

Why do States Decentralize? The Politics of Decentralization.

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the requirements for the degree of Doctor of  
Philosophy in the Department of  
Political Science in the Graduate School  
of Duke University

2011

ABSTRACT

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## **Abstract**

My dissertation seeks to explain the variations in decentralization we observe among states. Why, for example, are some states more decentralized than others? More importantly, why do central leaders in some states devolve power to local politicians, who may defect to pose challenges to the leader?

In answering these questions, I develop a theory of decentralization with two main components: First, conditions that make local information crucial for the central leaders to win elections, and second, the fear central leaders have about local defection. I argue that central leaders undertake decentralization when local information about voters becomes politically salient and the chances of local defection are fewer.

This information theory is tested systematically on quantitative and qualitative evidence from Indian cases. In the concluding chapter, I examine how the theory could explain decentralization in cases outside India.

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## Chapter 1 Introduction

Decentralization is widely seen as a practice that improves governance and deepens democracy. It seemingly brings governments closer to people, to make them more accountable and responsive.<sup>1</sup> My argument in this dissertation, however, is that decentralization, more than being a means to address limitations of governance, is a political strategy central leaders use to win elections. Central leaders, in their quest for reelection, use this strategy to tap into local knowledge that could be used to build electoral support. Therefore, to understand decentralization, we should identify the conditions that impel central leaders to seek local information through decentralization.

In this dissertation, I identify the general conditions under which central leaders find it in their interest to decentralize. Using systematic data on decentralization in Indian states, I demonstrate where and why central leaders decentralize to gather local information and, more importantly, why they choose not to do so in some cases.

The politics behind decentralization has recently received scholarly attention. For instance, decentralization has been portrayed as a consequence of electoral politics. O'Neill argued that decentralization is a "rational act of political parties seeking to maximize their electoral possibilities" (2003: 1074). Other scholars have depicted decentralization as a bargain between central and local leaders, or as a policy opposition political parties adopt when they come to power to expand their popular support (Garman, Haggard, and Willis 2001; Nakano 2009).

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<sup>1</sup> See Diamond and Tsalik (1999); Huther and Shah (1998); Oates (1972, 1999); Seabright (1996); Tiebout (1956); Teune (1982).

While these studies rightly bring up the political dimension of decentralization, the explanations they offer for why states decentralize are nevertheless inadequate.<sup>2</sup> For instance, if political parties, uncertain of retaining power at the center, decentralize to give their sub-national partisan colleagues control over resources (O'Neill 2003, 2005), why would the party that comes to power at the center not re-centralize when it finds opposition parties in power in sub-national governments? We now know that decentralization, even if it is written into the constitution, is not an irreversible policy. For example, despite formal rules on fiscal transfers to provinces, Carlos Menem, during his first term as president of Argentina, effectively re-centralized revenue sharing and increased federal control over sub-national economic policies (Eaton and Dickovick 2004). Why then did the *Acción Democrática Nacionalista* (ADN) that came to power in Bolivia in 1997 not re-centralize the powers that the previous *Movimiento Nacionalista Revolucionario* (MNR) government had decentralized since 1994, especially when MNR held power in sub-national governments? Similarly, why had the successive Liberal Party governments in Colombia since 1986 not re-centralized the powers that the Conservative government of Belisario Betancur decentralized between 1992 and 1996? Further, if decentralization is the reward central leaders give for the support powerful regional bosses extend during elections, what ensures that this bargain is kept? Why, for instance, do Brazilian presidents with term limits keep their part of the bargain and decentralize resources to regional bosses?

More fundamentally, these accounts expose a political paradox inherent in decentralization that these studies have not addressed. Through decentralization, central

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<sup>2</sup> In Chapter 3, I discuss in detail why these accounts are inadequate to explain decentralization.

leaders empower local politicians, who like them are politically ambitious. Once empowered, these local politicians could defect to pursue their political ambitions to the detriment of central leaders. Why, then, do some central leaders decentralize? The political explanation I posit here engages this political paradox and posits a theory that should help us understand why leaders in some states choose to devolve power.

### **1.1 An Informational Explanation for Decentralization**

The theory of decentralization I advance here has two components: i) the conditions that prompt central leaders to seek local information via decentralization; and, ii) the conditions that allay fears central leaders have about the prospects of defection by local politicians following decentralization.

My central argument is that decentralization is a political strategy central politicians use to gather information about voters to increase their chances of reelection. Decentralization helps central leaders gather information and reach out to voters in two important ways. First, local elections that decentralization ushers in reveal to the central leaders the electoral support they themselves are likely to get when they stand for reelection. Further, local elections also offer more detailed and accurate information about the distribution of party loyalists, opposition supporters and swing voters than results from elections that elect the central leaders, opinion polls or attendance in political rallies. This information could be used to identify and target electorally important constituencies. Second, decentralization helps the central leaders recruit local politicians, who have intimate knowledge about local electoral settings, to mobilize voters locally. Local politicians, given smaller settings and frequent interaction, know more about the voters than central politicians do. Local politicians know more than

central politicians do about the policy preferences and partisan loyalties of voters, their inclination to switch partisan loyalties, and what needs to be done to bring about partisan switches. This knowledge is particularly useful to central leaders when they seek reelection.

The political salience of this local information about voters, however, varies. In some cases, as we shall see shortly, elections can be won without information about voters or reaching out to them. I suggest that if we can identify the conditions under which information about voters becomes salient, we can understand one set of conditions that prompts central leaders to decentralize. The second permissive condition relates to those that allay the fears central leaders have about local defection.

In Indian states, as in many developing countries, the conditions under which local information becomes salient are rooted in the socio-economic conditions of voters. I posit that states where voters are economically dependent on landlords or rely on caste leaders or other traditional ethnic leaders for making political decisions, central leaders do not need information about individual voters to win elections. Central leaders can win elections by gathering votes through landlords, caste leaders or clan elders. In such states, decentralization will be limited. In contrast, states where equitable landholdings and the spread of literacy free voters from economic and political dependence on landlords and traditional ethnic leaders. In such states, central leaders, to win elections, need to know the individual preferences of voters. It is in these states that the central leaders are more likely to use decentralization to recruit local politicians with finer knowledge about voters to mobilize electoral support.

My view is that economic and political dependencies weaken with equitable landholdings and the spread of literacy. Where votes cannot be gathered through

traditional elites, central politicians will have to find ways to reach out to individual voters. In other words, central leaders will need local information to win elections. Decentralization then becomes an attractive option to reach out to voters through local politicians who have more knowledge about voters.<sup>3</sup> Local politicians are recruited by promising them, via decentralization, elected offices and resources in local governments in return for mobilizing votes for the central leaders.

While equitable landholdings and increased literacy heighten the political salience of information about voters and press central leaders to decentralize, we can also expect the fear of local defection to influence the central leaders' decision to decentralize. Ambitious local politicians, once empowered through decentralization, could create challenges to central leaders by defecting to opposition parties or by launching new political parties. What then allays the fear central leaders have about local defection?

I argue, using insights from the formal literature on party politics, that central leaders in two-party states fear local defection less than their counterparts in multiparty states. In two-party states, the two leading parties dominate the electoral scene, winning most of the votes and seats, and restrict the entry of new parties. Ambitious local politicians in such states, therefore, face restrictive settings for launching new parties. Further, political parties in two-parties states tend to formulate their politics and policy platforms to distinguish themselves from, and in opposition to, one another.<sup>4</sup> In such settings, local politicians also fear that voters will punish them severely if they defect to

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<sup>3</sup> In Chapter 4, I argue why decentralization may be a more efficient way to gather local information than other options such as relying on local party officials or appointing nominees.

<sup>4</sup> See, Adams, Merrill III and Grofman (2005), Poole and Rosenthal (1984), Stonecash, Brewer and Mariani (2003).



the side they had until then opposed and disapproved. In contrast, ideological diversity in multiparty states offers local politicians avenues to go over to like-minded parties without the fear of suffering electoral losses. Multiparty states also offer ambitious local politicians permissive conditions to launch new political parties.<sup>5</sup>

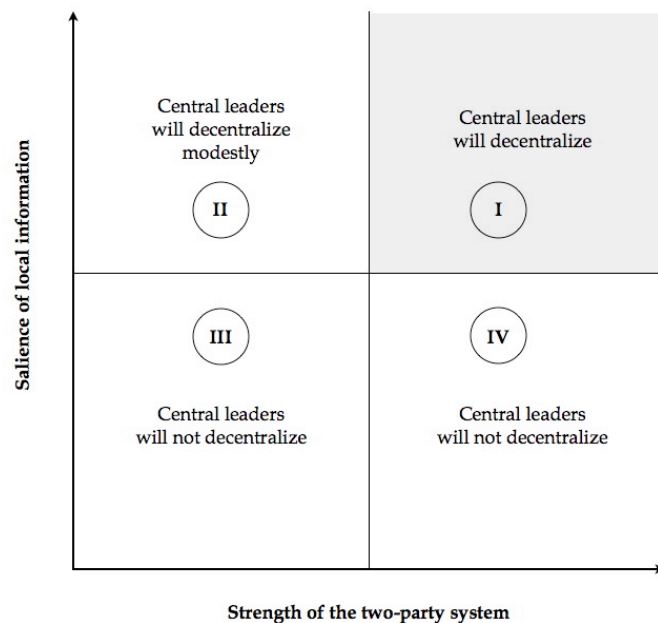
Therefore, given the restrictive conditions for defection in two-party states, central leaders in such states are less fearful that local politicians would defect once decentralization empowers them than their counterparts in multiparty states. Hence, central leaders are more likely to decentralize power to local politicians in two-party states. In contrast, central leaders in multiparty states, wary of the permissive conditions for defection, are less likely to devolve power and resources to local politicians.

In short, central leaders decentralize when they see that it is in their electoral interest to do so. In particular, central leaders will decentralize in states where two conditions apply: i) where equitable landholdings and widespread literacy have freed voters from dependence on landlords and traditional ethnic leaders and heightened the electoral salience of local information; and, ii) where the electoral strength of the two leading parties is so formidable to deter local defection (Figure 1.1). We could also expect central leaders to decentralize in weak two-party states where local information is needed to win elections – i.e., where literacy and balanced distribution of land have freed voters from economic and political dependence. But, central leaders in such states will undertake decentralization only modestly, fearing that local politicians could use greater decentralization to aggrandize themselves and defect. By contrast, in states where votes can be gathered through landlords and traditional leaders, local

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<sup>5</sup> I develop these arguments in detail in Chapter 4.

information is not needed to win elections. And, central leaders in such states will not decentralize.



**Figure 1.1: Explaining Decentralization**

## 1.2 Testing the Informational Theory of Decentralization

A problem in testing various theories of decentralization is that we lack good comparable data on decentralization. Most cross-national comparative studies rely on indicators of either revenue or expenditure devolution, or both, as measures of decentralization to test general arguments about decentralization, even when it is widely acknowledged that fiscal decentralization constitutes only one attribute of decentralization. This can be misleading as in the case of the UK prior to the devolution of 1998. In 1995, for instance, British sub-national expenditure - as percentage of total spending in the country - was almost as much as that of Mexican sub-national

governments, although Mexican provincial and municipal governments had expansive jurisdiction and more decision-making authority than regional assemblies and mayoralties in the UK.<sup>6</sup>

To address this limitation, I developed a new dataset on decentralization in Indian states. Indian states offered me near-experimental settings, both to gather data on various aspects of decentralization and test competing explanations. India amended its national constitution in 1992, directing states to set up elected city and village councils and devolve power to them. The states were mandated to hold regular elections to these councils and share monies with these councils. The amendment also listed 29 government functions that could be devolved to elected councils. But the constitution did not specify how much money the states should devolve to local councils, or how long the states could take to devolve the 29 functions. These details were left to the discretion of the states. The result: Indian states now show remarkable variation in how they have decentralized. For example, West Bengal held elections to local councils in 1993; while its neighbor, Bihar did not have elected councils until 2001. By 2001, Kerala had transferred all 29 functions to local councils; Haryana had transferred none. In 2002, when Andhra Pradesh spent Rupees 620 per citizen through its local councils, Uttar Pradesh spent only Rupees 25.

Despite the same constitutional directives, Indian states decentralized in remarkably different ways. I utilize multiple indicators to measure how Indian states have decentralized governance to local councils and develop an index of decentralization in India. The data for the indicators were gathered from government files, dossiers and reports, case studies on states and consultations with Indian scholars.

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<sup>6</sup> According to the data from the IMF's *Government Finance Statistics Manual 2001*.

I use this index and village-level data to test my informational theory of decentralization. How Indian states vary in decentralization and how I develop a reliable measure of this variation is discussed in the next chapter.

In addition to gathering state- and village-level data on decentralization in India, I have also used data from the census, archival documents, secondary sources and government surveys to record the extent of variation in patterns in landholding and literacy in Indian states - the factors I identify in India to either free voters from or, sustain their, dependence on traditional elites and determine salience of local information in winning elections.

To test alternative explanations of decentralization based on party ideology and organization, electoral competition, and foreign aid and investment, I used a combination of electoral data, World Bank data and data on inflow of foreign investment to all Indian states I study.

My aim in this dissertation is, therefore, two-fold. First, I want to identify the conditions that prompt central leaders to devolve power to local politicians. What accounts for the empirical variation in decentralization that we observe in Indian states? Why, for instance, did West Bengal set up elected local councils while its neighbor, Bihar, carried out administration through centralized bureaucracies? Why did Karnataka's local councils in the 1990s spend amounts 20 times greater than councils in Uttar Pradesh did? In identifying these conditions, I also seek to address the political paradox in decentralization: namely, why do central leaders empower local politicians who could defect to pose challenges to the center? Second, I want to ask whether central

leaders seek to mobilize electoral support via decentralization as my information theory posits, by investigating whether central leaders use local information gathered through decentralization to target resources to villages.

For those concerned with quality of democracy, governance and development, understanding what causes decentralization is of more than theoretical importance. It is important to understand why democracy and governance reach out to citizens and neighborhoods in some states, while their counterparts in other states travel long distances to state capitals simply to get water or electricity supplied to their homes or to secure a school building in their neighborhood. For a large number of rural Indians, who work on a daily wage, this travel to distant administrative capitals comes at the loss of their wage. It is, therefore, all the more important to understand why some central leaders decentralize governance, while others retain power themselves. Even when the devolution of powers to local governments are undertaken for electoral reasons, as my theory suggests, decentralization nevertheless extends governance and democracy to villages and voters in some states, while these remain remote to citizens in other states.

## Chapter 2

### Measuring Decentralization

Decentralization empowers sub-national governments. Through decentralization, governments at higher levels transfer finances, and the authority to make and implement policies to governments below them.<sup>1</sup> We now know that the degree to which this transfer of power takes place varies across, and within, countries; some central governments decentralize more than others. Several theories attempt to explain why states decentralize differently. A general problem with evaluating these explanations is that we lack systematic data on decentralization.<sup>2</sup> This chapter addresses this limitation through systematically documenting decentralization in Indian states.

The chapter focuses on the variation in decentralization in Indian states since early 1990s, when a constitutional amendment directed Indian states to decentralize governance to elected local councils. It examines various aspects of decentralization the amendment sought to bring about, to present a composite picture of decentralization in Indian states.

This chapter proceeds thus: First, I present a brief overview of governance in India to help us understand the context of decentralization in India. In particular, it will show how important the state governments are to decentralization in the country.

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<sup>1</sup> For a discussion on definition of decentralization, see Bednar (2009), Crook and Manor (1998), Riker (1964), Rodden (2004), Schneider (2003), and Triesman (2007).

<sup>2</sup> There are excellent data on financial aspects of decentralization. For instance, the International Monetary Fund's *Government Finance Statistics Manual* offers detailed data on both the revenue and expenditure side of decentralization, but this measure overlooks the other aspects – in particular, democratic and administrative - of decentralization. And, sole reliance on financial measures distorts the picture of decentralization. Take the examples of the United Kingdom and Mexico. Through much of the 1990s, the UK spent on average 22 percent of its total expenditure at the sub-national level; this was almost as much as Mexico's sub-national spending (26 percent). But, the UK did not have elected sub-national governments until the late-1990s, whereas Mexico had elected state and municipal governments.

Second, I describe how I develop a comprehensive and coherent measure of decentralization in India that approximates our theoretical conception of the phenomenon.

## **2.1 Governance in India<sup>3</sup>**

Governance in India is centralized. Government administration branches out from New Delhi to state capitals, and, from there, to district headquarters.<sup>4</sup> During the British colonial era and much of post-independence period, both planning and implementation of government policies were carried out through this top-heavy structure. Independence from British rule however brought about a radical change to this. Since the late-1930s, political power began to shift away from Westminster-appointed viceroys in New Delhi and governors in state capitals to elected politicians. With the country's independence in 1947, this democratic transformation culminated in elected governments taking over governance at the federal and state levels. This democratization however did not extend below the state level. The district administration continued to be carried out by the state government, through a bureaucrat.<sup>5</sup> This bureaucrat variously known as the District Collector, Magistrate or Deputy Commissioner, attends to diverse administrative functions.<sup>6</sup>

The population and regions under the collector's administrative charge are as expansive as his duties. An average Indian district has 1.6 million people and 960

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<sup>3</sup> This section is a synoptic view of public administration in India. For more on the topic, see: Arora and Goyal (1995), Dubhashi (1970), Jha (1988) Misra (1983), and Potter (1964).

<sup>4</sup> In India, "districts" are used to refer to administrative, not electoral, units.

<sup>5</sup> This administrative framework prompted E.M.S. Namboothiripad, an Indian communist, to observe that "the essence of Indian polity" is "[d]emocracy at the Central and state levels, but bureaucracy at all lower-levels". Quoted in Kumar (2006: 43, fn. 36).

<sup>6</sup> These diverse functions give meaning to his various titles. As collector, the officer assesses and collects revenue; as magistrate, he arbitrates, resolves disputes, and maintains peace and order with the help of local police; and, as deputy commissioner and development officer, he supervises the administration of various state departments and, during natural calamities, he is responsible for protecting the citizens and giving them emergency assistance. Beyond this, the collector also administers all federal and state development programs aimed at reducing poverty, and improving the health, education, lives and housing of villagers.

villages.<sup>7</sup> For administrative efficiency, each district is divided into blocks, and further into villages.<sup>8</sup> Assisting the collector in his tasks are Block Development Officers (BDOs) and *Gram Sevaks* (village-level workers). The activities of all the blocks in a district are coordinated by the collector through a district development committee he heads. The collector allocates resources between the blocks of the district, indicates priorities, and supervises the implementation of government programs.

Democratic accountability and policy-making authority in this administrative framework rested with the state governments. Therefore, when the collectors allocate resources and indicate priorities, they are done at the behest, and on behalf, of the state governments. The state governments appoint, and remove at will, the collectors, the BDOs and gram sevaks.<sup>9</sup> It is to the state governments these bureaucrats are accountable. And, through these officers, the state administers its programs and policies, and reaches out to every village.

In this centralized administrative framework, local councils had little role in governance. Traditional councils or *panchayats*, consisting of “elders or most respectable men,” existed in Indian villages through out recorded history.<sup>10</sup> But, efforts to set up elected local councils that would function as part of India’s government structure failed, both under the British rule and in independent India due to the reluctance of the state governments. Under the colonial rule, resistance to decentralization came from provincial governments and district collectors.<sup>11</sup> This trend continued in independent

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<sup>7</sup> There are 619 districts and 593643 villages within them. Source: *Census of India, 2001*, Government of India.

<sup>8</sup> While the village has a natural quality to it – with villagers ascribing affinities to it, the blocks are administrative artifacts.

<sup>9</sup> See Banik (2001) and Wade (1985) on the politics and consequences of these transfers.

<sup>10</sup> Description of *panchayats* taken from Tinker (1968 [1954]: 20). Tinker presents an excellent discussion of local governance under British rule in India.

<sup>11</sup> An early manifestation of this reluctance can be found in the response to the Resolution on Local Self-Government of 1882. The Resolution, introduced by Lord Ripon, the Viceroy of India, envisaged local



India. Most states refused to hold regular elections to local councils.<sup>12</sup> And, where such councils existed, state governments superseded or sidelined them by carrying out administration through district collectors and state departments.<sup>13</sup>

Two features of the Indian constitution prevented elected local councils from taking root in India without the help of the state governments. First, local councils had no constitutional standing until the mid-1990s. The only reference to local councils (*panchayats*) in the constitution until then was under the 'Directive Principles' – a set of guidelines that cannot be enforced judicially.<sup>14</sup> Article 40 of the constitution exhorted that the government “shall take steps to organise village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government.” The non-binding nature of the article allowed successive governments to evade the responsibility of setting up elected local councils. Second, in the constitutional distribution of authority between the federal and state governments,

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governments, in which two-thirds of members would be elected. Provincial governments resisted the Resolution. Commenting on the failure of the Resolution, Tinker (1968 [1954]: 43-44) notes that “... the Viceroy was almost alone in liberalism; the vast majority of local Anglo-Indian officials were conservatives, supporters of a ‘paternal’ administration, so that the reforms projected by Ripon attenuated, or even ignored by the provincial governments and district officers who were responsible for putting them into practice.” Similar fates befell other colonial efforts to introduce local governance, see Tinker (1968 [1954]) for a full account.

<sup>12</sup> West Bengal and Karnataka, exceptions to this trend, started decentralizing in late 1970s and early 1980s. Urban councils existed, with limited power, in most states. Even for these councils, elections were held erratically. Beyond urban areas, in rural India (75 percent in 1991), elected local councils existed only in states like West Bengal and Karnataka. Even in these states, decentralization started in late 1970s and early-1980s.

<sup>13</sup> In mid-1980s, the GVK Rao commission, which studied governance in India, notes that “[a]part from inadequate resources, elections to these bodies [local councils] have not been held regularly... Elections have been put off on one pretext or another... and the term of the existing bodies have been extended or the bodies have been superseded.” Quoted in Mathew (1995: 7). Other commissions echo this finding. See Kashyap (1989).

<sup>14</sup> The Directive Principles of the Indian Constitution documents a list of non-justiciable goals that the federal and state governments ought to work towards. The list includes free legal aid to citizens, compulsory education to children, right to work, protecting the environment, banning the slaughter of cows, and a uniform civil code. Some see the Directive Principles as a compromise between the Socialist aspirations and Hindu traditions of India’s leaders in the constituent assembly that drafted the constitution, prompting one member of the constitution drafting committee to note that the Principles are “...a veritable dustbin of sentiment...sufficiently resilient as to permit any individual of this House to ride his hobby horse into it.” Quoted in Austin (1966: 75-76). See also Pylee (1962: 168-184).

the final authority over local councils rested with the states.<sup>15</sup> The state governments therefore could decide whether or not to set up elected local councils; and what functions councils should perform, if they were set up.

In this constitutional framework, the state governments could disregard the federal government's counsels on decentralization, as most state governments did through the post-independence period.<sup>16</sup> Even in the states that set up elected councils in the 1950s and the 1960s, following the Balwantrai Mehta commission's recommendations for decentralization,<sup>17</sup> the state governments soon superseded the councils, to carry out administration through the bureaucracy. Whatever role local councils gained in a few states, they owed it to the initiative and willingness of the state governments.<sup>18</sup> Therefore, in states like Karnataka, Maharashtra, and West Bengal, where elected local councils secured some role, it was due to the endorsement and support of the state governments. In other states, however, with the state governments

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<sup>15</sup> The Indian Constitution divides functional domains of governance into a "Union List" (which includes matters such as defense, foreign affairs and citizenship), which is the exclusive domain of the federal government; a "State List" (matters such as public order, agriculture and police come under this list), which forms the domain of state governance; and a "Concurrent List" of administrative functions where the federal and state governments have joint authority and responsibility (criminal law, forests, education and social security). Panchayats (local councils) fall into the State List and state governments have exclusive right to determine how much autonomy, decision-making powers, and finances the local councils are to have. See Basu (2004).

<sup>16</sup> The need to decentralize was noted, at the federal level, as early as 1951. India's first Five Year Plan noted: "Unless a village agency can assume responsibility and initiative for developing the resources of the village, it will be difficult to make a marked impression on rural life, for only a rural organisation representing the community as a whole can provide the necessary leadership," (Government of India 1953: 133). Every federal commission that studied governance in the country, ever since, called for the setting up of local councils. See, for instance, the Balwantrai Mehta Committee (1957), Santhanam Committee (1963), Ashoka Mehta Committee (1978), GVK Rao Committee (1985), and Singhvi Committee (1986). For a discussion about these commissions, see Kashyap (1989), and Mathew (1995).

<sup>17</sup> Balwantrai Mehta commission (1957) was one among the many commissions that recommended decentralization in India, see fn 16.

<sup>18</sup> I investigate the effects of these past experiments on the current degrees of decentralization in Chapter 4 of this dissertation.

refusing to hold regular local elections, and preferring to carry out administration through bureaucrats, local councils atrophied.<sup>19</sup>

## **2.2 The *Panchayati Raj* Constitutional Amendment**

In 1992, the Indian parliament sought to change the country's centralized administrative structure through an amendment to the constitution.<sup>20</sup> The *Panchayati Raj* amendment conferred constitutional status on local councils, made decentralization a constitutional obligation for the states, and paved the way for permanent democratic governments below the state-level. The states were now directed to hold regular elections to local councils, and decentralize governance to them. The amendment sought to restructure India's administrative framework, by giving elected local governments greater role in the planning and implementing of development programs. To accomplish these goals, the constitutional amendment directed the states to legislate further to make local councils "viable and responsive" democratic institutions that would function as "units of self-government" below the state-level.<sup>21</sup> To overcome the reluctance the states have towards sharing power with local councils, the amendment made several aspects of decentralization mandatory for the states.

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<sup>19</sup> By the mid-1980s, this preference for bureaucratic administration was found to be the main cause for the limited success of development programs in India. A study that examined rural development across several states notes: "The foremost reason for this unfortunate state of affairs is that the people themselves have no place in rural development, every available inch is occupied by the bureaucracy... A vast bureaucracy has replaced elected panchayats." The study goes on to conclude: "Confidence in the bureaucracy, as a better agent of social change than elected panchayats, has turned out to be misplaced." (Jain 1985: 197).

<sup>20</sup> The amendment came into effect in April 1993.

<sup>21</sup> See the "Statement of Objects and Reasons" section of The Constitution (Seventy-Third Amendment) Act, 1992. The text electronically available at the website maintained by the National Informatics Centre, Government of India: <http://india.gov.in/govt/documents/amendment/amend73.htm>. The Seventy-Third Amendment dealt with rural councils. The Seventy-Fourth Amendment, adopted the same year, extended constitutional status to urban councils. See, <http://india.gov.in/govt/documents/amendment/amend74.htm>.

2.2.1 *Mandatory Provisions of the Amendment*: The states were now constitutionally obliged to:<sup>22</sup>

- i) appoint an election commission to administer elections to local councils;<sup>23</sup>
- ii) constitute local councils through direct elections every five years;<sup>24</sup>
- iii) appoint a finance commission that will recommend the state governments how to share financial resources with local councils to make them financially viable; and
- iv) legislate to empower local councils with decision-making authority that would promote economic development.

With regards to decision-making authority, the amendment added an exhaustive list of 29 broad administrative functions, which the state governments may devolve to local councils. This list includes primary education, health and sanitation, potable water, rural housing, and the reduction of poverty.<sup>25</sup> To promote planning and implementation of development programs by local governments, a subsequent amendment to the constitution was passed the same year. As a result, states were also asked to:<sup>26</sup>

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<sup>22</sup> I list only those provisions of the amendment that are relevant to the general study of decentralization. Therefore, I exclude mandatory reservation of seats for women and scheduled castes and tribes. Scheduled castes and tribes of India are people who were not part of the traditional four-fold caste-system, and have faced discrimination through out Indian history. These castes and tribes are called “scheduled” as they are listed according to a government schedule. See Articles 341 and 342 of the Indian Constitution. To learn about all the provisions of the amendment, consult the full text of the 73rd Amendment of the Indian Constitution: <http://india.gov.in/govt/documents/amendment/amend73.htm>

<sup>23</sup> The amendment calls for the creation of a three-tier elected council system with district, block and village panchayats to correspond to the three administrative levels – districts, blocks and villages. In this study, I do not make a distinction between the three levels. If a state government devolves decision-making authority and finances to elected local councils at any level, I treat it as decentralization.

<sup>24</sup> All seats to local councils were be filled through direct elections. If for some reason, a council was dissolved prior to the completion of its term, elections to it were to be held within the next six months.

<sup>25</sup> See Article 243G(b) of the Indian Constitution. The constitution can be accessed electronically from the Indian Ministry of Law and Justice website: <http://lawmin.nic.in/coi/coiason29july08.pdf>. The list of functions (Schedule 11 of the Indian Constitution) is reproduced in Appendix 1.

<sup>26</sup> See Article 243ZD of the Indian Constitution: <http://lawmin.nic.in/coi/coiason29july08.pdf>

- v) set up district planning committees that will coordinate the development plans for the district as a whole.

With the addition of these articles to the Indian constitution, decentralization was now made mandatory for the Indian states. States had to constitute local councils through regular elections, and devolve to the councils a measure of finances and decision-making authority. However, the amendment also included provisions where state governments could exercise discretion.

*2.2.2 Discretionary Provisions of the Amendment:* The constitutional amendment sought to empower elected local councils to “function as units of self-government”. To bring this about, the amendment directed state legislatures to pass new laws transferring governance to local councils.<sup>27</sup> But, the amendment did not specify a time frame within which state legislatures were to pass these conformity laws, or how much finances and decision-making authority should be devolved to elected councils. These were left to the discretion of the states. And, following the amendment, the state governments have exercised their discretion – some to empower local councils, others to sideline them. For instance, the amendment appended a list of 29 functions that the state governments could decentralize. As of 2003, Bihar had devolved to local councils none of the 29 functions, whereas Karnataka had devolved all 29 functions. Further, the states also had to integrate the existing district bureaucracy headed by collectors with the elected councils. The amendment directed the states to set up district planning committees, but did not specify clearly how existing administrative structures were to be managed during decentralization. States such as Karnataka and Kerala integrated existing administrative networks with local councils through the district planning committees, with elected presidents of local councils presiding over these committees. The state

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<sup>27</sup> See Article 243G of the Indian Constitution.

governments of Andhra Pradesh and Maharashtra have not set up these committees, and have refused to merge existing development programs with local councils, thereby retaining control over development programs. States, such as Madhya Pradesh and Orissa, have set up district planning committees, but with ministers in the state government presiding over them.<sup>28</sup> Even on some mandatory provisions of the amendment, state governments have varied in their responses. For instance, the state governments were required to appoint state finance commissions to counsel the state governments on sharing finances with local councils. But, Orissa did not set up a commission until 1996 – three years after the amendment came into effect. The first state finance commission in Bihar failed to produce a report. And, in Uttar Pradesh and Maharashtra, the state governments revised the recommendations, when the commissions recommended more devolution than what the states were willing to undertake.

The *Panchayati Raj* amendment changed one of the two things that hindered decentralization in Indian states. It granted constitutional status to local councils, and established permanent elected governments below the state level. But, the amendment did not change the distribution of authority between the federal and state governments. Even after the amendment, the state governments continue to have the final authority over how much administration and finances to devolve to local councils.<sup>29</sup> This authority, along with the imprecise nature of some provisions of the amendment,

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<sup>28</sup> The amendment asks the states to “by law, make provision with respect to the manner in which the Chairpersons of such Committees shall be chosen.” See Article 243ZD (2) (d) of the Indian Constitution. This leaves it to the discretion of the state governments to determine who would preside over development programs in the districts – elected local councilors, district collectors or state ministers.

<sup>29</sup> Panchayats are still a part of the State List; and state governments have exclusive right to determine how much decision-making powers and finances to devolve. The federal ministry for decentralization has however tried to move panchayats out of the State List to the Concurrent List where the federal and state governments have joint authority and responsibility, or to the Central List. This attempt however has so far been unsuccessful. See the press release on March 15, 2008, by the Ministry of Panchayats: <http://pib.nic.in/release/release.asp?relid=36538>

provided the states substantial room to interpret the amendment variously to implement decentralization. Some have interpreted the provisions to allow, either through legislation or practice, elected local councils to emerge as democratic institutions capable of meeting the needs of citizens, while others have sidelined them to carry out administration through bureaucrats. So varied are the responses of the states to the provisions of the amendment that a federal commission that examined decentralization observed that the states have made “various interpretations of the same provisions – refreshingly liberal in nature at one extreme and highly conservative at the other end of the pole.”<sup>30</sup>

I followed the paths that 14 Indian states took to decentralize since the constitutional amendment, to document the variation in the degree of decentralization.<sup>31</sup> I tracked these states for a decade between 1994 and 2003.

### **2.3. Defining and Measuring Decentralization**

A general problem with measuring decentralization has been the proliferation of definitions of the phenomenon, and the conceptual confusion this creates.<sup>32</sup> A reason for this proliferation of definitions is that decentralization is an encompassing phenomenon; and it manifests in several ways. In the general literature on decentralization, six different attributes and manifestations can be noticed. In this section, I document the different attributes and definitions of the phenomenon. Subsequently, I identify the

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<sup>30</sup> See “A Consultation Paper on Review of the Working of the Constitutional Provisions for Decentralization (Panchayats),” National Commission to Review of the Constitution, Government of India, 2001.

<sup>31</sup> These 14 were the initial states to which the constitutional amendment applied, and constituted 91 percent of India’s population in 1991. The amendment was later extended to Indian northeastern states, which are excluded from this study. I have also excluded Punjab, Assam, and Jammu and Kashmir from this study because secessionist violence had suspended normal politics in these states in the decade before the amendment.

<sup>32</sup> A survey of the literature on decentralization concludes: “In sum, linguistic preferences, invention of new terms, and inconsistent use of established terms creates methodological confusion in any comparative review of decentralization.” (Cohen and Peterson 1996: 13)

common attributes and define decentralization in general terms. The different manifestations and attributes of decentralization discussed in the literature are:

*a. Deconcentration* is the handing over of some administrative authority to lower levels within central government ministries and agencies. Through deconcentration, the central government shifts the workload from central bureaucrats to local bureaucrats, with decision-making power still retained at the center. Local bureaucrats are agents of the central government implementing its policies (Florestal and Cooper 1997; Parker 1995; Rondinelli 1980; Rondinelli, Nellis, and Cheema 1983).

*b. Delegation* transfers decision-making authority for specific government functions to organizations that are outside the established government structure, where the central government exercises only indirect control. Delegation therefore involves a greater degree of autonomy than deconcentration (Cheema 1982; Rondinelli 1980; Rondinelli, Nellis, and Cheema 1983).<sup>33</sup>

*c. Administrative Decentralization* is the transfer of decision-making authority by the central government to sub-national governments. This form of decentralization involves transfer of power to governments at lower levels; and, not to bureaucrats or autonomous agencies (Falleti 2005; Rodden 2004; Treisman 2007).<sup>34</sup> Administrative decentralization however may take place without democratization, where local governments are

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<sup>33</sup> For instance, in India, several states have delegated authority to manage electricity generation and supply to autonomous regulatory organizations (Phadke and Rajan 2003; Rajan and Ram 2000). Delegation is common form of decentralization in several countries (McGinn and Street 1986; Rondinelli, Nellis, and Cheema 1983: 20-24).

<sup>34</sup> Administrative decentralization here corresponds to Treisman's *decision-making decentralization*. For Treisman (2007: 24) "some degree of *decision-making decentralization* exists if at least one subnational tier of government has exclusive authority to make decisions on at least one policy issue." Treisman considers *decision-making decentralization* to be a type of political decentralization.



appointed by the central government.<sup>35</sup>

*d. Fiscal Decentralization* is the transfer by central governments of the authority to tax and spend to sub-national governments (Falleti 2005; Rodden 2004; Treisman 2000, 2007).

Almost all states have some degree of fiscal decentralization.

*e. Democratic Decentralization* is the constitution of sub-national governments through competitive elections, where residents of a particular sub-national tier elect officials to represent them (Falleti 2005; Rodden 2004; Treisman 2007). While appointed sub-national governments are accountable to the central government, direct elections to sub-national governments are a means to ensure that these governments are accountable to the voters who elect them.

*f. Popular participation* in local governance is another attribute of decentralization that increases accountability and government responsiveness (Cheema 1983; Crook and Manor 2002; Fiszbein 1997). Such participation leads to increased socialization, giving the people a sense of ownership in governance (Crook and Manor 2002), and helps reduce corruption (Canel 2001). Further, popular participation also leads to better use of resources (Ribot 2002). Therefore, in many countries, such participation is seen as a part of decentralization (Canel 2001; Fiszbein 1997; Mishra 1991). In India, several states have passed *panchayati raj* acts seeking popular participation in local councils.<sup>36</sup>

In the literature, some of these attributes are conflated, even when all the attributes need not be present in every case of decentralization. For instance, for Rondinelli (1980),

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<sup>35</sup> Most local executives Latin American countries prior to the Third wave of democratization were not elected, but appointed by the central government. A study finds that seven out of the 11 capital cities in Latin America had appointed mayors during the second wave of democratization; see Myers and Dietz (2002); Nickson (1995). Countries like Egypt and Malaysia continue to have appointed mayors although some degree of administrative decentralization has taken place in both countries.

<sup>36</sup> Singh, Mishra and Pratap (1997).

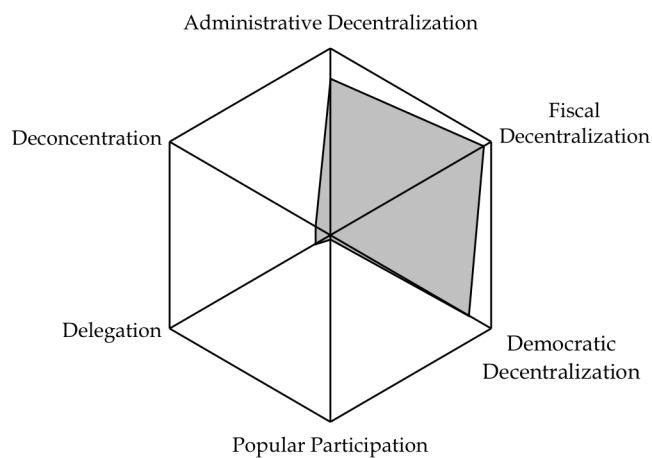
the transfer of decision-making authority to sub-national governments involves fiscal and democratic decentralization. A related problem that adds to the conceptual confusion is the linguistic preferences of writers.<sup>37</sup> Manor (1999) uses “deconcentration” and “administrative decentralization” inter-changeably. For Treisman (2007), administrative decentralization (“decision-making decentralization”, the term he uses) and democratic decentralization (“appointment decentralization” in his phraseology) are types of political decentralization. For Rodden (2004), administrative decentralization is “policy decentralization”.

Although the proliferation of definitions creates conceptual confusions, it also offers an opportunity to identify the general attributes of decentralization. A careful survey of the recent writings on decentralization reveals the prevalence of three attributes in most discussions and cases. Of the 43 articles published on decentralization in the leading political science journals in the last decade, the administrative, fiscal, and democratic attributes of decentralization found resonance in most writings; while deconcentration, delegation and popular participation occurred in very few cases of decentralization, and did not reflect in the discussions of the phenomenon (See Figure 2.1).<sup>38</sup> I therefore treat the administrative, fiscal, and democratic attributes as constitutive of decentralization.

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<sup>37</sup> See Cohen and Peterson (1996) on how this linguistic preference creates conceptual confusions.

<sup>38</sup> I surveyed all the articles discussing decentralization published in six journals between 1999 and 2009. The journals included in the survey are: *Publius*, *Comparative Politics*, *Comparative Political Studies*, *World Politics*, *American Political Science Review*, and the *American Journal of Political Science*. Administrative decentralization was discussed in 36 articles; fiscal decentralization in 41; and, democratic decentralization in 37. Mentions of deconcentration, delegation and popular participation were found in fewer than five articles.



**Figure 2.1: Attributes of Decentralization**

To avoid conceptual confusions and make a comparative study of decentralization in Indian states feasible, I define decentralization in terms of its general constitutive attributes.<sup>39</sup> Therefore, decentralization is the transfer of decision-making authority and finances, by a government at a higher level, to elected governments at levels below it. This definition acknowledges the composite nature of decentralization, and involves three general attributes identified with it in the extant literature.

Since I seek to explain decentralization as a composite phenomenon - not its administrative, financial, or democratic attributes individually, or the relations between them<sup>40</sup> - the task of measuring decentralization is two-fold: First, the measure should be comprehensive; i.e. it should include all three attributes that constitute decentralization. Second, the measure should be coherent; i.e. there should be a degree of concurrence among the indicators that measure the three attributes. The measurement should, in other words, be sensitive to the possibility of multiple dimensions of decentralization.

<sup>39</sup> In doing so, I follow the counsel of Munck and Verkuilen (2002) for striking a balance between a maximalist and minimalist definition of a concept. While a minimalist definition excludes relevant attributes, a maximalist definition could be of little analytical use.

<sup>40</sup> Falleti (2005) discusses the relations between different attributes of decentralization

However, only if the indicators of the three attributes cohere, can a summary measure of decentralization be made, or decentralization explained as a composite phenomenon.

I measure decentralization in Indian states using ten different indicators. These indicators were selected to gauge how the states have devolved along all three aspects of decentralization. The indicators I use are:

1. *Functional Devolution.* The *Panchayati Raj* amendment appended a list of 29 government functions that could be transferred to elected councils. Some state governments transferred all 29 functions to elected councils; while some transferred none.<sup>41</sup> The metric I use is simple: the number of functions transferred. For instance, this ranged from 0 in Bihar to 29 in Karnataka.

2. *Functional Autonomy.* Even when the states formally devolved functions to elected councils, they have varied on how much autonomy the councils have over development policy. For instance, in Orissa, policy-making and the implementation of development programs are still carried out by the state departments and bureaucrats; local councils merely identify the beneficiaries of these programs. Village councils in the state have to seek approval from the state government to undertake programs costing over Rupees 1000. In contrast, councils in Kerala draw up development programs of their own, independent of the programs of the state or federal governments; and, there are no limits on the cost of programs they can initiate. Given this variation, each state was graded from 0 to 5 on how much functional autonomy it conferred on local councils. Although this assessment is impressionistic, it is the result of careful readings of several government reports, and case studies of decentralization in different states.<sup>42</sup> The

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<sup>41</sup> Data collected from the Ministry of Panchayati Raj, Government of India.

<sup>42</sup> Sources include: *Planning at the Grassroots Level: Report of the Expert Group*, and *the State of Panchayats: A Mid-Term Review and Appraisal*, Ministry of Panchayati Raj, Government of India; *India*

measure reflects how much autonomy local councils have in policy-making and implementation in different states. Although this measure is impressionistic, we shall see shortly, that it is closely related to other, more precise indicators, of decentralization.

3. *Decentralized Planning.* To coordinate decentralized planning and implementation of policies between the rural and urban councils within districts, the amendment recommended the states to set up district planning committees. The states however had the discretion to determine the composition of such committees. Some states, such as Andhra Pradesh and Uttar Pradesh, have not set up planning committees; whereas states like Madhya Pradesh and Orissa have set up committees with a minister in the state government in charge; on the other extreme, states like Karnataka and West Bengal have set up committees under the control of elected local council presidents.<sup>43</sup> I use a three-point metric to capture the variation, where the states with no district committees received the lowest score, and the states with committees controlled by elected local council presidents received the highest score.

4. *Coordinated Decentralization.* Prior to the constitutional amendment the development programs in districts were implemented by district rural development agencies (DRDA) headed by district collectors. Following the amendment, states like Karnataka and Kerala have merged these agencies with elected local councils; other states such as Maharashtra and Andhra Pradesh retain control over district development policy by

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*Panchayati Raj Report: Four Decades of Decentralized Governance in India*, and *Panchayati Raj Institutions in Selected States: An Analytical Study*, National Institute of Rural Development, Hyderabad; *Status of Panchayati Raj in the States and Union Territories of India, 2000*, and various volumes of the *Panchayati Raj Update*, Institute of Social Sciences, New Delhi; *India Fiscal Decentralization to Rural Governments*, World Bank Report No. 26654-IN; *Overview of Rural Decentralization in India*, The World Bank; Aziz, et. al. (2002); Behar and Kumar (2002); Choudhury and Jain (1998); Hooja and Hooja (2007); Jain (2001); Jayal, Prakash, and Sharma (2006); Jena (1999; 2003); Johnson (2003); Rai, et. al. (2001); Singh, Mishra and Pratap (1997); Singh and Sharma (2007); Subrahmanyam and Choudhury (2002); Subrahmanyam (2003).

<sup>43</sup> Data from the Ministry of Panchayati Raj.

refusing to merge these agencies with elected councils. Besides this, some states have also created parallel institutions to sidestep elected councils. For instance, in 1997, Andhra Pradesh started *Janmabhoomi*, a development program that sidelined elected local councils; Haryana followed a year later by setting up village development committees. Kerala, on the other hand, integrated other programs with elected councils. For example, even when the state government instituted *Kudumbasree*, a development program for women, it was integrated with elected councils.<sup>44</sup> I use a three-point metric to measure how coordinated decentralization in the states is. The states that weakened decentralization most by refusing to bring other development programs under local councils scored the lowest; conversely, states that merged all parallel agencies and programs to local councils scored the highest.

5. *Capacity Building*. The amendment envisaged local councils to work as units of self-government. However, institutions below the state and district capitals had no prior experience in carrying out their new tasks in most states. Newly elected local politicians lacked experience in policy-making, development planning and implementation. Interviews with state government officials revealed that this lack of local institutional strength is often an excuse to delay decentralization. To address this limitation, the state governments set up state training centers, usually in state capitals, and extension centers in districts to accustom members of local councils to the mechanics of governance. But, here too, states show variation. For instance, Kerala has a state training institute, four extension centers, and has set up the Kerala Institute of Local Administration – a nodal

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<sup>44</sup> Information regarding DRDA gathered from *India Panchayati Raj Report* by the National Institute of Rural Development, Hyderabad. Information regarding parallel institutions gathered from the *Status of Panchayati Raj in the States and Union Territories of India, 2000* and various volumes of the *Panchayati Raj Update*, Institute of Social Sciences, New Delhi.

training center for South Asian countries - to train elected local politicians and officers. Bihar with 15 times more elected local politicians than Kerala has only one institute.<sup>45</sup> My metric is the ratio of the number of training centers to the number of elected councilors. Therefore, states like Kerala, which have more training centers, will have lower scores than states like Bihar.

6. *Finance Commissions*. In addition to the devolution of administrative authority, the constitutional amendment also mandated that the state governments appoint finance commissions, which would recommend the state governments on how to share finances with local councils. Some states have shown reluctance to finance commissions; they have done so by not providing the finance commissions with sufficient personnel to carry out their commissions, not accepting their recommendations, and by not following the recommendations even when they are formally accepted. Bihar, for instance, appointed its first finance commission in 1994, but the commission never produced a report; Orissa did not appoint a commission until November 1996; and, in Haryana, the actions the state government took on the recommendations of the commission were not reported to the state legislature. In contrast, the finance commissions in Himachal Pradesh and West Bengal were appointed in 1994, and submitted their recommendations, which were accepted by the state governments, within a year or two.<sup>46</sup> I use a 5-point metric to capture this variation. States that did not appoint finance commissions or that failed to produce reports received the lowest score; while states that

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<sup>45</sup> Data on training centers collected from state institutes of rural development, various states.

<sup>46</sup> Data gathered from the report of the Twelfth Finance Commission, Government of India, and the *Status of Panchayati Raj in the States and Union Territories of India, 2000*, Institute of Social Sciences, New Delhi.

appointed commissions, which produced recommendations without delay, and were accepted without amendments received the highest score.

7. *Local Spending.* The states show remarkable variation in how much they spend through local councils. For instance, by 2000, local councils in Karnataka and Kerala spent per capita an amount 10 times as much what councils in Bihar and Uttar Pradesh spent. Part of this variation is driven by the how wealthy the states are. To correct for this, the metric I use is the per capita spending by local councils in each state factored by per capita Net Domestic Product of the state.<sup>47</sup>

8. *Tax Devolution.* To financially empower elected councils, the state governments also had legislate to bring their tax laws to conform to the constitutional amendment, and assign and share taxes with elected local councils. Comparative studies on the conformity acts of the state governments reveal that the states have varied in assigning tax sources to elected councils. The metric I use is the number of tax sources, such as tax on land, buildings, vehicles or water supply, assigned or shared with elected local councils.<sup>48</sup> Karnataka and Kerala have devolved more taxes to local councils than other states; at the other extreme, Bihar and Haryana trail behind most states.

9. *Local Revenue Capacity.* Tax devolution assigns formal authority to collect taxes to local councils. This measure however has to be supplemented by a direct measure of local revenue capacity to find out how decentralized each state in on revenue collection. To assess the local revenue capacity in different states, the metric I use is the total revenue

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<sup>47</sup> Data on spending by local councils gathered from reports of the finance commissions, Government of India; and data on State NDP from economic surveys, Government of India, and the Handbook of Statistics on Indian Economy, Reserve Bank of India.

<sup>48</sup> Data on taxation gathered from municipal and panchayati raj acts of various states. Supplementary sources: Alok (2006), Mathur (2006), Oommen (1995), Singh, Mishra and Pratap (1997).



of local councils in a state as a percentage of the state's net domestic product (NDP).<sup>49</sup> Kerala has the highest local revenue capacity, while Bihar has the lowest.

*10. Free Elections.* The constitutional amendment mandated that the states set up elected local councils. Democratic decentralization therefore became an essential part of decentralization; the states had no latitude to evade this responsibility.<sup>50</sup> However the state governments have interfered with the conduct of elections. The amendment directed state governments to appoint state election commissions to hold regular elections to local councils. The conduct of local elections involves preparing electoral lists to identify eligible voters, setting boundaries of electoral constituencies, reserving constituencies for women and scheduled castes and tribes,<sup>51</sup> and holding elections. In these matters, several states have interfered, to control aspects of the elections even when the states have appointed election commissions. For example, in Haryana, bureaucrats of the state government prepare the list of eligible voters, draw the constituency boundaries, and reserve and rotate constituencies for women and scheduled castes; the state election commission only has the powers to set the dates for, and hold the election. Maharashtra, on the other hand, has vested all these powers with its election commission.<sup>52</sup> My five-point metric gives the highest score to states like Maharashtra and the lowest to states like Haryana.

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<sup>49</sup> Data on local councils own tax revenue gathered from reports of the finance commissions, Government of India.

<sup>50</sup> Bihar however evaded this responsibility, and avoided holding local elections until the intervention of the Supreme Court in 2001, see Kumar (2001). Bihar was scored zero on Free Elections until 2001.

<sup>51</sup> The amendment directed state governments to reserve a third of seats in local councils to women, and further reserve seats to represent India's lower castes and tribes proportionate to their population in each state.

<sup>52</sup> Information on the powers of state election commission gathered from the Working Group on Democratic Decentralization and Panchayati Raj Institutions, Ministry of Panchayati Raj, Government of India.

These ten indicators capture the administrative, financial and democratic aspects of decentralization in India. Taken together, they approximate my definition of decentralization, and reflect how Indian states have decentralized. Using factor analysis, I find that all these indicators cohere closely. Table 2.1 shows how each indicator relates to decentralization in India. The indicators are also significantly correlated with each other (See Appendix II). Table 2.1 and the correlations between the indicators reflect how internally coherent the measure of decentralization is, although the indicators were chosen to grasp the composite nature of decentralization.

**Table 2.1: Index of Decentralization**

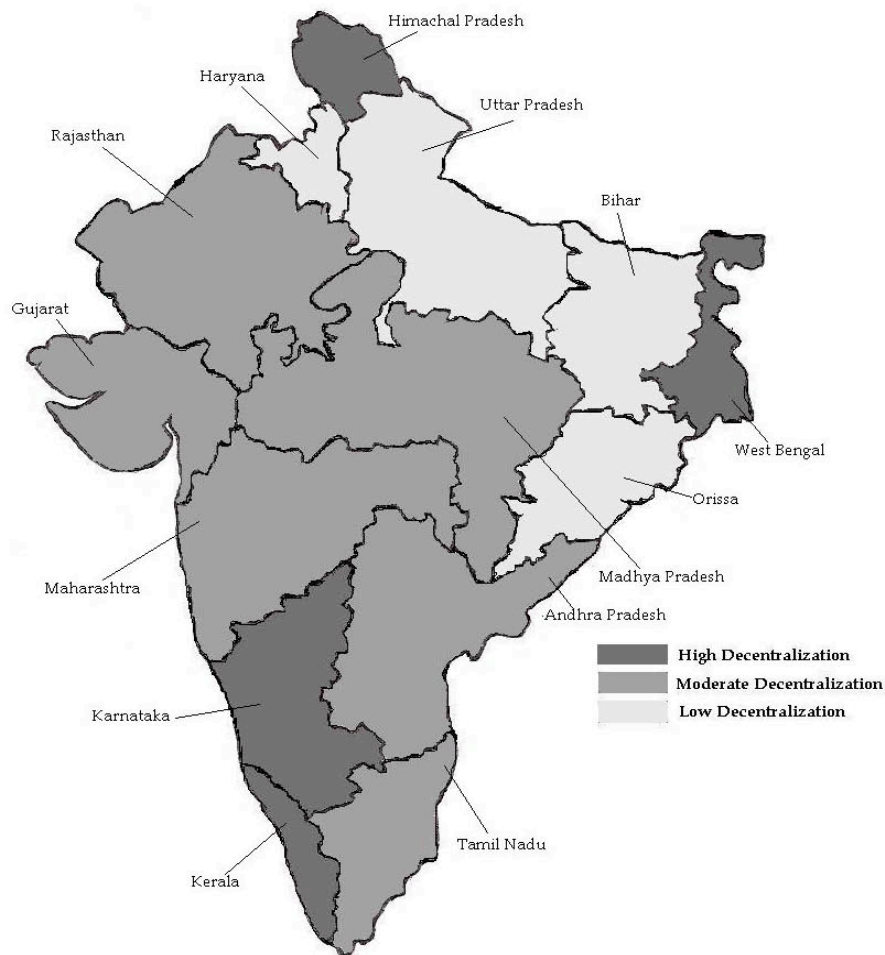
<i>Decentralization Indicators</i>	<i>Factor Loading</i>
Functional Autonomy	0.942
Finance Commission	0.902
Tax Devolution	0.855
Functional Devolution	0.778
Decentralized Planning	0.776
Free elections	0.774
Coordinated Decentralization	0.736
Capacity Building <sup>a</sup>	0.722
Local Spending	0.644
Local Revenue Capacity	0.586

*Note:* The factor explains 61 percent of the total variation.

<sup>a</sup>Scoring for Capacity Building has been reversed from that described in the text. Here, a high score corresponds to more training centers.

Given the coherence of the indicators, I constructed a summary Index of Decentralization for Indian states. Such a composite index allows me to measure decentralization comprehensively, while avoiding the idiosyncrasies of individual

measures. This index reveals, in Figure 2.2, the degree to which Indian states had decentralized by 2000.<sup>53</sup>



**Figure 2.2: Decentralization in Indian States**

The statistical analyses reveal that, on aggregate, states that devolved more functions and taxes to local councils, have also supported them with training, and

<sup>53</sup> The Index of Decentralization was scaled to be bound between 0 and 1. In the figure, states with scores below 0.33 are shown as low decentralizers, and those with scores above 0.66 are high decentralizers; the moderate decentralizers are those with scores between 0.33 and 0.66.

interfered less with their function, finances, and elections. And, accordingly, states that have been reluctant to devolve functions and finances to elected local councils, have also taken fewer measures to build local capacity, interfered more in the conduct of local elections, and have sought to sideline them by carrying out administration through existing bureaucracy.

#### **2.4. Dimensionality in Decentralization**

Decentralization in Indian states proceeds along the administrative, financial, and democratic aspects in a coherent fashion. But, as studies have shown, this coherence need not be ubiquitous; decentralization can have more than one dimension.<sup>54</sup> States can decentralize democratically without devolving finances to elected councils, or may choose to spend more money locally without having elected councils. Decentralization in India prior to the *Panchayati Raj* constitutional amendment reveals this multidimensionality.

Although decentralization prior to the constitutional amendment was limited and discontinuous, there existed variation in how states pursued decentralization. For instance, states like West Bengal and Karnataka had held regular local elections, even prior to the amendment. On another aspect, Maharashtra's local spending in the years prior to the amendment was over four times as much as that of Haryana. I measure decentralization in Indian states prior to the amendment using four indicators. Admittedly, these indicators are not as exhaustive as those that I use to measure decentralization after the amendment. Insofar as my aim here is to demonstrate

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<sup>54</sup> See, for instance, Falleti (2005), Schneider (2003).

dimensionality, I do not measure past decentralization as comprehensively as I have done with decentralization after the amendment.

The indicators I use are: First, I measure the prevalence of *Elected Councils*. This indicator finds out whether elected local councils existed in a state, and when the state government last held local elections.<sup>55</sup> The second indicator I use is the coverage of elected councils. Elected local councils prior to the amendment did not cover all the villages in all the states. The metric I use is the percentage of *Villages Covered* by elected councils.<sup>56</sup> Further, I use per capita *Local Spending* and *Local Revenue Capacity*. These indicators measure the degree to which a state had devolved expenditure and revenue prior to the amendment.<sup>57</sup>

Factor analysis reveals the existence of two dimensions in the degree of decentralization prior to the amendment. The two indicators that measure the prevalence and coverage of elected councils approximate *democratic decentralization*, while the indicators for local revenue and expenditure measure *financial decentralization*. How the four indicators relate to the democratic and financial dimensions of decentralization prior to the constitutional amendment are shown in Table 2.2.<sup>58</sup>

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<sup>55</sup> Taking 1993, the year of the amendment as the base, I use a three-point metric as a measure for *Elected Councils*. States that had held local elections in the five years prior to the amendment scored 1; states that held at least one election in the decade before the amendment scored 2; and those that have not held elections even once in the decade prior to the amendment scored 3. Data collected from the meeting of consultative committee of members of parliament, Ministry of Rural Development, Government of India.

<sup>56</sup> Data gathered from *Census of India, 1991*, Government of India; *Handbook of Rural Development Statistics*, National Institute of Rural Development, Hyderabad, India; *Education for All: A Graphic Presentation*, Ministry of Human Resources, Government of India.

<sup>57</sup> These indicators are measured the same way it was measured for decentralization after the amendment, See description for indicators 7 and 9. Data on spending by local councils were gathered from reports of the finance commissions, Government of India; and data on State NDP from economic surveys, Government of India, and the Handbook of Statistics on Indian Economy, Reserve Bank of India. Data on local councils own tax revenue were gathered from reports of the finance commissions, Government of India.

<sup>58</sup> The indicators in each dimension are significantly correlated with each other. Revenue decentralization, prior to the amendment, was very limited. In most states, local councils did not have a broad tax base to generate revenue of their own, and had to depend on financial transfers from state and federal governments.

**Table 2.2: Two Dimensions of Past Decentralization**

	<i>Factor Loading</i>
<u>Democratic Decentralization<sup>a</sup></u>	
Villages Covered	0.925
Elected Councils <sup>i</sup>	0.837
<u>Financial Decentralization<sup>b</sup></u>	
Local Spending	0.881
Local Revenue Capacity	-0.648

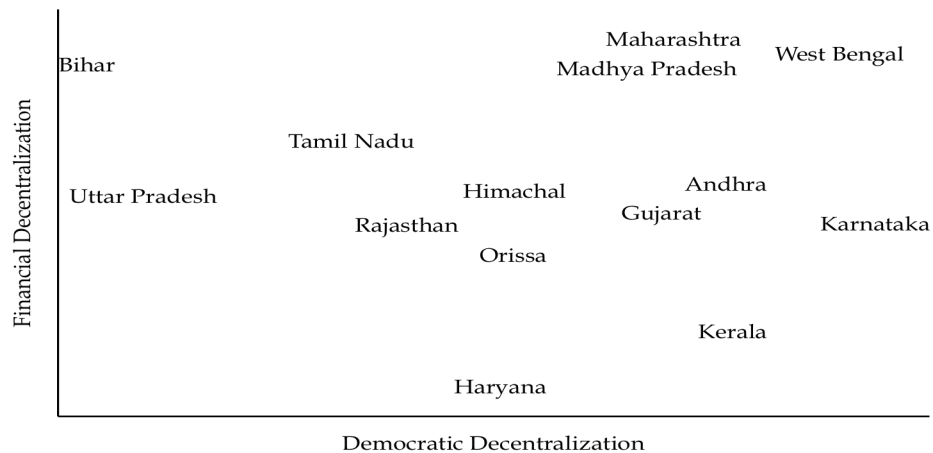
*Note:* Loading shows how each indicator relates to the factors (factors = 2, varimax rotation)

<sup>a</sup> The first factor explains 44 percent of total variation.

<sup>b</sup> The second factor explains 29 percent of total variation.

<sup>i</sup> Scoring for Elected Councils has been reversed from that described in the text. Here, a high score corresponds to recently elected councils.

The existence of two dimensions in decentralization prior to the *Panchayati Raj* amendment makes it possible to locate each state on a map of decentralization in India.



**Figure 2.3: Decentralization Prior to the *Panchayati Raj* Amendment**

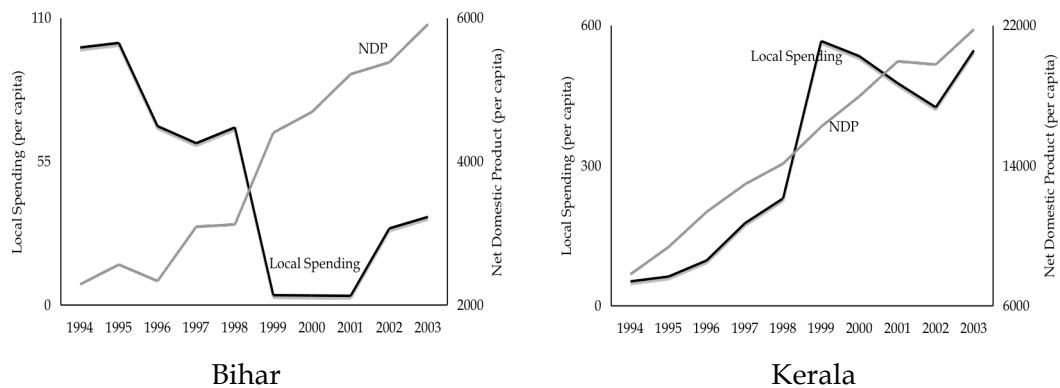
This is suggested by the negative relationship between Local Revenue Capacity and Financial Decentralization. (Local Revenue Capacity also is negatively, and significantly, correlated with Local Spending).

From Figure 2.3, we can see that the states that proceeded with democratic decentralization prior to the amendment did not necessarily decentralize financially. Although Karnataka, Kerala, Andhra Pradesh and Gujarat had held local elections more frequently than most states, they were not as decentralized financially as Tamil Nadu, Uttar Pradesh or Bihar. In states like Bihar, Tamil Nadu, and Uttar Pradesh financial decentralization proceeded even when democratic decentralization was minimal.

The *Panchayati Raj* constitutional amendment changed this pattern of decentralization in India. Democratically elected local councils were a mandatory provision of the amendment. This gave the states an impetus to coordinate different aspects of decentralization into a coherent policy. This meant that the state governments that were reluctant to decentralize generally could no longer spend as much through appointed bureaucrats as they did prior to the amendment. With elected councils in place, some of the spending would have to be channeled through these councils.<sup>59</sup> The states that were reluctant to do so, reduced local spending, streamlining financial decentralization to accord with their general inclination to decentralization. On the other hand, states that were generally supportive of decentralization increased local spending, following the amendment, to strengthen elected local councils. The most striking illustration of this coordination comes from Bihar, the least decentralized state, and Kerala, the most decentralized state (Figure 2.4).

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<sup>59</sup> Studies show that in states where state-appointed bureaucrats retained control over resources even after the amendment, conflicts over this control arose between elected councilors and bureaucrats. See Behar and Kumar (2002); Mishra, Mishra, and Pal (2000);



**Figure 2.4: Change in Local Spending since the Amendment**

On the eve of the constitutional amendment, Bihar’s per capita local spending was twice as much as Kerala’s local spending. This pattern of spending however changed with the amendment. In 1996, Kerala launched an ambitious program of decentralization. The “people’s planning” program in the state included the setting up of elected councils, the transfer of administrative functions and bureaucrats to these councils, voter-participation in policy planning, and at one point, the transfer of 35 to 40 per cent of the state’s plan expenditure to be spent through local councils.<sup>60</sup> Reflecting this thrust in decentralization, Kerala’s per capita local spending increased by a factor of 10 by the late 1990s, when compared to the period prior to the amendment (See Figure 2.3). Bihar, on the other hand, spent more than Kerala at the local level prior to the constitutional amendment. But, the state lagged behind in democratic decentralization. Having not held local elections since 1978, local spending in the state was carried out through village-level officers appointed by the state government.<sup>61</sup> The state delayed setting up elected councils even after the amendment. By 2001, when the state was

<sup>60</sup> See Issac and Franke (2002) for a discussion of decentralization in Kerala.

<sup>61</sup> For a discussion of the status of local councils in Bihar, see Bharti (1989); Kumar (2001).



obliged to set up elected councils, after an intervention of the Supreme Court, the state government had reduced local spending by a factor of 28, adjusting financial decentralization to accord with the state's general reluctance to decentralization. This decline in local spending in Bihar cannot be attributed to a contraction of the state's economy (per capita Net Domestic Product, NDP, of the state shows robust growth during this period, see Figure 2.4), or to a decline in total spending in the state.<sup>62</sup>

The comparative cases of Bihar and Kerala illustrate a general trend in decentralization following the constitutional amendment. Every state that have shown reluctance to decentralize after the amendment, and had decentralized financially prior to it, reduced local spending. This includes Bihar, Orissa, and Uttar Pradesh.<sup>63</sup> At the same time, states like Karnataka, Kerala, and Himachal Pradesh, the most decentralized states after the amendment, which however were not decentralized financially much prior to the amendment, increased local spending.<sup>64</sup> Appendix IV shows how the states have adjusted their local spending, following the amendment, to reflect their general approach to decentralization. In effect, the *Panchayati Raj* amendment, with its thrust for mandatory local elections, made states cohere different aspects of decentralization into a composite government policy.

This coherence in decentralization following the constitutional amendment makes it possible to construct a summary measure of decentralization in India, and explain it as a composite phenomenon.

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<sup>62</sup> Bihar's total spending increased precisely at the time when local spending started declining, suggesting that the state government had centralized spending, as elected councils were set up. See Appendix III.

<sup>63</sup> Haryana, a reluctant decentralizer, is an exception to this. This is because Haryana even prior to the amendment had a very low score on financial decentralization (See Figure 2.3).

<sup>64</sup> West Bengal, the other leader in decentralization, already had a high score on financial decentralization prior to the amendment, see Figure 2.3. Therefore West Bengal is an exception to this trend.

## 2.5 Conclusion

In this chapter, I have defined decentralization comprehensively, and measured its progress in Indian states systematically to show how coherent it has been since the constitutional amendment in 1993. While in some states financial and democratic decentralization progressed independently prior to 1993, with the amendment, the states governments soon coordinated these trends to make every aspect of decentralization accord well with each other. The result is a coherent pattern in decentralization. States such as Himachal Pradesh, Karnataka, Kerala, and West Bengal have progressed on every aspect of decentralization; whereas, states like Bihar, Haryana, Orissa, and Uttar Pradesh have lagged behind.

Some states in India therefore are more decentralized than others, even when the states involved had to respond to the same constitutional provisions. In some states, villagers are able to build new schools, lay roads, or irrigate their crops by approaching their local councils, while their counterparts in other states still travel long distances to district or state capitals for the same. Democracy and governance extend to villages and neighborhoods in some states while they remain distant in others. Why is this so? What explains the sub-national variation in decentralization in India? Why are some states more decentralized than others? These are the questions to which I turn next.

### **Chapter 3**

## **The Politics of Decentralization**

The decision to decentralize and the process of decentralization are intrinsically political, shaped by the nature and interests of the actors that partake in them. In the past few years, several major studies have, therefore, examined the political setting within which decentralization takes place to highlight the importance of the ideology, strategies and organization of political parties to explain why some of these parties undertake decentralization while others do not.

This chapter examines these explanations to find that, even when they point to the importance of the politics of decentralization, they are inadequate to account for the variation in the degree of decentralization we observe in Indian states. Further, these studies overlook a political paradox inherent in decentralization – i.e., the tensions the devolution of power could generate between the central leaders and local politicians and the potential for local defection. Through decentralization, central leaders empower local politicians, who like them are politically ambitious. Once empowered, these local politicians could defect to pursue their political ambitions to the detriment of central leaders. Regardless of the initial impulse for decentralization – be it ideology, strategy or party organization, central leaders could, therefore, re-centralize so long as they fear defection by local politicians. Yet, we observe some central leaders pursuing decentralization. Extant theorizing has not adequately addressed this political paradox. I argue that it is even more important to address this paradox if we are to explain decentralization satisfactorily.

Notwithstanding this theoretical limitation, it is important to examine these influential arguments that emphasize the significance of party ideology, strategies and organization for decentralization to help us understand the nature of politics that is associated with decentralization. In this chapter, I examine each argument carefully and test them systematically to see how they relate to the observed variation in decentralization in Indian states.

### **3.1 Party Ideology and Decentralization**

Several studies seek to explain decentralization in terms of the variable commitment political parties have towards decentralization. According to these studies, decentralization is undertaken when parties ideologically committed to devolution come to power. In the US, for example, studies posit that the Republican Party is ideologically more inclined to decentralize than the Democratic Party (Pagano and Bowman 1995; Wallin 1998; Walker 2000; Bowman 2002). Krause and Bowman's (2005) study of 459 public laws relating to intergovernmental relations enacted between 1947 and 1998 supports this position. They find that "electing Republicans has led to greater decentralization, while putting Democrats in office has generated more centralization" (2005: 381).

The argument linking partisan ideology and decentralization is also developed in the context of countries that underwent transition from authoritarianism to democracy such as Argentina, Brazil and Indonesia, where centralization came to be associated with failed authoritarian regimes and decentralization was seen as integral to democratization (Ahmad and Mansoor 2002; Gustafson 1990; Samuels and Abrucio 2000; Souza 1997). In such countries, the democratic opposition that came to power

following the transition to democracy adopted decentralization as part of democratization. For example, when democracy returned to Argentina in 1983, President Raúl Alfonsín initiated decentralization declaring that democracy “requires a decentralization of political power”.<sup>1</sup> Similarly, following Brazil’s democratization in the 1980s, the enthusiasm for decentralization among the country’s new political leaders was prompted by a “reaction against centralization” and “a consensus on rejecting whatever existed before” (Souza 1997: 73).<sup>2</sup> In Indonesia, Ahmad and Mansoor (2002: 4) argue that Abdurrahman Wahid’s election as president in 1999 following Suharto’s resignation brought “to the core of Government a stronger commitment for more meaningful decentralization”.<sup>3</sup>

A variant of this argument has also been made with reference to decentralization in countries that did not undergo regime change (Nakano 2009). Citing the cases of decentralization by the François Mitterrand’s Socialist government in France in the 1980s and Morihiro Hosokawa’s first non-Liberal Democratic Party government in Japan in 1993, Nakano argues that opposition parties distinguish themselves ideologically from the ruling party by espousing causes and policy platforms such as decentralization that are popular for their seeming democratic accountability. This helps the opposition broaden its electoral support. Where such enhanced support helps opposition parties win elections and form governments, they implement decentralization. Opposition

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<sup>1</sup> Quoted in Gustafson (1990: 169). In 1985, Alfonsín appointed the Council for the Consolidation of Democracy that drew up proposals for decentralization. For the details of Argentina’s decentralization in the 1980s, see Gustafson (1990).

<sup>2</sup> In Brazil, the Constituent National Assembly that drafted the new constitution empowered the states and municipalities. For details see, Souza (1997). State governors in Brazil also reasserted their power for a more decentralized state following the country’s transition to democracy, see Hagopian (1996) and Samuels and Abrucio (2000).

<sup>3</sup> In 1999, the Indonesian parliament adopted the Governance and Fiscal Balance Laws that decentralized political and economic power to the regions.

victory in the elections is key to Nakano's argument: "In short, decentralization occurs when the opposition governs" (2009: 2).

In India too studies have sought to relate decentralization to particularistic ideologies of political parties. Due to the professed commitment of the Communist parties to extend politics and governance to include marginal groups and the noteworthy cases of decentralization initiated by Communist governments in West Bengal and Kerala, decentralization in the country is often associated with the politics of the Communist parties.<sup>4</sup> For example, with reference to the decentralization the first Communist government in West Bengal initiated in the late-1970s, Atul Kohli (1987: 109) writes: "Like any political party, the CPM seeks to win and consolidate power. In contrast to most other Indian parties, the CPM intends to accomplish this political goal by building its power base primarily on the lower and lower-middle classes. This necessitates involving these groups in the political process, as well as transferring some of the benefits of power to them."<sup>5</sup> In a similar vein, Kjosavik and Shanmugaratnam (2006: 636) consider decentralization that the Communist government promoted in Kerala in the 1990s as a continuation of "the mobilization of Kerala's civil society to

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<sup>4</sup> This association between Indian Communists and decentralization, insofar as the latter is seen as an institutional means to extend politics to marginal groups, is informed by the history of the Communist movement in the country. The Communist parties were born out of struggles to extend politics, which caste and class elites and the political parties that represented them dominated, to marginal groups. See Franda (1971), Brass (1973), Hardgrave, Jr. (1973), Nossiter (1988) for accounts of the struggles the Communist parties in India were involved in.

<sup>5</sup> Webster arrives at a conclusion similar to Kohli's regarding decentralization in West Bengal. Webster (1992a: 131) notes that the electoral victory for the Communists brought into government "a political party with a specific ideological commitment to decentralize decision-making towards institutions of local government and to encourage increased political participation in their formation and functioning." The CPM (Communist Party of India-Marxist) is the largest Communist party in India. It allies with smaller Communist parties like the Communist Party of India (CPI) and the Revolutionary Socialist Party (RSP) to form governments in West Bengal and Kerala. Communist governments initiated decentralization in West Bengal in the late 1970s following their electoral victory in 1977 and in Kerala in the 1990s when they won the elections in 1996. In both cases, the CPM was the dominant Communist party. In the 1977 election in West Bengal, the CPM won 75 percent of the votes for Communist parties and won 79 percent of the seats. In Kerala, in 1996, the CPM won 70 percent of the votes for Communists and 64 percent of the seats.

engage the state... by the Leftist political parties and Left-leaning individuals.”<sup>6</sup> Empirical studies of decentralization in West Bengal and Kerala find that the Communist parties have been successful in broadening political participation and extending democratic politics to groups that had hitherto been sidelined in Indian politics (Kohli 1987; Heller, Harilal and Chaudhuri 2007).<sup>7</sup>

Notwithstanding the decentralization initiated by Communist governments in West Bengal and Kerala, several non-Communist governments had also initiated and promoted decentralization in Indian states that limits the persuasiveness of arguments that seek to explain decentralization in the country in terms of the ideological commitment of the Communist parties. In Madhya Pradesh, for example, it was the Congress government of Digvijay Singh that decentralized governance and empowered village councils from the late 1990s.<sup>8</sup> In neighboring Maharashtra, the Congress government of Y.B. Chavan had initiated decentralization in the 1960s. In Karnataka, the

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<sup>6</sup> Heller (2001) makes comparable observations in his comparative study of decentralization in South Africa, Kerala and Porte Alegre in Brazil. According to Heller (2001: 133), among the conditions favorable for decentralization to be initiated and sustained, the “most visible” is the formation of governments by “left-of-center political parties that were born of popular struggles... The ascendancy of the African National Congress (ANC), the Communist Party of India–Marxist (CPM), and the Partido dos Trabalhadores (PT) have all been associated with the formulation of clear and cohesive transformative projects in which the democratization of local government was given pride of place.” Williams (2008), like Kjosavik and Shanmugaratnam, see decentralization in Kerala as a continuation of CPM commitment to extend democracy to engage the civil society. According to Williams (2008: 38), through decentralization, the CPM is seeking “to establish a counter-hegemonic politics that fundamentally refashion relations in the economic and political arenas based on the experiences and aspirations of subaltern classes.” Also see Issac and Franke (2002) for an account of the contributions of the Communist movement to decentralization in Kerala.

<sup>7</sup> Some studies have extended the relation between the Communist parties and decentralization beyond the causal arguments of decentralization to its consequences. Crook and Manor (1998: 77) examining the limited success of Karnataka’s decentralization in providing poverty relief observes: “We should therefore not expect democratic decentralisation in India to assist in poverty alleviation over the short to medium term, unless decentralised system is dominated by a leftist party, and that seems possible only in the state of West Bengal.” In Karnataka, the Janata Party initiated decentralization in the 1980s, and was later continued by the Congress Party.

<sup>8</sup> For an account of the measures undertaken by Digvijay Singh in Madhya Pradesh to decentralize governance, see (Behar and Kumar 2002; Kumar 2004).

Janata government of Ramakrishna Hegde decentralized policy making and implementation to local councils in the 1980s. In Kerala, the Congress governments of A.K. Antony and Oommen Chandy sustained and continued decentralization even after the Communist parties lost the election in 2001. Further, as Figure 3.1 shows, the Communist parties are electorally confined to too few states to account for the variation in decentralization across Indian states.<sup>9</sup> Only in Kerala and West Bengal have the Communist parties won enough votes to form state governments and initiate decentralization.<sup>10</sup> In other states, the Communist parties generally win less than five percent of the total votes and have never formed the government, although non-Communist governments in states like Himachal Pradesh, Karnataka and Madhya Pradesh have decentralized to levels comparable to decentralization in West Bengal and Kerala. The limited electoral strength of the Communist parties in most states suggests not only their inability to initiate decentralization through government formation, but also reveals narrow support bases for the Communists to demand decentralization through popular movements.<sup>11</sup>

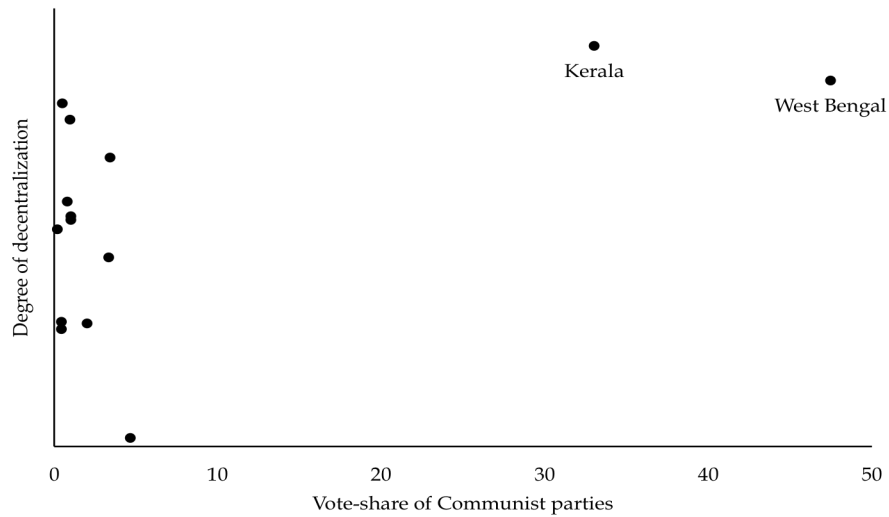
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<sup>9</sup> The vote-shares for the Communist are for the year 2000. Source: Election Commission of India.

<sup>10</sup> The Communist parties have formed the government in Tripura state in India's northeast. Owing to their large indigenous tribal populations, the northeastern states, either in whole or large areas, were initially excluded from *Panchayati Raj* constitutional amendment. For this reason, as noted in Chapter 2, the northeastern states are excluded from this study.

<sup>11</sup> Detailed case studies show that in Kerala it is not just the Communist government that was instrumental in the success of decentralization, Left-leaning societal groups like the Kerala Sastra Sahitya Parishad had helped mobilize popular support for the Communist government's initiatives. See, Heller (2001); Issac and Heller (2003).





**Figure 3.1: Communist Parties and Decentralization**

Another methodological problem with arguments seeking to explain decentralization in terms of ideological commitment is that it is difficult to independently assess the commitment of political parties to decentralization. To evaluate the merit of the argument, it is important to differentiate each party’s level of commitment to decentralization from the decentralization the parties undertook once in government. In the Indian cases, it is unclear why the Communist parties are considered more committed to decentralization than other political parties when almost all political parties espoused policy platforms that promised to promote decentralization and strengthen local councils.<sup>12</sup>

<sup>12</sup> For example, the Congress Party’s election manifesto in 1998 promises to “strengthen local bodies. Over a three year period, all rural development funds, currently at around Rs 8000 crore per year will be transferred directly to zilla parishads and other panchayat institutions.” (Rs 8000 crore ≈ \$2 billion. 1998 exchange rate). The Bharatiya Janata Party’s (BJP) manifesto is no different: “[T]he BJP will: 1) Introduce suitable changes in the 73rd and 74th amendments to the Constitution with a view to further strengthening Panchayati Raj institutions and giving them greater autonomy; 2) Endeavor to make the Panchayati Raj institutions financially self-reliant.”

Some studies have therefore sought to explain decentralization in Indian states not in terms of ideological commitments, but as electoral strategies of opposition parties - not limited to the Communist parties - to incorporate marginal groups to undermine the electoral dominance of the Congress Party.<sup>13</sup> Slater and Watson (1989: 149), for example, argue that Ramakrishna Hegde's Janata government decentralized governance in Karnataka "to incorporate marginalized groups into its patronage network... to challenge the Congress machine." Ghatak and Ghatak (2002: 54) see decentralization in West Bengal in the 1970s and Karnataka in the 1980s following the Communist and Janata parties' electoral victories "as a strategy to enhance their electoral strength at the grass roots level."<sup>14</sup>

While the formulation of decentralization as an electoral strategy accounts for more cases of decentralization - initiated by the Communist and some non-Communist opposition parties, the argument nevertheless has several limitations. First, evidence supporting the argument that opposition parties use decentralization as an electoral strategy to incorporate marginal groups is at best inconclusive. Atul Kohli's (1987) survey of 60 elected Communist councilors in Burdwan and Midnapore in West Bengal in the early 1980s suggested that the Communist-initiated decentralization in the state had been able to extend politics beyond the landed elites to include small landowners.<sup>15</sup>

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<sup>13</sup> This argument has resonance in broader comparative literature on decentralization. For example, Schmidt (1990: 7) argues that decentralization in France in the late nineteenth century under Léon Gambetta and by François Mitterrand in the 1980s were "part of a political strategy by the Left to forge a new electoral coalition made up of ascending sociopolitical groups in the periphery."

<sup>14</sup> Williams (2008), similarly, argues that the CPM in Kerala sought to use decentralization to empower the "subaltern classes". According to Williams, the CPM in the state used decentralization as the primary mechanism to help "the subaltern classes" secure their right "to participate and ensure implementation of democratic decisions." (p. 22)

<sup>15</sup> Most of the Communist councilors Kohli surveyed were small landowners. Kohli (1987: 113) concluded that the "*panchayat* membership in West Bengal... has never been so free of landlord and rich-peasant domination as in contemporary West Bengal." See also Webster (1992a); Lieten (1992).

Meanwhile, research undertaken by Ray and Kumpatla (1987) in Karnataka revealed no evidence that Ramakrishna Hegde's Janata government incorporated marginal groups through decentralization to undermine the Congress Party's electoral support. Instead, Ray and Kumpatla found that decentralization in the state continued to bestow privileges to the dominant landowning castes - the *lingayats* and the *vokkaligas* - with elected offices in local councils being dominated by these castes.<sup>16</sup>

A second problem is that the formulation, in its original form - i.e., decentralization is a political strategy opposition political parties use to co-opt new groups to undermine the electoral dominance of the Congress Party - is untenable in the cases of decentralization in Congress-ruled states like Madhya Pradesh and Kerala in the 2000s or the devolution undertaken by the Congress chief minister Y.B. Chavan in Maharashtra in the 1960s. The argument also fails to explain why opposition parties adopted this strategy only in some states. Why, for instance, did the Janata government of Chaudhary Devi Lal in Haryana not decentralize in the 1980s when his party colleague and Chief Minister of Karnataka, Ramakrishna Hegde, decentralized? Why did successive opposition governments of Mulayam Singh Yadav (*Janata Dal*, 1989-91; *Samajwadi Party*, 1993-95) in Uttar Pradesh, Laloo Prasad Yadav (*Janata Dal*, 1990-97) in Bihar, Nilamani Routray (*Janata Party*, 1977-80) and Biju Pattnaik (*Janata Dal*, 1990-95) in Orissa not undertake decentralization similar to those initiated by non-Congress governments in West Bengal or Karnataka?<sup>17</sup>

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<sup>16</sup> An additional methodological difficulty with such empirical findings is differentiating the cause and effects of decentralization. From the evidence collected after decentralization, it is unclear if incorporating marginal groups was political intent behind decentralization, or merely its consequence.

<sup>17</sup> Similar concerns also limit arguments that see decentralization as a strategy opposition parties pursue to circumvent uncooperative bureaucrats. These arguments were developed in the context of the uninterrupted Congress governance, which left state bureaucracies long used to the Congress party. Opposition parties

Despite the notable cases of decentralization in Kerala and West Bengal by Communist governments, there is little hard evidence to suggest a general relation between decentralization and party ideology, or strategy, in India.

### **3.2 Decentralization as Incumbent's Political Strategy**

Some studies posit decentralization not as an attribute of oppositional politics, but as political strategies that the parties in power pursue to meet the challenges they face. In her research on decentralization in Mexico, Victoria Rodriguez (1997, 1999) argues that the measures that successive presidents, Miguel de la Madrid, Carlos Salinas de Gortari and Ernesto Zedillo, undertook to decentralize governance since the early 1980s were responses to the growing voter disenchantment with the ruling Institutional Revolutionary Party (PRI). Decentralization was a strategy to reverse the disenchantment, gain legitimacy and reinvigorate the party by bringing governance closer to people.<sup>18</sup> Grindle (2000) extends this argument to decentralization initiated by Raúl Alfonsín in Argentina, Gonzalo Sánchez de Lozada in Bolivia and Carlos Andrés Pérez in Venezuela. According to Grindle, these leaders undertook decentralization to

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that came to power were, according to these arguments, uncertain about bureaucratic support for their policies and politics. Kumar (2006:67) writes that in decentralization the Communists in West Bengal found “an excellent medium to distribute state largesse without involving the bureaucracy.” See also, Ghosh and Kumar (2003: 27-28). In these arguments, it is, however, uncertain why other opposition state governments – such as Nilamani Routray and Biju Pattnaik or Laloo Prasad Yadav in neighboring Orissa and Bihar – had not felt the compulsion to sidestep the bureaucracy that the Communists felt. And, why Congress governments of Y.B. Chavan and Digvijay Singh in Maharashtra and Madhya Pradesh decentralized.

<sup>18</sup> Rodriguez (1999: 241-42) notes that the “political reform and opening were designed to counteract that growing resentment and to give the federal government, led by the PRI, greater legitimacy. The need to “let go” in order to hold on to the reins of power also helps explain the trend toward decentralization.” See also Rodriguez (1997: 140-145). Without attributing partisan intent, Nickson (1995) argues that decentralization may be a way to address the extremely low levels of sub-national popular participation that characterize many Latin American countries.

“ensure the long-term legitimacy and stability of institutions of governance” (2000: 203).<sup>19</sup>

Kathleen O’Neill (2003, 2005) attributes another motive behind incumbents’ efforts at decentralization. According to O’Neill, incumbents, who fear that they might not get reelected, decentralize to give their party colleagues at sub-national levels control over government resources. The incumbents’ parties will, therefore, have control over some government resources even if they lose power at the center.<sup>20</sup> Among Andean countries, O’Neill finds that incumbents in Columbia (1982-86) and Bolivia (1993-97) decentralized when they did not expect to get reelected but, at the same time, their party colleagues were gaining in electoral strength in sub-national departments. In contrast, Venezuela and Ecuador did not decentralize because the incumbent’s party was certain of winning the national elections (as was the case in Venezuela in the early 1970s) or had weak local support (as with Ecuador’s Social Christian Party, PSC).

Despite the different motives Rodriguez and O’Neill attribute for the incumbent’s support for decentralization, a necessary condition for the incumbent to

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<sup>19</sup> Note that for Grindle the crisis of legitimacy is not limited to the incumbent’s political party, but to the institutions of governance. Incumbents, in her account, take into consideration not merely short-term electoral factors, but also long-term factors such as democratic norms and regime stability while decentralizing. Grindle, however, cautions against generalizing the institutional crisis hypothesis too broadly. In her account, Carlos Menem of Argentina had undertaken institutional reforms in exchange for the right to run for reelection – a short-term electoral consideration (2000: 198-204).

<sup>20</sup> Krause and Bowman (2005), in their study of U.S. decentralization, similarly argue that incumbents in the federal government decentralize in the belief that their sub-national party colleagues will faithfully execute their policies. Therefore, “when national level Democrats scan state institutions and find Democrats in control, they will be more willing to shift power to the subnational level. Similarly, when the national level Republicans are in ascendance, their willingness to decentralize policy making power to subnational governments rises when Republicans control state electoral institutions” (2005: 365-66). According to O’Neill’s thesis, not all incumbents facing electoral uncertainty decentralize to help their local party colleagues. Only those incumbents that face uncertain reelection and, at the same time, are more certain that their party colleagues will win sub-national elections will decentralize. A third consideration - electoral volatility - further limits decentralization in O’Neill’s formulation. In short, incumbents decentralize: a) when they are uncertain of getting reelected at the center; b) but are more certain of gaining substantial number of elected offices at the sub-national level; and c) when electoral volatility during elections is minimal. For details, see O’Neill (2003, 2005).

initiate decentralization, in both arguments, is a decline in the incumbent party's electoral fortunes.<sup>21</sup> Yet, as Table 3.1 shows, there seems no apparent relation between the electoral fortunes of the incumbent political parties and the initiation of decentralization in Indian states. Governments of N.T. Rama Rao in Andhra Pradesh, Y. B. Chavan in Maharashtra and Jyoti Basu in West Bengal decentralized governance to elected local councils when their parties were gaining in electoral strength. Whereas the incumbents in Karnataka, Kerala and Madhya Pradesh initiated decentralization when their parties' vote-shares were declining. Further, if, as Rodriguez posits, incumbents decentralized to regain voter legitimacy, then the Congress governments in several states should have decentralized in the 1960s and 1970s when the Congress Party's popularity among voters declined. However, instead of cultivating an image of openness through decentralization, the Congress Party during this period chose to bypass institutional links to voters by adopting a brand of "plebiscitary politics" where the party's appeal became based on charismatic leaders (Rudolph and Rudolph 1987: Chapter 4). Ghosh and Kumar (2003) find that the emergence of plebiscitary politics within the Congress Party directly undermined decentralization in Congress-governed states like Gujarat and Maharashtra in the 1970s, where the state governments chose to sideline local councils and carry on administrative and development policies through the bureaucracy.

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<sup>21</sup> For Rodriguez, the incumbent's motive is to reverse voter disenchantment and to regain legitimacy, whereas, for O'Neill, decentralization ensures that the incumbent's political party will have control over government resources even if the party loses power in the center. In her study on legislative support for decentralization in Colombia and Venezuela, Escobar-Lemmon (2003) finds evidence of both motives. Legislators in both countries supported decentralization when they believed that their parties were unlikely to win the presidency or a majority in the congress, but would win a significant number of sub-national offices. At the same time, legislators from districts showing the greatest signs of decreased voter trust were also more likely to initiate decentralizing bills.

**Table 3.1: Electoral Uncertainty of Incumbents**

States	Incumbent Party	$\Delta$ Incumbent's Vote-Share
Andhra Pradesh	Telugu Desam Party (1984-89)	+46
Gujarat	Congress Party (1962-67)	-12.95
Himachal Pradesh	Congress Party (1993-98)	+12.28
Karnataka	Janata Party (1983-88)	-4.88
Kerala	Left Democratic Front (1996-01)	-0.35
Madhya Pradesh	Congress Party (1998-03)	-0.08
Maharashtra	Congress Party (1960-67)	+2.56
Rajasthan	Bharatiya Janata Party (1993-98)	+13.35
Tamil Nadu	AIADMK (1991-96)	+43.77
West Bengal	Left Front (1977-82)	+6.66

Source: Election Commission of India.

Note: Within parentheses are the years during which decentralization was initiated. For Andhra Pradesh, Gujarat, Karnataka, Kerala, Madhya Pradesh, Maharashtra and West Bengal, the launches of their decentralization programs were taken as the initiation of decentralization (For example, the Peoples' Planning in Kerala in 1996). For the other states, the year they adopted new *Panchayati Raj* laws to conform to the constitutional amendment was taken as the initiation of decentralization. The change in incumbent's vote-share is measured as the difference in vote-shares from the previous election. For Gujarat and Maharashtra, the first government after the formation of these states initiated decentralization. Therefore change in vote-share is calculated against the Congress party's vote-share in Saurashtra and Bombay regions. In Kerala and West Bengal, the vote-shares of the Communist alliance, not solely that of the CPM, are reported.

It is therefore not surprising that studies in India do not attribute decentralization to declines in the vote-shares of incumbents. However, some studies have related decentralization in India to political uncertainty of a different kind - arbitrary federal dismissal of the elected state governments. Article 356 of the Indian constitution empowers the federal government to dismiss elected state governments and impose federal rule in the states.<sup>22</sup> Over the decades, the federal government has arbitrarily dismissed several state governments, especially those formed by opposition

<sup>22</sup> The article allows the federal government to dismiss or suspend an elected state government and takeover governance if it deems that the "constitutional machinery" in the state has failed. The framers of the constitution hoped that this emergency provision would be used as a last resort. Bhimrao Ambedkar, the chairman of the Constitution Drafting Committee, hoped that this article "will never be called into operation and that they would remain a dead letter," see Government of India (1949: 177). The text of Article 356 of the Indian Constitution is available on the website of the Ministry of Law and Justice, Government of India: <http://lawmin.nic.in/coi/coiason29july08.pdf>.

parties.<sup>23</sup> Some Indian scholars have pointed out that the fear of such arbitrary dismissals could press opposition-governed states to devolve administrative functions and resources to local councils. Decentralization, in such cases, would leave opposition parties control over government resources at the local level even if they were removed from power in the states. Kumar (2006: 66), for example, argues that the Communist Party of India-Marxist in West Bengal, which was removed from power twice prior to 1977 by the federal government, initiated decentralization in the late-1970s “to protect itself from the possible onslaught of the centre.” Decentralization provided the Communists with resources at the local-level that they could use to mobilize popular support and made sure that the federal usurpation of state governance would not be effective (Ghosh and Kumar 2003: 178-79; Kumar 2006: 66-67).<sup>24</sup>

While it is possible that the fear of arbitrary dismissal might have been a factor in the Communist government’s decision to decentralize in West Bengal in the late-1970s, evidence from other states suggests that it would be erroneous to draw general conclusions about the influence Article 356 has on decentralization in India. The Communist parties in West Bengal were not the sole victims of federal dismissals in the country. Article 356 was imposed at least once in every state, with Bihar, Tamil Nadu and Uttar Pradesh being targeted the most. Yet, decentralization in these states

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<sup>23</sup> A government commission in the mid-1980s noted that out of the 75 cases until then, only 26 were just; in most other cases, the federal government intervened either to prevent a party from forming the government or dismissed the government even when it commanded majority support, see Government of India (1988: 177). Jain’s study (1994) on the imposition of Article 356 during Congress federal governments finds that the emergency provision was used more frequently to dismiss governments formed by opposition parties.

<sup>24</sup> Webster (1992b: 110), for instance, notes: “The Panchayati Raj Programme in West Bengal is a central element in the C.P.I.(M)’s strategy to entrench its political position within the state of West Bengal so that, even if it should lose state power, it will retain both its organisation and the mass support of substantial sections of the rural population who have benefited from the programme, enabling them to organise and respond in the subsequent period.”



remained minimal. It is unclear why the fear of arbitrary dismissal that influenced the Communist government in West Bengal to decentralize had not affected the *Rashtriya Janata Dal* in Bihar, the *Janata Party* in Uttar Pradesh or the *Dravida Munnetra Kazhagam* in Tamil Nadu although these parties have been targeted with Article 356 more often than what the Communists in West Bengal experienced. It is also doubtful if such fears came into consideration during decentralization in Karnataka (1983), Andhra Pradesh (1984) and Kerala (1996). Moreover, decentralization in Maharashtra and Gujarat in the 1960s by Congress state governments, which had no reason to fear dismissal by a Congress federal government in New Delhi, suggests that political uncertainty of arbitrary federal dismissal is not a necessary condition for decentralization in India.

### **3.3 Party Organization, Bargaining and Decentralization**

Recent studies argue that we can explain decentralization in terms of the organization of political parties - in particular, with regard to the balance of power that exists between a party's central leadership and its local units. Garman, Haggard and Willis (2001), for example, argue that key to explaining decentralization is the structure of political parties - who, within parties, control campaign finances, the nomination of candidates and the career paths of politicians. In states where the central leadership of political parties exert substantial control over the rank and file, nominate the candidates for elections and offer party members career opportunities, institutions of governance will be centralized. By contrast, in states where local party conventions - in which regional party bosses exert great influence - nominate candidates for the central leadership, institutions of governance will reflect this underlying balance of power and be more decentralized. Decentralized parties facilitate powerful sub-national politicians

to bargain for greater devolution of government resources in return for their electoral support for the central leaders.<sup>25</sup> In their study of fiscal decentralization in five Latin American countries, Garman, Haggard and Willis (2001) find that Brazil and Colombia, where state or district level conventions nominate candidates for congressional and senate races and candidates win elections with the support of powerful regional bosses, are the most decentralized.<sup>26</sup> Congressional representatives and senators in these countries who get elected with the support of influential governors and mayors return the favor by devolving more resources to sub-national governments. Whereas Mexico and Venezuela with highly centralized parties have the most centralized fiscal systems.<sup>27</sup>

Students of Indian decentralization, however, present a different argument relating party organization and government decentralization. According to this argument, it is disciplined political parties - not necessarily those with powerful local units - that have undertaken decentralization in the country. In this argument, party discipline is sometimes associated with party centralization. For example, attributing part of success of decentralization in West Bengal to the organization of the Communist Party of India-Marxist, Kohli (1987) reports, "the CPM is a reasonably well-disciplined party, in areas where party organization is strong, party followers as government representatives are likely to comply with leadership directives. Even where party

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<sup>25</sup> Garman, Haggard and Willis (2001: 212) posit: "...if legislators are dependent on governors to advance their political careers, they will naturally seek to curry favor with them, including through the design of intergovernmental fiscal relations."

<sup>26</sup> Electoral rules underscore the strength of local politicians. In Brazil, with open-list PR election rules, candidates win senatorial election with the support of powerful local bosses. In Colombia, even when the elections are held under closed-list election rules, there exist several district-level party lists that are under the influence of regional party bosses.

<sup>27</sup> Garman, Haggard and Willis (2001: 207), therefore, posit: "Stated most simply, if parties are more centralized, any bargaining over intergovernmental fiscal relations will favor the center and the fiscal structure of the state will be more centralized. Conversely, if party control is less centralized, the state's fiscal structure will also tend to be more decentralized, other things being equal."

representatives do not control government institutions... [p]arty members are actively involved in the supervision of panchayats” (p. 144).<sup>28</sup> Similarly, Kumar (2006: 47-106), in his comparative study of decentralization in four Indian states, extends this argument beyond the CPM and its chief minister Jyoti Basu in West Bengal to note that Y.B. Chavan in Maharashtra, and Devraj Urs and Ramakrishna Hegde in Karnataka had the support of “well-knit party organizations” to rely on when they undertook decentralization.

One problem in assessing the relation between party organization and government decentralization is that we are unable to determine the status of party structure independent of government decentralization. In their study, Garman, Haggard and Willis (2001) rely on electoral rules – candidate nomination and open- or closed-list PR – to determine whether party systems are decentralized or not. But, the comparative literature on institutions informs us that it is misleading to treat electoral rules as independent of party systems because powerful players anticipate the consequences of electoral rules and choose the rules that maximize their hold on power (Boix 1999; Nohlen 1996; Remington and Smith 1996; Shvetsova 2003). If this is true, then the electoral rules in the Latin American states that Garman, Haggard and Willis observe may have been adopted to reflect the underlying balance of power between the national

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<sup>28</sup> Kohli (1987: 98) writes about this party organization and discipline: “The CPM being organized along “democratic centralist” principles, its internal disagreements and power ambitions, while played out within the party, have not become impediments to a coherent policy. It is in the nature of “democratic centralism” as a principle of organization that a party position, once adopted, is binding on all the members.” Other students of Indian decentralization support Kohli’s observations about the CPM. For instance, Ghosh and Kumar (2003: 29) notes: “It is necessary to point out that in the CPI(M)-controlled panchayats, the elected representatives are not free to exercise their statutory powers. The party exercises strict political control over them.”

and sub-national politicians.<sup>29</sup> Insofar as this is the case, the relation between electoral rules, party organization and government decentralization that Garman, Haggard and Willis find and posit may not be one of simple cause and effect.<sup>30</sup> A second limitation in assessing the relation between party organization and government decentralization is that we lack systematic data on party centralization or discipline. There exist detailed descriptive studies of the changes in the organization of the Congress Party in India over the decades and of other political parties, but good data on state-level variation in party discipline or centralization to account for the variation in government decentralization in the states are absent.

To address some of these limitations and assess the significance of party organization on government decentralization, I have devised a methodological strategy to measure the degree of party centralization and discipline in Indian states. In this strategy, I exploit a tension inherent in the electoral rules under which elections to the Indian state legislatures are held. State legislators are elected from single-member electoral districts on the basis of a plurality of votes. As the sole representative of an electoral district, an incumbent seeking reelection has incentives to spend time and resources on her local constituents to develop personal reputation and cultivate personal votes (Cain, Ferejohn and Fiorina 1983, 1984; Fiorina 1977; Heitshusen, Young and Wood 2005; Mayhew 1974). At the same time, the single-round-closed-list elections to elect the state legislators and the parliamentary system of legislatures give the political parties

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<sup>29</sup> Students of Brazilian politics document how this underlying balance of power between national and sub-national politicians is tilted in favor of sub-national politicians, and how this, in turn, shapes institutions. See Ames (2001), Hagopian (1996), Samuels (2003: 157-176).

<sup>30</sup> Garman, Haggard and Willis (2001: 235) acknowledge the potential endogeneity in their thesis: "...these reflections on the origins of federalism – as well as a longer historical view of intergovernmental relations – raise daunting problems of endogeneity... an alternative argument could reverse the causal arrow. Rather than deriving the fiscal structure of the state from the internal organization of political parties, fiscally decentralized states may produce political parties organized along subnational lines."

substantial control over their candidates (Carey and Shugart 1995; Cheibub 2007; Linz and Valenzuela 1994; Shugart 1998; Shugart and Carey 1992).<sup>31</sup>

These electoral rules render in Indian political parties a mix of centralizing and decentralizing tendencies.<sup>32</sup> In theory, we can expect candidates belonging to parties with powerful centralizing tendencies to be elected on the strength and popularity of their parties rather than on the basis of personal votes. The central leadership of such parties could, therefore, refuse to re-nominate an incumbent legislator as candidate in her district since the party will be able to retain the seat by nominating another candidate. It is the party label – not so much the personal reputation of individual candidates – that matters more. By contrast, parties with strong decentralizing tendencies gather seats in the legislature on the strength of the personal reputation of individual candidates. Incumbents in such parties cultivate personal votes in their districts spending time and resources. In such parties, personal reputations and votes of individual candidates are more important than the party label. In reality, most Indian parties exist, as we shall see shortly, between these two theoretical extremes and are characterized by both centralizing and decentralizing tendencies. Therefore, an incumbent legislator whose party has denied her nomination from her district could either stand down as a disciplined party member or, in an act of defiance, choose to contest the election as the candidate of a rival political party or as an independent “rebel” candidate. Whether the central leadership is successful in refusing candidacy to

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<sup>31</sup> In parliamentary systems, political parties exercise control over their members through candidate nomination, campaign funding and through distribution of ministerial positions to a greater extent than in presidential systems. Further, since the executive and the legislature are chosen through the same election in parliamentary systems, candidates have a tendency to seek votes on the basis of their party’s strength.

<sup>32</sup> The tendencies referred to here are not about government decentralization, but about the balance of power between a party’s central leadership and local politicians – in particular, whether the party’s central leadership exerts control over its rank and file or whether individual candidates have more power vis-à-vis their party’s central leadership.

an incumbent without drawing her defiance depends on the organizational strength of the party and the underlying balance of power between the central party leaders and individual candidates.

Exploiting this tension, I measured *party centralization* as the percentage of incumbents that political parties refused candidacy in the same electoral districts in the subsequent election without the incumbents defying the leadership's decision to contest as candidates of rival parties or as independents.<sup>33</sup> Further, I measured *party discipline* as the percentage of incumbents who did not contest the subsequent election either as the candidate of a rival political party or as an independent "rebel" when their parties denied them nomination.<sup>34</sup>

Using data on state elections in early-1990s, when the *panchayati raj* constitutional amendment seeking government decentralization in states was being adopted, I

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<sup>33</sup> The central leadership's refusal to re-nominate an incumbent from her district may also be influenced by how wary the central leadership is about local defection. I discuss this fear of local defection in the next chapter.

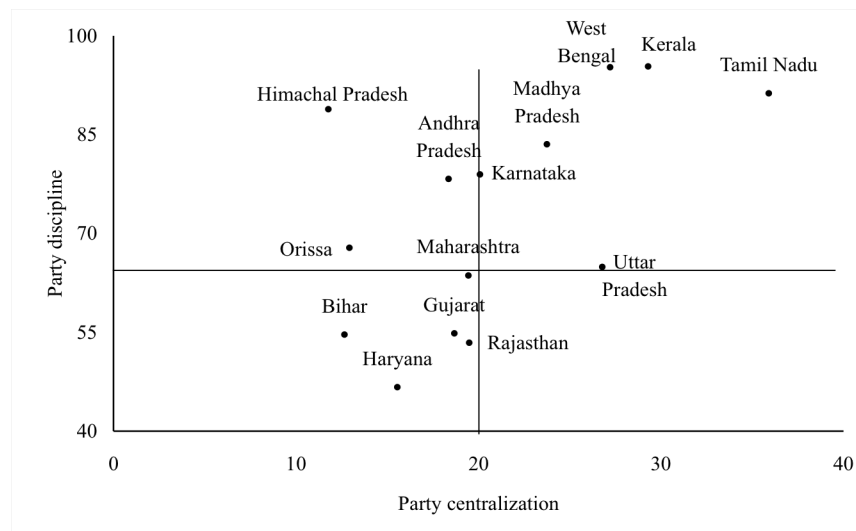
<sup>34</sup> The nature of electoral data with candidate names against which party labels are listed, compiled from the Election Commission of India, does not allow us to ascertain if incumbents chose to join rival parties or contest as independents before the central leadership of their parties refused them re-nomination or if incumbents took these decisions after being denied candidacy. Regardless of the temporal sequence of these events, I treated the outcome – an incumbent contesting as candidate from a rival party or as an independent – as a manifestation of party indiscipline. There is, however, one caveat. The data I used to measure party centralization and discipline is from the state elections, and not of local elections. To test a theory of intergovernmental relations, I should have used electoral data from local election. I have not. This is because the data on local elections in most states does not list the party of the candidates. As per the electoral rules in most states (Kerala and West Bengal are exceptions) candidates contest the election as independents. However, unofficially, the candidates are party representatives, supported by political parties, and the voters know the party affiliations of the candidates. And, local councils are formed on partisan lines following the elections in all the states. Given that official data in most states does not list the party identification of candidates in local elections, it is difficult to measure party centralization and discipline using data on local elections in all the states. In the absence of systematic data on local elections, I had relied on data from the state elections. Although we could expect some laxity in centralization and discipline as we move to lower levels of government, I do not expect party discipline or centralization at the local level to vary from the state-level party centralization and discipline asymmetrically across different states.

measured the degree of party centralization and discipline in the states.<sup>35</sup> From these measurements, presented in Figure 3.2, we can infer the absence of any systematic relation between party decentralization and government decentralization in Indian states.<sup>36</sup> For example, states such as Kerala, Uttar Pradesh and West Bengal had comparable high levels of party centralization in the early 1990s, yet they show remarkable variation in the degree to which they have decentralized governance since the *panchayati raj* amendment. Kerala and West Bengal are the leading decentralizing states while Uttar Pradesh is one of the least decentralized states. At the same time, Himachal Pradesh, Karnataka and Madhya Pradesh had less centralized party systems than in Tamil Nadu or Uttar Pradesh, but have decentralized governance to a greater degree than these states. The figure reveals that variation in governmental decentralization, therefore, cannot be explained in terms of how centralized or decentralized political parties were.

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<sup>35</sup> This methodological strategy helps us overcome the problem of endogeneity. The electoral rules are common to all the states. The variation in the centralization and discipline of political parties that we observe reflects the underlying balance of power between the central leadership of parties and individual candidates.

<sup>36</sup> Students of Indian decentralization had related decentralization to the organization of specific political parties – for example, the CPM in West Bengal, or Devraj Urs’ Congress Party in Karnataka. While these assessments of party organization are supported by evidence (See Figure 3.5 in Appendix V), there are compelling reasons to focus on the party systems in different states. Appendix V shows that the CPM, which initiated decentralization in West Bengal in the 1970s and in Kerala in the 1990s, was a highly disciplined party. So were Devraj Urs’ and Digvijay Singh’s Congress Party in Karnataka (1980s) and in Madhya Pradesh (1990s), which had started decentralization in these states. But, the Figure 3.5 also reveals that the Congress Party in West Bengal in the 1970s and in Kerala in the 1990s was as disciplined as the CPM in these states. The figure reveals that the differences across political parties within the same state are minor when compared to differences across party systems in different states. This becomes more apparent when we compare the organization of a national party like the Congress that competes elections and wins seats in every state. Figure 3.6 (Appendix VI) shows that the organization of the Congress Party – both in terms of centralization and discipline – varies significantly across the states.



**Figure 3.2: Party Organization and Decentralization**

Figure 3.2 also reveals that the intuition developed by Kohli (1987) and Kumar (2006) that “well-disciplined” or “well-knit” political parties have undertaken decentralization successfully in India seems accurate. Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh and West Bengal that have decentralized governance to a greater measure than other states also had disciplined political parties. Meanwhile, Bihar, Haryana, Rajasthan and Uttar Pradesh with modest or nominal decentralization had political parties with low levels of discipline. It was in these states that more incumbents had defined their party’s central leadership to contest election from rival parties or as independent rebels.

Yet, closer examination reveals that disciplined parties alone cannot account for the variation in the degree of government decentralization we observe across Indian states. For example, Tamil Nadu has undertaken only modest attempts at decentralization when compared to Kerala, Madhya Pradesh or West Bengal although the political parties in the state - *Dravida Munnetra Kazhagam* (DMK) and the *All India*



*Anna Dravida Munnetra Kazhagam* (AIADMK) - were as disciplined as the political parties in Kerala, Madhya Pradesh or West Bengal. Similarly, in Orissa and Uttar Pradesh, the level of party discipline was comparable to that in Maharashtra, but decentralization in Maharashtra has progressed to greater degree than in these states. Therefore, even when the thesis relating governmental decentralization to party discipline has merit, party discipline alone cannot explain decentralization.<sup>37</sup>

### **3.4 The Dynamics of Bargaining and Decentralization**

Some studies have attributed decentralization not to the pre-existing balance of power between the central leaders and local politicians, but in terms of the factors that tilt the balance of power in favor of local politicians that enable them to secure greater functional autonomy from the central leaders. Prominent among the factors is foreign direct investment (FDI). Edmund Malesky (2008), for example, found that with increasing inflow of FDI into Vietnamese provinces, provincial politicians willfully defied rules set by the central government and pushed economic and administrative policies beyond what was allowed under central tenets.<sup>38</sup> Jones-Luong (2003) also found this type of “de facto” decentralization in Kazakhstan, where the flow of FDI had strengthened the position of local politicians vis-à-vis the central leaders and led to increased regional autonomy. Several students of Chinese politics have also observed that local politicians were able to bargain for greater functional autonomy from the

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<sup>37</sup> In the next chapter, I explain why some state despite having high levels of party discipline do not decentralize.

<sup>38</sup> It should be pointed out that this argument is about the shifts in the balance of power that exist between the central government and sub-national governments – and not between the central leadership and local units of political parties although in the Vietnamese case that Malesky studied, the central and sub-national governments were formed by the same political party.

Chinese central government when the provinces were able to substitute central transfers of finances with private investment, something that increased with the country's increasing economic integration to the global economy (Hao and Zhimin 1994; Shirk 1993; Wang 1995).

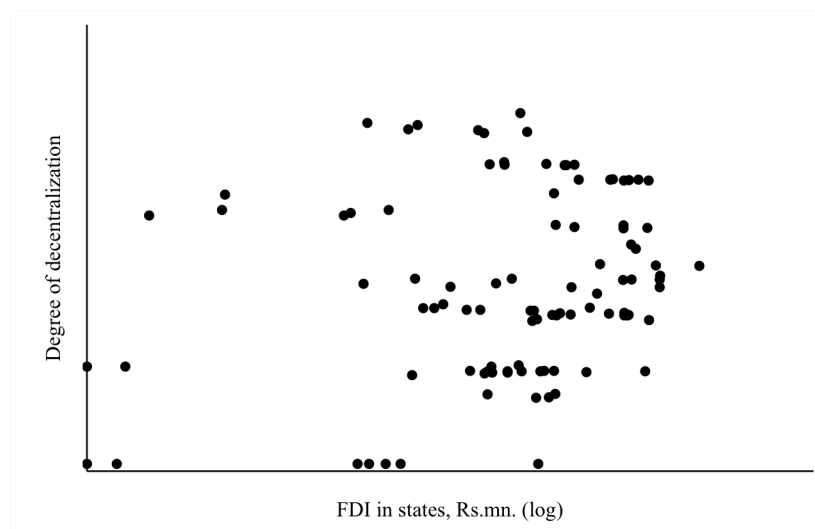
Although FDI had empowered local politicians vis-à-vis the central leaders and promoted de facto decentralization in China, Kazakhstan and Vietnam, it is also possible that foreign investment could strengthen the central leaders than local politicians, especially in states where foreign investment is sought after and approved by central leaders. In such a scenario, we could expect central leaders to subdue local politicians and undermine decentralization to attract foreign capital. Qualitative evidence from India suggests that state governments, competing for foreign and private investment, have sidelined local councils or withdrawn decision-making powers previously devolved to them under the panchayati raj acts. For example, newspapers have reported that several state governments had set up tax-exempted special economic zones taking over village lands and given mining rights to extract water and minerals without either the approval of or compensation to village panchayats.<sup>39</sup> Besides depriving the local councils of the revenue for the use of land and extraction of resources, the setting up of special economic zones also takes away control over these areas from local councils and places them directly under the industries department of the state governments. This kind of sidelining of elected local councils to attract foreign capital has been reported

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<sup>39</sup> For example, see "India's largest SEZ project becomes a political football." *The Indian Express* Jun 16, 2006; "Andhra Pradesh government unveils new sand policy." *Down to Earth* December 15, 2006; "Now, land agitations hit Gujarat." *The Indian Express* July 27, 2009; "Allotting panchayat land for golf course illegal: Congress." *The Indian News* May 19, 2010; "Bulldozer regime." *Frontline* June 05-18, 2010; "POSCO project remains grounded on betel vs steel fight." *Hindustan Times* June 27, 2010. "Report of an Independent Fact Finding Team on Orissa's POSCO Project." *Mainstream* May 12, 2007; "Se(i)zing the coast and the countryside." *Seminar* February 2008. The news reports were accessed electronically on the newspapers' websites.

even in leading decentralizing states like Kerala where the state government in 2003 annulled the decisions of two panchayats to close Pepsi and Coca Cola factories set up with the permission of the state government.<sup>40</sup>

Besides these reports of individual cases, it is unclear what the overall impact of FDI on decentralization in India had been. Did the inflow of foreign investment generally promote or undermine decentralization in Indian states? To find out the overall relation between foreign direct investment and decentralization in the country, I collected data on the inflow of FDI into the states between 1996 and 2002.<sup>41</sup> The data is presented in Figure 3.3.



**Figure 3.3: FDI and Decentralization**

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<sup>40</sup> The Puthusseri and Perumatty panchayats in Kerala had annulled the license granted to Pepsi and Coca Cola for extracting ground water during drought. Annulling these decisions, the state Industrial Infrastructure Development Corporation maintained that local councils did not have the authority to take these decisions. See, “Kerala govt to provide legal protection to Pepsi.” *The Times of India* May 16, 2003; “Kanjikode industries in the doldrums.” *The Hindu* May 18, 2003; “Plachimada's loss.” *Frontline* April 23 - May 06, 2005.

<sup>41</sup> Data source: Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India.

The figure reveals no discernable relation between inflow of FDI into the states and the degree to which the state governments have devolved governance to local councils. In India, as studies have shown (Chakraborty and Basu 2002; Singh and Srinivasan 2006), foreign capital is drawn mostly to favored destinations like Karnataka, Maharashtra and Tamil Nadu - states with higher growth rates and developed information technology sectors.<sup>42</sup> Yet, this investment had not led to the kind of de facto decentralization that China, Kazakhstan and Vietnam experienced. A possible reason for why FDI had not promoted decentralization to local councils in Indian states could be because foreign capital during this period had primarily been invested in sectors of the economy like information technology that are concentrated in urban centers and state capitals like Bangalore, Bombay and Madras. The majority of rural councils had not received sufficient FDI that could have strengthened the bargaining power of local politicians in rural councils to secure greater functional autonomy from state politicians.<sup>43</sup> As more foreign capital is invested in rural roads, agro-based industries and irrigation projects, we might see FDI promoting greater decentralization in India too. Regardless of the reasons, the data reveal the limitations of the FDI-promotes-decentralization thesis as a general explanation for decentralization.

A second factor that had influenced central leaders in some countries to decentralize is the influence of international agencies and donors. International agencies have, in the past few decades, come to consider decentralization as essential for good

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<sup>42</sup> Meanwhile FDI inflow into leading decentralizing states like Kerala and West Bengal lagged behind states like Haryana and Orissa.

<sup>43</sup> Alternatively, it is also possible that local politicians in India had not realized that FDI could be used to strengthen their bargaining position against central leaders when they seek greater decentralization.

governance and promoted decentralization as a development policy.<sup>44</sup> In Indonesia, for example, the World Bank pressed the central government to decentralize governance in the 1990s that resulted in increasing regional autonomy and share in government spending (Smoke and Lewis 1996; Hofman and Kaiser 2002). In Mexico, through the Decentralization and Regional Development project, the World Bank contributed to strengthening the capacity of municipal councils that enabled them to undertake basic infrastructure and social policies of their own.<sup>45</sup> Similarly, the Bank's *Fondo de Inversión Social* in Guatemala advanced decentralization by financing projects undertaken by municipal governments.<sup>46</sup> In Egypt, the Bank's Social Fund supported the devolution of government administration to regional governorates and the training of officers in the governorates.<sup>47</sup> In sub-Saharan Africa, the Bank sought to promote decentralization as a means to promote sustainable growth in the region (World Bank 1989).<sup>48</sup>

Along with cases of central governments coordinating with international donors like the World Bank - seeking their financial and technical assistance - to further decentralization, there are also reports of governments often performing "acts of decentralization as theater pieces to impress or appease international donors" (Agrawal

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<sup>44</sup> Almost all reports from the United Nations and the World Bank on governance and development in the past few decades treat decentralization as an essential component of development. See, for example, World Bank (1999); United Nations (2005); UNDP (2004; 2005); World Bank (2000/2001). A World Bank study found that of the 75 developing countries with a population of more than five million, 63 have adopted some form of decentralization during this period, See Dillinger (1994).

<sup>45</sup> Information about the project available on the World Bank website: <[http://www-wds.worldbank.org/external/default/main?pagePK=64193027&piPK=64187937&theSitePK=523679&menuPK=64187510&searchMenuPK=64187283&siteName=WDS&entityID=000094946\\_0104101108391](http://www-wds.worldbank.org/external/default/main?pagePK=64193027&piPK=64187937&theSitePK=523679&menuPK=64187510&searchMenuPK=64187283&siteName=WDS&entityID=000094946_0104101108391)>.

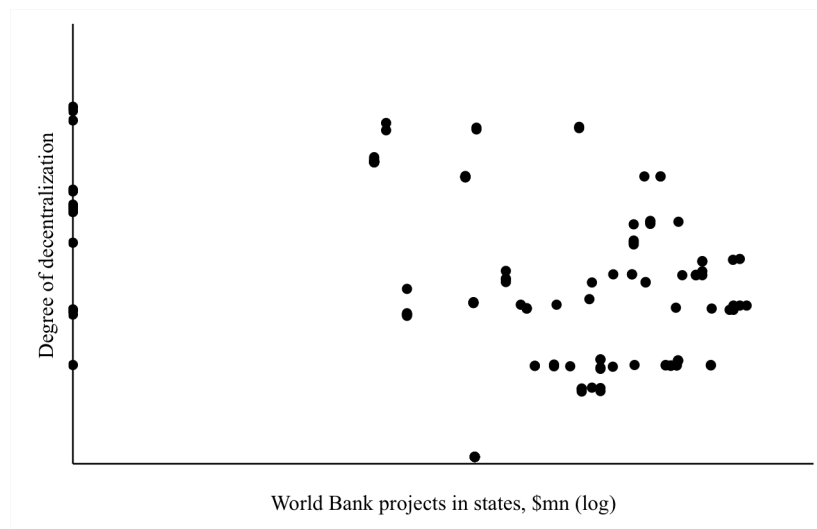
<sup>46</sup> The World Bank report on *Fondo de Inversión Social* can be accessed electronically on the Bank's website: <[http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/1999/07/22/000178830\\_9811170355323/Rendered/PDF/multi0page.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/1999/07/22/000178830_9811170355323/Rendered/PDF/multi0page.pdf)>.

<sup>47</sup> The World Bank's report on its Social Fund in Egypt is available electronically, see: <[http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2006/12/18/000020953\\_20061218111433/Rendered/PDF/ICR00000000097.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2006/12/18/000020953_20061218111433/Rendered/PDF/ICR00000000097.pdf)>.

<sup>48</sup> From these reports, it is unclear if the World Bank funded these projects conditional on decentralization, or if the Bank supported efforts of the central governments in these countries to decentralize.

and Ribot 1999: 474), and of wide rifts between the rhetoric and reality of decentralization in several African and Latin American countries (Adamolekun 1999; Nickson 1995). This casts doubts on how effective international donors are in persuading central leaders to decentralize and how genuine and sustainable the decentralization is if it is undertaken under the influence of international donors.

These doubts notwithstanding, to examine if a relation exists between decentralization in Indian states and the activities of international donors, I collected data on World Bank-funded projects in Indian states between 1990 and 2003.<sup>49</sup> The relation between World Bank projects and decentralization is presented in Figure 3.4.



**Figure 3.4: International Donors and Decentralization**

Figure 3.4 shows the absence of a systematic relation between the World Bank's presence in a state and the degree to which the state has decentralized. Further, the data reveal that states such as Kerala and West Bengal had sought and approved fewer

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<sup>49</sup> The World Bank is the largest multilateral donor in India, financing development projects in several states. Data on projects gathered from the Bank's website: <<http://www.worldbank.org/>>.

World Bank projects than most states, yet they were the leading decentralizing states. Meanwhile, states like Orissa and Uttar Pradesh had devolved government administration only nominally to local councils although the World Bank had financed multi-million dollars-worth development projects in these states.<sup>50</sup> The data, therefore, suggest that state governments in India had not undertaken decentralization either in response to counsels of international donors or to appease them. The causes of decentralization lie elsewhere.

### **3.5 Conclusion**

This chapter examined party ideology, strategy and organization as factors that account for why some states decentralize while others do not. The empirical evidence presented in the chapter showed the absence of a systematic relation between any of these factors and decentralization.<sup>51</sup> The chapter also pointed out the limitations to the general applicability of arguments regarding international capital and donor-induced decentralization.

However, the fundamental problem with these arguments is theoretical in nature. It is the assumption regarding party unity implicit in these arguments. They assume that the central leaders, inspired by ideological convictions or political strategies, will devolve power to their partisan colleagues at lower levels without the fear of local

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<sup>50</sup> It could be that not all World Bank's projects in Indian states were aimed at promoting decentralization or building capacity of local governments.

<sup>51</sup> This is understandable given that some of these arguments were developed with reference to particular cases – for example, decentralization in West Bengal or Karnataka – and the scholars had not intended the arguments to be general propositions about decentralization. Yet, as we shall see in the next chapter, some of the insights developed – particularly those about party discipline and political strategies to incorporate newly emerging social groups (Ghosh and Kumar 2003; Kohli 1987; Kumar 2006) – have relevance for general studies of decentralization.

politicians using the devolved power to pose challenges to them.<sup>52</sup> In reality, however, we could expect the local politicians to pose political challenges to their central leaders. Local politicians, like central leaders, are ambitious and could be expected to pursue their ambitions. Decentralization empowers local politicians by transferring to them decision-making authority and government resources – the means ambitious politicians could use as patronage to build personal reputation and votes. Once decentralization had empowered them, local politicians could defy their central leaders to advance their political careers by joining a rival political party or by launching new parties.<sup>53</sup> The arguments examined in this chapter, barring the one based on party discipline, do not explain why central leaders, wary of the ambitions of local politicians and the potential for local defection, would still decentralize.

It is understandable how disciplined political parties are able to overcome the fears of local defection to decentralize. Yet, extant arguments relating party discipline and decentralization are developed with reference to particular political parties – for example, the CPM in West Bengal, Y.B. Chavan’s and Devraj Urs’ Congress organizations in Maharashtra and Karnataka. These arguments are limited insofar as they cannot explain the continuities in decentralization that we observe in states even when the particular political party that initiated it had lost power. For example, decentralization in Kerala was not reversed when the Communists who initiated it lost the election in 2001. Similarly, decentralization in Himachal Pradesh, Karnataka and

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<sup>52</sup> O’Neill (2005: 30) acknowledges the significance of party unity and discipline for her theory of decentralization: “If this assumption is weakened, it is easy to predict the consequences: less decentralization.”

<sup>53</sup> Empirical evidence from the Andean region has shown how decentralization has provided local leaders with their own source of patronage and reduced the entry barriers for some of these to launch new parties. See Sabatini (2003).



Madhya Pradesh has continued even when different political parties formed the state governments.

My view is that the variations in discipline across parties within the same state are minimal when compared to variation in party discipline, even of the same political party, across the states. For instance, the CPM in Kerala and West Bengal is highly disciplined, but so is the Congress Party in these states. Meanwhile, discipline within the Congress Party is low in states like Bihar, Haryana and Uttar Pradesh (See Figures 3.5 and 3.6, Appendix V and VI). I, therefore, argue that the nature of party competition at the state-level can explain the level of discipline we observe in political parties.<sup>54</sup> This systemic state-level explanation will help us account for continuities in decentralization that we observe in states.

Yet, as Figure 3.2 of this chapter pointed out, party discipline alone cannot explain the observed variation in decentralization in Indian states. The *Dravida Munnetra Kazhagam* (DMK) and the *All India Anna Dravida Munnetra Kazhagam* (AIADMK) in Tamil Nadu are disciplined political parties, but they had not undertaken decentralization the way political parties in neighboring Karnataka or Kerala had. Why do some disciplined political parties devolve power to their partisan colleagues at lower levels while others do not? A possible explanation that I offer in Chapter 4 has to do with the social conditions that press the central leaders of some states to decentralize to know more about the voters. By contrast, in states where these conditions are absent, the central leaders – even of disciplined political parties – may not consider decentralization necessary.

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<sup>54</sup> In brief, states, where competition is primarily between two leading parties, will have disciplined political parties, whereas multiparty states tend to have lower levels of party discipline. The details of this argument is developed in the next chapter.

## **Chapter 4**

### **An Informational Theory of Decentralization**

Why do leaders in some Indian states decentralize to empower local councils while their counterparts in other states sideline them? In the previous chapter, we saw that factors such as electoral uncertainty, party ideology and organization, or factors that affect the balance of power between central leaders and local politicians – such as the flow of aid from multilateral donors or foreign investment – cannot explain the observed variation in the degree of decentralization in Indian states. In this chapter, I argue that we can best explain decentralization in terms of two sets of conditions: a) the conditions that heighten the electoral salience of information about voters; and, b) the conditions that allay the fears central leaders have about defection by local politicians. I show that states where information about voters is politically salient, central leaders need local information to win elections. Leaders in these states, in order to increase their chances of getting reelected, decentralize to identify electorally important constituencies and recruit local politicians to help them win elections. Central leaders are, however, also wary of defection by local politicians once decentralization has empowered them. I show that the nature of party competition in some states, namely those with strong two-party systems, limits the chances of defection and allow central leaders to decentralize without the fear of local defection.

This chapter is thus organized: first, I develop and present the theoretical importance of local information and identify the conditions that raise the electoral significance of this information, which, in turn, prompt state leaders to decentralize. I then trace through cases to show that the conditions I have identified do in fact heighten the salience of local information the way my theory suggests. The chapter then turns to

address the conditions that curb defection in some states and allow the leaders to decentralize. In the second half of this chapter, I test my arguments systematically against data on decentralization in India to show that local councils have been empowered through decentralization in two-party states where the conditions I identified have heightened the political salience of local information about voters.

#### **4.1 Local Information and Decentralization**

Why do leaders in some states transfer power to elected local councils and empower local politicians? My argument is that decentralization is an institutional means the leaders use to gain information about voters and recruit local politicians, who have greater knowledge of local electoral environments, to help them win elections. One crucial way in which decentralization helps the central leaders know more about the voters is through local elections. Competitive local elections that decentralization introduces reveal to the central leaders the relative strength of parties and the support they themselves are likely to receive when they stand for reelection. Further, when compared to the elections that elect the central leaders, local elections, with smaller districts and small number of voters in them, offer more detailed and accurate information about the distribution of voters according to their partisan loyalties. Local elections often reveal the villages and neighborhoods where crucial voters are concentrated within the larger electoral districts that elect the central leaders. This information is particularly useful when the central leaders stand for reelection.

A second way in which decentralization helps the central leaders is through the recruitment of local politicians to mobilize voters. Given smaller settings and frequent interactions, local politicians are likely to know more about the voters than central

leaders do. Importantly, local politicians know voters' policy preferences, partisan loyalties and inclinations, continued support to their preferred party and any disaffection with it.<sup>1</sup> Given intimate knowledge and close communication, local politicians are also likely to know what needs to be done to win over uncommitted voters and disaffected party supporters. Such local information is crucial for central leaders in their quest for reelection. Local politicians can help central leaders get reelected by directing them to reach out to crucial voters, targeting resources to these voters and by mobilizing voters themselves. Unsurprisingly, central leaders in several countries have relied on local politicians to help them win elections.<sup>2</sup>

However, under some conditions, central leaders can win elections without the help of local politicians, local information or contacting the voters. For instance, when political parties and candidates engage in electoral manipulation, elections can be won without knowing the preferences of voters or reaching out to them. In some countries, party leaders ensure such victories by stuffing ballots boxes, miscounting votes, or intimidating and disenfranchising voters (Schedler 2006, 2002; Simpser 2008).

In several developing countries, including in some Indian states, the conditions that help central leaders win elections without having to reach out to individual voters are, however, socio-economic in nature.<sup>3</sup> Two specific socio-economic conditions - inequitable landholdings and illiteracy - are rather conducive for central leaders to win elections without local information. In regions where land is unequally distributed, with

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<sup>1</sup> Curtis (1971: 59), for instance, presents an example of how detailed local politicians in Japan know the local electoral settings: a "local politician can drive around his area and point out house by house who votes for whom in local Assembly, Mayoral, Prefectural Assembly, and Diet elections."

<sup>2</sup> Ames (1994); Chubb (1982); Curtis (1971); Krishna (2003); Stokes (2005).

<sup>3</sup> In India, with a fiercely independent election commission, rigging of elections is difficult. On the role of the election commission, see Rudolph and Rudolph (2001, 2002).

a few families holding most of the land and the landless working for these families or on their lands, politics is often dominated and political decisions determined by the landed elites. Given their dependence, the landless usually follow the directives of the landed elites and vote for the candidates their landlords choose.<sup>4</sup> Central leaders in such settings can win elections with the help of the landed elites without having to reach out to individual voters.

Abundant comparative evidence shows how central leaders in unequal societies are able to gather votes through landlords without knowing the preferences of voters. For example, in pre-war Japan, politicians won elections with the support of the landlords: "...if the landlord would support you, the votes of the farmers within his domain would, as a matter of course, come with his support. There was no need to deal directly with the individual farmers... [V]otes could easily be gathered" (Curtis 1971: 42). Similarly, the Conservative Party in Chile, backed by landlords, could win successive elections since "the rural population could be counted on to support their candidates because the population largely depended upon the large landowners for subsistence" (Scully 1992: 52). In El Salvador and Nepal, landed elites coerced peasants into voting for their candidates by threatening peasants with loss of land and other subsistence guarantees.<sup>5</sup> In Bihar in India and in Philippines, landlords' militias intimidate peasants to vote for the candidates the landlords support.<sup>6</sup> Therefore, in societies where land is held disproportionately by a few, the landlord is often "the final

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<sup>4</sup> Considerable scholarly research has documented how economic dependencies of the landless on the landed translate into political dependence, when the landed patrons control access to land, seeds, markets, employment, subsistence insurance, public goods, etc. (Kerkvliet 1977; Midgal 1974; Popkin 1979; Powell 1970; Scott 1972, 1976).

<sup>5</sup> Joshi and Mason (2007); Mason (1986).

<sup>6</sup> Economic and Political Weekly (1988); Kreuzer (2009); Sharma (2001).

authority and it was to him... that the rural worker owed his loyalty."<sup>7</sup> In such societies, local information is not required for central leaders to win elections. Central leaders could gather votes through landlords.<sup>8</sup>

Similarly, in regions with high levels of illiteracy, central leaders can win elections without reaching out to individual voters. Illiterate voters tend to rely on traditional leaders like village headmen, religious leaders, or caste and clan elders for political guidance and vote for the candidates these traditional leaders choose. Thus, illiterate voters in Ghana often cited, "My chief ordered me to vote," or "My landlord asked me to vote," as their reasons for voting.<sup>9</sup> Similarly, in India, candidates won elections by gathering votes with the support of the village elders.<sup>10</sup> Further, studies show that illiterate voters are also easily intimidated and bought off to vote for particular candidates than are educated voters (Blaydes 2006; Calvo and Murillo 2004; Stokes 2005; Wolfinger 1965). Central leaders, in societies with numerous illiterate voters, can, therefore, win elections without gathering local information or establishing contact with individual voters. Votes can be gathered by intimidating and bribing illiterate voters or through traditional leaders.

This mode of electoral mobilization via traditional elites like landlords and ethnic leaders is, however, not available to central leaders in societies where land is more

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<sup>7</sup> Kauffman (1972: 9).

<sup>8</sup> In this mode of vote-gathering, voters seldom meet or see their candidates: "We have never seen our MLA or the MP, even during the election times. The MLA Babu Pashupati has been winning from this constituency since 1977, but has not visited us even once," rural voters in Bihar told Sharma (2001: 1577). MLAs are elected members of legislative assemblies in Indian states; MPs are members of the federal parliament.

<sup>9</sup> Birmingham and Jahoda (1955: 149).

<sup>10</sup> Gray (1970: 128) documents how candidates won elections with the support of the *dora* (lord of the village): "In the three general elections of 1952, 1957 and 1962 the villagers voted for the *dora*'s candidate...In 1962, out of 324 votes 29 were cast for the official Congress Party candidate and the rebel Congressman, supported by the *dora*, received the remainder. The *dora* held an inquiry after the election into these unexpected defections."

equitably distributed and the electorate is literate. Voters in such societies are unwilling to submit to traditional leadership and vote on their volition.<sup>11</sup> Thus, Krishna (2003) found that, in Indian villages, the spread of literacy has eroded the influence of caste in choosing political leaders. Bailey (1970) similarly found that where land was redistributed to small and marginal farmers, the erstwhile rulers of the village lost votes (Bailey 1970). Under these conditions, central leaders require local information to win elections. Decentralization, to gather local information and recruit local politicians with greater knowledge of local electoral settings to mobilize votes, becomes an attractive strategy to central leaders.<sup>12</sup>

At the aggregate level, using quantitative data, we can examine how the degree of decentralization in Indian states is related to patterns of landholding and literacy. But, how changes in landholding and literacy weaken the political influence that traditional leaders have over voters can be understood better by examining such changes in individual Indian states. Here, I examine the changes in landholding and literacy in two Indian states - West Bengal and Kerala - to see how equitable landholdings and the spread of literacy free voters from dependence on traditional leadership. In the first case, in West Bengal, land redistributed to landless peasants in the late-1970s freed voters from dependence on landlords and changed the electoral environment in the state. In the second case, in Kerala, I show how spread of literacy has reduced the

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<sup>11</sup> Studies document how the spread of literacy transforms “susceptible” populations into politically conscious citizens who participate more in politics and challenge traditional leaders (Huntington 1968; Kenny 1992; Leighley 1990; Lerner 1958; Lipset 1981; Verba and Nie 1972).

<sup>12</sup> Thus, Japanese politicians, who could not “gather” votes through the landed with the waning of landlordism in that country, had to “find another group to replace the landlord in performing this electoral function” and found it in “the locally elected politician” (Curtis 1971: 42-43).

importance of ethnic leaders in the electoral arena. These changes, I argue, have made local information important for central leaders to win elections in these states.

#### 4.1.1 West Bengal: Landholding and Local Information

The Congress party formed the government in West Bengal for most part since 1947. To some extent the Congress party's electoral success in the state, like elsewhere in the country, can be attributed to its leadership role in popular nationalist struggles against the British colonial rule. But, as studies have shown, the party's continued success in elections in post-colonial West Bengal came "not through the extensive mobilization of people at the local level, but through 'key men'... In rural areas, they would belong to the landed gentry on whom the sharecroppers or landless labourers depended for livelihood" (Ghosh and Kumar 2003: 148; Mukhopadhyay 1994).<sup>13</sup> This reliance on the landed gentry assured that the party won about 40 per cent of the votes to be the most popular party in the state until the 1970s.<sup>14</sup> This changed in 1977, when the Communist parties formed the state government for the first time.<sup>15</sup> Once in power, the Communists, in a move to undo the social structure that had benefitted the Congress party for so long, started implementing an ambitious land reforms program. Under the *Bargadar* program, *bargas* (sharecroppers), who tilled the lands of the landed gentry,

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<sup>13</sup> Noting the Congress party's lack of commitment to implement land reforms in the state, Mukhopadhyay (1994: 78) similarly concludes: "For fear of losing the vote bank the Congress, on the one hand, kept aside the programme of land reforms, and on the other [sic] depended more and more on the big landowners who were holding key positions in rural areas by virtue of their landownership and loan-giving ability. People had the vote but the landlords would tell them what to do with it."

<sup>14</sup> The Congress party won 38.82, 46.14, 47.29, 41.13 and 41.32 per cent of the popular vote in the first five elections to the state legislature. Source: Election Commission of India.

<sup>15</sup> The 1977 elections in India were eventful. They took place following a period of political turmoil, during which the Congress federal government in New Delhi invoked emergency constitutional provisions to suspend individual liberties, normal constitutional governance and imprison several opposition politicians. In 1977, in the first elections held after the imposition of emergency rules, the Congress party for the first time lost power in New Delhi and in 10 of the 11 major states.



were registered and given landholding rights (Kohli 1987; Lieten 1992; Mallick 1993; Mukhopadhyay 1994). By the end of its first term in 1982, the Communist government had registered over a million *barga* households for landholding rights (Mallick 1993: 55).

This “land to the tiller” program in West Bengal, however, shows noticeable variation in its success across the administrative districts in the state. For instance, by the late-1980s, over 300,000 sharecroppers had been registered for landholding rights in Medinapur district while only 7000 *bargas* were registered in Purulia.<sup>16</sup> This variation in registering *bargas* for landholding rights across West Bengal’s districts allows us to examine the changes in electoral dependence the landless had on their landlords. Given that voters’ dependence on landlords is likely to weaken in areas where land is more equitably distributed, we could expect *bargas* to vote on their volition in greater numbers in districts where more sharecroppers had been registered for landholding rights.

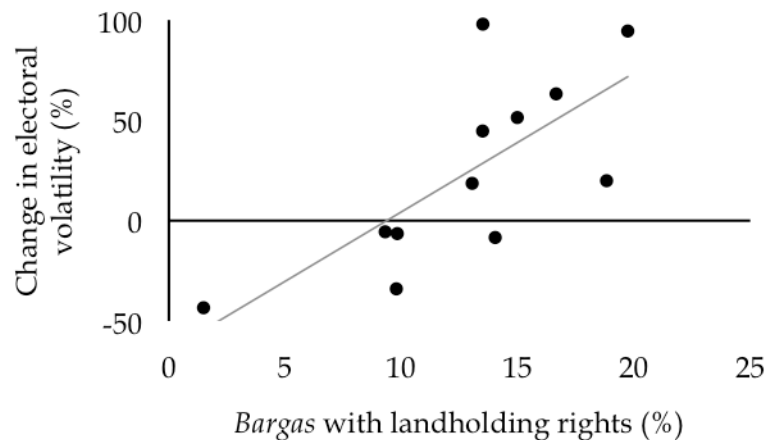
A limitation in testing this empirical association is that, in the absence of systematic survey data, we cannot ascertain conclusively if sharecroppers voted exercising their free will or on the dictates of their landlords. An indirect test is to measure the changes in electoral volatility in districts in West Bengal. *Bargas*, once they had been registered for landholding rights, could be expected to shift their voting preferences from the party their landlords had in the past asked them to vote for. This trend is likely to be pronounced if the landless believed, as the *bargas* did in West Bengal, that the landed elites had until then compelled them for vote for a party that did not truly represent their interests.<sup>17</sup> This shifting of voting preferences is likely to be

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<sup>16</sup> See Mukhopadhyay (1994: 117).

<sup>17</sup> To understand the nature of political competition between the Congress party and the Communists in West Bengal and their target constituencies, see Ghosh and Kumar (2003), Kohli (1987), Lieten (1992), Mallick (1993) and Mukhopadhyay (1994).

greater in districts where more *bargas* had secured landholding rights. Consequently, electoral volatility – calculated as the net gains and losses in vote-shares of political parties in the districts resulting from individual vote transfers - is also likely to increase in such districts.<sup>18</sup>



**Figure 4.1: Landholding and Political Importance of Landed Elites**

Figure 4.1 shows the changes in electoral volatility in the rural districts in West Bengal following the implementation of the land reforms program.<sup>19</sup> Unsurprisingly, electoral volatility in the 1980s, when compared to volatility in elections prior to the program, increased more in districts where more *bargas* had secured landholding rights. The increased volatility in these districts suggests that the *bargas*, upon gaining landholding rights, were no longer beholden to the behests of their landlords and had

<sup>18</sup> I calculated electoral volatility using the Pedersen’s measure, a widely used measure for computing electoral volatility. See Pedersen (1979). See also Ascher and Tarrow (1975).

<sup>19</sup> In the figure, the *x*-axis denotes the extent of land redistribution program - *bargas* registered for landholding rights as percentage of total agricultural population in the districts. The *y*-axis is the percentage change in electoral volatility, calculated comparing electoral volatility in the 1980s to average volatility in elections prior to the land redistribution program in the 1970s. Sources: Mukhopadhyay (1994), Election Commission of India: <http://eci.nic.in/>

shifted their voting preferences.<sup>20</sup> With these changes, electoral mobilization via landlords had become less feasible in West Bengal. With voters exercising free will in choosing their candidates, information about individual voters became crucial to central leaders to win elections in the state.

#### 4.1.2 Kerala: Literacy and Local Information

Although Kerala now is one of the most literate states in India, most people in the state were illiterate in the 1950s.<sup>21</sup> Then, the literacy rate in the state stood at 47 per cent.<sup>22</sup> Ethnic leaders, as the following case illustrates, held considerable sway over the voters in the 1950s. This is a trend that has waned in the state as the population became more literate.

In 1957, the Communist government introduced a bill in the state legislature to reform schools in Kerala. The bill sought, among other things, to standardize the school syllabus, regulate the recruitment of teachers in private schools and pay them salaries through government treasuries. Christian churches, which managed a sizable number of private schools in the state, however, saw the bill as a Communist plot to undermine their influence and take over their educational establishments (Lieten 1977; Nossiter 1982: 153-57).<sup>23</sup> The Christian clerical hierarchy alleged that the education bill was a

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<sup>20</sup> Arguably, the increased electoral volatility could also suggest shifts in voting preferences of the landlords. Some landlords may have shifted their party preference once they found the Communists in power in the state. But, it is, however, unclear why these shifts in landlords' voting preferences should be positively correlated to the *bargas* gaining landholding rights. Further, as Figure 4.2 in Appendix VII shows, the changes in electoral volatility since the *Barga* program cannot be accounted by past electoral volatility in the districts either.

<sup>21</sup> The 2001 census listed Kerala, with 90.86 percent literacy, as the most literate state in the country.

<sup>22</sup> Literacy rate is for people above the age of five. Source: 1951 Census of India.

<sup>23</sup> Of the 6000 private schools in the state, Christian groups managed some 2200. See Lieten (1977: 6)

covert means to indoctrinate the pupils in anti-religious ideas.<sup>24</sup> The Church, in response to the bill, organized concerted efforts to oust the Communist government through popular protests and urged the Christians to vote against the Communists. One political leader later recalled:<sup>25</sup>

"The Christian fathers called all the Christian voters, especially the women, to the churches and told them that those who voted for the communists would go to hell, and those who voted for Congress to heaven. They were asked to swear, touching the cross, that they would not vote for the communist candidates."

In the following election to the state legislature in 1960, the Communists lost.<sup>26</sup> The party lost 31 seats it won in the 1957 election. A closer examination of the election results, however, reveals that the Communist vote-share declined greatly in electoral districts where Christian voters were numerous. In these districts, the Communist vote-share declined by around 15 percentage points, whereas the party increased its vote-share by four percentage points in electoral districts where the size of the Christian electorate was small.<sup>27</sup> A more detailed scrutiny of the election outcomes in districts with sizable Christian voters shows that the Communist vote-share declined more in districts where literacy rates were low, suggesting that voters had followed the directives of the Christian clerical leadership more in illiterate districts than in literate districts (Figure 4.3). Voters in more literate Christian districts seem to have disregarded the clerical

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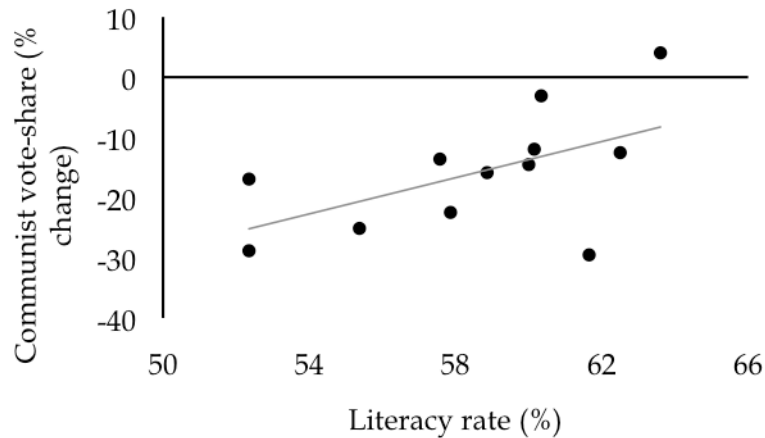
<sup>24</sup> The Malabar Catholic Association and the Protestant Christian Association passed resolutions alleging that the Communists "wanted to effect a thorough change in the educational system, with the ulterior aim of injecting into the children atheism and other aspects of communism." (Lieten 1977: 10)

<sup>25</sup> Quoted in Lieten (1977: 14).

<sup>26</sup> Earlier, following popular protests in the state, the Congress federal government in New Delhi, invoking emergency provisions of the constitution, had dismissed the Communist government in Kerala.

<sup>27</sup> Using Census of India 1951, Kerala Supplement, I coded districts where Christians constituted over 40 per cent of the population as those with sizable Christian voters. The Christian population ranged between 40 and 50 per cent of the total population in these districts. These were electoral districts in Kottayam, Idukki and Ernakulam administrative districts of the 1950s. Electoral data from Election Commission of India: <http://eci.nic.in/>

injunctions to vote against the Communists; the voting pattern in these districts reveals no significant difference from voting in districts where Christian voters were fewer.



**Figure 4.3: Literacy and Influence of Ethnic Leaders**

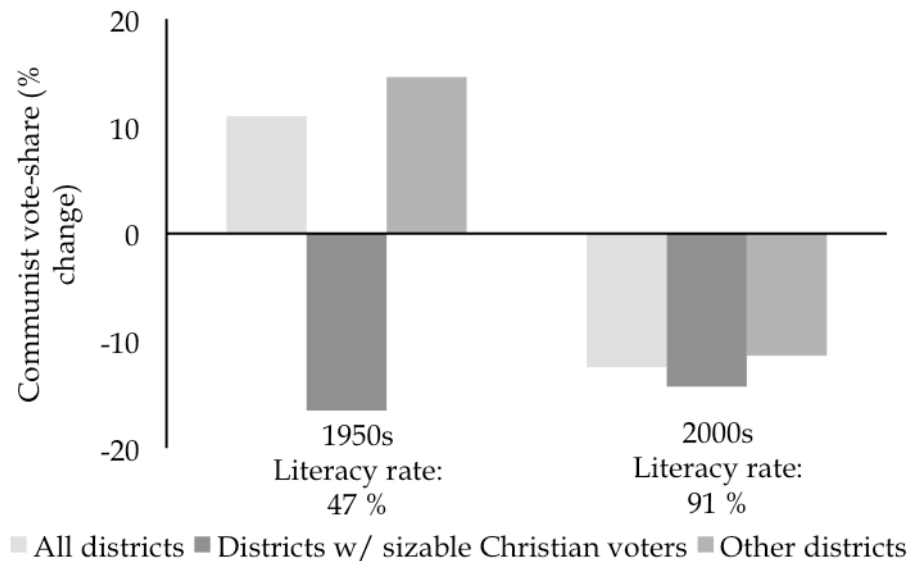
Despite the district-level variation in how voters responded to the ecclesiastical exhortation to vote against the Communists, the overall significance of the Church-inspired “liberation struggle” in deposing the Communists from power in Kerala in the late-1950s should not be doubted.<sup>28</sup> However, with the spread of literacy in the state, the influence of the religious leadership has declined. Electoral consequences of similar political developments half a century later attest to the changed circumstances.

In 2007, the Communist government in the state introduced legislation to bring student admissions and tuition fees in private colleges, including those managed by Christian groups, under government supervision.<sup>29</sup> The Christian clerical leaders, as in the late-1950s, resented the governmental measure and read pastoral letters in churches urging Christians to protest against the Communists. However, unlike the 1950s, many

<sup>28</sup> To understand how the anti-Communist sections of the Kerala society converged in the Church-promoted “liberation struggle,” see Jeffrey (1991), Lieten (1977) and Nossiter (1982).

<sup>29</sup> The Communists had won the state elections a year earlier. Since the 1950s, either a Communist or a Congress coalition forms the government in the state.

members of the Christian community were now unwilling to submit to the clerical leadership. A section of the laity even rebelled against their pastors and supported the Communist government.<sup>30</sup> This unwillingness among Christians to defer to the religious leaders was apparent in the voting choices as well. In the election held in 2009, the Communists lost the elections, but there were no significant differences between voting in districts with sizable Christian electorate and the rest of the state (Figure 4.4). This, as can be seen from the figure, is in stark contrast to the electoral outcome in 1960, when Christians seem to have decisively voted against the Communists. With the spread of literacy in the state, voters appear less willing to submit to ethnic leaders.



**Figure 4.4: Literacy and Declining Influence of Ethnic Leaders**

West Bengal and Kerala reveal to us how electoral mobilization via landlords or ethnic leaders becomes less feasible when landholding becomes more equitable and literacy spreads. Voters in such states free themselves from the sway of traditional

<sup>30</sup> Contemporary newspapers report the events. See, *The Hindu*. 2007. “Thrissur Archbishop urges the Faithful to Observe Protest Day.” July 3; Rajiv, P. I. “College Reforms: Church Confronts Kerala Govt.” *The Indian Express* July 27; Krishnakumar R. 2007. “Battle Cry.” *Frontline* 24 (15), August 10: <http://www.hinduonnet.com/fline/fl2415/stories/20070810504103200.htm>

leaders to vote on their free will. Central leaders seeking reelection in these states will, therefore, have to find ways to ascertain the voting preferences of individual voters and establish contact with them. Leaders will often recruit local politicians, who interact with voters closely in small settings, to establish contact with voters and find out details of local electoral settings. Decentralization is, as I will argue shortly, an efficient means to recruit local politicians by offering them elected offices and resources. Unsurprisingly, states like West Bengal and Kerala, with equitable landholding and higher literacy rates, are the most decentralized states in India.

Generally, therefore, we can expect Indian states with equitable landholdings and high literacy rates to be more decentralized.

Three objections, however, might be raised against the theoretical framework of decentralization I have so far presented. First, why would traditional leaders not demand decentralization in exchange for the votes they deliver to the central leaders? We know that traditional elites extract benefits from central leaders for their electoral support even without decentralization.<sup>31</sup> Traditional leaders also influence in the implementation of government programs in their regions. For example, in Indian states where landlords are dominant, bureaucrats implement development programs keeping the interests of such elites in mind.<sup>32</sup> With its competitive local elections and potential to create new leaders, decentralization often threatens traditional authority.<sup>33</sup> Accordingly,

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<sup>31</sup> For instance, the landed elites in India have successfully sought subsidies, restrictions on land reforms and non-taxation of their agricultural income. Ethnic leaders have similarly bargained effectively for more resources to be distributed to their ethnic groups in return for delivering the votes.

<sup>32</sup> Frankel (1978) attributes the limited success of government programs partly to traditional elites. Development programs, she notes (1978: 547), “would have to be implemented in the villages through the existing local authorities, that is, the very rural elites against whose power they were directed. At the villages, the loudest voices still belong to members of the dominant landowning classes.”

<sup>33</sup> The example of the former princes in India offers some suggestive evidence. Over 550 princely states had acceded to India in 1947. Of the several thousand members of these royal families, only 114 contested

traditional elites hold that decentralization, with its elected officers and resources to cultivate clients, may create new power centers rivaling theirs.<sup>34</sup> Traditional leaders are, therefore, likely to prefer the transfer of resources to their regions without competitive local elections. Decentralization, contrary to the interests of the traditional leaders, introduces competitive elections in villages.<sup>35</sup>

According to a second objection, the central leaders could offer local politicians inducements such as promises of higher offices in the future to recruit their help in mobilizing voters. Why then do central leaders decentralize to enlist the support of local politicians? Promises of future rewards, however, lack credibility and are, therefore, likely to be insufficient inducements to local politicians. Local politicians are aware that the central leaders could, once they have secured reelection, renege on these promises.<sup>36</sup> Further, local politicians are also likely to discount such promises since they know that local politicians are numerous and higher offices few. The chances of local politicians being rewarded, therefore, are rather slim. Decentralization, in contrast, offers local politicians offices and resources that are immediate and attainable. Competitive local elections also offer avenues for ambitious local politicians to assess their electoral popularity necessary to stake claim on higher offices.

A third objection could be that nothing in the analytical framework I presented so far suggests that decentralization is the only possible response central leaders have

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in elections held until 1970. They entered the electoral arena when the sources of traditional authority – royal estates and privileges – were threatened. See, Richter (1971). However, after a brief period of electoral success, most of the former princes lost to new leaders.

<sup>34</sup> In Tamil Nadu, for instance, *thevar* landlords resent that decentralization has given dalits greater power, see (Sumathi and Sudarsen 2005). In West Bengal, Communist-controlled panchayats have empowered agricultural laborers to boycott landlords who did not comply with their demands, see Som (2005).

<sup>35</sup> Decentralization in this study involves competitive local elections. See Chapter 2 for the definition of decentralization.

<sup>36</sup> Building party institutions could reduce this commitment problem. See Strøm and Müller (1999), Quinn (2002). I discuss the building of local party institutions in the following paragraph.



when information asymmetries between them and local politicians become politically salient. For instance, the central leaders could, instead of decentralizing to recruit local politicians, appoint party officials in villages. There are, however, reasons to believe that decentralization may be a more efficient means to gather local information than appointing party officials. One reason is that there are usually many politicians who claim to have local knowledge and central leaders are often unable to choose among these claimants. Appointing the wrong claimant could have adverse electoral consequences. Competitive local elections that decentralization introduces resolve this problem for the central leaders. The local politicians who know more about the voters and can win them over win local elections. Central leaders can rely on these successful local politicians to mobilize voters when they stand for reelection.<sup>37</sup> Decentralization also sets in place incentives for local politicians to work to get their central leaders elected. Local politicians, seeking more resources for their areas, know the advantages of having supportive patrons at higher levels of government. In order to have such patrons at higher levels, local politicians mobilize votes to get their central leaders elected. In effect, decentralization, therefore, ties together the political fortunes of the central and local politicians.<sup>38</sup>

Although the theoretical undertaking of this dissertation is to identify the general conditions under which decentralization becomes more likely, there are, therefore, reasons to believe that central leaders may find decentralization to be an efficient means

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<sup>37</sup> Competitive local elections reveal such information even when opposition candidates win local elections. Depending on the margin of victory in local elections, central leaders could then decide if they should continue to rely on the local politician they had supported or cultivate and entrust others.

<sup>38</sup> To the central leaders, decentralization, then, is a means to build or strengthen local party networks by creating incentives for local politicians to build and mobilize support for their reelection. I, therefore, do not draw an analytical distinction between decentralization and building local party networks.

to gather local information. Consequently, we could expect central leaders to undertake decentralization in states where information asymmetries about voters that exist between them and local politicians are electorally salient.

#### **4.2 Party Systems, Defection and Decentralization**

Even when equitable landholdings and high literacy rates impel central leaders to recruit local leaders via decentralization to reach out to voters, the leaders are wary that local politicians could, once decentralization has empowered them, defect. Ambitious local politicians, for instance, could defect to opposition political parties or launch new parties to pursue their political goals, thereby posing challenges to the central leaders. For example, in Venezuela, following decentralization in 1989, some local politicians from the *Acción Democrática* (AD) and *Partido Social Cristiano* (Copei) formed new parties and helped Hugo Chavez win the presidential elections in 1998 against the AD and Copei candidates.<sup>39</sup> In Peru, “[d]ecentralization and local elections... played an important role in permitting new independent leaders to emerge as an alternative to discredited national parties.”<sup>40</sup> If decentralization enables local politicians to defect and pose challenges to central leaders, why then have the leaders in Indian states like Himachal Pradesh, Kerala and West Bengal decentralized?

One answer that Kohli (1987) and Kumar (2006) suggest is that “well-disciplined” or “well-knit” political parties are more likely to undertake decentralization. Arguably, the intra-party discipline that binds leaders and local politicians allows such parties to carry out decentralization without the fear of local

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<sup>39</sup> All across the Andean countries, decentralization has led to proliferation of new local parties that are challenging leaders of older parties. See, Sabatini (2003).

<sup>40</sup> Sabatini (2003: 147).

defection. But, as we saw in Chapter 3, discipline in the same political party varies from state to state while different parties within the same state – like the Congress and the CPM in Kerala and West Bengal – exhibit similar levels of discipline. This, then, raises a further question: why are political parties in some states disciplined so that leaders could pursue decentralization while defection prevents leaders in other states from decentralizing?

My argument is that political parties in states with strong two-party systems will be more disciplined than parties in multi-party states. This is because two-party systems, when compared to multi-party systems, offer fewer chances of defection. There are two attributes of two-party systems that limit defection. First, in states with strong two-party systems, the two leading parties win most of the votes and seats. Since other political parties have few chances of winning, voters usually do not “waste their votes” on them (Cox 1997; Riker 1986).<sup>41</sup> This creates restrictive conditions for the entry of new parties in two-party states. The unfavorable electoral prospects of third parties in two-party states dissuade ambitious politicians from forming new parties. In contrast, multi-party states offer politicians better prospects for launching new parties. With several parties sharing votes and seats, multi-party states are fragmented electorally. High levels of electoral fragmentation ensure that often a small percent of votes is enough for parties to win elections. This offers ambitious politicians greater chances of winning a few seats if they launched a new party.<sup>42</sup>

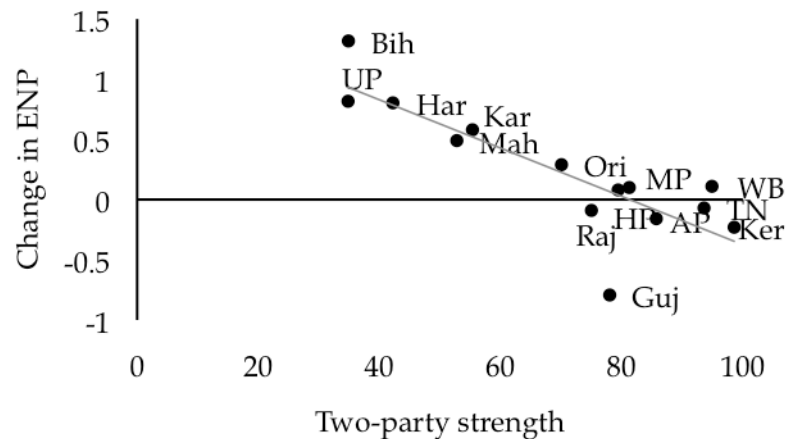
An examination of the launch of new political parties in Indian states between elections in the early-1990s, when the national constitution was being amended to

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<sup>41</sup> This is a trend reinforced by India’s first-past-the-post electoral rules.

<sup>42</sup> New small parties are also more likely to gain power in the post-election bargaining for government formation in multi-party states than in two-party states.

include decentralization, supports the theoretical expectation that two-party systems restrict the successful formation of new parties (See Figure. 4.5).<sup>43</sup> While new parties emerged in multi-party states like Bihar, Haryana and Uttar Pradesh, in two-party states like Kerala, Tamil Nadu and West Bengal, the emergence and presence of third parties were restricted.



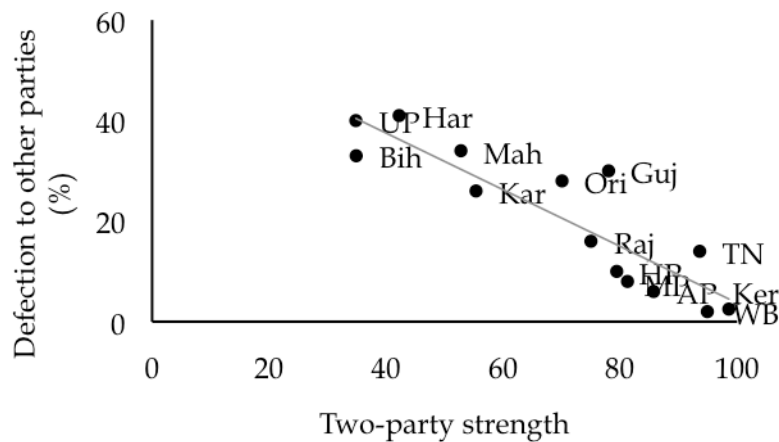
**Figure 4.5: Two-Party Systems and Launch of New Parties**

A second reason why two-party systems impose more restrictive conditions for defection has to do with the high reputation costs involved with defection in such systems. In states with strong two-party systems, the two parties often formulate their programs and positions to differentiate themselves.<sup>44</sup> With programs, positions and

<sup>43</sup> In Figure 4.5, the launch of new parties is estimated on the y-axis by changes in the effective number of political parties (ENP) between elections in the states. ENP calculates the number of parties, weighted by their vote-shares. See, Laakso and Taagepera (1979). Positive changes in ENP denote the emergence of new political parties. Two-party strength, on the x-axis, is the percentage of seats where the two leading parties or pre-electoral coalitions in the states finished first and second in the election.

<sup>44</sup> This is in contrast to the expectation that there will be convergence in policies of the parties in two-party systems (Downs 1957). This is because the Downsian model rests on over a dozen assumptions including the location of policies on a single left-right dimension and that the elections take place within a single constituency. Violations of any of these will lead to different outcomes (Grofman 2004). In reality, as studies show, these assumptions are often violated and the parties in two-party systems differentiate themselves with distinct policy platforms, see Adams, Merrill III and Grofman (2005), Poole and Rosenthal (1984), Stonecash, Brewer and Mariani (2003).

boundaries of the two parties drawn clearly, defection is easily detectable. Therefore, a politician leaving her party for the other is seen by voters as joining not merely another political party, but to the opposite of what she had been avowing all the while. Multi-party states, on the other hand, offer a greater distribution of ideologies and more parties to move to. Some of these political parties may also have similar policy positions, making it easier for politicians to justify defection. Voters may, therefore, condone moves from a Communist party to a Socialist one. But, voters are more likely to punish politicians who present themselves one day as a Communist and the next as a Hindu nationalist. Such defectors are readily seen as “turn-coats”, “untrustworthy” and “opportunists”. Politicians in two-party states, therefore, are less likely to defect to the opposition given the high reputation costs or audience costs.



**Figure 4.6: Two-Party Systems and Defection to Other Parties**

Defection of candidates in Indian states in the early-1990s suggests that politicians are aware of the higher reputation costs involved in defection to the opposition in two-party states (Figure 4.6). Fewer incumbent candidates switched their

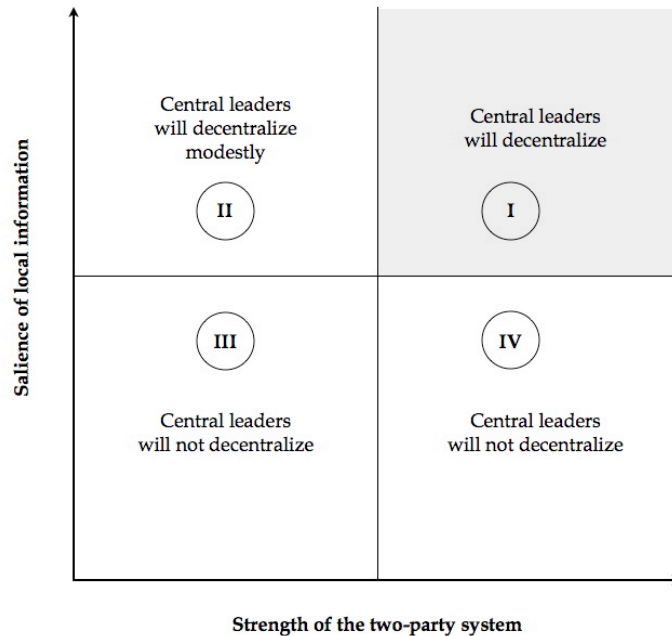
party labels between consecutive elections in strong two-party states like Kerala and West Bengal than in multi-party states like Bihar, Haryana and Uttar Pradesh.

Besides offering greater chances of defection, the political consequences of defection in multi-party states are also likely to be greater than in two-party states. This is because of the higher levels of electoral fragmentation in multi-party states. In such states, even small shifts in votes can lead to electoral losses and victories. Central leaders in these states are, therefore, aware that defection even by a single local politician could have great electoral consequences.

Given the permissive conditions and more damaging consequences of defection in multi-party states, central leaders in such states could be expected to be more fearful of defection by local politicians than their counterparts in states with strong two-party states. Therefore, I argue that central leaders in multi-party states are less likely to decentralize and empower local politicians. In contrast, central leaders in two-party states could decentralize to recruit local politicians without fearing defection.

The central argument of my dissertation can now be restated with precise predictions: Central leaders are more likely to decentralize in two-party states where local information is needed to win elections (Quadrant I in Figure 4.7). In Indian states, local information regarding voters is salient in states where equitable landholdings and higher literacy rates have weakened the importance of traditional elites in the electoral arena. In such states, central leaders decentralize to gather local information and recruit local politicians to mobilize voters. Electoral mobilization via decentralization is also more likely in two-party states where central leaders have fewer concerns about local defection. In contrast, given the fear of local defection, central leaders in multi-party states will be wary of decentralization even when local information is needed to win

elections. Therefore, if the leaders in such states undertake decentralization, it will be modest (Quadrant II). In states where local information is not needed to win elections and votes can be gathered through traditional elites, central leaders are unlikely to decentralize (Quadrants III and IV).



**Figure 4.7: When is Decentralization More Likely**

In other words, central leaders will decentralize when they expect it to be in their political interests. Where the costs of decentralization - due local defection - are likely to be great and where votes can be gathered without local information, central leaders will be disinclined to decentralize.

### 4.3 Testing the Informational Theory of Decentralization

Using the index of decentralization that I developed in Chapter 2 to measure the degree to which Indian states have decentralized since the *panchayati raj* constitutional

amendment, I test the statistical relationship between the strength of the two-party system, the conditions that raise the political salience of local information and decentralization in Indian states.

Although the theoretical framework I present in this chapter privileges the role that information asymmetries and party systems play in the central leaders' decision to decentralize, we can expect several other factors to contribute to decentralization. One factor that could influence the efforts states take to decentralize is the capacity of the states to undertake such measures. Social scientists often point out that state capacity - i.e., the strength of its existing institutions - is a decisive factor in offering good governance, implementing development policies and undertaking institutional reforms.<sup>45</sup> States that are weak, therefore, govern ineffectually. For instance, Kohli (1990) argues that institutions of governance in India have weakened since the 1970s and led to a crisis in governance in the country. If in fact the capacity of the states is an influential factor, we could expect competent states to undertake decentralization more thoroughly than weaker states. To examine if the capacity of Indian states influences the decentralization they undertake, I use the percentage of villages in states that has electric power supplied. The extent of rural electrification indicates the capacity of the state to supply public goods to its remote rural parts. If the state-capacity argument holds true for decentralization in Indian states, we should then see a positive relation between rural electrification and the degree of decentralization in the states.

A related attribute of states that could influence the extent to which they decentralize is their wealth. Wealthier states could be expected to have greater capacity,

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<sup>45</sup> The literature on state capacity and its consequences for public policy is considerable. For example, see Armstrong (1973), Besley and Persson (2009), Evans (1992), Rondinelli and Cheema (2003), Skocpol and Finegold (1982), Stepan (1978),



or develop it, to undertake institutional changes like decentralization. Politically too wealth could be expected to have a positive influence on the degree of decentralization. Central leaders in affluent states may be more inclined to share some of the resources with politicians at lower levels of governments than their counterparts in poorer states. I use the annual per capita net domestic product (NDP) of the states as the measure of their wealth in the statistical tests to find out if states' wealth is related to the extent of decentralization.<sup>46</sup>

Studies often associate decentralization with administrative and allocative efficiency, especially in states where people have heterogeneous preferences (Alesina and Spolaore 2003; Musgrave 1959; Oates 1972, 1999; Rondinelli 1990). In states where citizens prefer different public goods and services, decentralized governance can increase welfare by "tailoring outputs of such goods and services to the particular preferences and circumstances of their constituencies" (Oates 1999: 1121-22). Decentralization, therefore, should suit large and populous states since preferences are likely to be more diverse, other things being equal, among larger populations than in smaller states. To find out if Indian states had decentralized to increase administrative efficiency and cater better to the varying preferences of their citizens, I use three different indicators: the total area of state in square kilometers, total population of the state and the degree of religious diversity.<sup>47</sup>

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<sup>46</sup> In the statistical models, the variable is normalized using logarithmic transformation.

<sup>47</sup> The area and population variables are normalized using logarithmic transformation in the statistical tests. Religious diversity is an indicator of how preferences could vary within states. For example, Muslims in West Bengal prefer education in schools to be in Urdu language. Therefore, there may be greater demand of such schools in Murshidabad district (64 percent Muslim) than in Medinapur district (11 percent Muslim). West Bengal, if it sought to meet these demands efficiently, could decentralize matters regarding school education to local councils. See *The Indian Express*, "Muslims Demand Urdu to be the Second Official Language of Four Subdivisions." March 9, 2009. On the broader issue of Urdu and Muslim identity in India, see Brass (1974, Chapter 4). Since the redrawing of state boundaries along linguistic lines

One political consideration that could influence the central leaders' decision to decentralize is the degree of electoral uncertainty they face. Kathleen O' Neill (2003, 2005), for instance, argues that central leaders, who are uncertain of getting reelected, are more likely to decentralize so that their party colleagues in power in lower levels of government will have some resources even if the party loses power in the center. To test if such an impulse prompted leaders in Indian states to decentralize, I use the margin of victory in the previous election as the indicator of electoral uncertainty in the state.<sup>48</sup>

The *panchayati raj* amendment to the Indian constitution initially exempted the setting up of elected local councils in regions where India's indigenous population was concentrated.<sup>49</sup> These regions are listed in a government schedule and vary in size from state to state. States with large tracts of their area classified as scheduled areas, therefore, could be expected to have limited decentralization than states with smaller areas with indigenous population. I include the proportion of scheduled areas in states as another factor that could affect the extent of decentralization in Indian states.

One reasonable concern about the conditions in the Indian states that I identify as increasing the electoral salience of local information - equitable landholdings and high literacy rates - is that they are generally seen as attributes of modernization and, therefore, may be correlated.<sup>50</sup> Diagnostic statistical tests, however, reveal that this

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in the 1950s, states in India are, for most part, linguistically homogenous. I, therefore, do not use linguistic heterogeneity as a measure of ethnic diversity.

<sup>48</sup> Margin of victory is the indicator O' Neill also uses in her study.

<sup>49</sup> Since the indigenous tribal population is listed on a government schedule, there are widely referred to as the "scheduled tribes."

<sup>50</sup> Students of modernization often describe the breakup of large feudal landholdings and the spread of literacy as part and parcel of modernization. See, for instance, Huntington (1968), Lerner (1958), Lipset (1981), Verba and Nie (1972).

should not be a concern with the data from Indian states.<sup>51</sup> Even when the data allows us to examine the empirical relations between equitable landholding, literacy rates and the degree of decentralization in Indian states, a few general theoretical questions, nevertheless, remain: is decentralization influenced by the increased salience of local information because the conditions that raise its salience are a part of modernization? Does local information has an independent effect on the degree of decentralization? Are modern states generally more likely to be decentralized? To examine these issues I use a variable, road cover, which is measures the extent of paved roads in the state, which is generally greater in modern states. Road cover, however, should decrease the salience of local information since central leaders will be able to drive to remote areas by roads and establish contact with voters directly, rather than rely solely on local politicians to mobilize voters. If this is true, more road cover in states should, other things being equal, lead to less decentralization. In contrast, states where central leaders need local information to win elections, but poor road cover prevents them from reaching out directly to voters, the leaders will have to rely on local politicians to a greater degree. Therefore, the extent of decentralization in such states will be greater.

I use standard cross-sectional time-series regression models with panel-corrected standard errors to examine the relationship between the degree of decentralization in the states and the factors I have discussed here.

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<sup>51</sup> In all the regression models, the variance inflation factor is less than 2. Variance inflation factor quantifies the severity of multicollinearity, with higher scores denoting severe multicollinearity. See, Greene (2000).

**Table 4.1: Local Information, Party-Systems and Decentralization in Indian States, 1994-2003.**

<i>Degree of decentralization</i>	(1)	(2)	(3)
<b>Key Explanatory Variables:</b>			
Strength of two-party system	<b>0.077</b> (0.034)	<b>0.099</b> (0.037)	<b>-0.873</b> (0.399)
Equitable land-holdings	<b>0.494</b> (0.047)	<b>0.417</b> (0.161)	
Literacy	<b>0.877</b> (0.03)	<b>0.812</b> (0.191)	
Salience of local information			<b>0.384</b> (0.172)
Two-party strength * Salience of information asymmetries			<b>1.237</b> (0.53)
<b>Factors Affecting Decentralization:</b>			
Electoral uncertainty	-0.014 (0.015)	-0.006 (0.107)	0.007 (0.015)
Ethnic fragmentation (religious diversity)	0.031 (0.052)	0.037 (0.193)	<b>0.164</b> (0.079)
Area (log)	<b>0.189</b> (0.05)	-0.047 (0.063)	0.081 (0.047)
Population (log)	-0.041 (0.054)	<b>0.097</b> (0.036)	0.037 (0.038)
Past decentralization	<b>0.278</b> (0.037)	0.254 (0.139)	<b>0.26</b> (0.053)
Wealth (pc NDP log)	-0.016 (0.035)	<b>0.063</b> (0.014)	0.028 (0.027)
Road cover	<b>-0.557</b> (0.049)	<b>-0.586</b> (0.22)	<b>-0.428</b> (0.088)
State capacity (rural electrification)	<b>0.053</b> (0.017)	<b>0.066</b> (0.008)	<b>0.042</b> (0.002)
Scheduled areas	<b>-0.348</b> (0.035)	<b>-0.286</b> (0.143)	<b>-0.202</b> (0.038)
$R^2$	0.83	0.85	0.81

*Note:*  $N = 140$ . Cell entries are standardized coefficients and standard errors are in parentheses. Boldface indicates significance at  $p = 0.05$  or smaller. Entries in Column (1) are from a statistical model that follows the Beck and Katz (1995) recommendation of panel-corrected standard errors, correcting for contemporaneous correlation, serial correlation of the first order and heteroskedasticity. Column (2) replicates Column (1) with random effects. In Column (3), an interaction term between party systems and information asymmetries is introduced.

#### 4.3.1. Discussion of statistical results

Statistical tests reveal, as hypothesized, that where information asymmetries are electorally salient, decentralization is greater. It is in states with equitable landholdings and high literacy that central leaders have decentralized to a greater extent (Table 4.1).<sup>52</sup> States with strong two-party systems are also among the most decentralized (Models 1 and 2). In these states, as posited, the restrictive conditions on defection have allowed the central leaders to undertake decentralization.<sup>53</sup>

These effects hold across models even when levels of decentralization prior to the constitutional amendment, the states' wealth, size, capacity and the heterogeneity of their populations are controlled for. Only the past levels of decentralization and the states' capacity show consistent positive relation with the extent of decentralization across the models.<sup>54</sup> This suggests that states like Karnataka, Maharashtra and West Bengal that had undertaken some degree of decentralization prior to the *panchayati raj* amendment have decentralized even after the amendment came into effect.<sup>55</sup> The results also show state capacity to be positively related to decentralization. States like Himachal Pradesh, Karnataka and Kerala that are competent in offering public goods such as electric power to villages are also those that have been able to undertake

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<sup>52</sup> In the results presented in Table 4.1, the variable for equitable landholdings is measured as the percentage of total land held by small and marginal farmers. Replications of the model with a Gini coefficient of land inequality produce similar results.

<sup>53</sup> The strength of the two-party system in the states, as noted earlier in the chapter, is measured as the percentage of seats where the two leading parties or pre-electoral coalitions in the states finished first and second in the election.

<sup>54</sup> Past decentralization drops slightly below conventional levels of statistical significance in Model 2 when random effects are introduced.

<sup>55</sup> Past decentralization is measured as the extent to which the states had decentralized democratically prior to the constitutional amendment. See Chapter 2 to know how democratic decentralization is measured.

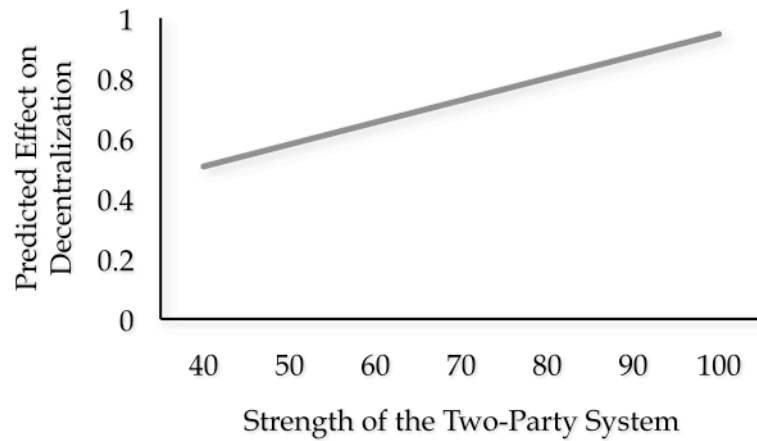
decentralization.<sup>56</sup> As expected, the proportion of scheduled areas in the states show a negative relation to the degree of decentralization since the amendment initially exempted the areas where indigenous populations are concentrated from decentralization.

In model 3, I introduce a composite measure for the conditions that heighten the salience of local information in Indian states and an interaction term between this composite measure and strength of the two-party system.<sup>57</sup> These additions approximate the theory of decentralization based on two conditions I presented earlier in this chapter. The results in Model 3 show that decentralization, as the theory predicted, is most likely in two-party states where local information is electorally salient. In states where local information is not electorally salient, decentralization is limited and governance remains centralized. This explains what is actually happening in states like Bihar, Haryana and Uttar Pradesh. In Bihar, Haryana and Uttar Pradesh, permissive conditions for local defection due to multi-party systems and the ability of central leaders to win elections through traditional elites make decentralization an unattractive strategy for leaders to mobilize voters.

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<sup>56</sup> The results hold true even when other indicators for state capacity such as the number of hospitals beds per 10,000 people are used in models.

<sup>57</sup> The composite measure is the product, with equal weights, of the score for equitable landholdings and literacy rates.



**Figure 4.8: Predicted Effect of Party-Systems on Decentralization in States where Local Information is Electorally Salient.**

Heightened salience of local information alone is a good predictor of how decentralized the states will be. A one-standard-deviation increase in the salience of local information is associated with an increase in decentralization of about 40 percent of the standard deviation in the degree of decentralization across Indian states. The influence of local information on decentralization is amplified in strong two-party states. As we move from multi-party states, where the two leading parties win only 40 percent of the seats, to strong two-party states in which the two leading parties win over 90 percent of the seats, decentralization increases by over 70 percent (Figure 4.8).<sup>58</sup> In strong two-party states, where the fear of local defection is low, central leaders are able to recruit local politicians via decentralization. In contrast, central leaders in multi-party states, fearing local defection, decentralize only modestly even when local information is

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<sup>58</sup> Since Figure 4.8 shows the effects of party system on decentralization in states where local information is needed to win elections, the predicted effects are calculated with local information held one standard deviation above its mean. Unlike the results presented in Table 4.1, the predicted effects are calculated from regressions with unstandardized variables.

needed to win elections.<sup>59</sup> This explains why leaders in states like Maharashtra are hesitant to undertake the kind of thorough decentralization their counterparts in Kerala or West Bengal have.<sup>60</sup>

Interestingly, the results also help us disentangle the distinct effects of the salience of local information and modernization on the degree of decentralization in Indian states. Road cover is negatively and significantly associated with the degree of decentralization in the states indicating that central leaders in such states need not rely solely on local politicians for local information. Better road cover helps the leaders in such states to surmount information asymmetries by traveling directly to remote areas. Therefore, even when conditions such as equitable landholdings and higher literacy rates may suggest that decentralization is more likely in modern states, the negative association between road cover and decentralization reveals that not all attributes of modernity raise the electoral significance of local information and, consequently, lead to greater decentralization. Ultimately, the strong positive association between decentralization and factors such as equitable landholdings and high literacy rates, even after controlling for road cover, suggests the importance of these factors for decentralization in Indian states.

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<sup>59</sup> In some states, where strong two-party systems had earlier allowed decentralization, a subsequent weakening of the two-party system has led central leaders to re-centralize. Karnataka, for example, had decentralized in the early-1980s when the state had a strong two-party system with the Congress and the Janata parties controlling about 80 percent of the seats in the state legislature. By the mid-2000s, when the two-party system in the state weakened with the two leading parties – by now, the Congress and the BJP - winning less than 65 percent of the seats, state-level leaders started recentralizing some powers, including decisions on choosing local beneficiaries of development programs, that were earlier decentralized. See, for instance, “Panchayat members oppose MLAs on panels.” *The Hindu*, March 28, 2005; “Municipalities told not to act against State's interests.” *The Hindu*, November 23, 2005.

<sup>60</sup> In Maharashtra, elections through the 1990s and early-2000s were three-way contests between the Congress, the Nationalist Congress Party and a BJP-Shiv Sena alliance. In contrast, elections in Kerala and West Bengal were straightforward contests between two stable Congress and Communist alliances.



#### **4.4 Conclusion**

This chapter examined how the salience of local information influences how the states decentralize. In states where local information is needed to win elections, decentralization has greater appeal to central leaders as an efficient means to gather information about voters and recruit local politicians by setting in place incentives that ensure that local politicians will work to get the leaders elected. Electoral mobilization via decentralization is also more likely in two-party states where central leaders fear local defection less. In contrast, states where local information is not required to win elections, central leaders, as we have seen, will not decentralize.

One important question that the theoretical framework and the empirical evidence I presented in this chapter have not addressed adequately is how local information that decentralization reveals is used for electoral mobilization. Local information, as I have posited, is needed to identify crucial electoral constituencies and transfer resources to them, if needed, to win their electoral support. How decentralization aids in the identification and targeting of crucial voters is what I turn to in the next chapter.

## Chapter 5 Decentralization and Local Information

We saw in the previous chapter that central leaders decentralize to know more about the voters and that this political strategy is more likely in states where local information is crucial to win elections. A more compelling demonstration of this informational theory of decentralization requires us to trace the ways through which decentralization aids in gathering local information that the leaders could, then, use to pursue their political interests. In this chapter, I will present evidence for some ways through which central leaders use decentralization to gather local information in order to increase their chances of reelection. I will first examine the implications of the informational theory on the scheduling of local elections. Central leaders, I will show, schedule local elections to gauge the electoral support they themselves are likely to receive when they stand for reelection. Second, I will examine how, using information gathered from local elections, the central leaders devolve resources to local politicians to target important electoral constituencies.

### 5.1. Local Elections to Gather Information About Voters

Party leaders and incumbent politicians, as they approach elections, usually seek to assess the popular support they are likely to get in the elections and, accordingly, formulate policies, campaign promises and electoral strategies to retain the support they have or to win over new voters.<sup>1</sup> Local elections, if undertaken ahead of the state elections, can be a more reliable and efficient means than are opinion polls or attendance

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<sup>1</sup> In wealthy democracies, public opinion polls, to some extent, reveal to incumbents and party leaders the popular approval of governments and their policies. In democracies in developing countries, however, public opinion polls and referenda are not often available or reliable.

in campaign rallies to assess the relative electoral strengths of political parties. Local elections not only reveal, in advance, the electoral support the parties are likely to get, but they also offer detailed and precise information about the geographic distribution of partisan voters. In particular, local election results help leaders identify by villages and neighborhoods where party loyalists, opposition supporters and swing voters are concentrated. The electoral districts from which the central leaders are elected are often too large and heterogeneous to identify crucial voters.<sup>2</sup> In contrast, local councils offer smaller electoral settings to establish the partisan inclinations of voters. For example, electoral districts to the state legislature in West Bengal have about 165,000 voters each.<sup>3</sup> At the same time, with 3,354 village councils that are further divided into electoral wards, 51,142 elected local politicians in West Bengal, on average, represent fewer than 1,000 voters.<sup>4</sup> Using such detailed information that the local elections present, the central leaders can make fine distinctions about the electorate in the electoral districts that elect the leaders, identify within the districts the electorally decisive councils and channel political resources narrowly to influence voters in them.

Regular local elections, which the *Panchayati raj* amendment instituted in Indian states, are not held simultaneously with the elections to the federal and state legislatures. Nor are the local elections held under the supervision of the Election Commission of India, which holds elections to the federal and state legislatures. According to the constitutional amendment, state election commissions, set up by the states, have the

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<sup>2</sup> Further, with the extended time gap between the two state elections – generally, five years in India, central leaders are also not likely to find results from the previous state election to be good predictors of electoral trends in the next state elections or reflective of the current electoral realities.

<sup>3</sup> West Bengal, in the 2001 state elections, had 48.68 million voters spread over 294 electoral districts. In larger states like Uttar Pradesh, the size of the electorate in districts is even higher. Uttar Pradesh, in the early-2000s, for instance, had 99.8 million voters in 403 electoral districts. Data source: Election Commission of India.

<sup>4</sup> Data source: Government of West Bengal.

responsibility to hold local elections every five years. States could, therefore, schedule local elections to closely precede the elections to the state legislatures.<sup>5</sup> Such an ordering of local and state elections is most expedient to the state-level leaders and incumbents seeking information about voters. Local elections, if they are held closely ahead of the state elections, will serve as a convenient preliminary test of the relative strengths of the political parties. Further, as noted above, the results from the local elections will also allow the leaders to identify crucial local constituencies and, if needed, divert resources to them.

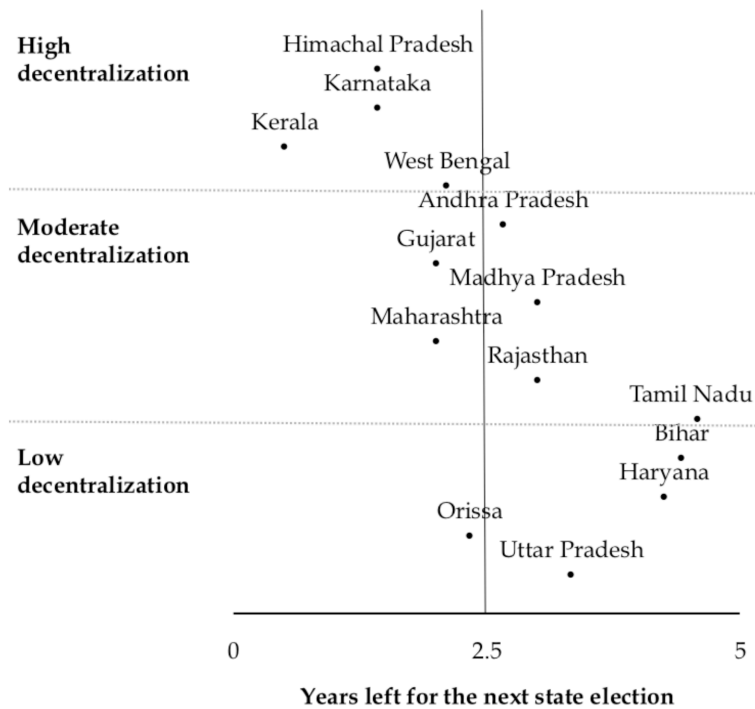
However, as we have seen in Chapter 4, leaders in all Indian states do not value information about voters equally. Leaders in states with equitable landholdings and high literacy rates seek to know voters more than do their counterparts in states with unequal landholdings and widespread illiteracy. This variable importance of local information across Indian states allows us to examine one predictable implication of the informational theory of decentralization: In states where information about voters is crucial to win elections, local elections are likely to be held closely ahead of the state elections. In contrast, states where the central leaders do not have to reach out to individual voters to win elections, when the local elections are held is not expected to have great political consequences for the leaders. Accordingly, the central leaders in such states will be less likely to schedule the local elections to precede the state elections closely than will their counterparts in states that seek information about voters.

Since India's state elections are held every five years, we should, therefore, find local elections to be held closely ahead of state elections in states where information

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<sup>5</sup> Once such a schedule of the elections is instituted, the order is likely to persist unless the state or local governments fail to last their five-year terms.

about the electorate is politically salient. Figure 5.1 presents the timing of local elections in Indian states between two state elections.<sup>6</sup>



**Figure 5.1: Scheduling Local Elections to Gather Information**

The Indian states present a noticeable pattern in the scheduling of local elections. States with high levels of decentralization hold local elections to closely precede the state elections.<sup>7</sup> This is generally consistent with the expectations of the informational theory of decentralization. It is in states where local information is of electoral importance that decentralization will be greater. Therefore, in Himachal Pradesh, Karnataka, Kerala and

<sup>6</sup> The data used in the figure are from the most recent state and local elections from the states. These elections were held between November 2005 and April 2011. Source: Election Commission of India and various state election commissions.

<sup>7</sup> In Figure 5.1, the states are listed alphabetically within each level of decentralization.

West Bengal, where equitable landholdings and high literacy rates have made information about individual voters electorally salient, local elections are held in the second half of the state government's five-year term to precede the next elections to the state legislatures (Figure 5.1). Local elections, when held closely ahead of the state elections, allow central leaders in such states to assess the relative electoral strengths of parties and gather information about the distribution of voters according to their partisan inclinations.

In contrast, in Indian states where information about the voters is not needed to win elections, local elections are held around the middle or at the beginning of the state government's five-year tenure. According to the informational theory of decentralization, there are, *a priori*, no reasons to expect states where local information is not electorally salient to hold local elections at the beginning of the state's five-year term. Since central leaders do not value or seek local information via decentralization, local elections could be held at any time. Yet, we observe local elections in states like Bihar, Haryana and Uttar Pradesh immediately following the state elections. A reason for this could be that state-level leaders in these states use local elections to increase their partisan presence at different levels of government in the state rather than to gather information about voters. Local elections held immediately following the state elections help state incumbents to use their electoral popularity to get their partisan colleagues elected to power in local councils.

One reasonable concern with the evidence I have presented so far in this chapter could be that if central leaders can gather information about voters merely by holding competitive local elections, why then would they devolve decision-making powers or finances to elected local politicians? There are at least two reasons why the central

leaders will decentralize decision-making powers and resources, and not merely hold local elections to gather information about voters. First, voters and local politicians are unlikely to participate in local elections eagerly unless locally elected offices have some degree of power devolved to them. In Bihar and Uttar Pradesh, for instance, where few powers are devolved to local councils, voter-participation in local elections is less than 60 percent when compared to over 80 percent polling in decentralized Kerala and West Bengal.<sup>8</sup> Further, reports also indicate that in less decentralized states such as Haryana and Rajasthan, local elections fail to attract enough local politicians, leaving a large number of elected offices in local councils to be filled through uncontested elections.<sup>9</sup> In contrast, almost all panchayat wards in decentralized states, such as Himachal Pradesh, Karnataka, Kerala or West Bengal, witness intense electoral contests between local politicians from different political parties.

A second reason is that even when local elections help the central leaders establish the relative strengths of political parties and determine electorally significant councils within larger electoral districts that elect state-level leaders, leaders have to rely on local politicians to identify and distribute goods to the crucial voters within these councils in order to increase their chances of re-election. In states with high degree of decentralization, leaders depend on local politicians to mobilize voters using the

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<sup>8</sup> Arguably, decentralization is only one factor that influences voter turnout in local elections. Literacy, level of political competition and other factors affect voter participation across Indian states. But, even when the overall voter participation in the states is taken into consideration, voters are more likely to participate in local elections in states that are more decentralized. See Figure 5.2 in Appendix VII. Figure 5.2 shows the extent of voter-participation in local elections, controlling for the general poll percent in the state elections.

<sup>9</sup> For instance, in the Rajasthan state election commission reported that around 41 percent of the panchayat members were elected unopposed in 2005 since there were no candidates to contest against them. Source: Rajasthan state election commission final report, 2005. Similarly, the news agency Indo-Asia New Service reported on June 5, 2010 that 40 percent of panchayat members in Haryana were elected unopposed. See: [http://www.thaindian.com/newsportal/politics/40-percent-haryana-panchayat-candidates-elected-unopposed\\_100375645.html](http://www.thaindian.com/newsportal/politics/40-percent-haryana-panchayat-candidates-elected-unopposed_100375645.html).

devolved resources. In Kerala, for instance, I found that state-level leaders of both the Congress and the Communist parties seeking out elected local politicians to target the crucial voters.<sup>10</sup> According to one district committee member of the CPI(M), who organized the party's 2006 state electoral campaign, "our elected *panchayat* members are very hardworking. They work to build the party's good name among the villagers. During election time, they know who will vote for us; they live and work among them and win their trust. When the leaders come from Trivandrum to campaign in the villages, it's these *panchayat* members who take them from door to door."<sup>11</sup>

## 5.2. Local Information and Devolution of Resources

Local politicians acquire knowledge about local electoral settings and voters over a long period. In several villages, I found that local politicians are residents of the villages they represent and live among the voters.<sup>12</sup> Local politicians have ready access to the social gatherings in the villages and take part in birth-ceremonies, weddings and death-rites in the village households.<sup>13</sup> Occasionally, in disputes among villagers, local politicians also serve as mediators bringing the adversaries to negotiated compromises. Further, with their acquired familiarity with bureaucratic procedures, local politicians ease the diverse interactions the villagers have with the government, ranging from registering births and deaths to applying for public services, jobs or welfare benefits.

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<sup>10</sup> Interviews with district leaders in Kerala, May-August 2007.

<sup>11</sup> Trivandrum is the capital of Kerala. The CPI(M), the Communist Party of India (Marxist), is the leading communist party in Kerala and India.

<sup>12</sup> Interviews with voters and local politicians in Karnataka and Kerala (May-August 2007), and Tamil Nadu and West Bengal (June-July 2008).

<sup>13</sup> I found that local politicians are able to transcend caste boundaries and take part in the social events of caste groups that they are not part of. This is true also of political boundaries: local politicians representing a particular political party often visit supporters of rival parties.



Accordingly, villagers often consider the local politicians as allies to get things done.<sup>14</sup> Villagers also turn to local politicians to interpret the consequences of government programs and understand party policies and politics. By attending to these tasks, local politicians are able to gain the trust of the villagers, acquire knowledge about their political needs and be familiar with the social and political settings in the villages.<sup>15</sup>

Central leaders rely on this trust and knowledge of local politicians to identify the partisan dispositions of voters within electorally important councils and win over uncommitted and opposition voters. To mobilize voters, local politicians deploy the resources decentralization has devolved to them. For instance, I found local politicians in several *panchayats* in Kerala giving grants of money to voters, under various welfare programs, to renovate houses, start small business enterprises or cover health and educational expenses.<sup>16</sup> In one interesting illustrative case, an elected Congress party *panchayat* member registered a family in his *panchayat* ward as poor so that he could to include the family members under the *panchayat's*, state's and the federal government's welfare programs.<sup>17</sup> What is interesting about the case is that the family members were Communist sympathizers and had voted for the Communists in the previous state and

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<sup>14</sup> Local politicians seem to fulfill these roles even in some states that I did not observe myself. See Krishna (2003), Manor (2000), Mitra (1991), Reddy and Hargopal (1985).

<sup>15</sup> I am certainly not claiming that these observations about the role local politicians play are valid for all of India. In fact, studies show that the relations between local politicians and villagers are weak in places where decentralization is limited. In Uttar Pradesh, for example, dominant rural elites keep elected local politicians from participating in the local councils, or co-opt them, and councils seldom meet to discuss the needs of villagers. See, Jeffrey and Lerche (2000), Lieten (1996), Lieten and Srivastava (1999), Pai (2001). "People voted for me but now I realise I am here for namesake only... We are members for namesake only. People make a joke of us," an elected village *panchayat* member told Lieten (1996: 2701)

<sup>16</sup> Interview with local politicians and voters in Kerala, May-August 2007.

<sup>17</sup> In India, families listed as officially below the poverty line are eligible to receive government welfare, including food grains below market prices, scholarships for children to attend school, pensions for the old, etc. Politicians use the inclusion of families in the official list of the poor and the provision of welfare to the poor to build patronage networks. Such distributions of patronage is greater in more decentralized states where state level politicians are not the only ones distribute particularistic benefits; decentralization has transferred resources to local politicians and enabled them too to engage in clientelist politics. See Sadanandan (2012).

local elections.<sup>18</sup> However, according to the Congress *panchayat* member, some members of the family had started staying away from neighborhood meetings organized by the Communist *panchayat* members and argued with some Communist supporters in a village teashop. By registering the family officially as poor, the local Congress politician was able to offer the family two welfare grants in a year, one to start a small poultry farm and another to lay new roof tiles in the family house. In return, when the Congress *panchayat* member stood for reelection in the 2005 *panchayat* elections, the family members rewarded him with their votes and, on his request, voted for the Congress party in 2006 elections to the state legislature.

What the case illustrates are the micro-foundations of the informational theory of decentralization. Local politicians, with their frequent interactions with voters and finer knowledge of local electoral settings, are able to win over new voters or satisfy party loyalists in states where decentralization has empowered them.

This mode of electoral mobilization, where decentralized resources are used to broaden electoral support in electorally significant councils, allows us to examine several implications of the informational theory of decentralization: First, since central leaders undertake decentralization to increase their chances of re-election, more resources should be devolved, via decentralization, to councils that the central leaders consider electorally important to their re-election. In competitive states, the councils that are important to the central leaders will be those where the leading political parties are evenly matched.<sup>19</sup> These councils should, therefore, get more resources devolved to them. In contrast, councils that are not electorally important are likely to get fewer

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<sup>18</sup> Based on interviews with the Congress *panchayat* member and family members, Kerala, July 2007.

<sup>19</sup> I explain the logic behind this strategy later in the chapter.

resources via decentralization. Second, with regard to electoral districts that elect state-level politicians, the leaders are likely to devolve more resources to councils in state electoral districts where they themselves face greater electoral uncertainty. Third, the leaders are also likely to transfer more resources to councils where local politicians from their party are in power than to opposition-governed councils. Councils controlled by party colleagues could be expected to use the devolved resources to secure more voters for their state-level leaders than opposition-led councils.

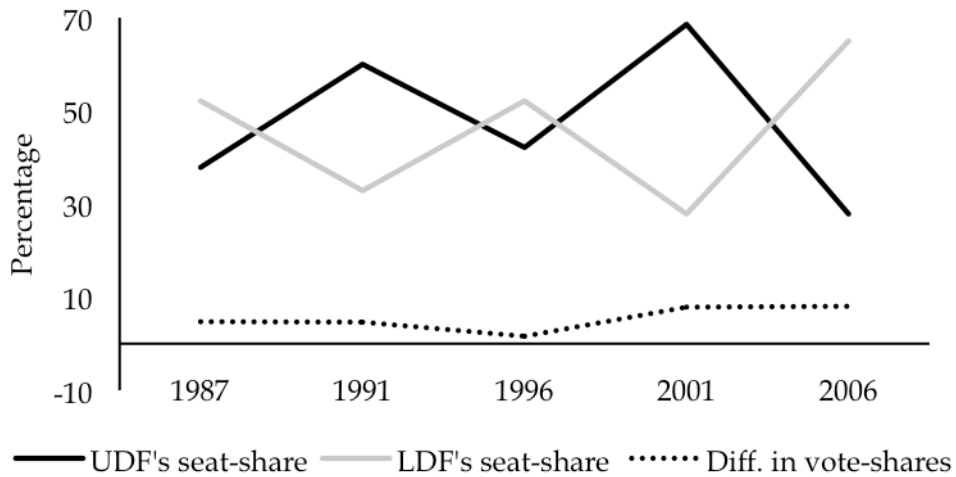
I examine these implications of the informational theory using data on the annual devolution of money, via decentralization, by the state government in Kerala to 78 village councils for a period of five years.<sup>20</sup> Kerala is one of the most decentralized states in India. Kerala confirms the expectations of the informational theory I presented in the previous chapter - i.e., equitable landholdings and high literacy rates have made local information electorally salient in the state and impelled the state leaders to decentralize to increase their chances of winning elections. With data on financial transfers from the state government to local councils, we can examine additional implications of the informational theory. Notably, we should be able to observe how the central leaders use local election results to identify electorally crucial councils and devolve resources to local politicians to target voters in them.

Kerala is also a strong two-party state, where two stable political alliances - one led by the Communists and the other led by the Congress party - dominate politics in the state, winning most of the votes and seats. In the recent past, either the Communist-led Left Democratic Front (LDF) or the Congress-led United Democratic Front (UDF) formed the state government, often due to small shifts in votes in the state elections

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<sup>20</sup> The data are from the years 2000 to 2005. Data source: Government of Kerala.

(Figure 5.3). Such small shifts in votes suggest how important information about voters and the identification of crucial voters could be for elections in the state.



**Figure 5.3: Electoral Competition in Kerala**

Local elections and local politicians, as noted above, help the central leaders in identifying the electorally important councils and the crucial voters in them. Since both the LDF and the UDF are evenly matched in electoral politics in Kerala, the central leaders of these parties will find the councils, where voters have not voted decisively for either of the parties in the local elections, the most crucial to their chances of getting reelected.<sup>21</sup> The indecisive verdict in these councils in the local elections signals to the central leaders that voters in such councils, when compared to voters in councils that have voted overwhelmingly for a party, are most likely to swing in response to favors delivered. As incumbents in the state government, the leaders from both parties will,

<sup>21</sup> This follows the insights from Dixit and Londregan's (1996) formal model. According to their thesis, when parties are equally matched at delivering goods to voters, both parties will woo voters in the center who are likely to switch their voting preferences in response to distributive transfers. In contrast, where voters have strong party preferences, by voting decisively for a particular party, party leaders reward party supporters with particularistic transfers instead reaching out to uncommitted voters.

therefore, devolve more resources to councils where both parties are evenly matched than to councils where either they or the opposition have won decisively. With data on financial devolution from the state government to local councils spanning five years, from 2000 to 2005, during which both the LDF and the UDF formed the state government, we can examine if the theoretical expectation that central leaders will target competitive local councils with resources is supported empirically.<sup>22</sup>

To examine this and other implications I noted above, I model the annual devolution of financial resources to 78 village councils between 2000 and 2005 as a function of the strength of the ruling party in the local council, the ruling party in the council being the same as the party in power in the state government and the council being located in a state district where state-level politicians won by narrow margins in the previous state elections.

Given that local councils in Kerala and India follow the parliamentary system, with councils having 10 to 20 elected seats, we should, therefore, observe central leaders devolving more money to councils where the ruling party in the council has around 50 percent of the seats. From the perspective of the state-level leaders, these councils are electoral battlegrounds where voters have not decisively voted for any party. In contrast, in councils where the ruling party has overwhelming majority of the seats or is in a minority, devolution of money should be less. To estimate this curvilinear relationship between the strength of the ruling party in the council and the amount of money devolved to it, I introduce a quadratic term in the model. The dependent variable, the annual transfer of money by the state government to local councils, is measured in

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<sup>22</sup> The data spans a year, 2000-01, of the E.K. Nayanar government (LDF) and four years, 2001-2005, of A.K. Antony's and Oomen Chandy's governments (UDF) in the state.

millions of Rupees and is normalized for regression analysis using logarithmic transformation.

More money is also likely to be devolved to councils where the ruling party is the same as the party in power in the state. As noted above, incumbents in the state government are likely to view councils governed by party colleagues to be more willing to use the devolved resources to mobilize votes for the party than opposition-governed councils.<sup>23</sup> Further, the state leaders could also be expected to transfer more money to councils in state electoral districts where they had won by narrow margins in the previous elections. Narrow victory margins in state districts signals to the leaders electoral uncertainty that could be minimized with targeted distribution of resources.

Besides these political considerations, several other factors could also influence the devolution of money by the state government to local councils. The State Finance Commission, which recommends the state government how to share finances with local councils, advised the state government in Kerala to devolve more money to populous councils.<sup>24</sup> The Commission's recommendations also reveal a redistributive intent. The commission suggested, for instance, that councils with higher proportions of scheduled castes, tribes and those engaged in agriculture - sections of the population that are most vulnerable to poverty - be devolved more resources.

To examine how these factors and political considerations affected the state government's devolution of money to local councils, I use standard cross-sectional time-series regression models with panel-corrected standard errors.

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<sup>23</sup> This is something I found during my interview with elected local politicians in Kerala (May-August 2007). Several local councilors alleged that the incumbents in the state government are partisan in the devolution of resources to councils, transferring more to councils where party colleagues were in power.

<sup>24</sup> Source: Second State Finance Commission Report, Government of Kerala.

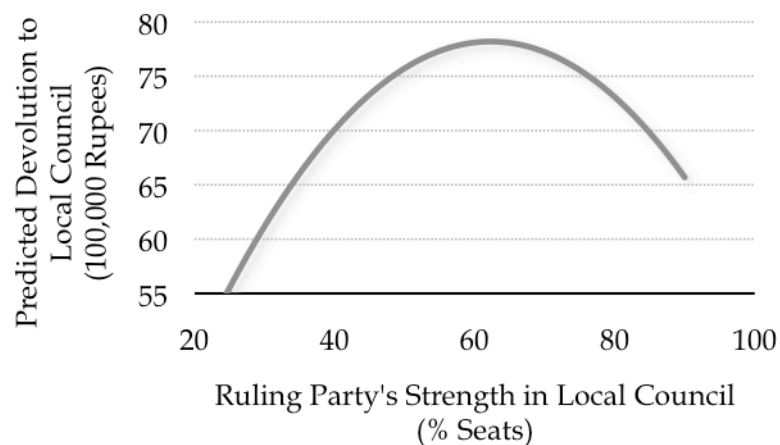
**Table 5.1: Political Consideration in the Devolution of Money**

<i>Allocation of resources (Rupees in million, log)</i>	(1)	(2)	(3)
<b>Key Explanatory Variables:</b>			
Strength of ruling party in council	<b>0.0109</b> (0.003)	<b>0.0094</b> (0.0024)	<b>0.0095</b> (0.0036)
Strength of ruling party in council (quadratic)	<b>-0.0001</b> (0.00002)	<b>-0.0001</b> (0.00002)	<b>-0.0001</b> (0.00002)
State-governing party in power in council	<b>0.0474</b> (0.0131)	<b>0.049</b> (0.0116)	<b>0.0483</b> (0.0204)
Margin of victory (in state district)	<b>-0.0134</b> (0.0015)	<b>-0.0128</b> (0.0017)	<b>-0.0127</b> (0.0016)
<b>Factors Affecting Resource Allocation:</b>			
Population (log)	<b>0.8092</b> (0.0118)	<b>0.8285</b> (0.0087)	<b>0.8285</b> (0.0382)
Poverty rate (%)	<b>0.0012</b> (0.0004)	<b>0.0008</b> (0.003)	0.0008 (0.0011)
Scheduled castes (%)	<b>0.0143</b> (0.0015)	<b>0.0136</b> (0.0014)	<b>0.0136</b> (0.0024)
Scheduled tribes (%)	<b>0.0452</b> (0.0042)	<b>0.0422</b> (0.0033)	<b>0.0422</b> (0.0044)
Illiterates (%)	<b>0.0093</b> (0.0014)	<b>0.0104</b> (0.0015)	<b>0.0104</b> (0.0033)
Population in agriculture (%)		<b>0.0093</b> (0.0021)	0.0093 (0.0051)
Marginal workers (%)		0.0013 (0.0015)	0.0013 (0.0051)
Per capita income (log)		<b>0.0063</b> (0.0028)	0.0064 (0.0129)
Distance from nearest city (log)		0.0088 (0.0068)	0.0089 (0.0164)
<i>R</i> <sup>2</sup>	0.59	0.65	0.68

*Note:*  $N = 389$ . Cell entries are unstandardized coefficients and standard errors are in parentheses. Boldface indicates significance at  $p = 0.05$  or smaller. Entries in Column (1) are from a statistical model that has panel-corrected standard errors, correcting for contemporaneous correlation, serial correlation of the first order and heteroskedasticity. In Column (2), several additional controls are introduced. Column (3) replicates Column (2) with random effects.

### 5.2.1. Discussion of statistical results

The statistical results reveal that state-level politicians use local election results and local politicians to identify and target crucial voters in order to increase their chances of reelection. We find, for instance, that the state-level leaders in Kerala transfer more money to councils where voters have not decisively supported either political party to influence voters in them. The statistical tests reveal that both the LDF and the UDF state governments in Kerala devolve to such councils, on average, 500,000 to a million Rupees more than they give to councils where the ruling party is in a minority or held an overwhelming majority of the seats (Figure 5.4).<sup>25</sup>



**Figure 5.4: Predicted Effect of the Ruling Party's Strength in the Local Council on the Devolution of Money to the Council**

<sup>25</sup> Statistical tests on the data, divided into the LDF and the UDF periods in government, reveal no significant difference in the estimates, suggesting that both the LDF and the UDF state governments follow similar electoral strategies. Councils where the ruling party has between 50 and 60 percent seats are treated as electorally crucial, and those where the party has 40 and 80 percent seats were considered minority and overwhelming majority to calculate the estimate. The predicted values are calculated holding other variables in the equation to their means.



The statistical results also reveal other ways through which the state leaders use decentralization to identify crucial voters and try to influence them through targeted devolution of resources. One means the state leaders employ is by devolving more money to councils in state electoral districts where the leaders themselves face competitive elections in order to increase their electoral appeal. For instance, councils located in state electoral districts where state legislators had a narrow one percent victory-margins in the previous state elections received six percent more financial resources via decentralization – about 600,000 Rupees - than councils in districts where the state legislators' victory-margins were five percentage points wider. Further, the incumbents in the state government also devolve more resources to their local party colleagues to influence voters. Therefore, councils governed by the same party that governs the state get, on average, about 500,000 Rupees more than opposition-governed councils.<sup>26</sup>

These political considerations influence the devolution of resources to councils even when the factors that the State Finance Commission recommended, such as population strength, the percentage of scheduled castes and tribes, the proportion of people engaged in agriculture, are taken into consideration.<sup>27</sup> In Models 2 and 3, other factors that could influence the extent of devolution of resources, such as the percentage of marginal workers, log of the council's distance from the nearest city and its per capita incomes are introduced.<sup>28</sup>

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<sup>26</sup> The predicted values are calculated holding other variables in the equation to their means.

<sup>27</sup> Data source: Census of India 2001, Kerala Supplement.

<sup>28</sup> Workers without stable employment and work less than six months a year are classified in census documents as marginal workers.

The results indicate that the incumbents in the state government do follow the recommendations of the finance commission. More money is devolved to populous councils with high proportions of scheduled caste and tribe residents. State leaders also devolve money to councils with high levels of illiteracy. These patterns in the devolution of financial resources suggest the state government to be endorsing the redistributive intent of its finance commission's recommendations. Ultimately, the strong and statistically significant relationship between the political factors in the model, even after controlling for the factors that the finance commission recommended, reveal that the state-level politicians use decentralization to try to influence crucial voters in order to enhance their electoral appeal.

### **5.3 Conclusion**

One way to assess the analytical utility of a theory of decentralization is its ability to identify the conditions under which states are more likely to decentralize. At the same time, the theory, in order to be persuasive, should also be able to show that the mechanisms that link these general conditions and decentralization work the way the theory posits. In this chapter, I presented evidence to show that the causal mechanisms work the way the informational theory of decentralization I presented in this dissertation suggests. In the chapter, we saw how leaders in Indian states schedule local elections expediently to gather information about the electoral support the leaders themselves are likely to get when they contest in the state elections. Further, we also saw how these leaders, once the local election results reveal the extent of support they are likely to receive in the state elections, use decentralization to devolve resources to local

politicians to identify and influence the voters in councils in order to increase the electoral appeal of the leaders.

## Chapter 6 Conclusion

The informational theory of decentralization presented in this dissertation shows how central leaders undertake decentralization in states where information asymmetries regarding voters that exist between them and local politicians are politically salient. We saw that in Indian states with equitable landholdings and high literacy rates information asymmetries are electorally salient to impel state leaders to decentralize to gather information about voters. But, does the informational theory help explain patterns in decentralization that we observe in cases outside the Indian sub-continent?

I believe that the analytical framework presented in this dissertation should help us explain decentralization in other countries too. For instance, variations in the patterns of landholdings and literacy rates, although these are only one set of conditions that raise the electoral salience of information asymmetries,<sup>1</sup> could explain why decentralization is greater in Rio Grande do Sul in Brazil when compared to Maranhão in the country's north-east, or the differences in the degree of decentralization we observe in Baja California and Oaxaca in Mexico. The semi-feudal and patrimonial nature of politics in Maranhão and Oaxaca allows central leaders and political parties to gather votes via traditional elites in these regions without having to reach out to individual voters.<sup>2</sup> Decentralization in these regions, therefore, is limited when compared to more equitable and literate Rio Grande do Sul and Baja California where leaders, in order to win elections, decentralize to gather information about voters.

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<sup>1</sup> In Chapter 4, I discussed how social inequities, such as unequal landholding and low literacy rates, are only one set of conditions that allows leaders to win elections without local information. In several countries, leaders engage in electoral manipulation to win elections, without reaching out to voters.

<sup>2</sup> On the patrimonial and semi-feudal nature of politics in Brazil and Mexico, see Durazo Herrmann (2010), Mainwaring (1999), Roett (1999).

This seeming conformity of these cases notwithstanding, the general utility of the informational theory of decentralization, however, can be determined with more systematic tests against the observed variation in decentralization in other countries. Such a research agenda is beyond the scope of this dissertation. In this chapter, I, nevertheless, present a case from another country that will attest to the general applicability of the informational theory of decentralization. In examining the pattern in decentralization in the southern United States – particularly, in North Carolina – in the decades following the Civil War, my aim is to show how changes in the political salience of information asymmetries affect the extent of decentralization. The case shows how increased salience of information asymmetries impels leaders to undertake decentralization and how declining salience of local information prompts leaders to hinder decentralization.

### **6.1. Information Asymmetries and Decentralization in the United States**

The Civil War and the Emancipation Proclamation in the United States introduced a large number of previously enslaved populations into politics in the southern states.<sup>3</sup> With this infusion of numerous new voters, information about these voters should become necessary for leaders to win elections and, consequently, we should see greater decentralization in the post-bellum southern states. This, however, did not happen. The answer for why we do not observe greater decentralization in these states lies in how the traditional elites and the political party that represented their

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<sup>3</sup> According to census documents, there were around four million slaves in the country prior to the war, with the southern states, Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Texas and Virginia accounting for 90 percent of the slaves. Source: US Census Bureau, 1860 Census.

interests, the Democratic Party, were able to manipulate electoral laws to control the voters. To staunch the entry of the freed populations into electoral politics, which would have undermined the existing social and political structure in the southern states, the Democratic leadership in these states introduced property requirements and literacy tests to restrict the entry of new voters and engaged in widespread electoral fraud and intimidation to win elections.<sup>4</sup> These measures helped the party retain power in the southern states without having to reach out to new voters.

Politics in post-bellum North Carolina is an example of how Democrats manipulated electoral rules to render information about voters unnecessary to win elections.<sup>5</sup> For instance, registrars appointed by the Democratic state legislature required voters in the state to prove their age, occupation and place of birth and residency to be eligible to vote. As one historian noted, these measures were designed to restrict the emancipated from voting: "Black men born into slavery were often ignorant of their exact ages; streets in Negro areas often had no names, houses no numbers."<sup>6</sup> Further, electoral laws in the state also made it difficult for illiterate voters - a large number of freed men were illiterate - to cast their ballots and easier for election officials to miscount in favor of the Democrats.<sup>7</sup> These measures, in effect, led to the disenfranchisement of a large number of voters who could have entered electoral politics in the state in the post-bellum era.

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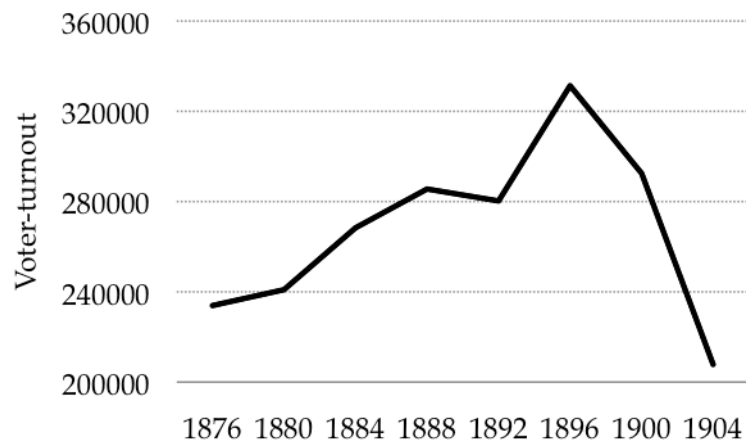
<sup>4</sup> See, Kousser (1974); Williamson (1984); Shapiro (1988).

<sup>5</sup> North Carolina, when compared to other southern states, had fewer large slave-holdings and its economy relied less on slave labor prior to the war. See, Key (1949). Yet, a third of the state's population was under slavery. Source: US Census Bureau, 1860 Census.

<sup>6</sup> Kousser (1974: 48)

<sup>7</sup> For instance, state laws prohibited ballots from carrying any party symbols that would have helped illiterate voters to choose candidates and parties rightly. See Anderson (1981).

This politics, however, changed in the last decade of the 19th century, when a new political alliance gained power in the state. The Fusion alliance, upon winning the elections to the state legislature in 1894, revised the election laws, which the Democrats had put in place, to remove voting restrictions and allow more people to participate in politics.<sup>8</sup> Among the new electoral rules, the powers of the registrars to disqualify voters were curtailed, colored ballots and party emblems on ballots were allowed to help illiterate voters and every party was allowed to appoint representatives during the counting of votes to prevent fraud through miscounting. These revisions, as can be seen in Figure 6.1, allowed a large number of voters to take part in electoral politics for the first time in the state.<sup>9</sup> The rise in electoral participation in the elections, we see in the figure, coincides with the Fusion era in North Carolina, when restrictions on voting were eased.



**Figure 6.1: Voting in Presidential Elections, North Carolina 1876-1904.**

<sup>8</sup> The new alliance consisted of opponents of the Democratic Party, the Republicans and Populists.

<sup>9</sup> Kousser (1974: 187), for instance, notes that through these changes in the electoral laws, “the Fusionists replaced it [the Democratic electoral regulations] with what was probably the fairest and most democratic election laws in the post-Reconstruction South.” Electoral data for the US presidential elections gathered from Atlas of US Presidential Elections: <http://uselectionatlas.org/>

This trend towards greater voter participation in North Carolina was, however, short-lived. In 1898, the Democrats regained power in the state and imposed greater restrictions, including more thorough disenfranchisement policies targeting the emancipated, to limit voting.<sup>10</sup> The new measures included constitutional amendments that established a literacy test, a poll tax, and a “grandfather clause” to be eligible to vote in the state. The grandfather clause limited voting rights to those whose grandfathers had been eligible to vote prior to 1867, making all emancipated slaves ineligible to vote in the state. These restrictions were intended to ensure Democratic victories in elections in the state without having to appeal to the poor and the emancipated for votes.<sup>11</sup> With these new laws in effect, voting rights were severely limited and voter-participation declined steeply in the 1900s (Figure 6.1).

Post-bellum politics in North Carolina allow us to examine some implications of the informational theory of decentralization. With the easing of voting restrictions and the entry of a large number of new voters into electoral politics in the mid-1890s, we can expect that leaders in the state will find information about these voters increasingly important to win elections. Consequently, we should observe greater decentralization in the state in the mid-1890s. In contrast, in periods with greater voter restrictions and electoral fraud, voters will be fewer and information asymmetries, consequently, less critical. State leaders, during these periods, could be expected to win elections without gathering information about individual voters. Therefore, we should see less

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<sup>10</sup> The Democrats had won the elections to the state legislature following a state-wide campaign of racial violence and intimidation. See, Anderson (1981), Cecelski and Tyson (1998), Kousser (1974), Prather (1984).

<sup>11</sup> One Democratic state senator, supporting the new electoral laws, noted that they “will always give a good Democratic majority.” Quoted in Kousser (1974: 190).



decentralization prior to the mid-1890s and following the 1898 Democratic victory in the state elections.

Historical evidence from North Carolina offers considerable support to these theoretical expectations. Control of electoral outcomes through voting restrictions and election fraud allowed the Democrats to win elections without having to contact new voters prior to the mid-1890s and after 1898. These periods of Democratic rule in North Carolina are characterized by centralized administration.

Prior to the Fusion victory in 1894, the most important officials in local county governments were justices of the peace. The Democratic state assembly appointed these magistrates and endowed them with most administrative and judicial powers. Through law, the state leaders ensured that powers in the local government remained concentrated in the magistrates and that governance in the state remained centralized.<sup>12</sup> Further, all county officers, barring registrars of deeds and surveyors, were appointed rather than elected.<sup>13</sup> Even for the few elected offices, the state leaders established that they be subjected to central control. For instance, the elected officers were, by law, required to submit bonds of varying values that were validated by county commissioners. These commissioners invoked discretionary powers to reject bonds, declare the offices vacant and fill them with politicians of their choice.<sup>14</sup> Governance in

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<sup>12</sup> Edmonds (1951: 118) documents this concentration of power: “the Democratic law specifically stated that commissioners could not levy taxes, purchase property, borrow money, alter or create new townships, or remove country buildings unless so ordered by the justices of peace.”

<sup>13</sup> See Edmonds (1951: 118).

<sup>14</sup> See Anderson (1981: 161-165). Anderson notes that such practices ensured that the emancipated men found it difficult to hold office: “The system of bonding hurt a party made up primarily of poor men... since few Negroes were wealthy, or influential in business, the large bonds required by some offices had the effect of keeping such offices in white hands.” (163).

North Carolina, therefore, remained highly centralized under the Democrats until Fusion politicians came to power in 1894.<sup>15</sup>

In stark contrast to the Democratic period, the Fusion era governance between 1894 and 1898, when a large number of new voters entered electoral politics, was distinguished by a high degree of decentralization. Fusion politicians stood to gain electorally by revoking voting restrictions and bringing into politics new voters opposed to the traditional elites and the Democrats. Securing the support of these new voters, however, required that local politicians, who knew the voters more, be empowered to influence and mobilize them. The means the Fusion state leaders adopted to empower local politicians was to establish elected local governments in the state. As part of this decentralization, the powers of unelected justices of the peace in county governments were curtailed and major powers were devolved to county commissioners, who were now elected biennially through competitive elections.<sup>16</sup> Further, all other county officers, including clerks of the superior court and the inferior court, sheriffs, coroners, treasurers, registers of deeds, surveyors, and constables, were chosen through competitive elections.<sup>17</sup> The expansion of the electorate and reaching out to new voters via decentralization helped the Fusion alliance win the gubernatorial elections in the state in 1896. This was the first time a non-Democrat was elected governor in the state in two decades.

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<sup>15</sup> Edmonds (1951: 118) concludes that this centralization helped the state leaders control politics in most of the state: "In reality, the Democrats had resorted to centralized control through legislative appointment thereby guaranteeing perpetuation of Democratic control over "black counties" and white Republicans. Local self-government was abolished not only for "black" and Republican but also for "white" Democratic counties."

<sup>16</sup> Edmonds (1951: 119) declares: "Never before in the history of North Carolina had county commissioners been made so responsible to public opinion."

<sup>17</sup> Edmonds (1951: 119).

This deepening of decentralization in North Carolina was, however, brief. The Democrats, upon returning to power in the state in 1898, re-imposed voting restrictions and disenfranchised many voters.<sup>18</sup> Political parties no longer had “to concern themselves with the illiterate or those too poor to pay the poll tax.”<sup>19</sup> With fewer eligible voters, the political salience of information asymmetries declined and elections could be won without gathering information about voters.<sup>20</sup> Decentralization, consequently, was reversed in the state. The state legislature once again subordinated elected county commissioners to the magistrates appointed by the legislature. Elections to local offices were also brought under state control. The state legislature-appointed election board now selected election officials, instead of being chosen by locally elected officers, and county districts were redrawn to ensure Democratic victories. Further, in a few counties with opposition party magistrates, judicial powers were re-centralized and vested with the mayor’s office.<sup>21</sup>

This alternating pattern of decentralization in North Carolina reveals that leaders, in settings other than in India, decentralize when local information about voters becomes crucial and retain power in the center when local information is not needed to win elections.

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<sup>18</sup> The Democrats returned to power following a state-wide campaign of racial violence and intimidation, including a violent usurpation of power in Wilmington. See, Anderson (1981), Cecelski and Tyson (1998), Kousser (1974), Prather (1984).

<sup>19</sup> Kousser (1974: 195).

<sup>20</sup> Votes were largely gathered in the elections in the state playing the “race card.” The Democrats had secured the election victory appealing to White voters and by intimidating and disenfranchising Negro voters. By the 1900s, the state Republicans also adopted similar electoral strategies. Kousser (1974: 195) notes: “Abandoning the disfranchised Negroes as a lost and damaging cause, the state GOP adopted a lily-white line, and spent the first decade of the century trying to paint the Democrats and pro-Negro and antibusiness.”

<sup>21</sup> Edmonds (1951: 185-89).

## 6.2 Conclusion

Decentralization is usually associated in the social sciences with greater governmental accountability and deepening of democracy.<sup>22</sup> This dissertation, however, presents a different view of decentralization - as a political strategy central leaders pursue to gather local information in order to increase their chances of winning elections. This strategy, as this dissertation has adequately shown, is pursued when central leaders find it in their electoral interest. The view the dissertation presents raises a final pertinent question: If decentralization is undertaken for electoral gains, does it lead to desirable political consequences, such as greater accountability and deepening of democracy?

In presenting a political view of decentralization, I am certainly not claiming that decentralization does not lead to good governance or democratic deepening.<sup>23</sup> In fact, my research in India suggests that increased decentralization could lead to both political corruption and good governance. Decentralization has opened avenues for local politicians to use the resources available to them to build patronage networks and buy votes in ways that are not available to them in states that are not decentralized.<sup>24</sup> At the same time, villagers in decentralized Indian states now can get water or electricity supplied to their homes, build new schools, lay new roads or irrigate their fields by approaching their local councils, when their counterparts in less decentralized states still travel to state or district capitals for these services. Ultimately what my dissertation

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<sup>22</sup> See, for instance, Diamond and Tsalik (1999), Huther and Shah (1998), Oates (1972, 1999), Seabright (1996), Tiebout (1956), and Teune (1982).

<sup>23</sup> A large body of literature now examines the positive and negative consequences of decentralization. See, for instance, Bardhan and Mookherjee (2006), Cai and Treisman (2004), Faguet (2004), Fisman and Gatti (2002), Galasso and Ravallion (2005), Huther and Shah (1998), Lambert-Mogiliansky, Sonin and Zhuravskaya (2003), Lederman, Loayza and Soares (2005), Rosenzweig and Foster (2003), Treisman (2007) and Young (2000).

<sup>24</sup> See, Sadanandan (2012).

hopes to achieve is to highlight the importance of political factors in determining the course that decentralization will take. If we are to understand the consequences of decentralization, whether they be increased governmental accountability or political corruption, scholarly attention should focus on the political settings within which the decision to decentralize is taken.

## APPENDIX I

### Schedule 11 of the Indian Constitution

Schedule 11 was appended to the *Panchayati Raj* constitutional amendment. State governments could transfer these functions to elected local councils.

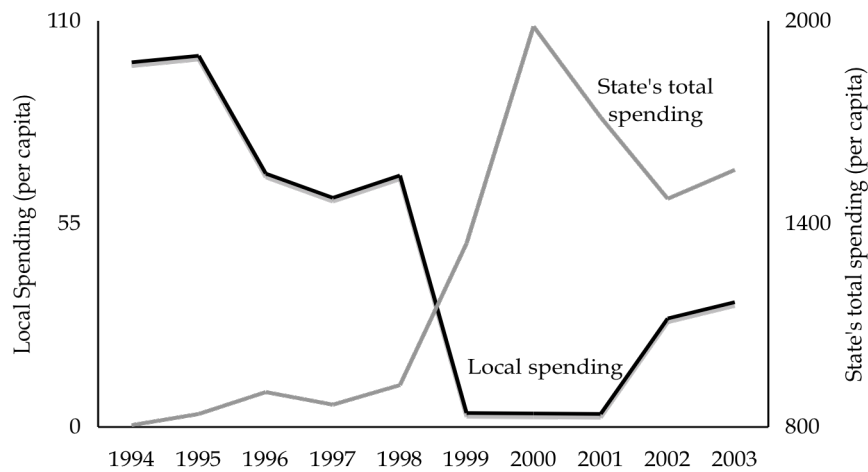
1. Agriculture, including agricultural extension.
2. Land improvement, implementation of land reforms, land consolidation and soil conservation.
3. Minor irrigation, water management and watershed development.
4. Animal husbandry, dairying and poultry.
5. Fisheries.
6. Social forestry and farm forestry.
7. Minor forest produce.
8. Small scale industries, including food processing industries.
9. Khadi, village and cottage industries.
10. Rural housing.
11. Drinking water.
12. Fuel and fodder.
13. Roads, culverts, bridges, ferries, waterways and other means of communication.
14. Rural electrification, including distribution of electricity.
15. Non-conventional energy sources.
16. Poverty alleviation programme.
17. Education, including primary and secondary schools.
18. Technical training and vocational education.
19. Adult and non-formal education.
20. Libraries.
21. Cultural activities.
22. Markets and fairs.
23. Health and sanitation, including hospitals, primary health centres and dispensaries.
24. Family welfare.
25. Women and child development.
26. Social welfare, including welfare of the handicapped and mentally retarded.
27. Welfare of the weaker sections, and in particular, of the Scheduled Castes and the Scheduled Tribes.
28. Public distribution system.
29. Maintenance of community assets.

**APPENDIX II**  
**Table 2.3: Correlations Among Indicators of Decentralization in India**

Index	Ind 1	Ind 2	Ind 3	Ind 4	Ind 5	Ind 6	Ind 7	Ind 8	Ind 9	Ind 10
Index	1.0000	0.7781*	0.7761*	0.7361*	-0.7222*	0.9022*	0.6439*	0.8551*	0.5855*	0.7741*
Ind 1	0.7781*	1.0000	0.6399*	0.5937*	-0.4322*	0.7891*	0.3149*	0.6602*	0.4558*	0.4225*
Ind 2	0.9420*	0.6565*	1.0000	0.6493*	-0.5985*	0.8264*	0.7228*	0.7995*	0.5711*	0.7355*
Ind 3	0.7761*	0.6399*	1.0000	0.6992*	-0.4608*	0.6545*	0.4497*	0.5180*	0.3899*	0.4729*
Ind 4	0.7361*	0.5937*	0.6493*	1.0000	-0.5180*	0.7028*	0.3792*	0.4647*	0.2746*	0.3850*
Ind 5	-0.7222*	-0.4322*	-0.4608*	-0.5180*	1.0000	-0.6870*	-0.4435*	-0.6095*	-0.2660*	-0.5595*
Ind 6	0.9022*	0.7891*	0.8264*	0.7028*	-0.6870*	1.0000	0.4377*	0.7220*	0.4687*	0.6173*
Ind 7	0.6439*	0.3149*	0.4497*	0.3792*	-0.4435*	0.4377*	1.0000	0.4882*	0.1211	0.6061*
Ind 8	0.8551*	0.6602*	0.5180*	0.4647*	-0.6095*	0.7220*	0.4882*	1.0000	0.5763*	0.7397*
Ind 9	0.5855*	0.4558*	0.3899*	0.2746*	-0.2660*	0.4687*	0.1211	0.5763*	1.0000	0.4461*
Ind 10	0.7741*	0.4225*	0.4729*	0.3850*	-0.5595*	0.6173*	0.6061*	0.7397*	0.4461*	1.0000

\* Significance (two-tailed) <0.01

### APPENDIX III

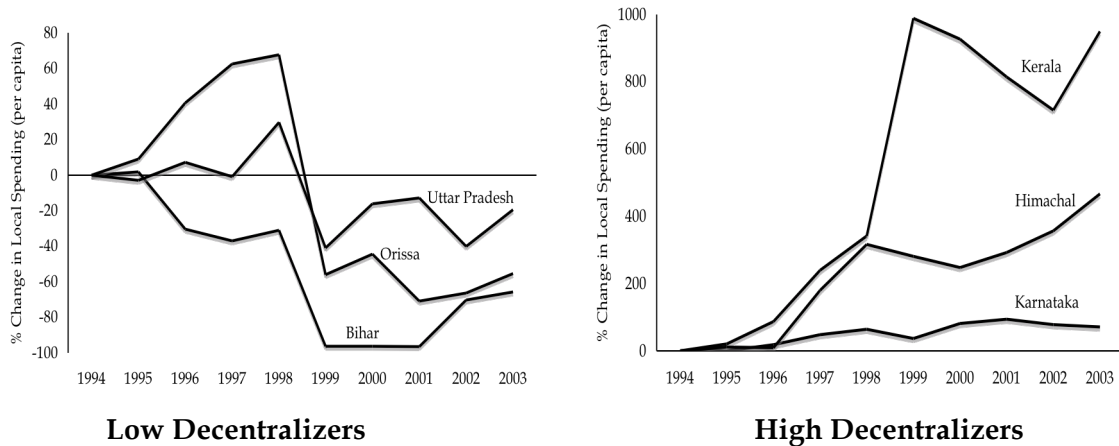


**Figure 2.5: Change in Local Spending in Bihar since the Amendment**

Since the adoption of the constitutional amendment in 1993, Bihar has cut local spending by a factor of 28. This decline in local spending coincides with the setting up of elected local councils in the state in 2001. In that year, the state held elections to local councils after a gap of three decades. This decline in local spending could not be attributed either to a contraction of the state's economy (Figure 2.4 shows that the state's per capita Net Domestic Product increased by a factor of 2.5) or to a decline in the state's overall spending. The figure above shows that the state's total spending rose at the same time its local spending was declining, suggesting a centralization of spending in the state since the setting up of elected local councils.



## APPENDIX IV



**Figure 2.6: Change in Local Spending since the Amendment, 1993 base year**

Following the *Panchayati Raj* constitutional amendment, the states coordinated different aspects of decentralization into a coherent policy. The state governments that were generally reluctant to decentralize, and had spend more at the local level prior to the amendment, reduced local spending. Bihar, Orissa, and Uttar Pradesh are examples (See Figure 2.6). And, the states that were generally supportive of decentralization, which however were not financially decentralized prior to the amendment, increased local spending following the amendment. Himachal Pradesh, Karnataka, and Kerala belong to this category. In Figure 2.6, local spending in the year 1993 is taken as the base year; the trend illustrates percentage change in per capita local spending since the amendment.

## APPENDIX V

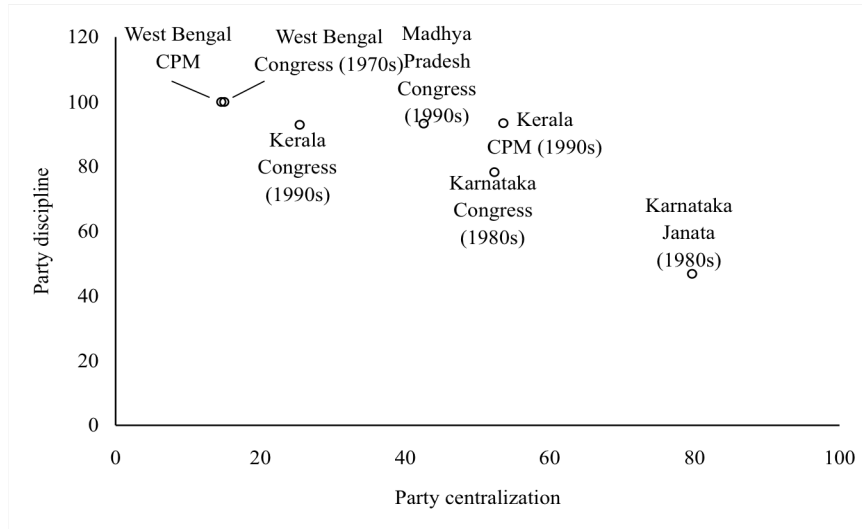
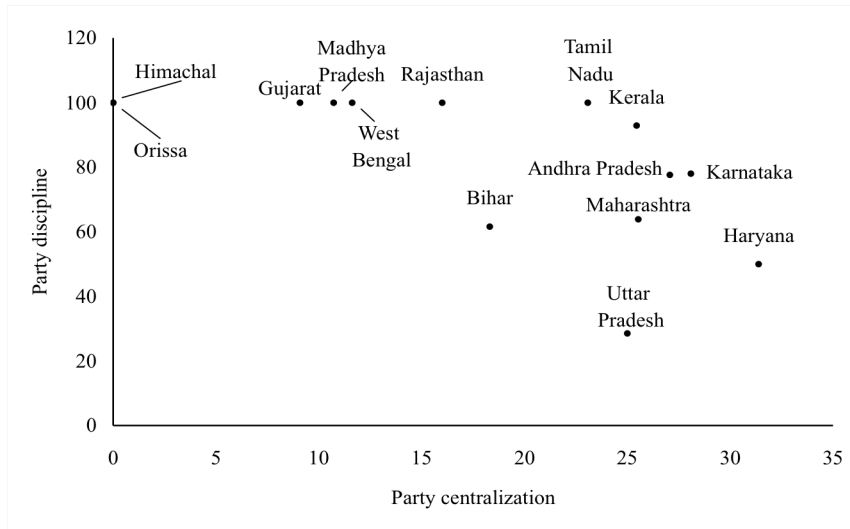


Figure 3.5: Party Discipline and Centralization in Some Leading Decentralizing States

## APPENDIX VI



**Figure 3.6: Party Discipline and Centralization of the Congress Party across the States, Early-1990s**

APPENDIX VII

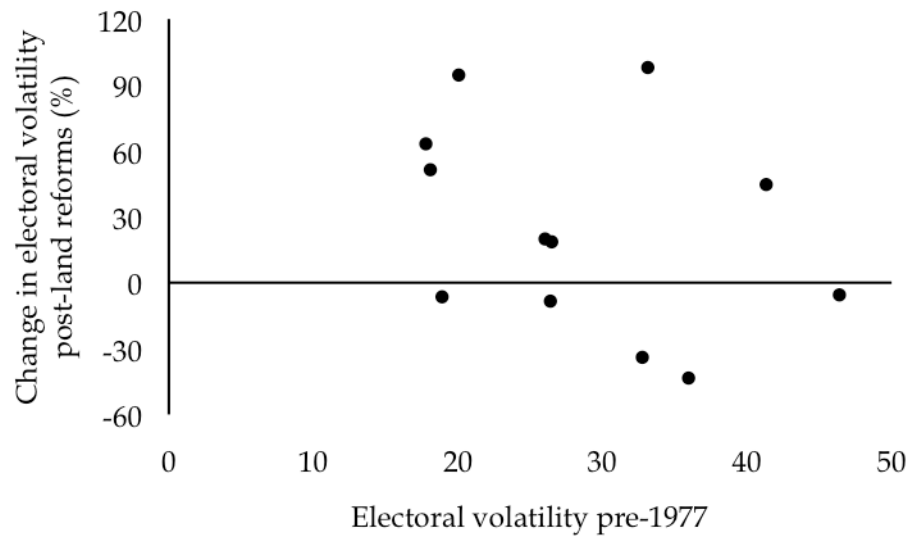


Figure 4.2: Electoral volatility in rural districts in West Bengal pre- and post-*Barga* land reforms.

## APPENDIX VIII

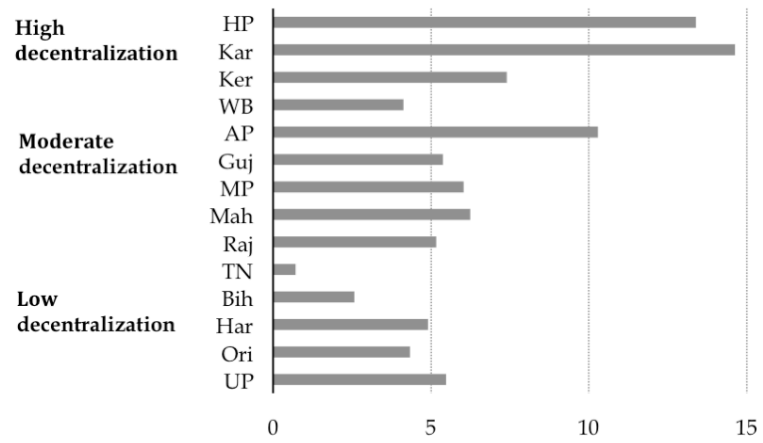


Figure 5.2: Voter-Participation in Local Elections

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## Biography

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Duke University, in 2010, awarded him the Walter T. Milano Award and Alona Evans Award. In the course of his graduate studies in Duke University, he was awarded Sutherland Fellowship, James B. Duke Fellowship for Advanced Graduate Students (twice), and the Duke Graduate School Fellowship.