strengthens its clientelistic networks. If the opposition decides to participate in local government, civil society receives benefit 1 (T). In round 2, if the opposition keeps the system in place, civil society receives utility 1 (X_K). Attempts by the opposition to discard the system entail disutility 1 (R_{dis}). Mobilizing citizens to protest for the survival of the system is costly. Protest costs 7 (P) if civil society had decided to participate in the system, and 9 if it had not.¹¹ As with the opposition, α is 1 if round 2 comes relatively quickly and 0.8 otherwise. Absent any initial reform, civil society realizes benefit 3, the utility they receive from continuing to engage with informal networks.

The game is solved through backward induction. Given the payoffs described, the ruling party will always choose to introduce decentralization, as regardless of what other players do it always entails a positive payoff. Since the reform is designed to stifle the opposition, participation on its part is very costly. Hence the opposition is always better off boycotting decentralization, and instead focusing on strengthening its informal networks. Strengthening its informal networks not only offers a higher payoff regardless of what civil society chooses, but also, we argue, would enable the opposition to cater for citizens' needs better than the formal local government system. Choosing this option allows it to take up office sooner rather than later. Civil society then must decide whether to participate in local government

¹¹ If civil society chose not to participate then it would be even harder to mobilise people in support of the system.

or continue engaging with the state informally. The complex nature of the reform means it has little to gain from participating in local government. And since the opposition opts to strengthen informal networks, continuing to rely on them becomes more attractive. Opting for informality may also speed the opposition's return to power, if new local governments proved unresponsive and informal networks continued to provide public goods.

When the opposition assumes power in round 2, limited support for local government facilitates

Case 2: Muddling through

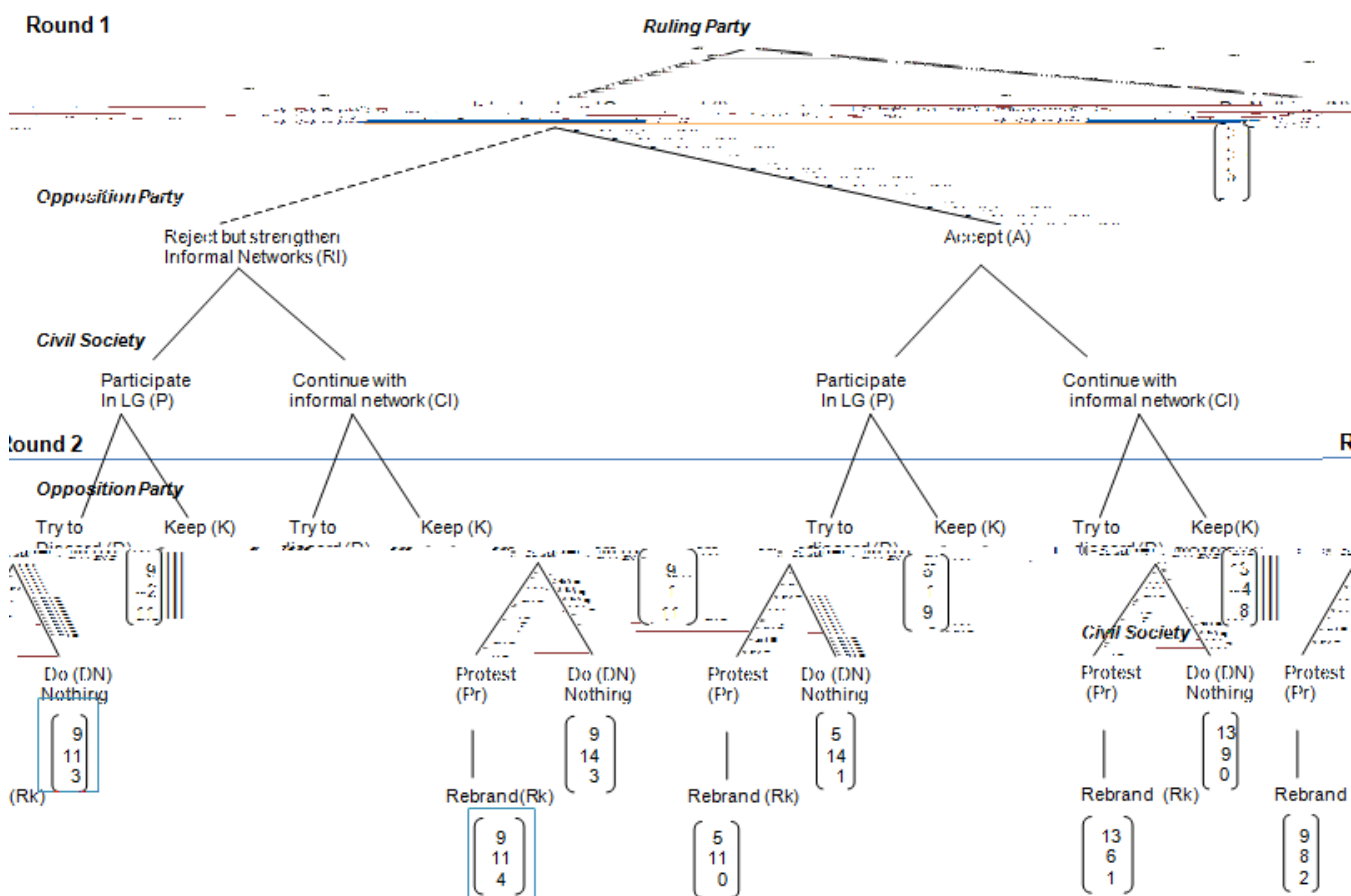
The second scenario is a middling road between our two extremes. It benefits civil society more than case 1, but still partially excludes the opposition, and is sufficiently complex to entail non-trivial learning costs for voters. Its muddled nature might be viewed as the product of negotiated trade-offs between political actors, or amongst opposing currents within the ruling party. The payoffs from a reform like this are listed in Table 2 below. The ruling party now benefits 5 (B-C_D) from enacting the reform. Its less complicated nature implies lower administrative costs, and lower implementation costs due to less resistance than in Case 1. Rejection by the opposition yields a utility of 7 (OP) for the ruling party, which drops to 5 if the opposition engages in informal politics, and 1 if it participates in local government. This lower utility is because: (a) excluding the opposition was not the main objective of the ruling party; and (b) by participating, the opposition makes decentralization work better for civil society, which increases the reform's popularity. For similar reasons, civil society's participation now entails a

Table 2: Payoffs in Case 2

Ruling Party	Opposition Party	Civil Society
B=10, C _D =5, (B-C _D) = 5	C _O = 5	If it participates.
If the opposition reject the reform. OP=7	If they boycott the reform. S=7, R=5,	B _p =6, C _i =3, (B _p -C _i)=3
If the opposition participates. OP=1	If it participates. S=0, R=0	If it doesn't participate in local government. B _p =0, C _i =0
If the opposition plays the game informally. OP=5	If it strengthens informal networks. L=7, I=5, (L-I)=2	If it doesn't participate and the opposition strengthens informal networks. H=3, J=5, Z=2, (H+J-Z)=6
If Civil Society participates. CS _p =3	If it doesn't improve informal networks. L=0, I=0	If it doesn't participate and the opposition doesn't strengthen informal networks. H=3, J=0, Z=2, (H+J-Z)=1
If Civil Society rejects the reform. CS _p =-1	If it participates. G=10, A=3 (G-A)=7	If it doesn't participate and the opposition doesn't strengthen informal networks. H=0, J=0, Z=0
	If it boycotts the reform. G=0, A=0	
	If civil society participates and the opposition is rejecting the reform. CS _p =2	If the opposition participates in local government. T _O =3
	If civil society participates and the opposition is accepting the reform. CS _p =0	
Round 2	Round 2	Round 2
	If it tries to discard the reform.	If the reform is kept.

centralize, civil society will fight to retain local government, and the opposition will ultimately retain a rebranded reform (I,A,P,D,Pr,Rk). If, on the other hand, the opposition opts for informality, civil society will continue to work through its informal networks. When the opposition tries to re-centralize in round 2, civil society will do nothing, and the country will once more have centralized government (I,RI,C,D,DN). The opposition receives the same payoff from the two equilibria, and hence is strictly indifferent between accepting decentralization or rejecting it in favor of its informal networks. Repeated iterations of this game will result in a random oscillation between the two equilibria¹².

CASE 2: Muddling through



Case 3: Participative local governance

In case 3, the ruling party tries to extend its stay in office by designing a reform that generates popular support by creating local governments that are responsive and accountable. To generate popular support, the reform must be simple, and it must enhance the welfare of the average citizen. Because responsiveness and accountability are functions of political openness and competition, the ruling party not only cannot keep the opposition from participating, but actively benefits from its participation. Payoffs are given in Table 3.

¹² It is for this reason that α takes the value of 1 in both scenarios.

The ruling party receives a high net utility of 7 from enacting this reform, as implementation costs fall to 3. Costs are lower because of the reform's simplicity, which makes it easier to design and administratively cheaper to implement. As the reform seeks to promote participation, the ruling party receives utility 7 if society participates in decentralization (CS), and -5 if it does not. If the opposition rejects the reform, the ruling party receives utility 4 (OP), and 2 if it accepts it. Higher utility from the opposition's participation (vs. cases 1 and 2) is driven by the greater benefits this reform yields when all actors participate. If the opposition sticks to informal politics, its utility is 2.

For the opposition, participating in formal politics is much more attractive, and so the net benefit of accepting reform is 11 (G-A); costs are mostly associated with the implicit endorsement of the ruling party's reform. Maintaining informal networks yield

Table 3: Payoffs under Case 3

Ruling Party	Opposition Party	Civil Society
B=10, C _D =3, (B-C _D)=7	C _O = 5	If it participates.
If the opposition reject the reform. OP=4	If they boycott the reform. S=7, R=5 (S-R) = 2	B _p =10, C _I =1, (B _p -C _I)=9
If the opposition participates. OP=2	If it participates. S=0, R=0	If it doesn't participate in local government. B _p =0, C _I =0,
If the opposition plays the game informally. OP=2,	If it strengthens informal networks. L=6, I=5, (L-I)=1	If it doesn't participate and the opposition strengthens informal networks. H=2, J=3, Z=4 (H+J-Z)=1
If Civil Society participates. CS _p =7	If it doesn't improve informal networks. L=0, I=0	If it doesn't participate and the opposition doesn't strengthen informal networks. H=2, J=0, Z=4, (H+J-Z)=-2
if Civil Society does not participates. CS _p = -5	If it participates. G=12, A=1, (G-A)=11	If it doesn't participate and the opposition doesn't strengthen informal networks. H=0, J=0, Z=0
	If it boycotts the reform. G=0, A=0	If the opposition participates in local government. T _O =5
	If civil society participates and the opposition is rejecting the reform. CS _p =1	
	If civil society participates and the opposition is accepting the reform. CS _p =0	
Round 2	Round 2	Round 2
	If it tries to discard the reform. D=15, D _C =7, (D - D _C)=8	If the reform is kept. X _k =9,
	If Civil Society protests. CS _{prot} =5	If the opposition tries to discard the reform. R _{dis} =5,
	If the reform is kept. K=1	If they protest, when they are participating. P=1 If they protest, when they are not participating. P=3

CASE 3: Participative Local Governance

Once again, the ruling party will always opt to introduce a reform that offers positive payoffs. The opposition now has a strong incentive to participate in local government, as entry costs are low and the benefit of formal politics are high. Civil society will opt to engage directly with local government, rather than through its informal networks.

Contrary to case 1, the opposition's chances of returning to office are enhanced by participating in local government, as the design of reform lets it demonstrate responsiveness this way.¹⁴ Despite the popularity of reform, the opposition might still attempt to erode the ruling party's political capital by recentralizing in round 2. But since reform now enhances citizen's welfare, civil society is more inclined to fight for it. Public protest will thus force the opposition to retain local government. The Nash equilibrium is (I,A,P,D,Pr,Rk): the ruling party introduces reform (I), the opposition accepts (A), civil society participates (P), the opposition attempts to discard the reform

3. Decentralization in Bolivia

politics and government, he faces no credible challenger, either within his party or further afield. Indeed, the rise of Morales coincided with the collapse of the national political party system, most of which parties no longer exist.

Once in office, Morales moved quickly to ove

formed by increasingly unwieldy, ideologically disparate coalitions that endlessly juggled perks and positions to remain in power.

Meanwhile, regional pressures on central government grew, as business elites based mainly in the fast-growing city of Santa Cruz mobilized against the “extraction” of natural resource wealth by La Paz. Local leaders showed great skill in weaving their business interests for greater fiscal devolution and political autonomy into a mass movement that appealed to regional identity and pride. In Congress, cross-party regional blocs were able to block legislation that threatened parochial interests. And on the streets, leaders showed they could call civic strikes and work stoppages that blocked inter-regional transport and brought Bolivia’s most successful regional economy to a halt.

Why did Bolivia decentralize?

In the midst of these conflicting pressures, Sánchez de Lozada decided to decentralize. Why? The question is much more than casual. As Faguet (2012 and 2014) and others have pointed out, this is the “black hole” at the heart of the decentralization debate. Who gets into politics to give power away?¹⁵ Some have argued that decentralization was a distraction from more important items on the government’s agenda, like privatization; others that it was simply “something different”, tried perhaps out of a sense of desperation (Kohl 2002).

We argue that decentralization was attractive because it offered specific solutions to pressing political problems that the new government faced. Most importantly, it offered the MNR the opportunity to forge a new covenant with the 42% of the population that lived in rural areas (INE 1992). Rural Bolivia had been the MNR’s bedrock since the Revolution, when the party redistributed land from large *latifundios* to peasants, thereby winning the undying loyalty of a generation of rural voters and their children. But by the 1990s, that second generation was beginning to die out, and with them the powerful memory of land reform. Younger voters were defecting in droves to neo-populist parties that offered a potent mix of cultural revindication and small-scale clientelism. With the Law of Popular Participation, the MNR calculated it could revolutionize government in Bolivia’s large rural hinterland, traditionally poor and under-served, if

For similar reasons, the proposal appealed to other “traditional” political parties that were also losing votes to neo-populist upstarts. The more thoughtful amongst them hoped that a new, well-designed program of local public goods provision would undermine support for the UCS and Condepa by displacing the lure of their clientelistic gifts (Urioste 1997). Decentralization also appealed to powerful private sector interests throughout the country, who also feared the rise of populism. This included many firms in regional capitals like Santa Cruz, Cochabamba, and Tarija, which stood to gain from the boom in local construction and service contracts that rural municipalities were expected to put out to tender (and in fact did; see Faguet 2012). It is interesting to note, though hard to prove, that the success of the Law of Popular Participation lay partly in its ability to pit larger firms – which continued to

poorer, more rural, traditionally abandoned municipalities; the Bolivian state as a whole became more responsive to local needs through the actions of its municipalities (Faguet 2012 and 2014). And so decentralization steadily, and fairly quickly, became a normal way of life for Bolivians, and eventually a defining national characteristic, as it remains today. Not even the political earthquake that overthrew Sánchez de Lozada's second presidency some years later, and buried the entire political establishment, could undo this reform.

During his first years in office, Morales reversed all of Sánchez de Lozada's reforms one by one, in deliberate, highly symbolic fashion. And, indeed, in many ways he quietly set about recentralizing power, returning resources and authority from departments and municipalities to La Paz. But demands from the regions – and, more powerfully, from Bolivia's villages and towns – convinced him to change course. As hardening positions around the question of constitutional reform led to violent confrontations in 2007-2008, the Morales government took a leaf out of Sánchez de Lozada's book. With quiet irony, the government changed tack and proposed further devolution to elected regional governments – no longer appointed administrations – as well as the creation of new layers of provincial-level government, and new types of rural and indigenous autonomy. Resource transfers from the center were also significantly increased.

Why was decentralization so much more long-lived and successful in Bolivia than Pakistan? First, decentralization – especially as implemented in Bolivia – was firmly in the interests of ruling politicians, because it solved important political problems they faced. Most importantly, decentralization promised to reverse the long-term decline in popularity of the MNR and other “traditional” parties. Also, it offered a means to deflect the incessant demands of Santa Cruz (and to a lesser extent Tarija and the Beni), which explicitly threatened to break the country apart. The fact that these motives were shared by certain powerful business and regional interests in western Bolivia increased the viability of reform; as did, lastly, the probability that the ruling MNR would win a disproportionate share of local elections.

This combination of incentives led reformers to design a reform that was, in internationally comparative terms, unusually simple and transparent, and then implement it in a way that was unusually sincere (Faguet 2012). Reformers really wanted a decentralization that increased citizen participation by devolving power and resources to municipalities because this was specifically useful to them in the ways outlined above. They acted in a way calculated to bring this about. Hence the deliberate, Socratic design phase that went out of its way to seek input and consensus. Hence, too, the simple, easy-to-understand design of the Law of Popular Participation, which was widely disseminated throughout the country. Hence,

Their plan worked in many of the most importa

which had growth without development. The fruits of economic development were strongly centered towards the elite of the country while spending on education, health care and social security was significantly lower when compared to countries at the same income level. Moreover, patronage politics within state institutions meant that government jobs at all levels were handed out to cronies and supporters (Talbot 2012). The combination of these factors meant that the average man had no opportunity of improving his economic and social status thereby instilling a feeling helplessness and a lack of faith in state institutions.

At a macro level, the country was in extreme financial distress, as testing of its nuclear weapons had resulted in strong economic sanction from the international community²⁴. This was coupled with a significant worsening of the political situation as in September 1998 Mr. Sharif proposed a new Islamic package, which amongst other things, would empower him to make any change he wanted in the name of Islam. At an extreme, it was feared he could have declared the electoral process and the constitution to be unIslamic²⁵. While he received almost no political support for this package, still its proposal created unrest within the country because its implementation would have enabled him to rule indefinitely as a dictator.

Therefore, within this setting it is not surprising that the military coup did not face popular protest, as it was hoped the regime would bring positive political and pro-poor change. The

members of the main political parties were included, depriving the process of inputs from seasoned politicians,³¹ and undermining any sense of ownership politicians might have felt for the system. According to Mr Shafqat Mahmood, a senior politician in Pakistan, the composition of this body essentially cast the dye for decentralisation's failure as they *“had no idea about social ethos and political reality. They approached it like a military structure, erecting power lines and hierarchies in a manner that works in the army. The result was*

Lastly, several clauses of the reform itself limited the ability of local government to achieve the goals NRB claimed for it. These were: (a) the systematic exclusion of political parties from the local government system, (b) the complex nature of the system, and (c) a weak and unclear link with provincial governments, all of which limited the system's functionality.

Local government systematically excluded all the major political parties. Unconsulted during the planning stage, parties were further explicitly excluded from participating in local elections. The justification for this clause was the corrupt and pro-patronage nature of political parties. Reformers argued that the only way to bring true democracy to the local level, and allow new blood into the system, was to bar established parties from participating. At a more practical level, Gen. Naqvi, ex-Chairman NRB, explained that since the regime had just ousted political parties, bringing them back into the political fold was not a viable option. In fact it may have caused more harm as the purpose of local government, he explained, was to lay the infrastructure for democracy. Including political parties would have politicized this process. This, he stipulated, was particularly unnecessary since there was no theory behind the benefits of having party based elections.³⁸ While this may have indeed been one of the reasons for excluding political parties, Musharraf's need for a political constituency was also a major motivator.³⁹ Party-based elections were likely to bring parties opposed to the military regime into office, and might have thus undermined the constituency Musharraf needed to win the referendum. Therefore the regime opted to enact a reform that prevented political parties from participating in local government.

To further ensure that the regime's interests were protected, the reform called for limited direct elections. While the local government system consisted of three tiers of government – district, tehsil (municipality), and union – onl

not on its simplicity but on its functionality and efficacy. Trying to achieve this was what complicated the design of the reform⁴⁶.

The complexity of the reform was fairly evident amongst various aspects of local government. For starters, the three tiers of governme

remained loyal to the military regime, but at the cost of generating huge resentment towards them from incoming provincial governments.

The NRB nonetheless realized that provincial and district governments would need to coordinate if provision across a range of services was to succeed, and made explicit efforts to create linkages between the two. The LGO created District Coordination Officers (DCOs), staffed by bureaucrats, to facilitate communication between provincial and district governments and implemented district government policies.⁵⁰ But DCOs were appointed by provisional governments, which had authority to transfer them at any point (Taj 2010)⁵¹. District mayors, by contrast, had limited authority over DCOs. If a mayor wanted his DCO transferred, he had to petition the provincial government. The only sanction available to district governments was the ability to write a bad performance report for the DCO. But this report required the provincial Chief Minister's signature to become official.

This arrangement placed a DCO in the awkward position of being responsible to the district government but accountable to the provincial government (Hasan 2002)⁵². In practice, it was the party affiliations of provincial and district officials that determined how these relationships functioned. While district elections were contested on a non-party basis, informally politicians retained their party affiliations.⁵³ Thus in districts where the mayor had allegiances to the same party as that of the provincial government, things worked relatively smoothly. As Mian Amir, Ex District Mayor of Lahore, explained, "*I never had money problems as I was part of (the political party of) the government.*"⁵⁴ However, problems arose when a mayor belonged to the province's opposition party. While Mr. Amir's government was allowed to function without interference by provincial authorities, Ms. Nafisa Shah, District Mayor of Khairpur, had considerable problems because she belonged to the opposition party. Not only did the provincial government delay transferring funds to her, but also any DCO that cooperated with her was quickly transferred out, making it difficult for her to implement any policies at all.

Tensions between the two levels were exacerbated by the fact that many of the powers devolved to local government concerned highly visible, labor-intensive services such as health, education and agriculture. These were some of the main sources of patronage and rent seeking

⁵⁰ A similar office was created at the Tehsil level called Tehsil Coordination Officer.

⁵¹ Hasan (2002) notes that the provincial government tended to maintain control over Local Government particularly through their powers over the DCO.

⁵² Not complying with the wishes of the Chief Minister of the province could result in the DCO being transferred to an undesirable part of the country.

⁵³ Mr Khalid Sultan, ex District Coordination Officer Lahore district, Personal interview, 31 October 2013.

⁵⁴ Mr Mian Amir, Ex District Nazim of Lahore, personal interview, 4 November 2013, Lahore. In fact he maintained that even though the provincial government had the ability to interfere with local government, in his 9 years in office they never did.

government, and thus no need to oppose re-centralization. Thus in 2008, seven years after it was

eventually agreed, and the country's first democratic elections handed national power to it, while the Nationalists and Inkatha became ensconced in the Western Cape and KwaZulu Natal.

Other times, the underlying spatial motive focuses on resources more than authority or elections. Consider Brazil, whose military regime was arguably more successful, and certainly lasted far longer, 1964-1988, than most others in the region. Its longevity is generally credited to its success in channeling regional demands and appeasing local interests, as articulated by local political forces. The means for doing so were fiscal federal relations. The regime had initially attempted to centralize power away from the states. But by the early 1970s, conflicts with the states were growing dangerous and threatening to destabilize the regime. The military realized that if it wanted to stay in power, it needed to abandon these efforts and instead use the tools of fiscal federalism strategically to appease regional interests (Ames 1987). The dictatorship decentralized powers and devolved greater revenue in order to forge a coalition strategy in which four poorer Northeastern states were enlisted to counterbalance the autonomy of the largest, most industrialized Southern states, especially São Paulo (Díaz-Cayeros 2006). This fiscal strategy was twinned with a political opening which saw national authoritarianism coexist with subnational competitive elections from 1974 onwards. The strategy stabilized the regime, extending its stay in power far longer than similars in Argentina, Chile and Uruguay. It also seeded Brazil's political mentality; the transition to democracy that followed was accompanied by successful demands for further decentralization.

But sometimes the urge to decentralize has nothing to do with space, and decentralization is not "about decentralization" at all. In Uruguay at the end of the twentieth century, decentralization was about electoral exclusion. The still-dominant *Blanco* and *Colorado* parties now faced a serious threat from the upstart *Frente Amplio-Encuentro Progresista* (FA-EP), which threatened to win national elections in 1999 (Cason 2002). So in 1996, *Blancos* and *Colorados* approved a reform de-linking local from national elections. By introducing a second round of voting for president, the two traditional parties could close ranks after the first round and keep the FA-EP out of power. Other decentralizing changes were also introduced in a new constitution, but mostly not implemented. In the short term, the strategy succe

by the dictatorship with freely elected ones (Linz and Stepan 1996). Expecting they would win, the center-left government democratized local governments. The plan initially succeeded, but then backfired within the decade, as new right-wing candidates became adept at winning local elections, and soon commanded a disproportionate share of mayoralties. An unintended consequence of this reform was thus to mirror the Right's overrepresentation in national policymaking at the municipal level (Eaton 2004). Other unintended consequences include creating new career paths for aspiring politicians to reach the national stage, and helping right-wing candidates distance themselves from the dictatorship by invoking their performance as local executives.

Venezuela decentralized in 1989 for entirely different reasons. There, a highly centralized state run as a condominium between the dominant political parties, *Acción Democrática* (AD) and COPEI, gave states no important fiscal or administrative responsibilities (Grindle 2000). A proportional representation system with closed party lists, and internally centralized parties, implied that party leaders controlled the nomination process tightly for every level of government. Parties' strict internal discipline meant that candidate selection rarely reflected local and regional interests (Monaldi & Penfold 2006). This extreme centralization with pacted power-sharing was credited for overcoming the chronic instability and civil strife of the 19th century, and underpinning Venezuela's democracy (DiJohn 2009). But by the 1980s, public opinion had turned against the system, accusing it of being corrupt, self-serving, and out of touch. The restriction of democratic choice to the election of president and congressmen was harshly criticized. A presidential commission for state reform recommended decentralization, including direct election of governors and mayors, and reform of the closed-list PR system.

These reforms were firmly rejected by both the governing AD party and COPEI. Why, then, did Venezuela decentralize? The AD candidate for president in 1988, Carlos Andres Pérez, had

recentralizations over two centuries. Rules for revenue-sharing between the center and provinces were never written into the constitution, but rather expressed as laws that expired every few years.

But decentralization reforms are not designed around any of these factors. The key to understanding when and how countries decentralize is, rather, as solutions to specific, well-defined political problems. Understanding these underlying problems is crucial to explaining why some reforms succeed and others fail.

In Pakistan, Gen. Pervez Musharraf had more or less stumbled into power in an unplanned, unconspiratorial manner. He faced the acute problem of legitimizing his *de facto* government in the eyes of the public, and then extending his rule beyond the three-year transition conceded by the Supreme Court. He and his circle hit upon a structural solution: decentralization to newly-created local governments, which would extend the reach of the state deep into the Pakistani hinterland, provide some services, and make citizens feel the government shared their concerns.

Like Pakistan, the nature of the immediate problem dictated the terms of Bolivia's solution. But there the comparison ends. Sánchez de Lozada sought to treat the twin ills of political decay and secessionism by administering a jolt of democracy. He sought to win back voters' loyalty by suddenly and radically increasing their participation in government via the hundreds of municipalities he created up and down the country. If it was to work, voters would have to believe in these new local governments. If it was to last, political elites must be coopted. These imperatives explain the three key characteristics of Sánchez de Lozada's decentralization: (i) the devolution of significant resources and decision-making power from central to local government; (ii) a decentralized architecture defined by direct fiscal flows, clear service responsibilities, and simple, straightforward reporting; and (iii) the unambiguous buy-in of Bolivia's political establishment. Together, these produced strong accountability, and high – indeed increasing – levels of political participation and mobilization in the population. The high legitimacy that local governments quickly earned amongst ordinary citizens produced a massive groundswell of support for decentralization in Bolivia.

Three years later, a visit to a rural hamlet lost in the forest border with Brazil was telling. Rural schools, health posts, and irrigation projects flourished up and down the land, and local residents were eager to testify. "For decades we were ignored, we got nothing," one explained. "When our children fell ill, we crossed the river and hoped the Brazilians might treat them. Now we have our own school, our own clinic. Now, at last, we feel Bolivian."⁶⁴

manipulations of a previous dictator.⁶⁵ In all such cases, reform has long-term effects on politics and the state that are deep, sometimes unwanted, and always unexpected. Our evidence further shows that where such motives are lacking or in opposition to decentralization, governments act in fundamentally different ways. Even where they announce decentralization, reforms are devoid of substance, empty shell decentralizations that do not alter the distribution of power and resources in a country, but instead serve to reinforce the center's control.

The theoretical results and mini

Right and Wrong Political Calculations

If Sánchez de Lozada got the reforms right, in that they were effective, popular, and long-lasting, there is an important sense in which it was Musharraf who got the political calculation right. His reform was convoluted, ineffective, and unpopular. It failed utterly to create for him a broad, long-term political movement that he hoped might displace Pakistan's traditional, elitist parties. But it did play a key role in keeping him in power for nine years. By creating some 80,000 new local officials who depended directly upon him for their positions, he was able to increase the three-year transitional stewardship initially conceded by the Supreme Court by a further six years, stepping down only in 2008.

In Bolivia, by contrast, simple, effective reforms proved successful beyond even Sánchez de Lozada's hopes. Decentralization was hugely popular, and over time became firmly embedded in Bolivia's governance and politics. Indeed, Faguet and Bonifaz (2015) argue that it was transformational, playing a crucial role in the elevation of a new socio-economic class into national politics. These new politicians – indigenous and mestizo truck drivers, carpenters and farmers from Bolivia's villages and peri-urban areas – were the protagonists of what must now be considered Bolivia's second revolution. This swept away the traditional, urban, white, landowning and business-based political elites, and with them their parties, and the politics they had always dominated. With a lag of about a decade, the entire political establishment was swallowed up in a political earthquake that saw politicians who got their start in local government rise up and seize the

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