

von Luebke, Chrstian

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Democracy in progress - or oligarchy in disguise? The politics of decentralized governance in Post-Suharto Indonesia

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Department of International Economic Policy
Institute for Economic Research
University of Freiburg
D-79085 Freiburg, Germany
Platz der Alten Synagoge 1

Tel: +49 761 203 2342
Fax: +49 761 203 2414
Email: iep@vwl.uni-freiburg.de

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Democracy in Progress – or Oligarchy in Disguise?

The Politics of Decentralized Governance in Post-Suharto Indonesia

*Christian von Luebke**

Abstract

Despite the introduction of competitive elections and decentralization, Indonesia's democracy has yet to realize its promise of good government. Public reform efforts have been paralyzed by national political controversies. Meanwhile, corruption and inefficiency remains a rampant problem across many of Indonesia's decentralized polities. In this paper I advance three interrelated arguments: First, that the coexistence of new democratic rules and entrenched clientelistic structures has given rise to elite-centered governance; second, that local government leadership has had strong effects, for better or worse, on district performance and probity; and third, that the quality of executive leadership is influenced, not only by individual-level characteristics of local mayors, but also by local 'topographies' of power – such as the concentration of and the connectivity to socio-economic assets.

* DFG Research Fellow, Shorenstein Asia-Pacific Research Center, Stanford University (cvluebke@stanford.edu). The author wishes to thank Michael Buehler, Larry Diamond, Don Emmerson, Yusaku Horuichi, Bill Liddle, Andrew MacIntyre, Edmund Malesky, Neil McCulloch, Marcus Mietzner, John Nye, Agung Pambudhi, Arianto Patunru, Juergen Rueland, Guenther Schulze, Mark Thompson, and Peter Timmer, and Thee Kian Wie for constructive comments. The author bears sole responsibility for any errors of omission and commission.

Introduction

Indonesia is often touted as Asia's next economic success story. Sound macroeconomic policies, resilience to the global financial crisis, and strong consumer markets, are attracting rising attention from foreign investors worldwide. In light of strong economic growth, combined with a youthful demographic profile and stable government, a rising number of analysts portray Indonesia as the next Asian tiger in the making.

Optimistic assessments are more contested in the sphere of Indonesian politics. Although the country's peaceful and stable transition away from authoritarianism has been widely hailed by regional and international observers, much disagreement remains in respect to the quality of Indonesia's decentralized democracy. While several political scientists argue that the post-Suharto experience has been a promising example of gradual democratic consolidation, social pluralism, and political learning (Diamond 2010a; MacIntyre and Ramage 2008), others contend that institutional reforms have merely spawned new forms of 'dispersed authoritarianism', including political cartels (Slater 2004), local bossism (Hadiz 2010; Sidel 2005), and oligarchic strongholds in democratic guises (Hadiz and Robison 2004; Winters 2011). In contrast to recent democratic backsliding in Thailand and the Philippines, optimistic observers highlight Indonesia's succession of fair, free, and non-violent elections, the stability of the party system, the withdrawal of the military from politics, and the institutionalization of anti-corruption efforts. Skeptics, on the other hand, point to the highly-personalized character of elections, the persistence of patronage politics, and the inequitable distribution of socio-economic assets that skew political outcomes.

In this paper, I argue that contemporary Indonesian governance is best understood as a confluence, or competition, of both progressive and obstructive elements. The fruition of recent institutional innovations – including decentralized governance and electoral incentives – cannot be judged in isolation. Institutional reforms were implemented, not on a blank slate, but on preexisting socio-economic topographies shaped by decades (if not centuries) of non-democratic rule. After forty years of Sukarno and Suharto's authoritarian control, it is plausible that policy outcomes, across time and space, continue to be strongly affected by the quality of government executives – both on the national level (President) and across Indonesia's five hundred newly-empowered district governments (local mayors¹). What has changed, of course, is the political environment in which government executives operate. The emergence of decentralized forms of governance, the

¹ For reasons of simplicity, I will refer to local government leaders as 'mayors': they include heads of municipal districts (*walikota*) and rural districts (*bupati*).

introduction of direct executive elections and the diffusion of affordable communication technologies have greatly altered the incentive structures of political agency.

To shed new light on the effects of executive agency and its underlying factors, this paper will take a closer look at the political economy of decentralization. By combining a series of OLS and 2SLS regressions (using a 200-district dataset) with controlled case comparisons (using an original governance survey across four provinces), the argument will interweave quantitative and qualitative evidence. Based on this mixed methods approach (Lieberman 2005), the discussion proceeds in three steps: the following section traces the tenacity of state clientelism and explores the systemic roots of patronage-style politics in national and local policy arenas; the third section explores policy variations across districts and examines effects of local government leadership (exerted by local mayors) on administrative services and corruption; the fourth section places executive agency into the context of socio-economic topographies and analyzes the extent to which economic power concentration and social/digital connectivity affects the reform-mindedness of local executives; the fifth section concludes and discusses policy implications.

Tenacity of State Clientelism

Indonesian politics offers a potpourri of reassuring and disconcerting trends. On the one hand, the Yudhoyono administration, aided by a group of technocratic ministers, has steered Indonesia safely through the shockwaves of the global financial crisis in 2009 and 2010. A series of effective policies, aimed at preventing banking crises, curbing public corruption, and stimulating consumer demand, sustained a growth rate of 4.5 percent, making Indonesia the fastest growing G20 country after China and India. In light of these events, many observers have expressed hope that Indonesia will stay on a reformist track and soon develop into a prosperous middle-income democracy. On the other hand, there are signs that this optimism may be premature. Despite sweeping victories in the 2009 parliamentary and presidential elections, Yudhoyono's reform drive has been paralyzed by elite resistance.

On the national level, a wave of political scandals and media maneuvering orchestrated by non-reformist elites have slowed progress in important public sector reforms. Concerted efforts to stall corruption eradication measures are well-exemplified in two national controversies that stirred public debates in 2009 and 2010: the controversial bailout of *Bank Century* which culminated in the resignation of one of the country's leading reform figures, finance minister Sri Mulyani; and the dubious detention of two leading anti-corruption investigators (*KPK*) shortly after accusing

high-ranking police officials, attorney generals, national parliamentarians of corruption. As outlined elsewhere (von Luebke 2010; Patunru and von Luebke 2010), in both cases the threat of losing office and personal resources prompted status-quo interests to fabricate false evidence, launch media attacks, and initiate parliamentary inquiries aimed at discrediting key reformers and diverting attention from actual corruption offenses.

The tenacity of reform-resisting forces, exemplified by the orchestration of the Bank Century and KPK controversies, is arguably in part explained by the mismatch of rapid formal democratic change on the one hand and slow elite circulation on the other. Members of the ‘old guard’ continue to occupy key positions in the state apparatus. They remain dominant figures in political parties, either as functionaries of existing groups or as leaders of new parties. Continuity runs deep in Indonesian politics. Five of the six (vice-) presidential candidates in the 2009 elections held high-ranking posts in the New Order administration as commanders of the armed forces (Yudhoyono, Wiranto, and Prabowo) or as members of Suharto’s rubber-stamp assembly (Megawati and Kalla). All of these contestants, except for Kalla, remain chief patrons of nationalist-secular parties: namely, Partai Demokrat, Hanura, Gerindra, and PDIP, respectively. The fifth secular force in parliament, Golkar, also remains firmly wedded to the past. Aburizal Bakrie – the most powerful non-Chinese business tycoon of the late New Order – has replaced Kalla as party chairman and is building support for his bid for the presidency in 2014.

Continuity is also a defining feature of the public service. Indonesia’s bureaucratic system has seen very little change below the ministerial level. Most of the top-ranking officials in sectoral departments and law enforcement agencies slowly climbed up the administrative ladder during the New Order regime. Their positions remained largely unaffected by the shifts to democracy and decentralization. In 2002, three years after the transition, less than 20 percent of the more than one thousand ‘echelon one’ officials had resigned or been replaced.² Despite the rise of political pluralism, many of them remain loyal to Golkar. And this is hardly surprising, since Golkar became the corporatist umbrella for a wide array of sectoral groups, including all civilian public employees, in the early 1970s.³

The power of old-regime elites is perpetuated by a well designed patronage system, which was perfected under Suharto’s authoritarian rule. By ‘franchising out’ economic and political positions and privileges to loyal supporters, Suharto retained a firm grip on administrative matters from

² Sulistyono (2002:94)

³ See Emmerson (1978:107) and Slater (2004:90).

Jakarta down to the village level.⁴ The coherence of Suharto's patronage pyramid was sustained by three things: first, the ubiquitous presence of armed forces, which served to monitor and suppress emerging dissent among lower ranks; second, the dominant position of the state in weakly developed rural economies, which absorbed highly qualified labor by providing secure employment and lucrative construction contracts; and third, low public salaries (often hardly above standard costs of living), which reinforced the necessity of additional patronage and hence upward loyalty.

With the introduction of decentralization, and the absence of firm central supervision, these patronage networks have developed a momentum of their own. Suharto's fine-tuned franchising system gave way to a plethora of uncontrolled 'little kingdoms' in Jakarta's ministries and subnational bureaucracies. Minions of the New Order regime, and newly emerging political actors, donned democratic clothes and recreated a decentralized form of patronage politics. The replacement of one 'stationary bandit', President Suharto, with a dispersed group of 'roving bandits',⁵ has permitted a wave of uncontrolled, small-scale corruption. In 2006 Transparency International reported, based on a countrywide survey with 1700 firms, that every second or third interaction with police (54 percent), court (49 percent), parliament (42 percent), customs (41 percent), and district officials (38 percent) involved illicit payments. And although follow-up studies in 2008 suggest a gradual decline of public transgressions, surveys continue reveal high extortion rates, ranging between two and four million Rupiah per transaction.⁶

The entrenched nature of public corruption is partly driven by dysfunctional recruitment and promotion systems. Indonesian news reports are replete with examples of fraudulent hiring practices in public bureaucracies, state courts, police departments, and other government agencies. Prospects of public job security, pension benefits, and social prestige have created a constant over-demand for government jobs. In many regions this excess demand has created a black market for civil service positions, a situation in which designated brokers – in and outside the government – offer recruitment opportunities regardless of candidates' qualifications.

< Table 1 about here >

⁴ McLeod (2000).

⁵ Olson (1993).

⁶ See Transparency International (2006; 2008). Presented percentage figures refer to the 2006 report, which surveyed 1,760 private sector respondents in 32 Indonesian cities/regencies. In 2008 Transparency International reported slightly lower bribing frequencies in interactions with police (48 percent), customs (41 percent), court (30 percent) and district government officials (33 percent). Average bribe payments were calculated based on the 2008 bribery index and exclude payments to court officials – an outlier value with 102 million Rupiah (2008:15).

Recruitment irregularities are well-exemplified in our latest local governance survey, which was conducted in four provinces in 2010.⁷ The responses of one thousand small and medium firms (see Table 1) indicate that fraudulent recruitment remains a widespread and unresolved problem. More than 80 percent of the survey participants were convinced that at least one in four public servants (*PNS*) bought her/his way into government (30 percent were even more skeptical reporting irregularities in every second of recruitment). Estimates of bribe payments vary across regions. Reported inducements range from 50 million in West Sumatra to over 100 million in Bali. Although these perception values should be interpreted with some caution, they nonetheless point to the strong presence of recruitment irregularities. Moreover, high survey response rates (between fifty and ninety percent) suggest that most Indonesians are well aware of existing bribery conventions.

These empirical findings, combined with the low level of elite circulation, help to explain the perpetuation of public patronage and corruption networks. Shady recruitment practices entrap public servants in ‘corruption spirals’, Faustian bargains that bind them to higher echelons of power and impair internal reform pressures. The reason is simple. In Indonesia, government employment is widely deemed to offer stable and socially-prestigious career paths. To join the civil service, many candidates are seemingly willing to make high upfront payments by selling off family assets or taking out private loans. Initial salaries, hardly exceeding one million Rupiah⁸ per month, suffice to sustain basic needs, but not to pay off incurred debts. In order to achieve a ‘return on investment’ many incoming administrators assimilate themselves into existing patronage networks and, in doing so, perpetuate the clientelistic order in which rents are distributed in accordance with loyalty and seniority. Patronage linkages of this kind serve to mute internal reform and stall movements towards greater public probity. They create an environment in which members of the inner circle are tied together by rent-seeking interests and outsiders fall silent in fear of retaliation or demotion.

⁷ The survey covered eight districts in four provinces (Central Java, West Sumatra, Bali, and NTB). Questionnaires were administered (during face-to-face interviews) to more than one thousand small and medium firms. It was the second wave to a subnational governance survey conducted in 2005. For details on the selection criteria, sampling methods, and district locations see von Luebke (2009).

⁸ See Rachmadi (2005).

Executive Leadership Effects

Although the outlined systemic problems tend to stack the cards against public reform, Indonesia's decentralized framework apparently has also created mechanisms that contain government dysfunctionalities. One obvious indicator of the existence of countervailing forces is given in the vast diversity of subnational policy outcomes: since the introduction of decentralization in 2001, we can identify pronounced variations in the way subnational polities – *kabupaten* and *kota* – have used their discretion to collect revenues and provide public goods. While some districts exhibit efficient and responsive service environments, others have burdened economic activity with trade-distorting taxes, poor service delivery, and administrative corruption. Differences in government performance of this sort provide a unique window for studying the political economy of decentralized governance and, in particular, the influence of political agency on observable governance outcomes.

Controlled Case Comparisons

As outlined in detail elsewhere (von Luebke 2009), a set of controlled case comparisons, which serve to gauge the effects of 'government leadership' and 'societal pressure' in four Indonesian provinces, demonstrated that the agency of executive leaders was more instrumental, during the early stage of decentralization, than the agency of societal groups.

< Table 2 about here >

In order to establish a more robust link between the executive/societal agency and governance outcomes, pairwise comparisons were conducted in a systematic manner. They focused on four district pairs, each located in a different province, that matched on and socio-economic characteristics (i.e. district population, national transfers, per-capita income, poverty rates, ethnic/religious affiliations, and political constellations⁹) and, at the same time, exhibited clear differences in the levels of government leadership (in the Sumatran and Javanese pairs) or societal pressure (in the Balinese and NTB pairs). Against this controlled setting, which served to 'isolate' agency effects from other intervening factors, it was possible to discern preliminary qualitative evidence of local policy drivers. The comparative assessments indicated that 'good public leadership' – namely the presence of reform-minded and skillful district mayors – was accompanied

⁹ For a detailed discussion of the underlying case selection criteria see von Luebke (2009).

by higher government performance; whereas controlled differences in societal pressure – given by differences in local education and professional association – did not exhibit discernable performance differences. As outlined in Table 2, high-societal-pressure districts in Gianyar and Bima yielded very similar outcomes as their low-societal-pressure counterparts in Karangasem and Lotim: each district achieved better performance levels in two (out of five) categories, indicating a tie.

Leadership comparisons, on the other hand, exhibit a clear pattern. The case studies in West Sumatra and Central Java show that district bureaucracies overseen by ‘reformist’ mayors displayed fewer regulatory distortions, less administrative inefficiency, and less public corruption. The Sumatran cases in particular provide a striking indication of this relationship. The Solok-Pesisir comparison demonstrates that the presence of a skillful and reformist mayor (*Gamawan*), who introduced meritocratic incentives and public-private transparency initiatives, coincided with markedly higher service and integrity levels. While both Sumatran districts exhibited virtually identical cultural, political and socio-economic characteristics, the high-leadership district Solok outperformed its counterpart Pesisir across all governance indicators. The positive leadership–performance nexus is also confirmed, albeit less resoundingly, in the Javanese case comparison. Here, Kebumen’s female mayor (*Rustriningsih*) was able to introduce new media-based monitoring mechanisms and forge strategic coalitions that generated new momentum for public reform and bureaucratic probity.

Cross-Sectional Analyses

To further test the significance of executive leadership effects, I estimate a series of two-stage least square regressions (2SLS) on a cross-section of 220 Indonesian districts. The phenomenon to be explained, the *dependent variable*, is the performance level of subnational governments. Local government outcomes are measured by five indicators that draw on a variety of private-sector and household surveys: performance proxies include the efficiency of administrative licensing services (*EFFSER*), the absence of corruption fees during licensing procedures (*ABSCOR*), the absence of collusive bureaucratic practices (*ABSCOL*), the quality of district roads (*QROAD*), and the integrity level of subnational municipalities (*CPIMUN*). The first three variables are perception-based indicators (shares of district respondents affirming favorable conditions) which are obtained from the 2008 KPPOD governance survey: to date the largest, and most representative, study on subnational governance and development issues, covering 12,000 randomly-selected private-sector

respondents in 243 Indonesian districts. The fourth indicator, perceptions on district road qualities (four-point Likert scale), was obtained from 2008 PODES data – a village household survey administrated by the National Bureau of Statistics. The final indicator draws on Transparency International’s (2010) latest corruption report which (similar to TI studies in other countries) is based on a ten-point integrity scale and draws primarily on private-sector interviews (roughly 100 respondents per municipality).

The explanatory factor for variations in public outcomes, the *independent variable*, is given by the quality of local government leadership. To estimate differences in leadership qualities I draw on the 2008 KPPOD governance survey which includes an indicator that measures local mayors’ efforts to curb public corruption (*LEAD* – respondent shares affirming strong executive anti-corruption measures). This proxy for reformist leadership takes values between zero and one and is normally distributed (Figure A1).¹⁰ As the KPPOD survey was administered in late 2007 (roughly three years after introducing executive elections), it provides a valuable measure to gauge the ‘first batch’ of directly-elected district mayors.

It is important to emphasize here that measures of executive leadership are conceptually and empirically distinct from measures of local government performance. Although critical readers may suspect, at first sight, a certain overlap of regressor and regressand dimensions – and ipso facto a risk of tautological reasoning – a closer look at local government constellations confirms a clear distinction. While the independent variable measures the inclination and skillfulness of elected ‘political principals’ (district mayors) to push for greater public probity, the dependent variable measures actual levels of bureaucratic corruption and inefficiency that arise during everyday, face-to-face interactions of local bureaucrats and citizens.

To account for other polity-specific effects, the analyses include a set of socio-economic *control variables*. These include the level of private sector association (*ASSOC*, share of firms in professional organizations), secondary education (*EDU*, share of residents with junior high-school degree or above); national budget transfers per capita and year (*DAU*); district per capita incomes (*PCI*), and two dummy variables indicating the presence of Javanese (*JAVA*) and urban

¹⁰ Kernel density estimates (Figure A1 in the Appendix) indicate that nearly all of the dependent/independent/control variables are approximately normally distributed; except for ‘*QROAD*’ (which is skewed towards higher perceptions).

communities (*URBAN*). Key descriptive statistics and sources of all variables are summarized in Table A1 in the appendix.

< Figure 1 about here >

Bivariate regression plots provide a first indication of the significance of executive leadership. Figure 1 depicts the results of regressing two dependent variables (*EFFSER* and *CPIMUN*) against the quality of district mayors (*LEAD*, left column) and the degree of societal association (*ASSOC*, right column). Consistent with the case comparisons above, bivariate regression estimates suggest that leadership qualities have greater explanatory power than the degree of local association. Fitted linear regressions suggest that polities with more reformist leadership report distinctly higher levels of administrative efficiency and, within a subsample of 50 cities, a lower incidence of public corruption (better CPI score). Bivariate estimates of associational membership, in comparison, exhibit lower slope values and a relatively poor linear fit.

< Table 3 about here >

Leadership effects remain strong after controlling for socio-economic and fiscal characteristics. Table 3 summarizes the results of five OLS models that regress levels of administrative efficiency (*EFFSER*, *Model 1*), the absence of administrative corruption (*ABSCOR*, *Model 2*), the absence of government collusion (*ABSCOL*, *Model 3*), the condition of district roads (*QROAD*, *Model 4*), and the probity of municipal bureaucracies (*CPIMUN*, *Model 5*) against the level of reformist leadership (*LEAD*). A striking feature is that, across all five models, leadership coefficients are positive and significant at the 0.01 or 0.05 levels, suggesting that executive qualities have favorable effects on district policies and practices. Coefficients for private-sector association (*ASSOC*), a proxy for societal pressure, are markedly lower (as indicated in the lower slopes in Figure 1) and less coherent (insignificant for *QROAD* and *CPIMUN*). The level of district-level education (*EDU*), which could be conceptualized as an alternative proxy for societal pressure, exhibits negative signs in three models. While the inverse effects of education levels may seem counterintuitive at first, they are consistent with district-level field observations. As outlined above, in many rural polities government employment is widely seen as a stable and socially-prestigious career option. It is therefore plausible that many local high-school graduates are absorbed by district bureaucracies

and, due to fraudulent recruitment practices, tend to aggravate rather than alleviate corrupt and inefficient practices.

Although these OLS estimates indicate an overall good ‘model fit’, they remain susceptible to unobserved statistical biases. Adjusted R-squared statistics range between 0.40 and 0.48, suggesting that nearly half of the variations of the five performance indicators are explained; and multicollinearity tests remains within acceptable limits.¹¹ A remaining concern, however, is the direction of causality. What if ‘good leadership’ is the result – rather than the driver– of good public outcomes? Due to undetected measurement errors and omitted variables, OLS estimates are generally prone to endogeneity. Especially in observational studies like this one, reverse causation or simultaneity problems need to be considered.

To address endogeneity concerns, we apply a set of instrumental variables that are closely linked to leadership qualities and, at the same time, influence public outcomes primarily through the channel of executive leadership.¹² For this purpose, original data is drawn from the ‘vitae’ of 140 Indonesian mayors. The reform-mindedness of district leaders (*LEAD*) is instrumented with five individual-level attributes – namely, the age, gender, schooling, party affiliation, and professional experience of local mayors. Because these attributes are reflections of executives’ previous social, educational, and professional experiences, they are closely associated with current executive behavior. Moreover, it is hard to image that executive attributes affect policy outcomes other than through the exercise of public leadership – strong associations with unobserved explanatory factors (stochastic error term) are therefore unlikely. Apart from these plausibility considerations, the choice of instrumental variables is supported by statistical validity tests which show that problems of ‘overidentification’¹³ and ‘weak identification’¹⁴ are insubstantial. The results of the first-stage estimation are noteworthy on several counts (see Table A2). While executive anti-corruption efforts were negatively but insignificantly associated with mayors’ age and education, they were positively affected by gender differences (being female) and private-sector experience. In addition, negative

¹¹ Statistical tests indicate that multicollinearity in these five models is not severe. Variance inflation factors (VIF) range between 1.2 and 1.4 in the OLS models; and around 4.7 in the 2SLS models, well below critical levels (of above 10; see Bowerman and O’Connell 1990).

¹² This is consistent with the postulation that instrumental variables should be correlated with endogenous explanatory factors and, at the same time, remain uncorrelated with the error term (Heckman 1997; Pearl 2000).

¹³ In four out of five models, the instruments pass Sargan-Hansen validity tests (see Hansen et al. 1996; Hayashi 2000). For EFFSER, ABSCOR, ABSCOL, and CPIMUN the P-values of Hansen J statistics range between 0.28 and 0.86, suggesting that we cannot reject the null hypothesis that instruments are valid (i.e. uncorrelated with the error term). In one model, QROAD, P-values reach the critical level of 0.05; interestingly, this is also the only model in which leadership coefficients remain insignificant.

¹⁴ Kleibergen-Paap (2006) F-statistics in the first and second stages range between 64 and 67 and remain well above critical 10% bias levels (as proposed in Stock and Yogo 2005).

correlations with *Golkar* (significant at the 0.05 level) suggest that political affiliations with Suharto's former state party do not encourage reformist agendas. Thus, an interesting interim result is that female, non-*Golkar*-affiliated, and private-sector candidates tend to invest greater efforts in fighting local corruption.

< Table 4 about here >

The results of the second stage regression, in which governance outcomes are regressed on predicted levels of reformist leadership (based on individual mayor characteristics), are largely consistent with OLS estimates. As outlined in Table 4, leadership coefficients (*LEAD*) are positive and significant in four models. The presence of a reform-minded mayor exerts strong, favorable effects on observable levels of administrative efficiency and public probity (*ABSCOL* and *CPIMUN*). A unit increase in executive anti-corruption efforts increases perceptions on administrative efficiency (*EFFSER*) by 0.52 units, on corruption reduction (*ABSCOR*) by 0.87 units, on collusion reduction (*ABSCOL*) by 0.92 units, and on municipal integrity (*CPIMUN*) by 0.28 units.¹⁵ The insignificant association with district road facilities (*QROAD*) can be partly attributed to the dominance of spatial development factors: as indicated in the forth column, the qualities of subnational roads appear primarily determined by whether or not a district is urbanized (*URBAN*) and situated on the main commercial island (JAVA). The 2SLS estimates of associative activity (*ASSOC*) and secondary education (*EDU*) are less significant than in the OLS models above (and equally incoherent in their signs).¹⁶

In sum, the two-stage least square regression estimation lends further credence to the proposition that local government outcomes are influenced, to a considerable extent, by the quality of executive leadership. Consistent with existing comparative policy analyses across Asia (Mahbubani 2007; Rodrik 1996), Latin America (Grindle 2004; 2007), and Africa (Gray and McPherson 2001), Indonesia's early decentralization experience advances government leadership as a key determinant of policy reform and public probity. The effects of societal pressure – a salient theme in recent good-governance and corruption studies (Boix et al. 2003; Hellman 1998; Kaufmann et al. 2002; Klitgaard 1998) – remain ambiguous in this study. Local association and education levels, which

¹⁵ In this comparison of unit effects, the regression coefficient of *CPIMUN* (which is based on a 10-point Likert scale, not a percentage value) was rescaled by the factor 0.1.

¹⁶ The strong association of education and road qualities should be interpreted with caution, as education estimates are inflated by collinearity with spatial variables. While the average variance inflation factor (VIF) in the *QROAD* model is tolerable (value of 4.7), the individual VIF for *EDU* reaches a value of 13, suggesting the presence of collinearity. Pairwise correlation estimates confirm that education levels are closely linked to urban settings (correlation coefficient of 0.67).

feature prominently in Chamber's (1995) 'informed participation', Putnam's (1993) 'civic engagement', and Hirschman's (1970) 'voice' arguments, are of comparatively low significance in the Indonesian case. This may be due partly to imprecise measures of societal pressure (e.g. data on associational activity is scant) and partly to the fact that civil mechanisms remain underdeveloped after forty years of authoritarian rule.

Socio-Economic Topographies

The finding that executive leadership, for better or worse, has been strongly affecting governance outcomes begs the broader question as to what makes some leaders more reform-minded than others. Apart from pointing to individual-level characteristics (such as gender and political/professional backgrounds, which were tested above), another aspect worth exploring is how leaders are affected by the distribution of policy-relevant assets. For this purpose, the remainder of this section traces the ‘topographies of power’: the relative concentration and connectivity of economic and social assets.¹⁷

In this analysis of district-level topographies, which draws its inspiration from previous field studies in Java and Sulawesi (von Luebke et al. 2010), I explore *six* measures of social-economic power: (1) the concentration of income across industrial sectors, (2) the concentration of capital across business groups, (3) the concentration of natural resource incomes, (4) the connectivity to regional trade, (5) the connectivity to virtual information, (6) and the connectivity of local communities.

The *first indicator* measures the degree to which economic incomes accrue to specific industrial sectors. To gauge the degree of sectoral concentration, I calculate a Herfindahl-Hirschman index which can be expressed in the following form:¹⁸

$$(1) \textit{Herfindahl Hirschman Index for sectoral incomes (SCON)} = \sum_{i=1}^n s_i^2$$

Where s_i is the GDP share of individual industrial sectors and n is the total number of economic sectors in a jurisdiction. Index values can range from $\frac{1}{n}$ to 1: with low values indicating a strongly dispersed, and high values a strongly concentrated setting. The income data published by the Indonesian Central Bureau of Statistics distinguishes nine industrial sectors in its regional GDP calculations.¹⁹ Correspondingly, the Herfindahl-Hirschman index of sectoral income (*SCON*), calculated for each district, can take values between 0.11 and 1.00.

< Figure 2 about here >

¹⁷ Measures of economic and political concentration were not included as possible instruments in the 2SLS estimation above, because we cannot rule out the possibility that concentration measures are correlated to the error term (i.e. affecting governance outcomes through other mechanisms than executive leadership).

¹⁸ See Herfindahl (1950) and Hirschman (1945).

¹⁹ The nine standard GDP sectors include agriculture, mining, manufacturing, electricity and natural resources, construction, trade and tourism, transportation, financial services, and other services (BPS 2007).

In the case of Indonesia, we find that sectoral concentration is negatively correlated with the reform-mindedness of district leaders. A simple OLS estimation across 228 districts, in which sectoral concentration levels are regressed on leadership qualities, shows that anti-corruption efforts diminish with rising concentration levels. This negative association is illustrated both in the bivariate scatterplot (Figure 2, top left) and summarized in Table A3 in the appendix. A plausible explanation of this negative association (regression coefficient of -0.40, significant at the 0.1 level) is that weak sectoral competition often equates to unbalanced interests and resistance to broad reform agendas. Given that concentrated sectoral incomes often translate into skewed lobbying efforts, it is likely that poorly-diversified economies pave the ground for more public-private collusion and unproductive rent-seeking. If sustained over time, this can lead to the emergence of ‘iron triangles’ between corporations, policymakers, and bureaucracies and skew industrial policies towards particularistic interests: a phenomenon that may severely undermine, some argue, the pluralist balance in capitalist democracies (Colignon and Usui 2001; Lowi 1969; Olson 1982).

Indeed, political scientists and ordo-liberal economists have long argued that sectoral imbalances and the emergence of special interest groups are precursors of preferential policies and welfare distortions.²⁰ ‘Often a relatively small group of industry will win a tariff, or a tax loophole’, Mancur Olson aptly notes, ‘at the expense of millions of consumers or taxpayer in spite of the ostensible rule of the majority’ (1965:144). It also seems plausible that reform-resisting forces prevail longer in highly concentrated economies. Efforts to prevent change are fueled by disproportionate benefits that protected groups obtain from maintaining status quo conditions. The more pronounced initial inequalities are in a particular polity (be it a nation state or a district), the more we might expect concerted resistance against sectoral or social redistribution (Acemoglu and Robinson 2006). The post-communist transitions in the early 1990s serve as an illustrative example. Ostensibly conforming to the rules of deregulation and liberalization, business elites in numerous post-Soviet countries carved out economic gains and political influence which, over time, was used primarily to sustain economic imbalances and stall further reform.²¹

A *second indicator* of economic topographies, which moves from a sectoral to a group-level analysis, is provided by the concentration of business capital. Field observations confirm that in many district polities capital remains concentrated in the hands of few powerful entrepreneurs that

²⁰ A premier example of the ordo-liberal line of reasoning, which became known as the ‘Freiburg School’, is given by the work of Walter Eucken (1950).

²¹ See Hellman (1998) for an excellent summary of the political economy of partial reform in post-communist countries.

control local trade and industry sectors.²²To measure the degree of business capital concentration (*BCON*), I construct a second Herfindahl-Hirschman index for Indonesian municipalities that draws on Indonesia's 'medium and large industry survey'.²³ The empirically most interesting finding from regressing leadership orientations against this index is that business capital constellations appear to have different effects depending on their degree of concentration. Executive reform efforts seem to increase under moderate concentration levels (*BCON* between 0.2 and 0.6) but start leveling off as capital distributions become more inequitable (*BCON* between 0.6 and 1.0). This curvilinear relationship is discernable in the bivariate scatterplot and regression estimate (Figure 2, top right; and Table A3). Thus, compared to sectoral dimensions, the link between business-level concentration and leadership orientation is more complex. It resembles a quadratic (inverse u-shaped) relationship, indicated by the significant, negative coefficient *BCON*-squared²⁴ that suggests that neither highly-dispersed nor highly-concentrated business interests exert effective checks on executive leadership.

The finding that reformist leadership agendas are more likely under *moderate* group concentration is quite plausible once we consider the political economy of Indonesia's young democracy. In an early stage of democratic democratization, characterized by weak law enforcement and persistent state clientelism, a nearly perfect 'equalization' of business capital would arguably enfeeble private-sector voices vis-à-vis state actors. Moderately concentrated business powers, on the other hand, strike a balance of coherence and control. They create a situation where private-sector interests are concentrated enough to be well-coordinated and influential (Olson 1965) and, simultaneously, diverse enough to keep each other in check (Madison 1788). Thus, in a second-best institutional setting, in which the rule of law is often eclipsed by the rule of localized power, the emergence of a small group of relatively powerful, but competitive, business elites may generate valuable impulses for more reformist leadership. This logic bears resemblance with 'elite pact' and 'elite settlement' arguments (Higley and Gunther 1992; O'Donnell and Schmitter 1986; 1997) and

²² Although data of capital distribution across ethnical groups is unavailable, interviews and anecdotal evidence suggest that Chinese-Indonesian firms continue to wield disproportionately large influence in local economies. As Thomas Pepinsky notes, 'an oft-repeated assertion during the New Order stated that Chinese Indonesians compose approximately 3 percent of the country's population, yet control approximately 70 percent of [its] wealth.' (2009:54).

²³ Due to data limitations in the 2006 survey, the analysis of business capital concentration is limited to 36 Indonesian municipalities. Consistent with ISIC4 industry classifications, firm respondents were divided into fifteen categories according to their main field of business. Based on these categories – which distinguished between food, tobacco, textile, leather, timber, furniture, chemical, rubber, paper, media, mineral, metal, machinery, automotive, and recycling industries – I calculated group-specific capital shares and Herfindahl-Hirschman concentrations values (equation 1).

²⁴ To test the u-shaped relationship between *BCON* and *LEAD* in an OLS estimation, *BCON* appears both in its normal and quadratic form: $LEAD = a_1 + b_1 FCON + b_2 FCON^2 + \epsilon$; See Wooldridge (2006:200).

underscores the necessity of conceptualizing democratic consolidation not merely as a rule-driven process, but rather as an ‘organic’ transformation that develops along the contours of existing power-topographies.

Complementary to the dimensions of sectoral and group-level concentration, are the dimensions of economic and social connectivity. The idea that economic connectivity fosters democratization, whereas its absence bolsters authoritarianism, features prominently in contemporary comparative politics debates. Levitsky and Way (2010) present a compelling argument demonstrating that the absence of political leverages (i.e. the insulation from foreign influence due to rich domestic resources) and the absence of economic linkages (i.e. low levels of cross-border trade) tend to prolong, everything else equal, the lifespan of authoritarian regimes. In this study, we build on this line of reasoning and explore whether leverage and linkage mechanisms encourage district mayors to pursue anti-corruption agendas that, *ceteris paribus*, promote the consolidation of democracy.

External leverage effects are generally small in polities with abundant natural reserves. The reason is simple. Secured resource incomes tend to shield domestic powerholders from external influences and make them less receptive to international calls for better governance. Applied to the context of Indonesia’s decentralized economies, the *third indicator* is given by the share of local oil and gas revenues in total district income (*OIL*). If the outlined argument is valid, we should find that Indonesian municipalities with high shares of ‘petro-revenues’ are accompanied with low levels of reformist leadership. Economic linkages, on the other hand, are likely to be pronounced in polities with open, trade-oriented economies. To gauge the extent to which trade integration – the connectivity to regional export and import markets – generates favorable leadership impulses, the *fourth indicator* measures employment shares in trade-related industries (*TRADE*) across Indonesian municipalities.

Simple OLS estimations lend support to both of these hypothesized relationships. In 2007, twenty-five subnational districts reported oil/gas incomes exceeding 15 percent of local GDP. Within this limited sample of resource-rich districts it is possible to discern a negative link between rising petro-incomes and perceived leadership qualities (coefficient of -0.40, significant at the 0.01 level; see Table A3); indicating that mayors overseeing oil-dominated economies may be less inclined, everything else being equal, to fight corruption (see Figure 2, bottom left). The opposite holds for polities exposed to high levels of trade. Higher employment shares in trade-related industries are associated, *ceteris paribus*, with larger anti-corruption efforts (coefficient of 1.60, significant at the 0.1 level). While sample selection and endogeneity limitations preclude us from

making strong causal claims, the presented estimates nonetheless indicate that petro-economies are negatively, and trade-economies are positively correlated with reformist leadership.

The *fifth and sixth indicators* explore the degree to which digital and social connectivity has altered political interactions and governance qualities. The last decade has seen a rising convergence of technology and politics: digital tools and applications have prominently featured in the 2001 *Edsa Dos* revolt in the Philippines, in the 2004 *Orange Revolution* in Ukraine, in the 2009 *Green Rebellion* in Iran, and across recent civil uprisings in the Middle East. Social media applications, such as Facebook, Twitter, and YouTube, have revolutionized, for better or worse, the way people socialize, communicate, and associate. High coordination costs, which used to forestall collective action, have ceased to be a limiting factor. Today, digital platforms make it possible to mobilize protest activities within hours, if not minutes, of controversial incidents. The fact that these ‘liberation technologies’ (Diamond 2010b) appeal to younger generations, and that many emerging democracies boast younger demographics, is bound to accelerate the ‘digitalization’ of contentious politics in countries like Indonesia.

In 2011, Indonesia became the second largest user of Facebook and the third largest user of Twitter. At several occasions, this enlarged digital connectivity has provided new forums for expressing public dissent. The mobilization of ‘one million facebookers’²⁵ demanding the release of the abovementioned KPK investigators, who were detained on dubious grounds by national police forces, is a case in point. Although digital dynamics are centered in Jakarta, Indonesia’s subnational districts are gradually catching up.

Especially during early decentralization years, the accessibility to public internet facilities varied distinctly across Indonesian municipalities. To gauge these connectivity differences, and test whether they coincided with discernable differences in executive leadership, I construct a *fifth indicator* that captures the accessibility of local internet cafes in 2003 (*ICAFE*).²⁶ As outlined in Figure 3 and Table A3, simple scatterplot and regression estimates – across 43 local municipalities – show that the presence of internet cafes is positively associated with executive anti-corruption efforts (coefficient of 0.78, significant at the 0.05 level). Everything else being equal, this indicates that reformist mayors are more likely to be found in polities linked to digital networks during the early stage of decentralization. One possible reason is that greater internet connectivity exposes

²⁵ von Luebke (2010); for the petition of over one million facebook users see www.facebook.com/group.php?gid=169178211590.

²⁶ Drawing on Indonesian household surveys (PODES), *ICAFE* is constructed as the relative share of municipal subdivisions (*kelurahan*) reporting the existence of publically accessible internet facilities (*warnet*). See Table A1.

leaders to higher performance benchmarks: in digitally-connected municipalities, citizens are better positioned to follow political debates, tap into national information networks, and compare local leaders to yardsticks in other regions.

The *sixth, and final indicator* shifts the focus from outbound to inbound dimensions of social connectivity. Consistent with existing theories of social capital (Coleman 1990; Evans 1995; Putnam 1993), the idea here is that closely-interlinked communities, which exhibit high degrees of intergroup solidarity and trust, are better able to coordinate activities, advance joint petitions, and monitor the performance of government leaders. A good proxy for community solidarity is the presence of ‘rotating credit agreements’ (*arisan*): an informal contract among local citizens to regularly contribute to communal funds that are regularly disbursed to each contributing party in random order. In the 32 Indonesian municipalities that were examined in respect to levels of social connectivity, it became evident that higher levels of *arisan*-activity (*ARI* – the share of citizens reporting participation in rotating credit schemes in 2007) are aligned with higher levels of reformist leadership. The positive association is confirmed by the slope of the fitted linear regression line (Figure 3) and the positive coefficient in the bivariate regression (significant at the 0.01 level). Although these results do not establish causality, they nonetheless suggest that social connectivity can enhance collective action and, therefore, impose more credible checks on executive behavior.

Conclusion

This paper studied the confluence of reform-enabling and reform-impeding features that constitute the political economy of decentralized governance in Post-Suharto Indonesia. While the world's third largest democracy has received much acclaim for sustaining basic political liberties and political stability, recent national controversies (such as the Bank Century and KPK debacles) offered a powerful reminder that the prospects of public sector reform continue to depend on elite personalities. While policy elites wield influence in many other parts of the world, their significance in Indonesia is strongly elevated by the fact that mediating architectures – such as political parties, national and local courts, private-sector associations, and law-enforcement agencies – continue to be weakened by clientelism and corruption. Government policies continue to reflect the tug-of-war between reformist and self-serving elites, rather than by well-institutionalized forms of representation.

The elite-centered character of Indonesia's policy arenas extends to subnational domains. The qualitative and quantitative evidence presented in this paper provides a clear indication that local governance outcomes have been driven, for better or worse, by differences in executive leadership (and less by differences in societal association). The empowerment of local state elites was fueled, in part, by the political imperative of national unity. To contain risks of regional secession during Indonesia's turbulent transition, the 1999 decentralization laws circumvented provincial governments and devolved disproportionate levels of policy power to third-tier districts. While this political concession prevented a balkanization of the Indonesia archipelago, it also introduced new challenges in government performance and accountability. After 40 years of authoritarian control, most districts lacked the administrative and societal capacities to yield the benefits of democratic decentralization. The combination of entrenched clientelistic norms, rapid power devolution, and underdeveloped accountability mechanisms, skewed local policy arenas further in favor of public elites. Against this backdrop, local government executives (*bupati* and *walikota*) have emerged as key figures that set the direction for change or continuity, innovation or stasis.

The assessment of controlled case comparisons (Table 2) and 2SLS/OLS estimations on (Table 3 and 4) confirms that local governance outcomes are strongly influenced by the quality of government leaders. The inclination of district mayors, to pursue self-serving or public-serving goals, is found to have significant effects on administrative effectiveness and probity. In some cases decentralization and direct executive elections have inspired good leadership and better governance:

an instructive example is Solok's former mayor, Gamawan Fauzi, whose reformist credentials proved valuable, not only for his home regency, but also for his consecutive assignments as governor and minister of interior affairs. Yet, in many other cases democratic decentralization has been accompanied by increased elite-level corruption, poor leadership, and declining service standards.

Apart from confirming the salience of government leadership, the data analyses also point to several factors that potentially affect leadership qualities. One important finding is that executive behavior is significantly linked to mayors' previous social and professional experiences. The first stage of the 2SLS regression (Table A2) suggests that reformist orientations are more widespread among 'unconventional' leaders – including female, private-sector, and non-Golkar candidates – who tend to be less entrenched in the state apparatus. Another important finding from the subnational data is that reform-minded leaders are more likely to be found in local economies with high industrial diversification, strong trade linkages, low petro-incomes, moderate concentrations of business capital, and high internet accessibility, and strong communal trust (Table A3).

It is important to note that several of these socio-economic topographies are in constant flux. Levels of economic diversification and digital connectivity do not vary across space, but they are also bound to increase over time. While some districts may exhibit 'oligarchic' power structures today – with undiversified, closed economies and low social connectivity that centralize power into the hands of a few local oligarchs – their persistence is doubtful. The rising integration of Indonesia's economy into global markets, combined with advances in information technology, will have discernable effects on local district economies: interests of future Indonesian entrepreneurs will be more interconnected and diversified than those of current generations. If socio-economic topographies continue to rebalance over time, due to more equitable access to information, education, and employment, then post-Suharto Indonesia will increasingly resemble a 'democracy in progress', rather than an 'oligarchy in disguise'.

Overall, the findings of this study have several implications for policy. Today many good governance programs lay much weight on bottom-up empowerment, assuming that favorable outcomes are achieved primarily by strengthening civil and private-sector groups vis-à-vis public elites. Many of these measures are inspired by 'best practices' of well-developed democracies, rather than by assessments of actual power structures in given polities. In young democracies, where political institutions and law enforcement structures are weakly developed, it seems critical to adopt a more nuanced approach: one that takes account of existing political constellations rather

than adopting standardized interventions. Instead of adopting nationwide blueprints, more attention should be devoted to the interplay of institutional and structural advancements and impediments that shape the political incentives of key policy actors. Assessments of actual power concentrations and connectivities at the district level are likely to provide national policymakers with a more solid foundation for designing support programs and regulatory interventions. The analysis of Indonesia's decentralized power topographies indicates that reform initiatives towards better governance require a balance between elite competition (more diversified, trade-oriented markets) and elite consociation (moderately powerful business groups and communal solidarity). Promising steps in this direction could include the nation-wide dissemination of district performance standards (service and corruption levels), the promotion of economic diversification and trade (e.g. SME support programs), and the facilitation of public-private dialogue.

Compared to other well-charted areas on the social science map, the study of the political economy of democratic decentralization is still in its infancy. Analytical efforts to place political agency in the context of institutional and structural underpinnings, of which this study is a part, still face considerable hurdles. These include bridging the gap between social science theory and area studies, managing complexities arising from interdisciplinary and multi-methods frameworks, and generating reliable governance data. The benefit of meeting these challenges is a greater understanding of the workings of Indonesia's young decentralized democracy. Finding ways to stimulate reform-minded leadership and better governance outcomes will likely shore up public confidence in the democratic project. 'A country does not have to be deemed fit for democracy', Amartya Sen (1999:4) once noted, 'rather, it has to become fit through democracy.' In countries with limited political institutionalization this requires more than adopting formal rules and political rights: it also requires concerted efforts to comprehend and transform the economic and social contours that shape political agency.

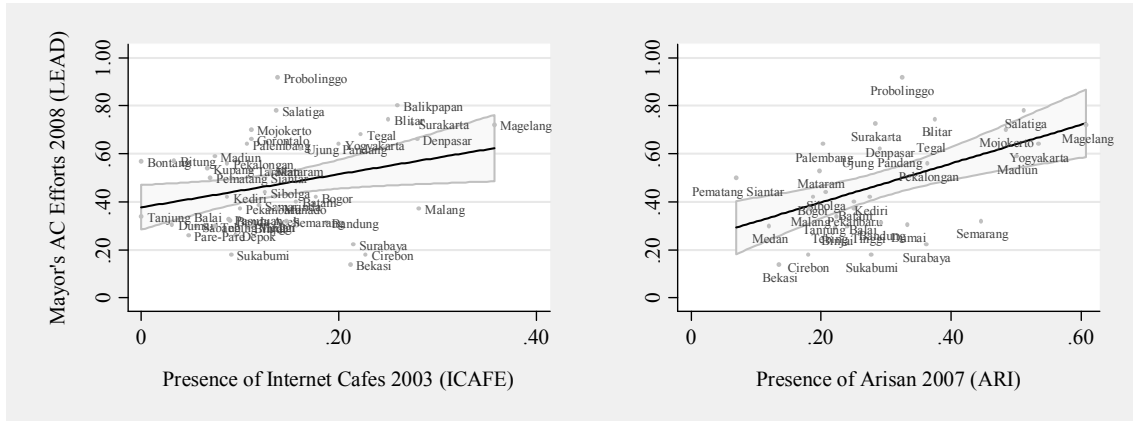
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Figure 3: Social Topographies and Executive Leadership



Source: Indonesian Central Bureau of Statistics (BPS) and Indo. Family & Livelihood Survey (IFLS); see Table B1.
 Note: shaded areas denote 95% confidence areas of fitted linear regression lines.

Tables

Table 1: Perceptions on Bribe Payments during Public Sector Recruiting

Province	Average Payments (mill Rp)	Highest Payments (mill Rp)	Respondents (units)	Response Rate (percent)
Bali	102.0	300	217	70.5
NTB	63.7	100	215	88.4
Central/East Java	59.2	150	411	62.6
West Sumatra	50.3	100	200	52.5

Source: Author's 2010 Governance Survey with 1043 small and medium firms in four provinces.

Table 2: Comparative Government Performance in 2005

	<i>West Sumatra</i>		<i>Central Java</i>		<i>Bali</i>		<i>NTB</i>	
	<i>Solok</i>	<i>Pesisir</i>	<i>Kebum.</i>	<i>Klaten</i>	<i>Gianyar</i>	<i>Karang</i>	<i>Bima</i>	<i>Lotim</i>
<i>Explanatory Factor</i>	High	Low	High	Low	High	Low	High	Low
	Leadership		Leadership		Soc. Pressure		Soc. Pressure	
<i>Performance Indicator</i>								
<i>Regulatory Quality (Tax Bills)</i>	Good	V-Poor	Good	Fair	Good	Good	V-Poor	Poor
<i>Pub. Service I (OSS Facilities)</i>	4.2	1.7	2.5	1.0	3.7	1.8	None	2.8
<i>Pub. Service II (Adm. Efficiency)</i>	7	10	16	16	27	14	8	9
<i>Pub. Corruption I (Recruitment)</i>	0	23	6	65	18	20	36	36
<i>Pub Corruption II (Lic. Bribes)</i>	2.9	7.4	9.8	8.4	12.3	2.8	2.6	4.1
<i>Pairwise Performance Comparison</i>	5	0	3	1	2	2	2	2
<i>Explanatory Factor Confirmed?</i>	Yes		Yes		No		No	

Source: Author's 2005 business surveys with 1000 randomly-selected, small/medium firms in eight districts; as well as 120 interviews with national and district-level experts and stakeholders. For further details see von Luebke (2009).

Table 3: Results of OLS Regressions – Public Performance

	(1)	(2)	(3)	(4)	(5)
	<i>EFFSER (08)</i>	<i>ABSCOR (08)</i>	<i>ABSCOL (08)</i>	<i>QROAD (08)</i>	<i>CPIMUN (10)</i>
LEAD	0.44 (11.91)***	0.50 (10.93)***	0.56 (11.77)***	0.29 (3.31)***	2.35 (2.75)**
ASSOC	0.21 (3.27)***	0.22 (2.75)***	0.25 (2.98)***	-0.12 (0.77)	0.22 (0.16)
EDU	-0.28 (2.48)**	-0.33 (2.43)**	-0.44 (3.04)***	0.56 (2.15)**	-0.09 (0.04)
DAU	0.00 (2.82)***	0.00 (4.98)***	0.00 (3.69)***	0.00 (0.09)	0.00 (1.54)
PCI	0.00 (0.42)	0.00 (0.83)	0.00 (0.98)	-0.00 (1.48)	0.00 (0.36)
URBAN	-0.02 (0.61)	-0.06 (1.71)*	-0.01 (0.36)	0.34 (5.53)***	
JAWA	0.00 (0.02)	0.00 (0.10)	-0.01 (0.58)	0.31 (8.11)***	0.35 (1.16)
Constant	0.53 (11.93)***	0.31 (5.63)***	0.32 (5.57)***	3.14 (29.99)***	3.40 (3.33)***
Observations	219	219	219	219	25
R-squared	0.47	0.47	0.48	0.45	0.40

Note: Absolute value of t statistics in parentheses; * significant at 10%; ** significant at 5%; *** significant at 1%;

Table 4: Results of 2SLS Regression – Public Performance

	(1)	(2)	(3)	(4)	(5)
	<i>EFFSER (08)</i>	<i>ABSCOR (08)</i>	<i>ABSCOL (08)</i>	<i>QROAD (08)</i>	<i>CPIMUN (10)</i>
LEAD	0.52 (3.50)***	0.87 (4.20)***	0.92 (4.33)***	0.45 (1.09)	2.79 (2.15)**
ASSOC	0.24 (2.97)***	0.13 (1.10)	0.20 (1.91)*	-0.37 (1.46)	0.25 (0.22)
EDU	-0.27 (1.82)*	-0.30 (1.57)	-0.30 (1.41)	0.86 (2.77)***	-0.22 (0.15)
DAU	0.00 (1.54)	0.00 (0.99)	0.00 (0.66)	0.00 (0.61)	0.00 (2.06)**
PCI	0.00 (0.65)	0.00 (0.90)	0.00 (0.96)	-0.00 (1.01)	0.00 (0.83)
URBAN	-0.00 (0.05)	-0.03 (0.80)	-0.00 (0.06)	0.29 (4.81)***	
JAWA	-0.02 (0.80)	-0.01 (0.53)	-0.02 (0.56)	0.31 (5.49)***	0.38 (2.19)**
Constant	0.48 (4.98)***	0.17 (1.32)	0.13 (0.95)	3.02 (11.51)***	3.22 (4.10)***
Observations	138	138	138	138	24
R-squared	0.53	0.37	0.43	0.41	0.38

Note: Absolute value of t statistics in parentheses; * significant at 10%; ** significant at 5%; *** significant at 1%. Leadership qualities are instrumented with five mayor characteristics (mayor's age, gender, schooling, Golkar affiliation, and private-sector experience). Details of the first-stage regression are summarized in Table A2 in the Appendix.

Appendix 1: Statistical Tables and Figures

Table A1: Descriptive Statistics of Key Variables

Variables	Mean	SD	Min	Max	Unit	Source
Administrative Efficiency (<i>EFFSER</i>) [†]	0.73	0.15	0.15	1.00	percent	KPPOD 2008
Absence of Adm. Corruption (<i>ABSCOR</i>) [†]	0.55	0.18	0.07	0.94	percent	KPPOD 2008
Absence of Gov. Collusion (<i>ABSCOL</i>) [†]	0.55	0.20	0.00	0.98	percent	KPPOD 2008
District Road Quality (<i>QROAD</i>) [†]	3.52	0.44	2.04	4.00	scale [1-4]	PODES 2008
City Integrity Index (<i>CPIMUN</i>) [†]	4.88	0.65	3.61	6.71	scale [1-10]	TI. 2010
Mayors' Anti-Corr. Efforts (<i>LEAD</i>) [*]	0.51	0.19	0.05	1.00	percent	KPPOD 2008
Associational Activity (<i>ASSOC</i>)	0.19	0.12	0.00	0.70	percent	KPPOD 2008
Secondary Education (<i>EDU</i>)	0.34	0.09	0.09	0.57	percent	BPS 2006
Nat. Budget Transfers - Per Capita (<i>DAU</i>)	842,455	636,892	117,051	5,701,593	million Rp	BPS 2006
District Per-Capita Income (<i>PCI</i>)	7.28	14.50	1.23	218.00	million Rp	BPS 2005
Urban-Dummy (<i>URBAN</i>)	0.19	0.39	0	1	binary	BPS 2010
Java-Dummy (<i>JAVA</i>)	0.29	0.46	0	1	binary	BPS 2010
Sectoral Concentration (<i>SCON</i>)	0.30	0.12	0.15	0.91	scale [1-4]	BPS 2010
Firm Capital Concentration (<i>FCON</i>)	0.51	0.26	0.09	1.00	scale [1-4]	BPS 2010
GDP Share of Oil/Gas Income (<i>OIL</i>)	0.04	0.14	0.00	0.92	scale [1-4]	BPS 2010
Labor Force in Trade Sector (<i>TRADE</i>)	0.07	0.04	0.00	0.19	percent	BPS 2010
Communal Credit Agreements (<i>ARI</i>)	0.24	0.18	0.00	1.00	percent	IFLS 2007
Presence of Internet Cafes (<i>ICAFE</i>)	0.03	0.06	0.00	0.36	percent	BPS 2003

Note: Dependent variables are marked with a cross (+), the independent variable is indicated with an asterisk (*); remaining indicators are control variables. Variables draw heavily on the KPPOD (2008) Business Survey: to date the largest (and presumably most representative) subnational governance and development study, covering 12,000 randomly selected private-sector respondents in 243 districts. Additional indicators were drawn from various statistical reports and datasets of the Indonesia's Central Bureau of Statistics (BPS), including PODES(2008) – an annual village-household survey that captures general livelihood conditions (including road conditions) across 65,000 Indonesian villages; the 2010 'City Integrity Index' is based on Transparency International's survey of 50 cities in respect to perceived levels of public corruption. IFLS refers to the RAND 'Indonesian Family and Livelihood Survey' – accessible at www.rand.org/labor/FLS/IFLS.html.

Figure A1: Kernel Density Estimates

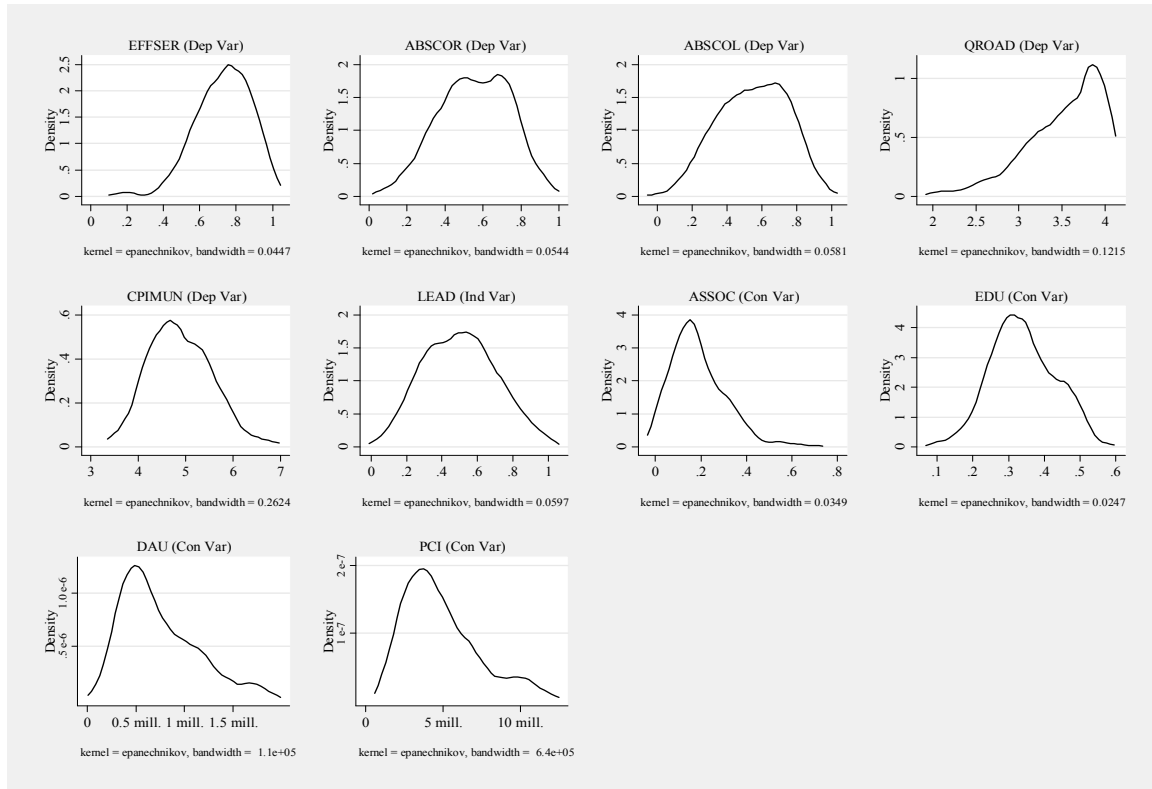


Table A2: First Stage Regression

Variables	Mayor's Anti-Corruption Efforts 2008 (LEAD)
Mayor's Age (years)	-0.00 (-0.49)
Mayor's Education (years)	-0.01 (-1.56)
Mayor's Private-Sector Experience (yes=1)	0.15 (3.82) ***
Mayor's Gender (female =1)	0.13 (2.60) **
Mayor affiliated with Golkar (yes=1)	-0.08 (-2.21) **
Level of Private-Sector Association (ASSOC)	-0.09 (-0.59)
Secondary Education (EDU)	-0.11 (-0.43)
Nat. Transfers (DAU)	0.00 (2.05) **
District Per-Capita Income (PCI)	0.00 (1.03)
Urban-Dummy (URBAN)	-0.04 (-0.75)
Java-Dummy (JAVA)	-0.07 (-1.65)
Constant	0.68 (3.83) ***
Observations	138
R-squared	0.16

Table A3: Result of OLS Regressions – Structural Topographies

Dependent Variable: *Mayor's Anti-Corruption Efforts 2008 (LEAD)*

SCON	-0.40 (1.93)*						
BCON		0.04 (0.27)	1.43 (2.11)**				
BCON2			-1.18 (2.06)**				
OIL				-0.40 (2.83)***			
TRADE					1.60 (1.98)*		
ARI						0.81 (4.31)***	
ICAFE							0.78 (2.24)**
Constant	0.60 (11.12)***	0.47 (6.03)***	0.13 (0.79)	0.76 (10.55)***	0.25 (2.38)**	0.24 (3.62)***	0.36 (7.20)***
Observations	228	36	36	25	38	32	43
R-squared	0.02	0.00	0.09	0.21	0.09	0.26	0.09
