

Contents

Figures and Tables	13
Acronyms	17
Summary	19
Introduction.....	27
The “Why” and the “How” of Decentralization.....	27
Actors, Institutions, and Incentives for Decentralization:	
Experiencing Real-Life Games	31
Definitions and Scope of Analysis	34
Research Methods	35
Structure	36
Section A: Theoretical Underpinnings and Explanatory Framework	39
1. The “Why” of Decentralization: Five Schools of Thought	40
1.1. Public Choice	40
1.2. Crisis Theories.....	44
1.3. Globalization and Localization	51
1.4. Social and Cultural Theories	55
1.5. Determinism	59
1.6. Conclusion.....	63
2. The Explanatory Framework: Actors, Institutions and Incentives	65
2.1. The Explanatory Framework and its Principal Elements	66
2.1.1. Propositions and Assumptions	66
2.1.2. Decentralization and Institutional Change	67
2.1.3. Observing Institutional Change: Methodological Aspects	69
2.2. Individual Actor-Level	72
2.2.1. Interests, Incentives, and Distributional Goals	72
2.2.2. Incentives and Disincentives for Presidents, Legislators, and Regional Governors	73
2.2.3. Conclusion	75
2.3. Collective- Choice Level.....	76
2.3.1. Entry and Exit Rules	77
2.3.2. Position Rules	79
2.3.3. Interaction Rules	80
2.3.4. Decision Rules	82
2.3.5. Implementation Rules	90
2.3.6. Types of Collective Choice Arenas	95
2.4. Actors, Incentives and the Sequencing of Decentralization.....	99
3. A New Look at Decentralization.....	103
3.1. The “Why” of Decentralization.....	103
3.2. The “How” of Decentralization.....	104

Section B: Decentralization in Ecuador: Actors, Institutions, and Incentives	109
The Ecuador Case: Introduction	110
1. When Things Fall Apart – Actor Equilibrium One, 1830 to 1963 –	113
1.1. Emergence of a Decentralized State: 1830-1924	114
1.1.1. The Regional Equilibrium: Guayas, Azuay, and Quito.....	114
1.1.2. Central Government Responses to Regional Demands	120
1.2. Non-cooperative Equilibrium: 1925-1948	125
1.3. The Return to the Previous Regional Equilibrium: 1948-1963.....	127
1.4. Conclusion.....	135
2. Petropolitics: Attempts at Co-optation – Actor Equilibrium Two, 1964 to 1978 –	137
2.1. Centralization in an Arena of Hierarchy: 1964-1966	138
2.2. Threat to the Equilibrium: Return to Democratic Rule 1967-1972.....	141
2.3. Consolidation of the Arena of Hierarchy: 1972-1978	142
2.3.1. Reforms to the Intergovernmental System.....	142
2.3.2. Shaping the Arena: New Position and Interaction Rules	145
2.3.3. Attempts at Co-optation.....	147
2.4. Conclusion.....	157
3. The Return to Democracy: New Rules, Old Players – Actor Equilibrium Three, 1979 to 1987 –	161
3.1. Institutions in a Newly Democratizing Unitary State	162
3.1.1. Games Played between Mayors, Prefects, and Legislators.....	163
3.1.2. Games Played between Legislators and Presidents	169
3.2. Actors, Interests, and Decentralization Outcomes 1979-1987	172
3.2.1. Responses from President Roldós (1979-1981).....	175
3.2.2. Responses from President Hurtado (1981-1984).....	178
3.2.3. Responses from Febres Cordero (1984-1988)	180
3.2.4. Assessment.....	184
3.3. Conclusion.....	184
4. Successful Failure – Actor Equilibrium Four, 1988 to 1992 –.....	187
4.1. The Reform Coalition and the Collective Choice Arena.....	188
4.2. Reform Attempts	192
4.2.1. Formula-Driven Transfers versus Discretionary Transfers.....	192
4.2.2. Distribution of Revenue (Transfers) between Municipalities and Provincial Councils	198
4.2.3. Transfers: Earmarked Revenue versus Non-Earmarked Revenue.....	199
4.2.4. Distribution of Expenditure Responsibilities between Central and Local Levels	202
4.3. Conclusion.....	206

5. Hidden Agendas: Veto-Players and Free-Riders – Actor	
Equilibrium Five, 1993 to 1997 –	209
5.1. Actors, Interests, and the Collective Choice Arena.....	210
5.2. The New Role for Guayas Province	213
5.2.1. Party Politics and Decentralization Arenas.....	214
5.2.2. Political, Administrative and Fiscal Goals of Guayaquil Leaders.....	216
5.2.3. The Role of Guayas vis-à-vis other Provinces.....	221
5.3. Sub-game between Municipalities and Provincial Councils.....	222
5.4. The Congressional Decentralization Committee.....	224
5.5. Stakeholders in Central Government	227
5.6. Indigenous People	231
5.7. Conclusion.....	233
6. Winners Take All – Actor Equilibrium Six, 1998 to 2003 –	237
6.1. The Sub-game and Equilibrium among Municipalities and Provincial Councils	244
6.1.1. The Provincial Bias of Decentralization	244
6.1.2. Responses from Municipalities.....	245
6.1.3. The Equilibrium between Provincial Councils and Municipalities.....	247
6.2. Sub-game and Equilibrium between Sub-national and Central Government	248
6.2.1. Incentives for Sub-national Government to Bargain for Transfers.....	250
6.2.2. Central Government Responses	254
6.2.3. The Equilibrium between Sub-national and Central Government.....	262
6.3. Partial Decentralization Equilibrium.....	263
6.4. Conclusion.....	266
7. The Path and Sequence of Decentralization.....	269
7.1. The “Why” of Decentralization: Actors and Incentives.....	269
7.2. The “How” of Decentralization: Inefficiencies	272

Section C: Conclusion and Outlook: New Twist to the Old Game?

The Role of External Actors.....	279
Conclusion and Outlook: New Twist to the Old Game?	
The Role of External Actors	280
1. Entry and Exit Rules	282
2. Position Rules.....	283
2.1. Highly Asymmetric Fiscal Capacity across Regions	283
2.2. Blurred Position Rules across Levels of Government.....	285
2.3. Distributional Coalition: Games Played between Mayors, Prefects and Legislators	286

2.4. “ <i>Pugna de Poderes:</i> ” Games Played between Presidents and Legislators	287
2.5. The Partial Decentralization Equilibrium (1997-2003): New Incentives for the Winners?	288
3. Interaction Rules	290
3.1. Ideological Deadlock: the Symbol of “ <i>Autonomía</i> ”	290
3.2. Withholding of Information	291
3.3. Distrust between Actors and the “Tragedy of the Commons:” Excessive Earmarking	292
4. Decision Rules.....	293
4.1. Non-Cooperation and Unilateral Decisions: Threats to Secession?.....	293
4.2. Bargaining: New Incentives for the Veto-Players?	294
4.3. Majority Decisions	296
4.4. Hierarchical Decisions	296
5. Implementation Rules	296
5.1. Veto-Players and Implementation	297
5.2. Volatility and Short-term Incentives.....	297
5.3. Weak Budget Constraints and Fiscal Responsibility.....	299
5.4. Weak Enforcement of Sanctions	300
6. Assessment and Outlook	300
 Bibliography	 303

Annexes

Interview Partners for the Ecuador Case Study	II
Annex to Section B. 1:	IV
Annex to Section B.2:	X
Annex to Section B.3:	XXI
Annex to Section B.4:	XXXII
Annex to Section B.5:	XLII
Annex to Section B.6:	LI