Introduction

Enthusiasm for, and experiments with, decentralization have swept the world over the past four decades. Theory strongly argues that decentralization should increase citizen voice and participation in the political process, and so make government more responsive and accountable to the governed. These intuitions have prompted a massive policy response across the globe, with an estimated 80-100 percent of the world’s countries experimenting with some kind of decentralization reform.

And yet the empirical evidence in favor is strikingly weak. Literally thousands of studies have yielded scattered successes – a city here, a village there, the odd region. But even these findings are heavily qualified, and arrayed against a large number of failures where decentralization produced indifferent or negative results. Forty years of research has failed to yield a single national success. The bizarre paradox of strong arguments in favor, widespread and persistent policy enthusiasm, and the comprehensive failure of evidence to either support or contradict theory has led many authors to condemn decentralization as a distraction, a mistake, or even a conspiracy.

This book, the culmination of 15 years of research, ends this paradoxical state of affairs. Covering the period 1987-2009, it is a generational study of what happens when a highly centralized country undertakes radical decentralization reform. I use a blend of quantitative and qualitative evidence, which allows me to bring a huge and varied amount of information to bear on a clearly defined question and solve it. The combined strategy achieves a higher-order methodological rigor than either approach can alone, and is itself one of the book’s innovations.

Chapter 1: The Bolivian Decentralization Reform

Prior to 1994 Bolivia was one of the most centralized states in Latin America, with few elected officials of any description at the subnational level, and chains of authority that stretched from the lowest nurse or school teacher in a distant village directly up to the President and his ministers in the Palacio Quemado in La Paz. Decentralization changed this overnight. On July 1, 1994, responsibility for a suite of local public services was transferred, along with 20 percent of all national tax revenues, to 311 municipal governments newly created or expanded to comprise the entire
national territory. A two-tiered system of local oversight and accountability was put into place, and Bolivia became decentralized.

The changes were immediate and dramatic. National public investment patterns shifted from economic production to human capital formation and primary social services. The spatial distribution of resources across Bolivia became far more equitable. And local governments proved far more responsive to objective indicators of local need than central government had been before in: education, agriculture, water and sanitation, health, urban development, and transport. These shifts were disproportionately driven by Bolivia’s smaller, poorer districts, which benefitted from a massive transfer of resources at the expense of the center and cities.

The temporal pattern of investment – very heavy in certain sectors immediately following reform, with other sectors rising in prominence in later years – is highly suggestive. What it suggests is a process of organizational learning in which local governments cut their teeth on comparatively simple, highly visible projects that enjoy broad support such as building schools and town squares. In the process they built capacity in budgeting, bidding, technical oversight, and other skills important to public management. This allowed them to progress to projects that are more complicated, expensive, and intensive in capital and technical skills, such as roads, health clinics, water and sewerage systems, and improving agricultural productivity.

Chapters 2 & 3: Local Government at the Extremes: Viacha and Charagua

The changes described in Chapter 1 are exactly the opposite of what many academics and policy-makers predict, and what some researchers have found in the past. Why is Bolivia different? Why did Bolivia’s municipalities behave in this manner? To answer, we must investigate the political mechanisms by which power is allocated locally, and the social and institutional methods by which public decisions are made. Chapters 2 and 3 do so with qualitative evidence, using thick description to provide accounts of the workings of local government in the best and worst of my case studies, which ranked easily amongst the best and worst municipalities in Bolivia as a whole. The extremal focus places in stark relief the systematic differences in decision-making that characterize each. This, in turn, facilitated theorizing about institutional causes, effects and necessary conditions relating to the quality of local government.

In Viacha (chapter 2) government was unresponsive, violent and corrupt. This was largely due to the mayor’s successful efforts to short-circuit public accountability by sabotaging the institutions of government, leaving them unable to carry out their role in the governance system, and him free to deform local policy in his and his party’s interests. By contrast governance in Charagua (chapter 3) was participative and responsive, led by strong institutions of government that produced high-quality policy outputs. Careful consideration of how policy is made, from the perspectives of all the major and intermediate players in each district, shows that the performance of public institutions was firmly grounded in the local economy, political system, civil society, and the interactions amongst them.
Chapter 4: Decentralization and Responsiveness Across Bolivia: A 21-Year View

Chapters 2 and 3 showed that local governments in Bolivia were capable of accountable, responsive and efficient government, and also of systematic corruption, unresponsiveness and ineptitude. Which response predominated? This chapter uses quantitative data on the universe of Bolivian municipalities over the period 1987-2007 to provide more rigorous econometric evidence confirming the shifts in investment patterns described in chapter 1. Decentralization changed investment significantly in education, water management, industry and tourism, health, and agriculture after the 1994 reform, and to a lesser degree in transport and water & sanitation. These shifts are strongly and positively related to real local needs. In education, water & sanitation, health, agriculture, and at least one kind of urban development, decentralized investments are higher where illiteracy rates are higher, sewerage connection rates lower, malnutrition a greater risk, and so on respectively. These relationships are robust and insensitive to specification. Decentralization thus led to higher investment in human capital and social services as poorer, more deprived regions of the country chose the investment projects they needed most.

Chapter 5: The State of Knowledge on Decentralization

Why does the Bolivian experience of decentralization speak so clearly? This question has two broad answers. The first is that Bolivia decentralized sincerely. Unlike many countries, where reform is promised and even legislated, but only partially if at all implemented, in Bolivia real power and resources were devolved to local governments. This process was both rapid and surprisingly transparent. The second answer, as argued in chapter 5, is the approach employed in this book, consisting of three elements: (i) a clear, restrictive definition of decentralization; (ii) combined quantitative and qualitative methods that produce empirical results characterized by high generality and deep nuance, and thus powerful insight; and (iii) asking the right kind of question.

This last point is especially important. The right kind of question is not “What does decentralization do?” as if reform were a policy lever yielding discrete, well-defined outputs. Asking such questions has drawn many studies into an analytical stance that is deeply ironic given its subject matter: a centralized focus on top-down processes such as legal and regulatory changes, or fiscal transfer rules, that are national-systemic in character. Such concerns are obviously important, but should not obscure the very different local dynamics that decentralization sets into motion. The right question begins, instead, with the presumption that decentralization in any context produces a range of responses that are heterogeneous and complex. The main question is not which response dominates – in a fluid social system all dominances can be transient and none in particular need last for long. The main question, rather, is what underlying factors cause such variation in response? And what are the political and societal determinants of certain responses of particular interest, e.g. those that make municipalities more honest and transparent, equitable, or prosperous? In simple terms, what makes good municipalities good, and what makes bad ones bad?
Taking up such questions forces us to understand not just municipalities’ static characteristics (history, geography, local structure of production), but also the micro dynamics by which social, economic and political actors relate to each other, compete for advantage, and cooperate or conflict. It is these dynamics, as we have seen in detail, that determine the effectiveness of local government, and its accountability and responsiveness to the governed. Ultimately, the success or failure of decentralization depends upon the character of such local dynamics. The overarching lesson of this book is that the outcome of decentralization is largely the aggregation of the abundance of local processes that it sets into motion. To understand decentralization, we must understand governance from the ground up. We must think less about “decentralization”, and more about grass-roots democracy.

Chapter 6: Governance From Below: Theory

Why, then, are good municipalities good and bad ones bad? Chapter 6 steps back from the wealth of empirical data to ask this canonical question. I analyze key factors in the local economy, politics and society that drive government performance. Using these building blocks, I develop a model of government that integrates a variety of well-established insights on the role of elections and lobbying in democratic politics with more recent ideas about civic organizations and social linkages. The framework provides a structure in which economic interests, political actors, and civic organizations interact to make policy decisions. Placing this structural model of government in a dynamic context allows us to analyze how voting, lobbying and civic organizations interact over time to produce public decision-making that is responsive and accountable to voters, or not.

The resulting theory of government proposes that responsiveness and accountability are primarily products of the openness and substantive competition of politics. The quality of a municipality’s politics, in turn, emerges endogenously as the joint product of the lobbying and political engagement of its firms and other economic actors, and the organizational density and ability of its civil society. Where economic interests are many and diverse, the chances are greater that a broad variety of political parties will find financial support and vie for votes. The ensuing competition will better represent diverse currents within society, giving voice to groups whose interests might otherwise be overlooked. And where society is organized into a dense network of intermediating organizations that can solve the collective action problem to aggregate preferences and transmit information, government will receive more and better-quality information about society’s needs, as well as feedback on previous interventions. An organized society is far more likely to participate in public decision-making and provide counterpart contributions, thus extending investment budgets and increasing the quality and sustainability of public goods and services. Where there is broad representation and competition in politics combined with high information and mobilizing capacity in civil society, government will have a strong tendency towards responsiveness and accountability to citizens. This model is notable for going beyond the correlation that others have found between “civicness” or “social capital” and government performance; I propose a specific mechanism by which civic groups interact with economic and political agents to determine policy outcomes.
Chapter 7: Governance From Below: Evidence

The theory’s predictions accord well with my case study evidence. Do large-scale statistical results concur? Yes. Econometric evidence in chapter 7, covering all municipalities over the period 1994-2007, shows that where a large number of firms interacted through the political system with an organizationally rich civil society, local policy decisions were responsive to the objective needs and subjective preferences of voters. Firms and civic organizations proved to be important determinants of local decision-making, and our empirical strategy allows us to identify how. Both firms and GROs affected how local governments prioritize local needs – via lobbying, voter mobilization, or otherwise mediating information flows and helping to sustain political competition. They not only pressed local governments for the specific policies they prefer, often at cross purposes, but also interacted directly with each other in the policy-making process.

These interactions are independently significant not only in the narrow statistical sense, but substantively as well, in the sense that they resolved the competing priorities of different actors. For example the independent effect of GROs was to increase, and of firms to decrease, investment in education. The tension was resolved when firms and GROs interacted directly through the local political system; these interactions led to investment increases that were positively related to local need and huge. In urban development, by contrast, both firms and GROs worked to increase investment in places where it was needed less. But the effect of their mutual interactions went in the opposite direction, increasing investment where infrastructure was scarce and decreasing it where infrastructure was abundant.

Chapter 8: Return to the Extremes

Neither “good” nor “bad” is destiny, and indeed the theory can also explain how municipalities can be transformed over time. Chapter 8 returns to Viacha and Charagua twelve years later to examine persistence and change in governance. We find transformation in both; most dramatically, in Viacha, from dismal performance to a capable administration that invited citizen participation and gave quarterly public reports. In Charagua, decision-making had been driven deep down into the social fabric – small, dispersed Guaraní communities – resulting in a multiplication of participation and information amongst villagers, and of accountability to them. In both municipalities, transformation was driven by the emergence of dense networks of civic organizations that organized and educated citizens, amplified their voice, and represented their interests in the local government process. But this ascendancy of civil society, which occurred in both municipalities, is insufficient to explain the transformation of either. Civil society could only emerge in Viacha after the withdrawal of the CBN from public life ended systematic political and electoral distortions. And Guarani society’s emergence in Charagua is tied to the decline of the cattle ranching economy. Hence the transformation of governance in both was driven by the interaction of private sector actors with civic organizations. In each place, civic groups interacted with economic actors to support a local politics that was increasingly open, competitive and focused on
local needs. This led, in turn, to improving responsiveness and accountability, as the theory predicts.

**Chapter 9: Conclusion**

The concluding chapter summarizes and takes stock of the book’s theoretical and empirical insights. I connect the findings of each chapter in order to paint a broader picture of what decentralization did and did not achieve in one vigorous reformer. Could Bolivia’s success be replicated elsewhere? Chapter 9 sets out five concrete lessons from the Bolivian experience that can help other countries use decentralization to improve the responsiveness and accountability of government.

The prominence of social interactions in the book’s model of governance is unusual in political science, but is deeply rooted in our knowledge of human behavior. Indeed, it echoes some of the most important insights of other branches of the social sciences, such as international economics and urban studies, in which trade and urban migration both serve – in very different contexts – to increase the density and leverage of social interactions in ways that increase human inventiveness, creativity and productivity. By engaging in such interactions, the citizens of a democracy do more than engage in governance. The interactions implicit in democracy turn individuals into citizens – citizens who ponder, investigate, express public views, debate specific solutions, and vote. In so doing, they take some measure of responsibility for the decisions and actions of the polity. Where the citizen cannot vote, she does not investigate, discuss, or expend effort on public affairs. Rather, she waits for policy to happen and then adjusts her personal life accordingly. She may gripe about government, but in the deeper sense she does not think about it because she is not responsible.

This book has ultimately been about the possibility of change, and its message is hopeful. The reform of institutions and their associated incentives can bring about significant, nationwide changes in social and political behavior in the space of a few years. The Bolivian experiment argues against the position that policy performance and patterns of governance are determined by centuries of historical conditioning. When reform creates opportunities to improve group welfare, people can rise to the challenge and succeed. This includes the very poor and oppressed. The conditions necessary for reform to prosper are a complex of economic, political and social characteristics, and may well be lacking as often as they are present. But under the right circumstances, which proved widely available in Bolivia, decentralizing resources and political authority can generate real accountability where none existed before and improve the quality of government a society achieves.

The experience of decentralization in Bolivia underlines a deeper point which is denied by some of decentralization’s foes, but which is nonetheless true. The poor as a rule are ignorant, but they are not stupid. They know what they want, and the things they want are by and large good for them. They can ill afford otherwise. Decentralization succeeded in Bolivia because it created more Charaguas than Viachas. It put significant power and resources in the hands of ordinary people, who
then made good choices. Such a conclusion is not hopelessly naïve. It is the essence of democracy.