

DECENTRALIZATION IN LATIN AMERICA: A
STUDY OF TWO CASES—ARGENTINA & BOLIVIA

Tonya Giannoni

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CENTER FOR APPLIED STUDIES IN ECONOMICS

A Division of DevTech Systems, Inc.

1700 N. Moore St., Suite 1720

Arlington, VA USA

Tel: 703/312-6038

Fax: 703/312-6039

Email: devtech@devtechsys.com

www.devtechsys.com

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Abstract

The multi-lateral development banks and USAID are allocating significant resources to support decentralization programs in the hope of strengthening democracy. Is there a solid theoretical basis supporting this policy? The author examines the conceptual hypothesis for the relationship between decentralization and democracy. This hypothesis is tested quantitatively 18 Latin American countries based on comparative research conducted by the author. Utilizing case qualitative case analysis, she identifies several potential explanatory variables for the unexpected inverse relationship between level of decentralization and widely-used democracy indicators. She argues that decentralization confronts the same challenges that democracy faces, including legitimacy, accountability, and effectiveness in a representative system. It is not a panacea. She identifies tentative conclusions that support further study of the impact of intergovernmental relations and governmental effectiveness (at the national level) on the decentralization-democracy relationship.

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DECENTRALIZATION IN LATIN AMERICA

Tonya Giannoni

Bilateral and multilateral development institutions are supporting decentralization programs across Latin America. A policy of decentralization is offered as a way “to increase the responsiveness of elected officials to the preferences of the majority of the electorate.”¹ Although these institutions recognize challenges exist, such as the synchronization of functions with the decentralization of revenues and structure of local elections that enhance accountability, the policy dialogue assumes that decentralization is normatively good.² Like practitioners, many scholars view decentralization as having “great potential to stimulate the growth of civil society organizations...prevent widespread disillusionment with new policies from turning into a rejection of the entire democratic process . . . [and] boost legitimacy by making government more responsive to citizen needs.”³ Yet, other scholars, such as Jonathan Hiskey and Mitchell A. Seligson point out, “the process can be a double-edged sword.”⁴ This paper further examines decentralization as a double-edged sword in Latin America, in general, and uses case analysis to identify key variables that may impact decentralization’s effect on democracy.

Methodology: This study begins with a comparative examination of political and economic decentralization and democracy in Latin America. Utilizing quantitative comparative analysis and case analysis, this paper seeks to answer the following research questions that lead to iterative findings:

- | | | |
|---|---|--|
| 1. <i>What does decentralization mean?</i> | → | Dimensions of Decentralization |
| 2. <i>Why decentralization should support democracy?</i> | → | Conceptual Framework |
| 3. <i>Does decentralization have a positive influence on democracy?</i> | → | Statistical Test of the Hypothesis |
| 4. <i>What is the evidence from three cases: Argentina, Bolivia, and Costa Rica?</i> | → | Explanatory Variables |
| 5. <i>Which variables are significant to how decentralization has impacted democracy?</i> | → | Statistical Test of the Explanatory Variables and Analysis |

The two primary cases—Argentina and Bolivia—are selected because they are two of the most vivid examples of the recent crisis of governability affecting Latin America.⁵ Both countries were characterized as “decentralized” or in the process of decentralization. Since independence, Argentina has always been a federal system, which refers to the degree of political decentralization. Argentina has also been one of the most decentralized countries in Latin America, in terms of revenue-sharing percentages (fiscal decentralization). Ken Eaton among others has studied the pendulum of centralization-decentralization in Argentina as a result of economic crisis, the power of the president, division of powers between the branches of government and intro-bureaucratic conflict. Notwithstanding this pendulum, Argentina when compared to other countries in the region is decentralized.⁶ Bolivia has only ten years of substantial experience with decentralization. Decentralization in Bolivia is the Popular Participation Law (PPL). The PPL is considered unique because it has included political decentralization (i.e. increasing the level of political authority at the local level) as a central element to accompany the more commonly recommended policies of

administrative (distribution of services) and fiscal (revenue-sharing percentages) decentralization.⁷ Proponents of the policy of decentralization in Bolivia argued that it would improve governability.⁸

1. Dimensions of Decentralization, Democracy, and Governability

What do decentralization, democracy, and governability mean? The definition of democracy continues to be debated. This is also the case for decentralization. Therefore, in this section, these concepts are defined. In the following section, a conceptual framework for understanding decentralization’s relationship to democracy based on these definitions is presented.

Dimensions of Decentralization.

Decentralization, in one sense, is very easy to define. Decentralization means, “to undergo redistribution or dispersal away from a central location or authority.”⁹ However, any study of decentralization must tackle the practical realities of the many forms of decentralization to understand its impact on democracy and governability. There is a complex set of factors that affect the “level of decentralization” of a country. These dimensions are most easily understood in response to a series of questions:

- | | | |
|--|---|--|
| 1. <i>What type of authority?</i> | → | Fiscal or Political |
| 2. <i>What is the institutional structure for distributing authority? Is there autonomy among levels of authority?</i> | → | Federal or Unitary (Non-Federal) |
| 3. <i>How is political authority distributed? Is there autonomy among levels?</i> | → | Decentralized—Centralized |
| 4. How are services and resources distributed? | → | (Administrative Decentralization)
Deconcentrated—Concentrated |

Political scientists have tended to focus on the diffusion of authority and power (federal or unitary; decentralized or centralized), as well as citizen participation aspects of decentralization. Economists have studied extensively the results of decentralizing taxation, resources, and delivery of services (deconcentration or concentration of distribution). Table 1 summarizes the level of political decentralization and Table 2 changes in the allocation of resources among levels of government (fiscal decentralization). Most studies have focused on only one dimension.¹⁰ This paper’s unified examination, albeit leaning heavily on the political side, is unique. Notwithstanding, it is important to remember that decentralization does not necessarily mean that there is a decrease in power at the national level. Instead, it is about an increased authority and autonomy over the allocation of resources at the local level. Decentralization does not address predatory state questions or a reduction in government intervention.

A review of the level of decentralization of 18 Latin American countries is presented in *Table 1*. There are several important characteristics of the state of decentralization in Latin America. First, in spite of reforms during the last decade, there have been very few institutional changes that have altered the level of political decentralization in most countries. Although there have been many reforms focusing on decentralizing responsibilities for the provision of services and taxation, which

reflects administrative or fiscal decentralization, the real impact of these reforms have yet to be realized. For example, Wiesner in evaluating the fiscal decentralization process in Ecuador concluded that there is still much work to be done before decentralization is real.¹¹ Likewise, there has not been a radical change that decreases the authority of the central government in relation to the subnational government.¹²

Table 1: Summary of Political Decentralization for 18 Latin America Countries, 1994-2004.

	Country	Date(s) of Reform ^a	All Offices Elected?	Override ^b	Index of Political Authority	
					1994	2004
Federal	Argentina	1994	Yes	No	High	High
	Brazil	1982/1989/2003	Yes	No	High	High
	Mexico	1988	Yes	No	High	High
	Venezuela	1992/1999	Yes	No	High	High
Non-Federal	Bolivia	1995	No ^d	No	Moderate	Moderate
	Colombia	1991	Yes	No	High	High
	Costa Rica	2002	No ^d	No	Low	Moderate ^f
	Chile	1997	No ^d	No	Moderate	Moderate
	Dominican Republic	2002 ^e	No ^d	Yes ⁽⁵⁵⁾	Low	Low
	Ecuador	1998	Yes ^e	No	Low	Moderate ^f
	El Salvador	1983/2000	No ^d	Yes ⁽¹¹⁰⁾	Low	Low
	Guatemala	1993	No ^d	Yes ⁽¹³⁴⁾	Low	Low
	Honduras	1982	No ^d	No	Moderate	Moderate
	Nicaragua	1995	Yes	No	Moderate	Moderate
	Panama	1994	No ^d	Yes ⁽²³⁸⁾	Low	Low
	Paraguay	1992	Yes	Yes ⁽¹⁶⁵⁾	Low	Low
	Peru	2002	Yes ^d	No	Moderate	Moderate
	Uruguay	1996	Yes	No	Moderate	High ^f

Sources: Update and modification of table in Eliza Willis, Christopher da C. B. Garman and Stephan Haggard, et al. "The Politics of Decentralization in Latin America." *Latin America Research Review*. Volume 34, No. 1 (1999): p. 11; Andrew Nickson, *Local Government in Latin America* (Boulder: Lynne Rienner, 1995); national constitutions of all countries accessed from the Political Database of the Americas: <http://www.georgetown.edu/pdba/>.

^a Date(s) represents the effective date of constitutional, electoral, or legal reform that instituted local elections or increased local governmental political authority. The most significant reforms were in Costa Rica (election of mayors in 2002), Bolivia (see case study for additional information), Ecuador (removal of national government override of elected mayor, Peru (2002 reinstatement of elected governors), and Uruguay (1996 reforms consolidated the addition of a municipal government structure). In Brazil, elections of mayors preceded the full democratic transition (election of president in 1989).

^b National government has authority to revoke automatically the mandate of an elected mayor or override laws passed at the municipal level. The specific constitutional clause granting this authority is noted in parentheses. In El Salvador, the State can assume responsibility for services provided by the municipalities if it is in "its interests."

^c The 1994 classification is according to Eliza Willis et al. The 1995 Andrew Nickson study of decentralization in Latin America is a source, which is most commonly referenced for cross-country analysis.¹³ Eliza Willis et al utilized the data from Nickson to classify the level of political decentralization of 18 Latin American countries based on three basic factors:

1. If the executive at the provincial (or intermediate level) is appointed or elected,
2. If the executive at the local (lowest level) is appointed or elected, and
3. If the national government has formal override over a locally elected official, either by removing him/her from office or overriding laws passed at the municipal level.

In this paper, a country is classified as having a high, moderate, or low level of political decentralization based on the following considerations:

- High: Federal or Non-Federal with all positions are elected and there is no override
- Moderate: Non-Federal, no formal override, but either some intermediate offices are appointed
- Low: Non-Federal, formal override or not all offices elected.

^d Intermediate level (i.e. departments or provinces) is appointed by the President. In *Bolivia*, the 1994 Popular Participation Law established direct election of councilors and majority elections of mayors. The political hierarchy was reconfigured diminishing the role of Departmental Governors who remain appointed. In *Peru*, mayors have been elected in Peru since 1981. Governors were eliminated in 1992 by Fujimori and reinstated in 2002 with provision for direct election. In *Costa Rica*, Governors are still appointed.

^e The Executive also names a representative at the provincial level.

^f Only three countries show a change from 1994 to 2004 in classification. The change for Costa Rica is very recent—in late 2002.

^g Date of most recent constitutional amendment, however, there was no change in level of political decentralization.

Second, hybrid unitary systems, i.e. a combination of “one government” with decentralization are becoming more prevalent. This hybrid is because while the pressure to decentralize the provision of services, taxation, and elections is significant, national-level politicians in unitary states fear federalism. This reaction to federalism is not surprising. Although many scholars are supportive of decentralization, there are several who have been critical of federal systems for new democracies. Alfred Stepan argues that “[i]n some respects, all democratic federations are more “demos-constraining” than unitary democracies.”¹⁴ A participant in the discussions surrounding Bolivia’s Popular Participation Law in 1993 wrote “if we had gone in the direction of federalism, which is what the regional oligarchical elites wanted, the country would have been destroyed.”¹⁵ Finally, the division of power question is no longer just federalism and decentralization versus unitary and centralized government that Arend Lijphart considers as his divided-power dimension.¹⁶ It is now more appropriate to consider whether a system is federal or non-federal. For the purpose of this paper the following distinctions are made between two categories of institutional structures:

- A federal system must include at least two levels of government, which are non-hierarchical, autonomous, and independent. In most cases, countries with federal systems were formed by the action by the sub-national units to unite. In the remaining cases, federal systems are what Alfred Stepan calls “holding-together federalism,” in which a decision by elites at the center was made to “devolve power constitutionally and turn their threatened polities into federations.”¹⁷ Constitutions typically declare that a country is Federal.¹⁸
- A non-federal system does not meet the above criteria. The concept of a unitary system of government is based on the principle that there is one government. Today, in a non-federal system, authority may be decentralized or distributed to lower levels of government, but the relationship is hierarchical, the national level has some veto power over the lower levels, or the power to constitute a lower level of government can only be granted by the national level. A constitution may or may not declare that a country is unitary.¹⁹

The following summarizes four dimensions that are commonly used to determine the level of fiscal decentralization and how they are measured:

- Level of Expenditure Decentralization (EXP%): Subnational expenditures as a percentage of total government expending.

- Guarantee of Intergovernmental Transfers (TRANS) and Percentage: Total percentage of central government revenue transferred to subnational governments on some sort of guarantee basis.
- Level of Share of Total Tax Collections (TAX%): Subnational tax collections as a percentage of total government tax collections.
- Level of Own Resources for SubNational Governments (OWN%): Subnational total revenues derived from their own collections as a percentage of total Subnational revenues (including transfers). When there is a large imbalance this is often referred to as a vertical imbalance.

Table 2: Summary of Fiscal Decentralization for 18 Latin America Countries, 1995-2004.

Country	EXP%	TRANS %	TAX% estimate	OWN%	Index of Fiscal Authority ^a	
	1995	1995-2004	1995-2000	1995-2000	1995	2004
<i>Federal Constitutions</i>						
Argentina	49.3%	YES-57%	>10%<20%	>20%	High	High
Brazil	45.6%	YES-25% ^c	>20%	>20%	High	High
México	25.4%	YES-20.8% ^b	<10%	>10%<20%	Moderate	Moderate
Venezuela	19.6%	YES-20%	<10%	>10%<20%	Moderate	Moderate
<i>Non-Federal Constitutions</i>						
Bolivia	26.7%	YES-20%	<10%	<10%	Moderate	Moderate
Colombia	39.0% [↑]	YES-15% ^c	>10%<20%	>20%	High	High
Costa Rica	2.3%	YES-10% ^d	<10%	>20%	Moderate	Moderate
Chile	13.6%	NO ^c	<10%	<10%	Low	Low
Dominican Republic	2.9%	NO ^c	<10%	<20%	Low	Low
Ecuador	7.5%	YES-15%	<10%	>20% ^f	Low	Moderate
El Salvador	6.0%	YES ^c	<10%	>20% ^f	Moderate	Moderate
Guatemala	10.3%	YES-10%	<10%	n.d	Moderate	Moderate
Honduras	12.3%	YES-5%	<10%	>20%	Moderate	Moderate
Nicaragua	5.2%	YES-5%	>10%<20% ^c	>20% ^f	Moderate	Moderate
Panama	3.2%	NO	<10%	>20%	Moderate	Moderate
Paraguay	6.2%	NO	<10%	<10%	Low	Low
Peru	10.5%	YES-12% ^d	<10%	>10%<20%	Low	Moderate
Uruguay	14.2%	YES ^c	<10%	<10%	Moderate	Moderate

Sources: 1995 data for EXP% and TRANS% is from Figure 3.3. *Latin America After a Decade of Reforms. Economic and Social Progress in Latin America. 1997 Report.* Washington, DC: Inter-American Development Bank. Data updates for the TRANS% are gathered from reviewing the national constitutions from the Political Database of the Americas and a Report Series from the Inter-American Development Research Department Network of Decentralization and Bailouts for Argentina, Brazil, Colombia, Mexico, and Uruguay. TAX% and OWN% are based on a range of data by country (Brazil, Bolivia, Ecuador, and Chile) in Eduardo Wiesner. *Fiscal Federalism in Latin America.* Washington, DC: Inter-American Development Bank. 2003. Data updates for the five Central American countries and the Dominican Republic were accessed in reports by CEPAL under the *Gestión Pública* and *Política Fiscal* series available at www.eclac.cl. Since the Peruvian reforms are very recent and data are not available from institutional studies, the information was updated from Government of Peru reports accessed via <http://www.ofimatic.cnd.gob.pe>.

[↑] Denotes that there is a known increase based on the data available during the period of 1995 until the present.

^a In this paper, a country is classified as having a high, moderate, or low level of fiscal decentralization based on the following considerations:

- High: At least three variables rated in the high range of decentralization ($\geq 20\%$) and no ratings in the low range (under 10% in all cases except for automatic transfers under which a low ranking reflects no automatic transfers).
- Moderate: At least two variables rated in the moderate range ($>10\% < 20\%$) except for transfers which is having automatic transfers).
- Low: At least two variables rated in the low range and no variables rated in the high range.

^b Clarification. The average rate for Mexico is from 1995. As a Federal state the distributions are based on individual funds with varying percentages. The rate for Ecuador is as of the 1997 reforms.

^c System of special formulas. Brazil the percentage reflects the transfer from the State to the lower-level of government. El Salvador in 1995 had a fixed dollar amount allocated automatically rather than a fixed percentage. Uruguay has several taxes that are allocated automatically, but not a system of co-participación with the national government.

^d Costa Rica: The current rate is less than 10%. Ten percent is the percentage that is being incremented from a 1.5% base beginning with the 2002 reforms. Peru: The current rate is 6% (as of 2002) to be incremented to a maximum of 12%. Prior to the 2002 reforms, all transfers were discretionary.

^e Prior to recent reforms, Nicaragua had a municipal level sales tax; therefore, the tax share was much higher than its peers in Central America between 1995 and 2000.

^f Effective with reforms. Reforms in El Salvador were in 2000. Reforms in Ecuador were in 1998.

There is not a single open data source to collect the data across all countries. Conflicting methods for calculation are prevalent across institutions.²⁰ Consequently, data should be considered indicative. Nevertheless, the final classification—High, Moderate, or Low—is based on the commonality across sources and generally accepted criteria. The Inter-American Development Bank ranked the level of decentralization in Latin America in 1997 based on 1995 based on the expenditure percentage.²¹ The correlation of the Index of Fiscal Authority and this percentage is high at the level of .7822.²²

In spite of significant efforts of reform the overall level of change based on these key indicators across the region for the period examined does not reach expectations. To date the reform efforts in Ecuador and Peru have been sufficiently broad to change the overall classification. Reform efforts in Nicaragua and Costa Rica have been significant, but have not directly impacted how the countries are classified. The case of Costa Rica is examined in greater detail below. Unlike the case of political decentralization, the correlation between whether a country is a federal system and its level of fiscal decentralization is less.²³

Definition of Democracy

Defining democracy has been and will continue to be debated by scholars. Classical definitions emphasize the concept of rule by the people and were largely predicated on smaller units.²⁴ Today, when we speak of democracy we speak of it at the nation-state level.²⁵ Democracy has evolved from its earliest conceptions. A contemporary definition on which scholars have reached some agreement includes three conditions for a democratic political regime. Broadly these are elected authorities with real governing power, respect for civil liberties, and a great majority of the adult population enfranchised.²⁶ Specifically, Larry Diamond *et al* define democracy as a system of government that meets three essential conditions: 1) “meaningful and extensive competition among individuals and organized groups (especially political parties) for all effective positions of government power, at regular intervals and excluding use of force;” 2) “highly inclusive level of political participation in the selection of leaders and policies;” and 3)

civil and political liberties at a level “sufficient to ensure the integrity of political competition and participation.”²⁷

The Diamond *et al* definition includes several qualifying conditions. It is this aspect of the definition that causes much of the debate. It is more useful to recognize the Dahlian notion that as an ideal, and therefore, there is no country that meets every condition all of the time. Nevertheless, democracy is clearly more than having regularly scheduled elections. Since we cannot find a universally applied definition and there are many variations, scholars compare the quality of democracy utilizing various methods—quantitative and qualitative. For example, a democracy based on elections alone that limits either participation or civil liberties is often referred to as restrictive democracy.²⁸ This form of democracy is the historical antecedent for most of Latin America’s “third-wave” democracies. Since 1972, Freedom House’s annual measurement of the degree of political and civil liberties has been increasingly standardized and used by researchers for comparative analysis.

Finally, Guillermo O’Donnell and Philippe Schmitter conclude that that unlike classical democratic theory, contemporary theory of democracy places the burden of legitimacy on the part elites and professional politicians through a system of representative democracy.²⁹ This paper includes legitimacy as a key variable in efforts to decentralization and support democracy. When evaluating and understanding decentralization in Latin America, we are doing so within a conceptual framework of representative democracy with all of its theoretical weaknesses and in a historical context of restrictive democracy.³⁰

Governability

Conceptually, democracy cannot reach its full potential unless a government can govern and remain in power. Governability is defined as the capacity to manage, generate consensus, and be held accountable.³¹ To be able to do so, Adam Przeworski *et al* have examined the question of the probability of survivability and found that per capita income is “by far the best predictor of the survival of democracies.”³² Therefore, governability also includes a notion of the ability of the government to deliver social and economic development for its citizens and voluntary consent. To govern over the long-term, a democratic government must be able to “come to grips with the substantive problems confronting society.”³³ The question of the relationship between governability and legitimacy (a form of consent) for the most part remains unanswered by scholars and practitioners. Political theorists, such as Weber and Pitkin have developed solid theories, but their application is tenuous at best.³⁴ Latin America has a long history of governments maintaining control through coercive means, but this is not governability. Practitioners have increasingly argued that decentralization is the path to achieving governability and legitimacy.

2. Conceptual framework: *Why decentralization should support democracy?*

There is not a definitive source that provides a conceptual framework for the linkage between decentralization and democracy. When decentralization is derived from internal sources, nominally, decentralization has been a policy to counter the bad experiences with centralization.³⁵ In cases of external pressures for decentralization, it seems that the reason to argue for decentralization is based on the perception that industrialized democracies, such as the United States, are also decentralized. Most often decentralization is promoted as a means to strengthen democracy and improve

governability based on the implicit (rather than explicit) assumptions identified in the below schematic. Political decentralization is promoted as a means to improve both democracy and governability. Economic decentralization is most often oriented to improving governability, especially efficiency. The two must go hand and hand because if political decentralization increases the level of authority (and responsibility) at the local level then the newly elected political officials at the local level should have the resources to meet these demands.

Decentralization...	Leads to	<u>Conditions of Democracy</u> ³⁶
...Reduces tyranny and increase opportunities for competition by bringing democracy closer to the citizen	→	Meaningful and extensive competition among individuals and organized groups
...Broadens the inclusiveness of minority groups	→	Highly inclusive level of political participation
...Increases opportunities for participation	→	Civil and political liberties
Governability		
...Reduces tyranny of the centralist elites by devolving authority	→	Technical and operative capacity of government
...Improves accountability by increasing participation	→	Ability of government to generate consensus and obtain legitimacy
...Improves efficiency and effectiveness of government (government efficacy)	→	Capacity of government to support the economic and social programs of its citizens is increased with increased authority and resources.

Reducing Tyranny and Building Legitimacy. Linked to democratic theory, decentralization should reduce tyranny and build legitimacy, improve the linkage between the government and the governed (participation), and improve government effectiveness in a representative system. However, Robert Dahl presents a key paradox that directly impacts the question of legitimacy in a decentralized democracy:

*“The smaller a democratic unit, the greater its potential for citizen participation and the less the need for citizens to delegate government decisions to representatives. The larger the unit, the greater its capacity for dealing with problems important to its citizens and the greater the need for citizens to delegate decisions to representatives.”*³⁷

Mill highlights two fundamental questions: size of the political unit and the ability of the government to represent its citizens. Does a small political unit create a demand that cannot possibly be met due to the composition of the unit?³⁸ His observation is not unlike the principle of economies of scale. An important criterion for decentralization is that the unit cost of government should not be increased beyond the value added in terms of service. Studies of the predominant condition of the African state have found that in Africa the unit cost of government has increased in proportion to the

decrease in service as *de jure* and *de facto* government exists side by side.³⁹ There are two repercussions that result from the inability of a democratic government to meet demands effectively: opportunities for capture and loss of legitimacy. In terms of economic decentralization, the result can be operating at a sub-optimal level—thereby a reduction in governmental as will be further examined below.

Classical democratic theorists have been most concerned about the prospects for tyranny of the majority. In the case of Latin America, historically, tyranny of an elite majority has tended to be the most prevalent under authoritarian circumstances. In most Latin America countries, governments have derived legitimacy from coercion (during military rule) and/or patronage systems rather than meaningful competition or government effectiveness. Democracy and decentralization as a policy is designed to alter these historical factors. Through institutional provisions and proportional representation, the majority is to gain political power and participate.

Contemporary political scientists studying transitions and consolidation have provided conceptual and empirical arguments that legitimacy in a democracy is derived from two main sources. The first is from the rules and procedures that are followed and reflect the notion of democracy being the “only game in town.” The second is that to maintain legitimacy, a government must be able to respond to the demands of diverse groups and be inclusive. This does not mean that the needs of all groups are met. It means that there is an arena to mediate the inevitable conflict in a political system in which the diverse groups are represented. In most cases in Latin America, the citizen demands include policies to support economic development. Today in Latin America, a government’s effectiveness is increasingly being measured based on the economic factors. For the purposes of this paper, government effectiveness will be analyzed separately from legitimacy, even though they are deeply intertwined.

Citizen Participation. Citizen participation and representation are central tenets of a contemporary theory of democracy. The classical definitions of democracy (“rule by the people”) requires that the people rule. Today, direct democracy is a myth. Yet, there is a general notion that at the local level citizens are more likely to achieve direct democracy. Alexis de Tocqueville’s study of democracy in the United States and his findings on the importance of civil society on the success of democracy has been a theoretical foundation for much analysis. Studies throughout Latin America have shown the link between the organizational dynamic of civil society and politics.⁴⁰ Studies also suggest that citizens are more actively involved when their vital interests are at stake.⁴¹ John Stuart Mill was an early proponent for municipal and provincial representation. His argument, which still applies is that at the local level citizens can participate more easily and have their interests represented. The logical argument is that local representation improves citizen access to government and that access improves governmental accountability. If a government is responsive to its citizen it will protect its interest and civil liberties. Ergo, democracy is strengthened.

Government Effectiveness. Based on a liberal, market-based approach, decentralization entails a rational division of authority and resources between the national government and local governments that improves the ability to govern. Ideas about governance and development theory during the 1970s and 1980s have led to arguments that decentralization is normatively good and supportive to democracy because it reduces state intervention in favor of functional decentralization.⁴² In Latin America, a factor of decentralization has been adoption of liberal economic policies based on a

central tenet that the level of state intervention should be reduced.⁴³ Decentralization puts the market into governance and provides citizens with two options—exit or voice. Albert Hirschman bridged the gap between political and economic theory when he demonstrated in his 1970 book that voice (or participation) as an option to force change is strengthened when a citizen has the option of exit.⁴⁴ With the ability for differentiated services at the local level through decentralized governance, citizens can express dissatisfaction by voicing their demands or even leaving. Decentralization is designed to “achieve the market goals of efficiency, rationalization, and discipline.”⁴⁵

3. Hypothesis Test: Does decentralization have a positive influence on Democracy?

Unlike most other Latin American countries, Costa Rica has had “a constitutional, representative, republican (liberal) government with a high correspondence between the actual governance of the system and the formal political arrangements described in its constitution” since 1949.⁴⁶ There are historical reasons peculiar to Costa Rica that have made this possible, including a notion of equalitarian past, an elite class who has been willing to compromise, and political leaders who made sometimes difficult to explain decisions. Scholars have argued that these historical reasons have enabled Costa Rica to weather the ideological turmoil of the Cold War. Yet, during the 1990s, Costa Rica was characterized as among the Latin American countries with the strongest centralist tradition.⁴⁷ In fact, until December 1, 2002 mayors were appointed city managers rather than elected. Therefore, a democracy has existed without a high-level of decentralization. *Is Costa Rica an exception?*

If decentralization strengthens democracy, then the level of democracy should be superior in a country with a high level of political decentralization. The same should hold in a country with a high level of fiscal decentralization. It is possible to test this hypothesis quantitatively. For this analysis the dependent variable is the level of democracy measured by the annual average score of the Freedom House index of political and civil liberties.⁴⁸ Two separate equations are tested. The first (Equation 3.1) tests the independent variable of political decentralization. There is no definitive or widely disseminated classification system for level of decentralization. I have utilized the classification system identified in Table 1 and updated the information for 1996-2002⁴⁹ for the 18 countries. The second (Equation 3.2) tests the independent variable of fiscal decentralization. Tables 1 and 2 identify how the index was constructed for each case. The results for each of these equations are displayed in Table 3.

The results show there is an inverse relationship between the level of democracy and the level of decentralization (both political and fiscal) that is statistically significant. *This leads to the question, why?* Case studies are a tool for identifying key variables that may be generalizable. The following section briefly examines three cases—Argentina, Bolivia, and Costa Rica. As discussed, Argentina and Bolivia were selected because they are two countries that faced crises of governability. Argentina is an example of a federal system that is highly decentralized. Bolivia is a non-federal system, which using the Ellis *et al* classification system is moderately decentralized politically. However, as mentioned above and to be evaluated in the case study, Bolivia has been implementing a significantly decentralization program since 1994. Costa Rica was selected because it is a negative case. It is a country with one of the best democracy ratings in Latin America and has only recently begun to decentralized politically.

Table 3: Effect of Political^a & Fiscal^b Decentralization on Quality of Democracy^c, 1996-2002:

Results of Ordinary Least-Squares Regression		
	<u>LEVEL OF DEMOCRACY</u>	<u>LEVEL OF DEMOCRACY</u>
	<u>3.1</u>	<u>3.2</u>
Independent Variable		
Intercept	3.495	3.464605
Political Decentralization Index	-.38*** (.11)	-.36** (.17)
	R ² =0.15 n= 72	R ² =0.06 n=72
***p<= .001		
**p<=.05		
Notes: Standard Errors in Parentheses.		
^a Level of Political Decentralization (ordinal) See Table 1		^b Level of Fiscal Decentralization (continuous) See Table 2
High Decentralization=1		Highest Level=1
Moderate Decentralization=2		Lowest Level=3
Low Decentralization=3		
^c Coding Democracy: Source: Freedom House, Average of Civil and Political Rights Scores		
Highest Level Democracy=1 Lowest Level Democracy =7		

4. Case Analysis

Three cases have been selected, representing the three ‘levels’ of political and decentralization.

Argentina: Federal System

In 2001, Argentina’s recession turned into economic chaos for the majority of Argentines. Gross Domestic Product (GDP) per capita fell and poverty rates soared dramatically. The country defaulted on its foreign debt. President de la Rúa was forced to resign when Argentines poured into the streets bagging pots demanding accountability. In short, Argentina’s financial crisis led the country to the brink of collapse. Analysis of the crisis has focused on the economic, especially the unsustainable convertibility law and failed economic policies of a failed political class.⁵⁰ The impact on democracy has been mixed. On the one hand, the economic crisis nearly brought “Argentina’s democratic institutions to the breaking point.”⁵¹ On the other hand, democracy survived an economic crisis that few democracies in the world would have.⁵²

This paper does not portend to portray the economic crisis as solely caused by a failure in Argentina’s institutional structures of decentralized governance. However, the role that an unsustainable system of fiscal and political decentralization played in this crisis of governability is significant. In this case analysis, I will focus on examining the conditions that have negatively impacted the three basic conceptual assumptions (reducing tyranny, increased participation, and effectiveness) that decentralization should strengthen democracy and improve governability.

Historical context. The story is mixed. Argentina is a federal system with a long-history of fiscal decentralization. Cleavages between the central government and the provinces have been a driving force over the course of its history on the political regime. Political bargains have been the name of

the game.⁵³ Yet, Argentina's electorate is experienced in voting. Elections of provincial governments have been institutionally mandated during non-authoritarian governments.

Since independence the center-periphery conflict and *caudillos* have been a driving force of politics. The tension between the center and the periphery and the center's attempts of control and intervention over the course of Argentina's history has had a significant impact on the survivability of democracy in Argentina. In a study of the failure of the democracy in Argentina 1916-1930, Anne Potter goes beyond the often-cited explanation that the regime lost its legitimacy to one that includes imbalance in the institutional structures of the federal state, particularly those concerned with the distribution of power vertically and horizontally. Specifically, she concludes that it was the policies of intervention and actions by the center that took away "possibility of survival" from the periphery that led to the breakdown.⁵⁴

Institutional efforts over the course of Argentina's history have been to centralize power in the presidency. However, a basis for revenue sharing (*coparticipación*) and fiscal decentralization has been in place since 1934, existing even under authoritarian regimes when autonomy and political decentralization were not possible. In fact, revenue sharing has shifted back and forth as a political tool used by both the provincial and central governments.⁵⁵ Yet, without sufficient political autonomy among the tiers in a federal system that distributes power horizontally or vertically, the survivability of a democracy system is threatened.

Tyranny and Legitimacy. Kent Eaton's longitudinal examination of the decentralization-centralization continuum and democratization in Argentina identifies several sources for the shifts. Among the reasons, it is clear that the policy of decentralization often has had nothing to do with reducing tyranny or building legitimacy. Instead, decentralization as a policy in Argentina has represented a power struggle between the central government and the provinces. Ironically, Argentina's historical record confirms the "more general finding in the contemporary period that the democratic election of subnational officials unleashes a powerful force for decentralization."⁵⁶ However, the subnational leadership has not reduced tyranny, improved citizen participation, or government effectiveness throughout the country. Notwithstanding, there is significant variation across the country. Provinces such as Mendoza received a score of 40 based on a Fiscal Institution Index while others such as San Juan received only a 10.⁵⁷ There are some provinces that have better records in terms of fiscal institutions that relate to legitimacy. For example a Fiscal Institution Index constructed in 1997 ranked the province of Mendoza the highest with a core

Beyond the power struggles between the center and the periphery that have been constant in Argentina, there are reasons why decentralization has not always been supportive of democracy in the country in the aggregate. These include the uneven distribution of resources, differences in power, and gaps in standard of living among the provinces and, in particular, between the provinces and the center. For example, non-metropolitan provinces have representation in the national government that exceeds their population, especially when considering that 80 percent of the population lives in urban areas.⁵⁸ More than once over the course of Argentina's history of revenue sharing the spending of the provinces have exceeded their resources, resulting in the need for some sort of action from the national government. Prior to the 1994 reforms, during the Alfonsín administration, the "center appeared to lose control of intergovernmental finances altogether."⁵⁹ During this same period, the interests of the provincial elites were unequally represented in the

national government (particularly the Congress) and reflected a system that over time has tended to favor the most backward and low population density provinces. Although the reforms of 1994 and actions taken during the Menem administrations reduced the imbalance, a 1999 study on malapportionment by Alfred Stepan found that across three indicators “Argentina is the worst case.”⁶⁰ The “provincial profligacy has figured prominently in the literature on Argentine economic performance in the 1990s.”⁶¹

Citizen Participation. In Argentina, due to low levels of social trust and general low levels of participation in civil society, it is not clear whether the opportunity for citizen participation will necessarily transform into supporting democracy.⁶² Opportunities for participation beyond the vote exist in Argentina.⁶³ Yet the population is so disgusted with government that it is unclear if increased participation will achieve the desired results.

There is a recent example. Citizens of Buenos Aires voted for their mayor for the first time on June 30, 1996. This change resulted from a constitutional change of 1994 that also allowed for the reelection of the president (and led to Menem’s second term). As Merilee Grindle points out decentralization was not a campaign issue, nor was it something political parties demanded; instead, most Argentines viewed it cynically as a deal made.⁶⁴ Consequently, increasing suffrage and decentralizing political accountability may appear to on the surface mean that participation has increased, but it has only been superficial in this case. The relationship between voting and democracy in Argentina has been weak. One reason could stem from the obligatory nature of the vote during so many years of restrictive democracy.

Governmental Effectiveness. The events of 2001 seem to be further evidence that the central government did not have control over monetary policy and that the decentralized system of governance had reached an extreme case. The Province of Buenos Aires (the country’s largest) resorted to instituting its own script (*patacones*). In 2001, dollars, pesos, and *patacones* freely circulated and were used as tender by supermarkets, taxi drivers, and gas stations. Beyond the fall in per capita income and the rise in poverty, four of the six indicators of governmental effectiveness reflect a downward trend in Argentina since 1996 as measured by the World Bank Institute.⁶⁵

The genesis of much of the notion of accountability and representation began with the principle of taxation. The ability of many of the provincial governments in Argentina to effectively collect taxes (and not be dependent on the federal government transfers) is entirely dependent on the financial viability of their provinces.⁶⁶ The institutional structure of inter-governmental transfers in Argentina has not provided significant incentives for local governments to necessarily form the bond with their citizens that might be possible. In fact the structure makes it very easy for provinces to free ride, particularly the smaller provinces in terms of population density.⁶⁷ Sebastian Saiegh and Mariano Tommassi found in analyzing the period of 1985-1995 that only 35 percent of provincial expenditures were financed by local taxes, and that ten provinces in fact financed less than 15 percent of what they spent.⁶⁸ This trend has continued with eight provinces financing less than 20 percent of what they spent in 2000 with their own tax resources.⁶⁹ This link between accountability, effectiveness, and taxation appears to hold up to statistical analysis. In a study of the effects of decentralization on human development indicators, the Yale University Economic Growth Center found that even in spite of the general improvement in the indicators across provinces “that tax

revenues collected at the provincial level tend to have a stronger effect on accountability and, thus, on the performance of [...] human development indicators.”⁷⁰

Fiscal decentralization in Argentina has often increased the authority of the governors, but has had the “unintended” consequence of allowing the governors to use revenue transfers to build their own patronage networks in the ever-growing provincial bureaucracies.⁷¹ For example, in one impoverished province over 40 percent of the total employment was in the public sector (over 20,000 people). Eighty-four percent of its provincial budget was from the national government.⁷²

The Argentina case provides a clear illustration of some of the challenges facing decentralization in countries with unresolved balance of power issues. Saigh and Tomassi note that “one of the salient dimensions of Nation-provinces conflict in recent times has been the use by the central government of the idea of “precoparticipaciones”; that is, amounts which are subtracted from the pool of coparticipation funds, for some particular use (oftentimes related to spending responsibilities of the federal government).”⁷³ Decentralization does not necessarily lead to a “good” system of representation, nor does it directly provide for meaningful competition and inclusive participation in such an environment.

Bolivia: Constructed Decentralization

Decentralization in Bolivia started with the 1994 Popular Participation Law, which was designed by a small group of intellectuals and politicians in just eight months. At the time, then President Gonzalo Sánchez de Lozada was a strong advocate of the decentralization plan as a solution to three basic problems: 1) nationalist legitimacy, 2) corruption, and 3) regionalism. In October 2003, Sánchez de Lozada was forced to resign following deadly demonstrations. The Bolivia case is a vivid example of how decentralization—at least as implemented to date—has not been able to ensure governability (although democracy has survived) or deliver on promises of improved governmental effectiveness. Decentralization has achieved the objective of increasing citizen participation.

Historical context. Unlike Argentina, Bolivia does not have a long history of decentralized authority at the subnational level. Prior to the 1994 Popular Participation Law (PPL), two-fifths of the country’s population had been excluded from rights of representation at a local level of government.⁷⁴ At the time of decentralization, one architect said it succinctly, “in a strict sense, the municipality [did] not exist in Bolivia.”⁷⁵ Those municipalities that existed were largely urban with much of the rural areas without local government. Fragmentation of the political system and problems of governability were endemic. The country had 41 presidents from 1880-1980 and 418 political parties were created between 1958 and 1989.⁷⁶ Bolivia has also been one of the poorest countries of South America. Its Purchasing Power Parity was only \$2,000 per capita at the time of decentralization in 1994 (measured in 1995 dollars)—far below the Przeworski’s threshold for survivability (\$4,115).⁷⁷ Criteria for the establishment of a municipality was debated by the PPL’s architects. Many were concerned that the history of municipalities as urban-based was problematic. Consequently, more than a spatial designation, municipalities were to be constituted relative to economic exploitation by a community.⁷⁸ Yet, the result was that boundaries were drawn so that 85.5 percent of the municipalities have a rural majority even though 58 percent of the total population is urban.⁷⁹ The size of the municipalities is a constraining factor when considering socio-economic development, capacity to manage budgets, and implement projects. Eighty-eight percent of the municipalities have a population of less than 25,000.⁸⁰

Tyranny and legitimacy. As of July 2004, there are 317 (increased by two since March 2004) with well over one-half having been created over the last decade.⁸¹ Yet, it is unclear if either nationalist or local legitimacy has been strengthened. Representation at the local level is elected, but due to party system fragmentation candidates seldom win a majority. For example, Hiskey and Seligson found that few municipal elections produced an absolute majority of the votes. In these cases, the law requires that the municipal council select the mayor. In practice this means that final selection of mayors is determined by a difference in votes of one or two council members and is the result of “back-room bargaining among local elites and national party officials as a means to gain control over local government.”⁸²

Voter turnout for second order elections has been widely studied and is less than for national elections. However, as Lijphart argues even in unitary and centralized systems second-order elections is not entirely unimportant.⁸³ Unlike Argentina, effective turnout improved immediately following the PPL. However, the fragmented party system and general distrust in political parties have resulted in less than meaningful competition. A survey prior to decentralization (1993) showed that political parties were the least trusted institution.⁸⁴ The 2002 Latinobarómetro survey revealed similar results with only nine percent of Bolivians having confidence in the political parties (among the lowest in Latin America).⁸⁵ If the political parties are the system for meaningful competition, it is clear that nearly ten years of decentralization have done little to improve them.

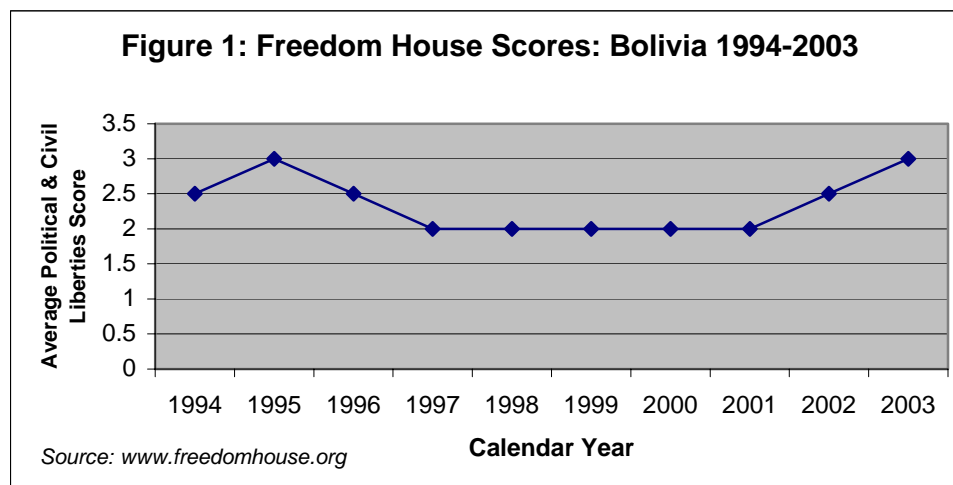
Citizen Participation. As its name indicates the law that decentralized Bolivia was designed to increase popular participation. Several institutional structures were developed to ensure participation and control of the locally elected officials. When considering Sánchez de Lozada’s hope that by diffusing power that corruption could be better controlled, these institutional structures make sense. There are two mechanisms that are particularly relevant to citizen control of their representatives. The PPL includes a provision of allowing the municipal town council to remove an elected mayor with three-fifths majority vote, referred to as the “*voto constructivo*.” The provision was designed to enhance accountability. However, Hiskey and Seligson find in their analysis of decentralization in Bolivia that the *voto constructivo* has been most often to remove mayors of the opposition rather than for reasons of corruption.⁸⁶ This was the case in 1997 when 29 percent of the mayors were removed.⁸⁷ This trend has continued. Consequently, they conclude that “[w]hen local governments are unable or unwilling to match the rhetoric of decentralization, or when a specific institutional feature designed to promote clean government or accountability becomes merely another weapon, a particularly powerful one at that, in partisan warfare, citizen feelings of disenchantment and disillusionment with their political system are likely to increase.”⁸⁸ Turnover and lack of municipal leadership is particularly damaging to the perception among citizens of the effectiveness of decentralization. It is not uncommon that municipal buildings are closed, even in the metropolitan area of La Paz. The PPL also instituted the Citizen Oversight Committee. Oversight Committees composed of representatives from local civil society groups have the ability to have disbursement of public funds suspended. Yet studies show that ultimate effect these committees have on democracy at the municipal level is mixed and based on a multitude of factors.⁸⁹

Citizen participation and civil society have been strengthened as a result of the PPL. Decentralization has also provided new routes to political power with an increase in the number of local and regional offices by a factor of eleven. As a result of the 1995 municipal elections, the coca

grower's peasant union (*cocaleros*) achieved national prominence.⁹⁰ As a new and vocal representative of the previously excluded, the *cocaleros* led by Evo Morales have significantly altered the "formality of electoral, political party, legislative agenda" and introduced the "the reality of street mobilization."⁹¹ Although decentralization was not the only reform made during Sánchez de Lozada's 1993-1997 term, it has contributed to new political power centers. Gamarra concludes that it is clear that Sánchez de Lozada "could not tame the forces that he unleashed."⁹²

Governmental Effectiveness. At the time of decentralization, those in the national government were concerned about the potential disintegration of the nation if the political authority of the elites in the departments was increased. Fear of the role of political parties at the local level is complex and has a large impact on the effects decentralization has on democracy. A case study of one municipality of Viachan in Bolivia found that "local parties were mere franchises of their national organizations[,] were not mechanisms for aggregating individual preferences and transmitting them to the institutions of local government, nor did they champion local causes."⁹³ The same problems, therefore, that exist at the national level can persist at the local level in Bolivia. At the local level, elite control is even easier due to size and reflects the historical traditions of "patrons" and their citizens. In Viachan, pet projects of the mayor can become the rule of the game, perhaps to reward the mayor's supporters. Even if the local governments are not corrupt or politically oriented in their policies, the institutional structure of decentralization and the relationship between the government and its citizens is not automatically resolved.⁹⁴ A main concern in Bolivia has been the ability of the municipal governments to deliver services. Due to the unit size and rural constitution of the majority of the municipalities, this is not an unfounded concern. In addition, Hiskey and Seligson found utilizing rigorous analyses of survey data that the removal of mayors under the *voto costrutivo* did impact the level of services, but more importantly the perception and confidence in local government.⁹⁵

Since decentralization has occurred, four of the six indicators of governmental performance as measured by the World Bank Institute have not improved significantly. Since decentralization was initiated in 1994, the level of democracy at the national level has not significantly improved as measured by Freedom House (see Figure 1). Freedom House scores countries on political liberties (PL) and civil liberties (CL) on a scale of 1 (one) to 7 (seven). The average score is then utilized to define if a country is free, partly free, or not free. An increase in the score signals the deterioration in political and civil liberties.



Like Argentina, Bolivia provides a vivid picture of the consequences of an unresolved balance of power between the center and periphery and weak systems of representation in a decentralizing country. Unlike Argentina, citizen participation does seem to have improved. Yet, governmental effectiveness and legitimacy remain problems.

Costa Rica: Centralized Geographically—Decentralized Among Branches of Government

As already examined, Costa Rica has a long history of democracy at the national level. However, Costa Rica in terms of both political and fiscal decentralization it is one of the most centralized. Political authority and power is centralized geographically. A unitary state, it is divided into seven provinces. Provincial governments are “ephemeral.”⁹⁶ Politically the country is divided into 81 *cantones*. From 1913 until December 1, 2002 elected municipal councils governed at the cantones level. These bodies, however, have had few responsibilities.⁹⁷ In 1970, municipal councils gained the authority to appoint their executive (president). The municipal executive position was transformed into the position of mayor as late as 1998. It was not until the December 1, 2002 elections that the position of mayor was elected directly by its constituents. Real decentralization of responsibility did not take place until the municipal reform of 2002.⁹⁸

In spite of the relative concentration of power in the capital city, Costa Rica has one of the most decentralized governments in Latin America in terms of the devolution of real power among the branches of government (executive, legislature, judicial) and major autonomous institutions.⁹⁹ As examined the hope for a policy of decentralization has been to increase legitimacy and reduce tyranny, increase citizen participation, and improve government efficacy. To date, Costa Rica has achieved each of these objectives without being decentralized. Since 1972 when the first rating by Freedom House is available, Costa Rica’s average score of political and civil liberties has not been higher than 1.5.¹⁰⁰

In the next few sections, utilizing the same categories as the Argentina and Bolivia cases, I will briefly highlight several of the major factors of how Costa Rica as a centralized country has been able to maintain its quality of democracy over so many years. This is by no means an exhaustive examination. Ironically American political scientists have not extensively studied the success democracy in Costa Rica. The scholarship has not by any means reached a consensus of why democracy has been an exception. Empirical research of recent years has challenged the Costa Rican myth, which found in Costa Rica’s history a higher level of equalitarianism in its past.¹⁰¹ An *American Political Science Review* article of the 1998 books by James Booth and Bruce Wilson observes that in spite of the obvious interest scholars should have in studying the political, economic and social institutions that support Costa Rican democracy that there have been few comprehensive texts.¹⁰² Andrew Nickson’s 1995 *Local government in Latin America* includes only a brief chapter on Costa Rica. As a result of this relative lack of secondary research, the following conclusions provide a general basis for comparison as a negative case, but cannot be taken as definitive.

Legitimate Centralized Government. Unlike the cases of Argentina and Bolivia, Costa Rica’s centralized government has been able to achieve a relatively high level of legitimacy among its citizens.¹⁰³ One reason that is commonly cited is that as a result of the 1948 constitution and subsequent decisions by key leaders in Costa Rica’s history that there is a greater level of devolution of power among all of the branches of government.¹⁰⁴ This has resulted in a decreased power of the presidency, especially compared to other Latin America countries.¹⁰⁵

Regional surveys seem to support the conclusion that the democracy and democratic institutions in Costa Rica are perceived as legitimate. For example, Costa Rica has consistently ranked among the highest in terms of percentage of citizens who prefer democracy and are very satisfied or fairly satisfied with democracy.¹⁰⁶ Likewise, Costa Ricans have demonstrated relatively high levels of confidence in their democratic political institutions (congress, parties, judiciary, public administration, and presidency).¹⁰⁷ Table 3 summarizes these conclusions. It is interesting to note that in reference to the question of whether democracy is always preferable that the ranking of both Argentina and Bolivia decreased from the average for 1996-2000 to 2001. This reflects the increasing problems of governability already discussed in this paper.

Table 4: Rankings Among 17 Latin American Countries: Support of Democracy, Satisfaction, and Confidence in Democratic Political Institutions

	Democracy Preferable 1996-2000 (Ranking)	Democracy Preferable 2001 (Ranking)	Satisfaction 1996-2001 (Ranking)	Confidence 1996-2001 (Ranking)
Uruguay	1	1	1	1
Chile	12	8	8	2
El Salvador	9	17	8	3
Costa Rica	2	2	2	4
Honduras	11	5	5	4
Venezuela	8	4	3	6
Panama	4	15	6	6
Mexico	15	9	11	8
Nicaragua	5	10	10	9
Brazil	17	16	14	9
Peru	6	3	16	11
Guatemala	16	14	7	11
Colombia	10	12	14	13
Argentina	3	5	4	14
Bolivia	6	7	12	14
Ecuador	14	11	12	16
Paraguay	13	13	17	n/a

Source: J. Mark Payne, et al. *Democracies in Development: Politics and Reform in Latin America*. (Washington, DC: InterAmerican Development Bank, 2002), See Tables on pages 31, 34, and 38; compiled from survey data from Latinobarómetro.)

Citizen Participation. By increasing the level of authority at the local level, the theory of decentralization contends that citizens are able to have increased levels of participation. The case of Bolivia suggests that citizen participation can increase with decentralization. In Costa Rica, however, citizen participation has been achieved without decentralization. Wilson concludes that the relative insignificance of local government is reflected by the tendency for Costa Ricans to approach their deputy in the Legislative Assembly rather than their municipal council representative.¹⁰⁸ What is important is that levels of participation are relatively high. Booth in his analysis of political

participation in Costa Rica during the same period finds that Costa Ricans have been participated at levels comparable to industrialized countries.¹⁰⁹

Government Effectiveness. The ability of democracy governments to provide services to their citizens has proven to be an important variable when studying democracy. As will be examined later in this paper, several indices have been developed to measure governmental effectiveness. The World Bank Institute identifies several qualitative-indicators based on survey responses of regarding public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies.¹¹⁰ Among its Latin American peers in terms of World Bank income level classification (upper middle income), Costa Rica was only behind Chile in terms of the point estimate for governmental effectiveness. Although Costa Rica has been one of the most centralized governments politically and in three of the four components of the fiscal authority index introduced in Table 2 receives a low ranking, in terms of utilizing its own resources to provide services it has one of the highest levels averaging 95% through 2002. One reason is the budgets of municipalities are relatively small and largely funded by fees for services. Nevertheless, the question of the relation of own resources and governmental effectiveness merits additional research.

By looking at the institutional structures present in Costa Rica, notwithstanding its centralized level of government, it is possible to identify several potential reasons (beyond economic determinism) for why democratic governments in Costa Rica are perceived to be effective even though government is not "close" to the people in terms of decentralized political power. First, since 1925, Costa Rica has developed a relatively large number of Autonomous Institutions, which are semi-independent government agencies that have responsibility over specific services.¹¹¹ Wilson argues that the advantages of this form of service delivery for Costa Rica include devolution of power from the executive branch to technocratic agencies, ability of technical experts to operate outside of the political system, and a method to protect turnover of political appointees prevalent in other Latin American countries.¹¹² These institutions have not been without their problems, but overall have been effective at delivering services. Second, the openness of participation whether directly by citizens or through groups is considered high in Costa Rica. In a 1995 urban survey, 77 percent perceived that they had complete freedom to participate. More importantly, 77 percent perceived that they received at least regular or better treatment by government officials.¹¹³ Finally, the relative balance of power among the three branches of government (executive, legislature, and judicial) has been consistently recognized as an important attribute of democracy in Costa Rica. As already examined because power is devolved among these institutions, Costa Rican democracy has been able to generate high levels of satisfaction when compared regionally.

Decentralization is the Future. During the 1990s, partly due to international pressure and partly due to internal considerations, the central government began to implement decentralization reforms. Up until the 1990s, Costa Rica did, to some extent, have a deconcentrated delivery of services through the Autonomous Institutions described above. However, revenue transfers were a minimum and the effective power and authority at the municipal level was relatively weak. The decentralization reform process in Costa Rica has followed trajectories similar to other non-federal systems by focusing on increasing the level of administrative decentralization and the size of resources distributed to the local level. Recent reforms have resulted in the direct election of mayors—a position only created in 1998; several forms of direct participation, such as referendum and plebiscite; and staggered

elections. In terms of political decentralization side, the recent reforms could be considered sufficient to change the classification of Costa Rica from a country with local political decentralization to one of moderate political decentralization (utilizing the criteria on page 10). I make this classification change only *because Costa Rica is a thriving democracy*. I hesitate in making this change because of the association that much of the literature makes between political and economic decentralization.¹¹⁴

It is still too early to know the full consequences of the recent decentralization reforms. Jeffrey Ryan, a scholar studying the impact of decentralization on democratic stability, is concerned that decentralization will be destabilizing for Costa Rica. He identifies four potential areas of concern, including 1) the impact of decentralization on the Costa Rican party-system, 2) how it may reinforce or mutate clientelism, 3) the potential for inter-municipal conflict and polarization, and 4) the prospects of local government instability.¹¹⁵

These side effects are not dissimilar to the cases of Argentina and Bolivia. Early evidence suggests decentralization has the potential to negatively impact our three conceptual factors of legitimacy, participation, and governmental effectiveness, and ultimately governability. Ryan accounts for these negative consequences by examining the general low level of trust in local or municipal government relative to the national government, and in particular governability. Similar to the case of Bolivia, since institution of the position of mayor the rates of turnover have been significant. In a two-year period (1998-2000), 48 mayors (of a total number of 81) left office either through resignation or removal.¹¹⁶

5. Concluding remarks

Decentralization as a policy to support the strengthening of democracy is being proposed by many donors and scholars alike. However, this research advises caution. Both Argentina and Bolivia have suffered severe crisis of governability. Although decentralization is not the sole cause it was a contributing factor. It is impossible to conduct an experiment to determine if the results would have been different if Argentina and Bolivia had not been decentralized or decentralizing. However, the contrasting case of Costa Rica—one of the last countries to decentralize—presents empirical evidence of significant factors of why a policy of decentralization may fail.

The evidence examined in this paper raises several concerns about the impact of decentralization. First, decentralization will not by itself resolve balance of power problems between the center and periphery. In Argentina, in spite of its long history as a federal state the on-going struggle between the center and the periphery—the capital and the provinces—has shaped many events. In a paper presented at a recent Harvard conference on Argentine politics Sergio Berensztein does not “credit” decentralization policies as strengthening either state and local politics vis a vis their citizens or the center, but rather “it was the combined effect of the federal state’s fiscal crisis, the fragmentation of the main political parties, the decline of union and business organizations, and the overall distrust of public opinion in the prevailing political elites that created a ‘vacuum of power’ at the national level.”¹¹⁷ Tip O’Neill is often quoted as saying that “all politics are local.” However, the cases examined in this paper provide evidence that politics at the national level is also critical.

Second, decentralization does not deliver automatically governmental effectiveness. Citizen participation alone will not create an effective government. The impact studies examined, such as the one on the human development indicators in Argentina and the evaluation done in Bolivia suggest that decentralizing governance can improve governance as the local level. However, anecdotal evidence suggests that the political culture of the local government leaders is particularly important. Institutions (political parties) have not been able to fully reverse the past of *caudillos* and patronage systems in Argentina.

This paper has argued that decentralization confronts the same challenges democracy has faced for years: issues of legitimacy, accountability, and effectiveness in a representative system. The evidence is clear. Decentralization is not a panacea and under some conditions may be deleterious. As a policy it must go beyond building civil society and training mayors in financial management. Intergovernmental relations, fiscal policy, and governmental effectiveness are essential. There is not a one-size-fits-all policy of decentralization.

Next Steps

The decentralization processes have been significantly different in Argentina, Bolivia, and Costa Rica. Areas for future research should focus on two complementary tracks. The first is at the level of theory.

Democratic political theorists have considered in depth the issue of how to hold the government accountable to its electorate. Utilizing Pitkin's "accountability" model of representation versus an authorization based model, it becomes possible to evaluate the crisis in the electorate in Argentina based on the shift from authorization based legitimacy to that of demanding accountability.¹¹⁸ As legitimacy falters and accountability becomes impossible to achieve, democracies face a potential crisis. Strong institutions (beyond elections) can be a mitigating factor to system collapse. Yet, we do not often see these in Latin America. It is unclear the effect that decentralization has on this process. The results of this paper would suggest that it may in fact be a contributing rather than mitigating factor. Decentralization theory and its push to install various levels of citizen participation is a direct challenge to the ability of elections to serve as the sole method of accountability. Clearly, elections are not sufficient. What Guillermo O'Donnell has termed *vertical and horizontal mechanisms of accountability* is important. In Latin America (and elsewhere), the electorate, is out of frustration, demanding a tool other than the ballot box. They are seeking accountability versus giving their elected officials a "blank check," which requires a "combination of institutional and non-institutional mechanisms to assure that representatives are held accountable throughout their period in office."¹¹⁹ This is contributing to civil unrest and presidential resignations. In Costa Rica forms of political participation and accountability are more developed, and therefore, legitimacy levels have been higher.

The second area of research relates to work we do as development professionals and is focused on the practical (or technical questions) of institutional design and implementation. Here studies and research on these issues in the United States and Europe may be a source of explanation. For example, conclusions of the case studies and other research critical of decentralization based on a U.S. federal model suggest that balance of power, and systems of intergovernmental transfers affect governmental effectiveness and quality of democracy. For example, Richard Synder and David

Samuels speculate that “malapportionment could compel pro-democratic elites at the national level to tolerate subnational authoritarian enclaves, because these elites may rely on overrepresented, non-democratic localities to secure the national legislative majorities they need to achieve their policy goals.”¹²⁰ Both the Argentina and Bolivia cases reveal that cleavages between the national government and subnational governments, and malapportionment have been destabilizing. The inequality in terms of fiscal policy among the levels seems to be significant. Revenue-sharing formulas may be less about getting the ‘right’ economic structure and more about political power and institutions. All of these technical issues are summarized in Table 5, and represent areas for additional research.

Table 5: Potential Independent Variables	
Independent Variable	Applicability and Expectations
Government Effectiveness	The ability of governments to generate legitimacy and provide services to citizens in a democracy is fundamental. Decentralization must be able to deliver governmental effectiveness or else democracy can be negatively impacted.
Balance of Power	As the cases have examined, cleavages between the national government and local governments can be destabilizing. The study of malapportionment and representation at the national level is not new. Decentralization in a system that reflects this imbalance can further exacerbate deep-rooted conflicts.
Relationship of size to type of institutions	In Latin America, the two countries with the best Freedom House scores are small, unitary systems. As examined there is a general belief that large, federal systems are less stable. Argentina proves this point. Decentralization should improve representation at the local level in large countries and should be more manageable in smaller countries
Tax Share: Own Resources & Overall Share	The Argentine case in particular presents an extreme case. The country has the highest level of expenditures at the subnational level and highest level of coparticipación. However, level of funding by own resources is low, especially when compared to Costa Rica (c95%) and Brazil (c40%). Likewise the level of tax shares is only at the moderate level.
Intergovernmental transfer regime	Intergovernmental transfers can be both a positive and negative in terms of decentralization. For example, automatic and non-conditional transfers can be considered as demonstrated that subnational governments have autonomy. However, they also create a dependency and can affect the level of own resources.

¹ Inter-American Development Bank (IDB). *Development Beyond Economics: Economic and Social Progress in Latin America, 2000 Report*. (Baltimore: Johns Hopkins University Press, 2000), p. 193

² Shahid Javed Burki, Guillermo Perry and William Dillinger, et al. *Beyond the Center: Decentralizing the State*. (Washington, DC: The World Bank, 1999), p. 32; and IDB, p. 193.

³ Larry Diamond. *Developing Democracy: Toward Consolidation*. (Baltimore: Johns Hopkins University Press, 1999), pp. 124-125.

⁴ Jonathan Hiskey and Mitchell A. Seligson. “Pitfalls of Power to the People: Decentralization, Local Government Performance, and System Support in Bolivia,” *Studies in Comparative International Development*, Vol. 37, No. 4 (Winter 2003): p. 66.

⁵ Costa Rica is also examined because it is a case of a country with a history of democracy that is not decentralized.

⁶ Ken Eaton and J. Tyler Dickovick. “The Politics of Re-Centralization in Argentina and Brazil.” *Latin American Research Review*. Vol. 39, No. 1 (2004), pp. 90-122.

⁷ Merilee Grindle. *Audacious Reforms: Institutional Invention and Democracy in Latin America*. (Baltimore: Johns Hopkins University Press, 2000), p. 28.

⁸ Germán Gutierrez Gantier. “La Descentralización, un mecanismo de gobernabilidad” in *Hacia el Progreso de Descentralización*. Ministerio de Planeamiento y Coordinación Subsecretaría de Desarrollo Socioeconómico, Dirección de Política Regional, Proyecto EMSO/Regional 1992-1993, August 2003.

⁹ *American Heritage® Dictionary Dictionary of the English Language, Fourth Edition*. Houghton Mifflin Company 2002. [Accessed online: <http://education.yahoo.com/reference/dictionary/entries/11/d0071100.html>]

¹⁰ There have been some studies by organizations, such as the World Bank and InterAmerican Development Bank that have examined the state institutions supporting decentralization; thereby addressing political decentralization. See also Kent Eaton. “Decentralization, Democratisation and Liberalism: The History of Revenue Sharing in Argentina, 1934-1999.” *Journal of Latin American Studies*. Vol. 33, No. 1 (1 February 2001): 1-28.

¹¹ Eduardo Wiesner. *Fiscal Federalism in Latin America: From Entitlements to Markets*. (Washington, DC: InterAmerican Development Bank, 2003), p. 117.

¹² This is even the case for Bolivia, a country considered to have an innovative system of decentralization. For example, the national government still exercises control over the procurement process.

¹³ Andrew Nickson, *Local Government in Latin America* (Boulder: Lynne Rienner, 1995).

¹⁴ Alfred Stepan. “Federalism and Democracy: Beyond the U.S. Model.” *Journal of Democracy* Vol. 10, No. 4 (1999), p. 23

¹⁵ Grindle, p. 119.

¹⁶ Arend Lijphart. *Patterns of Democracy: Government Reforms and Performance in Thirty-Six Countries*. (New Haven: Yale University Press, 1999), p.185

¹⁷ Stepan, p. 22.

¹⁸ Article 4 of the Venezuela Constitution (1999) states: “*La República Bolivariana de Venezuela es un Estado federal descentralizado.*”[translation: The Bolivar Republic of Venezuela is a Decentralized Federal State].

¹⁹ Article 1 of the Bolivia constitution states, “*Bolivia, libre, independiente, soberana, multiétnica y pluricultural, constituida en República unitaria, adopta para su gobierno la forma democrática representativa, fundada en la unión y la solidaridad de todos los bolivianos.*” [translated by the author: Bolivia, free, independent, sovereign, multiethnic and multicultural constituted in a Unitary Republic, adopts a representative democracy as its form of government that is founded on the solidarity of all Bolivians]. There is no such article in Costa Rica’s constitution, a country generally classified as unitary.

²⁰The most recent cross-country study of fiscal decentralization that contained data across all 18 countries is an InterAmerican Development Bank. It is cited in almost all research on fiscal decentralization in Latin America.

²¹ *Latin America After a Decade of Reforms. Economic and Social Progress in Latin America. 1997 Report*. Washington, DC: Inter-American Development Bank.

²² The results of a regression analysis indicate that the expenditure percentage is significant at a $p < .01$.

²³ The correlation for the period 1996-2002 is .74 for political decentralization and .64 for fiscal decentralization.

²⁴ This was particularly true for Rousseau and Montesquieu. The Italian City-State and the Greek City-State are often spoken of in this light. Although for each of these, size as the determining factor was less an issue than the political organization of the time.

²⁵ Robert A. Dahl in *On democracy*. (New Haven : Yale University Press, 1998), calls attention to a important qualification regarding the democratic institutions required for a country “[b]ecause all the institutions necessary for a democratic country would not always be required for a unit much smaller than a country,” p. 91; Juan J. Linz and Alfred Stepan in *Problems of Democratic Transition and Consolidation: Southern Europe, South America, and Post-Communist Europe*. (Baltimore: Johns Hopkins University Press, 1996) also refer to “[d]emocracy as a form of government of a modern state,” p. 17.

- ²⁶ Scott Mainwaring. "The Surprising Resilience of Elected Governments." *Journal of Democracy*, Vol. 10: 1999, p. 102.
- ²⁷ Larry Diamond *et al.* *Democracy in Developing Countries: Latin America*, Second Edition. (Boulder: Lynne Rienner Publishers, 1999), p. ix.
- ²⁸ Mainwaring, p. 102.
- ²⁹ Guillermo O'Donnell and Philippe C. Schmitter. *Transitions from Authoritarian Rule*. (Baltimore: Johns Hopkins University Press, 1986), p.59
- ³⁰ Much of classical and early political theoretical examination of democracy dealt with the concepts of deliberation and representation. This debate is probably best summarized by Jean-Jacques Rousseau's view that democracy could only exist in a small unit because that was the only feasible way to reach a general will in contrast to John Stuart Mills' conclusion that representation is the best form of government.
- ³¹ Daniel H. Levine and Brian F. Crisp. "Venezuela: The Character, Crisis, and Possible Future of Democracy." *in* Larry Diamond *et al.* *Democracy in Developing Countries: Latin America, Second Edition*. (Boulder, Colorado: Lynne Rienner Publishers, 1999), p. 419.
- ³² Adam Przeworski *et al.* *Democracy and Development: Political Institutions and Well-Being in the World, 1950-1990*. (New York: Cambridge University Press, 2000), p. 137.
- ³³ Diamond *et al.*, p. 5.
- ³⁴ Max Weber, *Economy and Society: An Outline of Interpretive Sociology*, New York, Bedminster Press, 1968. Weber, an important source for any discussion of legitimacy, excludes rationality, human rights, or natural justice as necessary for a state to be legitimate. Legitimacy is determined by the willingness of the subjected. In this sense a democracy (government of the people) would therefore be by definition legitimate. However, acceptance is given and taken by individuals and groups. It is subjective, yet in practice we require a legal, written basis for a government to be legitimate. *Can legitimacy be granted through the pen?* This paper is not a philosophical examination of legitimacy, but instead raises this question as an important moment of pause for development professionals attempting to create legitimacy.
- ³⁵ Fon van Oosterhout. *Moving Targets: Towards monitoring democratic decentralization*. (Amsterdam: KIT Publishers, 2002), p.13.
- ³⁶ Definitions from Diamond *et al.*, see footnote 28.
- ³⁷ Robert A. Dahl. *On democracy*. (New Haven: Yale University Press, 1998), p.110
- ³⁸ This question in no way refers to the Large versus Small State compromise of the constitutional convention in the United States discussed in Russell Hardin. *Liberalism, Constitutionalism, and Democracy*. (Oxford: Oxford University Press, 1999), Ch. 3.
- ³⁹ John A. A. Ayoade. "States Without Citizens: An Emerging African Phenomenon." *in* *The Precarious Balance: State & Society in Africa*. eds. Donald Rothchild and Naomi Chazan. (Boulder: Westview Press, 1988), p. 115.
- ⁴⁰ See Wayne A. Cornelius. "Urbanization and Political Demand-making: Political Participation Among the Migrant Poor in Latin America," *in* *The Citizen and Politics: A Comparative Perspective*, edited by Sidney Verba and Lucien W. Pye. (Stamford, CT: Greylock Publishers, 1978).
- ⁴¹ This is referenced in Shahid Javed Burki, *et al*, p. 32 and attributed to Alberto Hirschman. *Exit, Voice and Loyalty*. (Cambridge, MA: Harvard University Press, 1970).
- ⁴² See Eaton, 2001.
- ⁴³ Arthur Morris. "Decentralization: The Context." *In* *Decentralization in Latin America: An Evaluation*, edited by Arthur Morris and Stella Lowder. (New York: Praeger, 1992), p. 11.
- ⁴⁴ See Alberto O. Hirshman. *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*. (Cambridge: Harvard University Press, 1970).

- ⁴⁵ Jeffrey Ryan. "Decentralization and Democratic Instability: The Case of Costa Rica." *Public Administration Review*. Vol. 64, No. 1 (January/February 2004), p. 81
- ⁴⁶ John A. Booth. "Costa Rica: The Roots of Democratic Stability." in Larry Diamond *et al*, p. 429.
- ⁴⁷ See Jeffrey J. Ryan., p. 82.
- ⁴⁸ See www.freedomhouse.org for additional information.
- ⁴⁹ I updated the data for each country by reviewing all of the related constitutional changes for each of the 18 countries and secondary sources as cited in Table 1 to determine those countries with significant changes. Since December 2002 there have not been any reforms that have altered the classification of any single country.
- ⁵⁰ James E. Mahon, Jr. and Javier Corrales. "Pegged for Failure? Argentina's Crisis." *Current History*. Vol. 101, No. 652 (February 2002), p. 72.
- ⁵¹ Steven Levitsky and María Victoria Murillo. "Argentina Weathers the Storm" *Journal of Democracy*. Vol. 14, No. 4 (October 2003), p155.
- ⁵² Freedom House average ratings for the period 2000-2003 were 1.5 (2000); 3 (2001); 3 (2002); 2 (2003). Source www.freedomhouse.org, all scores 1972-2003.
- ⁵³ Immediately following independence, there were forty years of internal struggles among *de facto* autonomous provinces and until the acceptance of a national constitution by all provinces in 1860. See Carlos Waisman. "Chapter 3" in Larry Diamond *et al*. *Democracy in Developing Countries: Latin America*. Second Edition, (Boulder: Lynne Reinner Publishers, 1999); Skidmore, T.E., and Smith, P.H., *Modern Latin America*, Oxford University Press: New York, 2001. Pages: 82-100, 120-135, and Vanden, Harry E and Gary Prevost, *Politics in Latin America* (New York: Oxford University Press, 2002), Chapter 14.
- ⁵⁴ Anne L. Potter. "The Failure of Democracy in Argentina 1916-1930: An Institutional Perspective." *Journal of Latin America Studies*, Vol. 13, No. 1 (May, 1981), p. 108.
- ⁵⁵ See Eaton, 2001.
- ⁵⁶ Eaton, 2001, p. 16* (estimated page number of version accessed via Factiva on 11/13/2003).
- ⁵⁷ See Figure 3.A. *Latin America After a Decade of Reforms*, p. 175.
- ⁵⁸ Sebastián Saiegh and Mariano Tommasi. Argentina's Federal Fiscal Institutions: A case study in the transaction-cost theory of politics. Paper prepared for the conference on "Modernización y Desarrollo Institucional en la Argentina," PNUD, Buenos Aires, May 20-21, 1998, p. 14.
- ⁵⁹ Willis, et al, p. 24.
- ⁶⁰ Sebastián and Tommasi, pp. 5 and 14.
- ⁶¹ Kent Eaton, mimeo, p. 2
- ⁶² The lack of trust in society in Argentina is almost a refrain. There are fairly recent studies targeted to measuring social capital by the World Bank that show that participation in civil society organizations is only at a level of approximately 20 percent. See Daniel Lederman. "Income, Wealth, and Socialization in Argentina: Provocative Responses From Individuals" Policy Research Working Paper 2821. (Washington, DC: The World Bank, 2002).
- ⁶³ *Latin America After a Decade of Reforms*. (Washington, DC: InterAmerican Development Bank, 1997), p. 163.
- ⁶⁴ Merilee Grindle. *Audacious Reforms: Institutional Invention and Democracy in Latin America*. (Baltimore: Johns Hopkins University Press, 2000), pp. 147-151.
- ⁶⁵ See www.worldbank.org.
- ⁶⁶ See footnote 26, p. 30, Kent Eaton. "Menem and the Governors: Intergovernmental Relations in the 1990s." Paper presented at the Conference on *Rethinking Dual Transitions: Argentine Politics in the 1990s in Comparative Perspective*, Weatherhead Center for International Affairs, Harvard University, March 20-22, 2003 [accessed <http://www.wcfia.harvard.edu/conferences/argentinepolitics/papers.asp>], mimeo.
- ⁶⁷ See Mancur Olson. *The Logic of Collective Action*. (Cambridge: Harvard University Press, 1965).

⁶⁸ Saiegh, Sebastián and Mariano Tommasi. Argentina's Federal Fiscal Institutions: A case study in the transaction-cost theory of politics. Paper prepared for the conference on "Modernización y Desarrollo Institucional en la Argentina," PNUD, Buenos Aires, May 20-21, 1998, p. 14.

⁶⁹ CEPAL report: <http://www.eclac.cl/ilpes/noticias/paginas/4/8364/atdescentfiscal.ppt>.

⁷⁰ Nadir Habibi, et al. "Decentralization in Argentina" Center for Economic Growth, Center Discussion Paper No. 825, (New Haven: Yale University, May 2001), [accessed http://papers.ssrn.com/paper.taf?abstract_id=275291], p. 30.

⁷¹ See Eaton, 2001.

⁷² Edward L. Gibson and Ernesto Calvo. "Federalism and Low-Maintenance Constituencies: Territorial Dimensions of Economic Reform in Argentina." *Studies in Comparative International Development*, Volume 35, No. 3 (Fall 2000): p. 42.

⁷³ Sebastián M. Saiegh and Mariano Tommasi. "Why Is Argentina's Fiscal Federalism So Inefficient? Entering The Labyrinth." *Journal of Applied Economics*, Vol. II, No. 1 (May 1999), p. 198.

⁷⁴ Grindle, p. 94.

⁷⁵ C. Rodolfo Mercado Mercado. "4.3.2. Los Municipios y la Descentralización." in *Hacia el Proceso de Descentralización*, p. 232.

⁷⁶ Grindle, p. 97.

⁷⁷ See Przeworski, *Democracy and Development*.

⁷⁸ Mercado, p. 232.

⁷⁹ Grindle. p. 95

⁸⁰ Hiskey and Seligson, p. 70.

⁸¹ Following the approval of the PPL, during a twelve month period almost 200 municipalities were created.

⁸² Hiskey and Seligson,, p. 70.

⁸³ Arend Lijphart. "Unequal Participation: Democracy's Unresolved Dilemma." *The American Political Science Review*, Volume 91, No. 1 (Mar., 1997): pp. 1-14.

⁸⁴ "Encuesta y Análisis sobre la Descentralización Administrativa" Ministry of Planning and Coordination, July 1993.

⁸⁵ In addition, only 52 percent of Bolivians believed that political parties were important for democracy.

⁸⁶ Hiskey and Seligson, p. 70.

⁸⁷ Grindle, p. 89.

⁸⁸ Hiskey and Seligson, p. 85.

⁸⁹ Fauget, p. 27.

⁹⁰ Grindle, p. 141.

⁹¹ Eduardo Gamarra. "Carlos Mesa's Challenges in Bolivia: Will He Succeed Against Overwhelming Odds?" *LASA Forum*. Volume XXXV, Number 1 (Spring 2004), p.4

⁹² Ibid.

⁹³ Jean-Paul Fauget. "Decentralization and Local Government in Bolivia: An Overview from the Bottom Up," *Working Paper No.29* (London: London School of Economics and DESTIN's Development Research Centre, May 2003), p17

⁹⁴ In a speech at a conference held by the United States Agency for International Development on December 10 and 11, 2003 in Washington, D.C. the former mayor of La Paz, Bolivia—immediately following the transition offered an interesting insight into the potential problem of "little kings." The citizens of La Paz would come to his office to ask for his time in much the same way as subjects did in the past of their king. Decentralization produces an institutional structure predicated on the historical "patron-client" relationship that can generate the very opposite of meaningful competition, inclusive participation, and civil liberties.

- ⁹⁵ Hiskey and Seligson, p. 81.
- ⁹⁶ John A. Booth. "Costa Rica: The Roots of Democratic Stability." *Democracy in Developing Countries: Latin America*, Second Edition, in Larry Diamond *et al* eds. (Boulder: Lynne Rienner Publishers, 1999), p. 443.
- ⁹⁷ Until recent reforms, local government has only been responsible for street lighting, garbage collection, fire fighting, and few other minor services. See Bruce M. Wilson. *Costa Rica: Politics, Economy, and Democracy*. (Boulder: Lynne Rienner Publishers, 1998), p. 54.
- ⁹⁸ Luis J. Hall, Gilberto E. Arce, and Alexander Monge N. "Bailouts in Costa Rica as a result of Government Centralization and Discretionary Transfers." Research Network Working Paper #R-475. InterAmerican Development Bank. November 2002. [accessed <http://www.iadb.org/res>], p. 9.
- ⁹⁹ Wilson, p. 55.
- ¹⁰⁰ See www.freedomhouse.org.
- ¹⁰¹ Kirk S. Bowman. "Review Essay: New Scholarship on Costa Rican Exceptionalism." *Journal of Interamerican Studies and World Affairs*. Vol. 41 (September 1998), No. 2, p. 123.
- ¹⁰² Michelle Taylor-Robinson. "Review: John A. Booth, *Costa Rica: The Roots of Democratic Stability* and Bruce M. Wilson, *Costa Rica: Politics, Economy, and Democracy*." *American Political Science Review*. Vol. 93 (June 1999), No. 2, p. 464.
- ¹⁰³ Booth in Diamond *et al*, p. 442.
- ¹⁰⁴ *Ibid.*, pp. 434-439.
- ¹⁰⁵ See Wilson, p. 55 and Booth in Diamond *et al*, p. 442.
- ¹⁰⁶ Payne, *et al*. See tables on pages 31 and 34.
- ¹⁰⁷ Payne, *et al*. See table on page 38.
- ¹⁰⁸ Wilson, p. 54.
- ¹⁰⁹ Booth, 1998, p. 101.
- ¹¹⁰ Daniel Kaufmann. Aart Kraay, and Massimo Mastruzzi. "Governance Matters III: Governance Indicators for 1996-2002." World Bank, June 2003, p.3. [Accessed [<http://www.worldbank.org/wbi/governance/pubs/govmatters3.html>]].
- ¹¹¹ Wilson, p. 54.
- ¹¹² Wilson, p. 56.
- ¹¹³ Booth, p. 133.
- ¹¹⁴ Costa Rica is still significantly centralized fiscal. Even with the 2002 reforms the increase in revenue-sharing is only planned to be 10% with a phased in rate of increase.
- ¹¹⁵ Ryan, p. 81.
- ¹¹⁶ *Ibid.*, p. 89.
- ¹¹⁷ Sergio Berensztein. "When All Politics Becomes Local: Argentina after the Crisis." Paper presented to the Conference on Rethinking Dual Transitions: Argentine Politics in the 1990s in Comparative Perspective, Weatherhead Center for International Affairs, Harvard University, March 20-22, 2003, [accessed: <http://www.wcfia.harvard.edu/conferences/argentinepolitics/papers.asp>], p. 16.
- ¹¹⁸ Enrique Peruzzotti. "Reshaping Representation: Argentine Civil and Political Society in The 1990s." Paper prepared for the conference "Rethinking Dual Transitions: Argentine Politics in the 1990s in Comparative Perspective," March 20-22, 2003, Harvard University, (mimeo), p. 2.
- ¹¹⁹ Peruzzotti, p. 3.
- ¹²⁰ Richard Synder and David Samuels. "Devaluing the Vote in Latin America." *Journal of Democracy*. Vol. 12, No. 1 (January 2001), p. 152.