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Imke Harbers/Judith Illerhues

Stalled Political Reforms in Ecuador: Decentralization under the Palacio Government

During the past two decades decentralization has become one of the most important political developments worldwide. Governments in industrialized and developing countries alike engage in the transfer of resources and responsibilities to subnational entities. The list of aspired benefits from decentralization is long: improvement of public service provision, increased citizen participation and less corruption, just to name a few. Overall, decentralization reforms offer the promise of more accountable and transparent government.

In Latin America, many of the new democracies placed decentralization on the political agenda, among them the Republic of Ecuador. When the country returned to democratic rule in 1978, direct elections for provincial and municipal councils were reintroduced. Subnational elections constituted an important step towards political decentralization. The transfer of resources (fiscal decentralization) and of responsibilities (administrative decentralization) to subnational levels of government, however, has been the subject of intense political struggle and controversy since redemocratization.

The case of Ecuador highlights the promises as well as the pitfalls of decentralization. The massive uprising of civil society in April 2005 against the illiberal governing style of ex-president Lucio Gutiérrez led to the ouster of the Gutiérrez government and brought to power former vice-president Alfredo Palacio. In an attempt to regain legitimacy in the face of massive popular discontent with the political class Palacio promised to revitalize the decentralization process and to engage in a dialogue with citizens about political reform.

The ouster of president Gutiérrez – the seventh president in the last ten years – dramatically underlines the need for political reform to revive the country’s weak and disgraced political institutions. While the national level has been characterized by instability, subnational governments have demonstrated a considerable level of stability, with about one third of all mayors reelected in the last municipal elections. Overall, confidence in municipalities is higher than confidence in national political institutions. Hence, empowering those stable subnational units appears to be a promising strategy in order to improve *gobernabilidad*, which has been a key concern in the domestic political debate.

While the need for political reform and the relative stability of subnational governments highlight the promise of decentralization, the case of Ecuador also underlines potential pitfalls. Decentralization is a political process and reforms have to be agreed upon at the national level. So far, political actors have been unable to formulate any kind of long-term national decentralization strategy. The result has been a highly problematic decentralization process. Even the initiative of the Palacio government to revitalize decentralization is unlikely to be able to effectively address and overcome the shortcomings that characterize decentralization in Ecuador.
The Ecuadorian Decentralization Process

Although a considerable number of measures have been adopted in the field of decentralization—especially since the mid-1990s—the decentralization process in Ecuador suffers from two main shortcomings. Firstly, there is a disconnection between the three dimensions of decentralization: fiscal, administrative and political. Political decentralization, i.e., the popular election of subnational officials, was introduced with redemocratization and expanded with the 1998 constitution. Decentralization on the administrative and fiscal dimension has lagged considerably. In Ecuador, two related phenomena can be observed. On the one hand, resources are transferred to subnational units—often arbitrarily—without corresponding responsibilities. On the other hand, responsibilities for policy making are transferred without adequate resources to carry out these responsibilities. Both of these phenomena are problematic as they may increase opportunities for rent-seeking and corruption and may adversely affect the quality of public services.

Secondly, decentralization is highly uneven as subnational entities even at the same level of government (i.e., provincial or municipal) differ immensely regarding the resources they receive and the policy fields they are in charge of. For citizens, this makes government less rather than more transparent as it is often difficult to identify governing bodies responsible for policy-making.

The source of these two shortcomings is the problematic legal framework of the decentralization process. The main basis of fiscal decentralization is the 15% Law (Ley Especial de Distribución del 15% del Gobierno Central para los Gobiernos Seccionales), which was enacted in 1997. The law establishes that 15 percent of the central government’s income has to be distributed to subnational governments without an increase in the spending responsibilities of provinces and municipalities. Subnational governments do not have to use these resources for any specific purposes and can exercise substantial discretion in utilizing the funds. The 1998 Constitution is the main basis of administrative decentralization, i.e., the transfer of responsibilities. Article 226 of the Constitution establishes the principle of optional decentralization. It allows subnational entities to demand responsibilities currently in the hands of the central government and determines that the central government is obliged to transfer the responsibilities along with corresponding resources. This provision applies to all but six policy sectors. Among these are defense and national security, foreign policy, monetary policy and issues of foreign debt. The only ground on which the national government can deny the transfer of responsibilities is the lack of capacity to carry out the demanded responsibility effectively. What this means is that each responsibility transfer is subject to an intense bargaining process. The negotiations between the central and subnational governments have to determine—among other things—whether the respective subnational government has the capacity to carry out the responsibility and which amount of resources is adequate for the effective fulfillment of the responsibility.

In practice, this legal framework has set disincentives for further administrative decentralization. Currently, municipal and provincial governments receive funds that are not tied to spending responsibilities. As the central government has been under considerable financial pressure during the past years, it has often argued that subnational governments should use the funds
they receive on the basis of the 15% Law

to cover the cost of additional administra-
tive responsibilities. Under conditions of
uncertainty about financial resources
demanding additional administrative
responsibilities has not been an attractive
strategy for most subnational govern-
ments. The incentive structure that results
from the combination of the 15% Law and
the principle of optional decentralization
established by the Constitution has con-
tributed to a situation in which about 40
percent of municipalities have failed to
demand administrative responsibilities.
Particularly resource-intense policy sec-
tors, such as health and education, remain
highly centralized. Responsibilities in
‘soft’ sectors, such as tourism and envi-
ronmental policy, are generally easier to
decentralize and almost all demanded
responsibilities fall into these two sectors.

The 15% Law and Article 226 of the
1998 Constitution can be seen either as
advances or regresses. On the one hand,
they opened the door for more decentral-
ization and hence clearly constituted
important steps in the process. On the
other hand, they were not integrated into a
comprehensive decentralization frame-
work. Due to the lack of a comprehensive
strategy, positive effects which decentral-
ization aims to provide were jeopardized.
Decentralization therefore fails to con-
tribute to the provision of public goods
and the increase of political transparency.

Prospects of Decentralization
under the Palacio Government

Decentralization is a political process.
The transfer of financial resources and
responsibilities brings with it the redistrib-
ution of power in the political system.
Since the cornerstone of decentralization is
the transfer of resources and responsibili-
ties from the national to the subnational
level, the central government is a key actor
in the process. Essentially, the national
level has to agree to give up resources.

Against this background, it might
seem promising that the Palacio govern-
ment has put decentralization back on the
political agenda. With backing from the
presidential palace, one might assume,
decentralization is likely to make consid-
erable headway in the coming months.
Despite the new decentralization initiative
of the Palacio government, however, the
decentralization process is unlikely to pick
up speed in the near future.

The problematic decentralization
process is just one aspect of a broader
political and institutional crisis. The dis-
content with the political class led to the
mobilization of civil society and the so-
called rebelión de los forajidos in April
2005. The demonstrators, primarily mem-
bers of the middle classes of Quito, were
an heterogeneous group. While they were
united by their rejection of the illiberal
governing style of president Gutierrez,
they did not have a joint project for
reform. The rebellion of the forajidos sup-
plied little in terms of a concrete mandate
for change beyond dissatisfaction with the
current political class.

This dissatisfaction stems from the
continuing inability of the political class
to address the country’s problems. The
highly fragmented party system has been
unable to effectively channel citizens’
demands and to provide a link between
citizens and the state. Despite mounting
pressure and the apparent need for politi-
cal and economic reforms, parties in con-
gress have been unable to agree on much
needed long-term reform strategies. The
shortcomings of the decentralization
process are the result of a mode of politi-
cal representation that has advanced short-
term particularistic projects.
In this political landscape Palacio is unlikely to find the allies he needs to put the decentralization process back on track. The Palacio government is widely perceived as a transition government. It was brought to power as a result of the ouster of Gutiérrez and does not have strong political support, neither among parties in parliament nor among citizens. Elections are scheduled for the last trimester of 2006. Until then decentralization is unlikely to make headway.

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Maja Neff

Approaches to a Hemispheric America in The Rag Doll Plagues. An Interview with Chicano Author Alejandro Morales.

Maja Neff (MN): Alejandro, you have come to be known as a Chicano writer, a writer publishing bilingual books in Spanish and English, as someone discussing concepts of transnationalism and heterotopia. In an interview, you once mentioned that the initial thought to develop the plot of your novel The Rag Doll Plagues was a story on Chicanos being ‘deported’ to a hospital against their will. Remembering this event as a motivator, I wonder what made you create the borderless zone of LAMEX in the third part of the book – was there also an event or a situation inspiring you?

Alejandro Morales (AM): In the first part of the book taking place in Mexico City around 1788, you have Europe migrating to the New World. Once they established their economy, the Spanish were beginning to push North and South, migrating to different parts of the continent. In the second part of the book, set in Orange County, California, in 1979, you have the issues of Mexicanos coming across the border. So there is migration, racism, different cultural, ethnic, economic groups are all working and living together in that area. Looking at these developments, I then decided to go forward in time. What’s going to happen in the future? Will we have to deal with the same issues? Will there still be a border? That is how I started writing the third part. I tried to develop a vision of what the area between Los Angeles all the way to Mexico City is going to look like a hundred years from 1979. In that third part, the LAMEX part of 2079, you don’t have a border. There exists a triple alliance brought about not by economic nor political nor military reasons – the triple alliance between Canada, the United States, and Mexico is brought about because of ecological reasons. So those three countries all organize themselves to try to deal with this, to avoid great ecological disasters. But you cannot control what they have already done, the damage to the ocean, the dumping of thousands and