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Igor MUNTEANU

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Using Game Theory in Decentralization and Policy Making

Igor MUNTEANU¹

Abstract

Since 1994, Moldova engaged in a systematic process of devolution by recognizing the need to share substantial powers to its sub-national governments. Devolution remains yet largely an asymmetrical endeavor prone to conflicts and centrifugal rifts. By 1994 Constitution, some territories have been entitled to get far-reaching devolved powers, while others remained the object of centralist policies, receiving but some embryonic shares of self-governance. As part of its domestic conciliation policy, Moldova recognized a sort of 'internal self-determination' to the region of Gagauz settlements, suggesting a readiness to employ this model for another conflict-prone region Transnistria. Any variable of political settlement will extensively depend not only on the legal and political elements of the negotiated status-quo, but also on the strategic interaction of domestic actors, national-wide consensus on the costs and benefits of integration, external actors agenda, as well as on the perceived success or failure of the regional autonomy devolution. This region represents only 4.5% of the country's population; central government faced a challenging task to reconcile the special provisions of the Gagauz autonomy, making sure that the national legislation is also homogenously implemented across the country. This reflects an essential asymmetry between the 'conventional SNGs' and other SNG belonging to the Gagauz region. Devolution is also advancing for cities and villages, but their autonomy is rather limited. Based on local autonomy principles, Government pursues the objective to define and implement a strategy of devolution, first of all as a matter of political necessity, and second as an element of its adaptation to the norms and standards of local governments in Europe. These asymmetries create a playground for increased interactions between the agents of this game, with rules, tradeoffs that can be modeled with the game theory variations.

Keywords: *Devolution; decentralization, policy making, autonomy, region, interactions between local actors, tradeoffs, powers, integration.*

¹ PhD IDIS Viitorul, Chisinau, Moldova, munteanu.ig@gmail.com, 373-078742500.

Theoretical assumptions

At the cross-border of mathematics and politics, Game theory is trying to explain and forecast decision-making that involve individual choices. Created by a Princeton mathematician Albert W. Tucker, the Prisoners' Dilemma (1950) was originally used in Harvard lecture to psychology students. Since then, the model of strategic interaction between rational actors inspired thousands of studies and articles in various sciences and scholars. The Theory of Games predicates that players choose competition and cooperation, depending on their perceived payoffs and situational analysis, although in the real-life it is recognized that individuals often switch allegiances (and strategies!) to maximize the utility they could get out of it. Just as people are keen to win games, collective actors and governments also try to 'win' goals in competitive situations, based on their dominant strategies. In other words, agents or players try always to play their dominant strategies if they believe this will assure their maximum 'payoffs'. For this article, I decided to analyze the behavior of SNGs in Moldova, as real agents of devolution, which in practice are complex rational actors, diverse and full of contradictions as they are.

A classification of actors will be more than necessary. By Constitution, Moldova has two 2-tiers of sub-national governments: first-level communes and cities, second-level – districts (rayons), adding a special tier – territories recognized with a special status: Gagauzia + Transnistria (a sort of outre-mer territoires in France). Gagauzia is described by Constitution as administrative-territorial autonomy, although it defines itself in the Charter of the region (Ulojenie) as “an internal form of self-determination for Gagauzian”, other than conventional administrative-territorial units of the country. There are 32 raions (districts) plus the municipalities of Balti and Chisinau, which creates an upper II level Tier of sub-national governments (SNG), and 896 I-level Tier of local governments: communes, towns and villages authorities (LGs)². Both levels of SNGs are ruled by elected officials - mayors and council members, while Gagauzia is ruled also by a Governor (Bashkan) and a Regional Assembly (Halk Toplushu), while preserving rayons and city-level councils. Half of rural municipalities have

² Transnistria is a breakaway region of Moldova that has not been recognized internationally, whereas Gagauzia has a special legal status with its own governor and local parliament.

fewer than 2,000 residents, and about 93 percent have fewer than 5,000 residents. As of 2013, population varies from a minimum of 215 to a maximum of 638,481, with an average of 3,766, resulting in a low level of population density and a high degree of jurisdictional fragmentation across the country. As a result, there are 26.4 municipalities per 100,000 inhabitants, which makes of Moldova one of the most fragmented European countries, alike the Czech Republic (24), France (21) and Austria (21)³. Each SNG has a separate budget and plays an important role in the delivery of public goods and services, ranging from general administrative services to education, healthcare, environmental services and public utilities. On an aggregate basis, SNGs account for 22% of general government spending (or 9.5 % of GDP) as of 2013. Although this is a substantial amount, SNGs have limited discretion over expenditures—such as wages and education—that are determined by the central government. Across 898 municipalities, current expenditures account for 88 percent of total spending, with wages claiming 38%. Consequently, investment spending by SNGs is limited to 17% of total expenditures (or about 1.4% of GDP). This reflects also a lack of balance between decentralized expenditure functions and revenues, resulting in sub-optimal use of local resources, revenue mobilization and spending efficiency and, consequentially, becoming dependent on central government transfers. In addition to this game, some of the SNGs have more rights and space for maneuver than others; in other words, asymmetric model of devolution creates asymmetric responses and incentives to cooperate or defect.

Competitive games assume that each player pursue strategies that help him or her to achieve the most profitable outcome. Player #1 may cooperate with Player #2 if the expected payoff is better than his current position, which means that both they are utility maximizing agents. If we take Players as SNGs, then both have incentives to cooperate or defect, based on their interests, stakes, but also risks, lack of certainties or safeguards. In theory, all SNGs in Moldova shall be interested to belong to a large and unified association, when they shall adopt their budgets, negotiate transfers, receive state-aids, tender for various forms of subsidies or compensation for losses. So, when more Players share the same interests and a common goal, defection is less expected, but still possible. The simplest form of competitive game is the Prisoner's Dilemma (PD). Thus, SNGs can

³ Almost 60% of Moldova's population still lives in rural areas, and 844 municipalities—out of 898 including Balti and Chisinau—are rural settlements.

cooperate or collude with national government, based on a stronger collective strategy to negotiate, or based on individual ties or connections, if some of SNGs will prefer to defect. Close connection with ruling parties may create a strong incentive to stand alone, for individual SNGs, trying to rip out more benefits by adopting the strategy to ‘keep quite’, against the strategy to ‘rise up for collective goods’, such as decentralization goals, fairer distribution of revenues etc.

Table 1. Two-actors competition on the subject of devolution

Player #1	Player #2		
		Support devolution	Keep quite
	Support devolution	0, 0	3, -1
Keep quite	-1, 3	2, 2	

Decentralization describes a strategic situation where success or failure of achieving a common good depends not on single one actor, but on a range of actors, actively inter-connected. The setup for a competitive game is clear about payoffs: local governments (as rational players) request control upon local resources, claim a devolution right to better respond to the local interests, while central government is wavering its final decision or postpone, having at its discretion leverages that could warn, sanction or gratify SNGs. Even though it is clear that the best outcome is achieved when they cooperate, the game is played exactly once the rational outcome is for both to defect. Local actors know that if they cooperate when others defect, their loss is maximal (-15), therefore they would rather be interested to cooperate to minimize their risks, or be the first to defect when others cooperate. Dominant preferences are to defect when the payoff is seen lower than the expected benefits from individual gains. Actors can ‘guess’ about other’s choices due to an information asymmetry, known as incomplete knowledge of other’s preferences.

As in every asymmetrical power relationship, national government prefers to react to the existing conflicts, rather than in their anticipation; it reacts rather than simulate consequences to its policies. So, if SNGs are divided, poor, why shall a rational decision maker chose to allocate a higher expected utility to decentralization than its incorporated actors? To succeed, both sides (Government and SNGs) shall accept to cooperate for a higher payoff. Yet, in compromising, each player risks complete loss if the

opponent decides to seek his or her own maximum payoff. Rather than risking total loss, players tend to prefer a less productive outcome, when actors decide to cooperate or defect, if they decide to suspend cooperation, based on a multitude of factors and situations.

Both types of actions will affect the strategic interaction of the real-time actors, which create therefore a rather justified concern about the true incentives and pursued strategies, rules of interaction, outcomes and payoffs, either expected or not by the interacted players. Decentralization can be the highest payoff if individual costs will be bearable, and collective gains will be attractive. Trust in the power of collective ‘we’ is another factor favoring cooperation or defection of individual Members. Party politics supplies ‘loyalty fees’ to some of the local governments, deciding to stand or defect. This may seem to be a dominant strategy for rational actors that are not sure they will get what they wants from a collective ‘we’ or they think that chances to win concessions from the central government are nearly absent. People defect when they have better options to take (payoffs) rather than to expect a gain from an alternative to cooperation strategy. But, weakness of the SNGs is not infusing flexibility into central government, but just the opposite. Some of SNGs are sanctioned because they (a) usually do not belong to the parties in power, (b) every party in power is keen to maintain fiscal practices of negotiating ‘transfers’, (c) their political claims are not acceptable to the national parties.

Table 2. Cooperation-Non-Cooperation Strategies between two actors

Player #1	Player #2		
		Cooperate	Defect
	Cooperate	(-5, -5)	(-15, 0)
	Defect	(0, -15)	(-10, -10)

Cooperating for central government would imply to accept that considerable share of income will be raised at the local level without prejudice from other authorities. For local governments, cooperation means they push for changes, rise local taxes, identify new resources for local development. So, increased cooperation among local governments means less space for political bickering for the administration. One could say about the creation of two ‘Nash equilibriums’ at (-10, -10) and (-5, -5), which suggest that regardless of whether the other player cooperates or defects, the better option for individual actors is to defect. Defecting means however

that both central and local governments accept the rising cost of postponed reforms. SNGs can achieve better results if they cooperate, but evidence is missing about how they can reach out a unified position, therefore some of them prefer to defect rather than join forces.

To be able to meet this challenge, SNGs shall constantly invest in activities of closing their ranks, in anticipating the moves of the opponent (central government), but also in signaling its policy choices or preferences, at every step when local governments' interests are affected. The list of accomplishments start at CALM with passing of the bill on local public finances by the end of 2013⁴, which created real conditions to start an effective depolitization of the national system of intergovernmental transfers, boost revenue collection at the local level and launch a pilot-project of 3 districts and capital-city. In January 29, 2014, Government appointed a Deputy General Secretary with the task to coordinate implementation of the strategy on decentralization and consultations with SNGs. Representatives of CALM disputed a decision of the National Government to set up (by indicative figures) the size of local taxes and fees, collected by the SNGs. As a result, on January 28, 2014, Constitutional Court of Moldova ruled out the National Government decision to keep its control over local taxes (Ruling No.2 of 28.01.2014), followed afterward by a new bill of the Parliament of Moldova, setting clear rules for local taxes. So, when the law on procurement fails twice to pass legislative approval (legislative bickering), CALM called its members to stage a street protest to the Government of Moldova. They voiced disagreement with the lack of progress on decentralization, calling central government to reconfirm its principled position towards European obligations on subsidiarity. They also appealed to the Council of Europe (CoE), Delegation of the European Union, and other foreign diplomatic missions, for support and consultations. As the CoE Recommendation 179 (2005) clearly stipulates⁵, "Abundant cases of interferences of central administration in local affairs is widely reported; stakeholders are not consulted on the policy initiatives which affect their own competencies, while 1st tier local authorities enjoy a rather restricted space to organize themselves".

⁴ Law No.267 of 01.11.2013 regarding amendments to other laws (Official monitor no.262-267/748 din 22.11.2013)

⁵ Recommendation 179 (2005) of the Council of Europe Congress of Local and Regional Authorities on Moldova

Decentralization is full of situations in which actors -- intentionally or unintentionally -- pursue their own interests at the expense of others, leading to conflict or competition, therefore, illustrating their relationship, preferences or strategies, can serve as an excellent predictor for the next sequences. In order to achieve productive outcomes, players must coordinate their strategies, or accept they may both lose, if each of them will pursue his or only one greatest potential payoff. It is also important to note here that in political context, games (like Prisoner's Dilemma Game) are developed in repeated sequences, which adds its own narrative to the rationality of choices. In other words, since SNGs perceive that mechanism of transfers is a political instrument to recruit loyalty after elections, they will tend to follow the power, as Sunflowers follow the sun. As a result, Mayors will change repeatedly their party membership before or after elections, while belonging to a party means only a vehicle to achieve gains, unattainable via existing legal mechanisms. In fact, this informal rule of changing ranks ("navetism politic") is clearly an expression of games that are constantly played down, as rational actors, both by SNGs and the parties in power. Thus, 1/3 of mayors changed their parties before elections, in 2005⁶, and decided to join CPRM in expectation to receive a better share of transfers (tradeoff). In 2015, local turnover shown the same phenomena, but in opposite direction: PCRPM lost 60% of the mayoralities; while its local front-runners have been taken over by Socialists/Our Party. So, parties which lose traditional strongholds as a result of losing the power of control over subsidies, and other forms of 'sweet biscuits' for SNGs, is common.

In practice, decisions on budgetary resource are subject to approval by the central authorities or district authorities (rayons), creating a depressing proportionality between the share of transfers made by central government and district administrations and the party membership of the respective SNGs. Ministry of finance decides the limits of every transfer, usually in a non-transparent manner, given the almost non-existence of local taxes. This unfortunate situation outlived CPRM period of governance, being backhanded after 2009 by a pro-EU Government, but with certain old habits in the realms of intergovernmental transfers and control over local autonomy. As CALM testifies in 2013 before the European Section of the Unified Cities and Local Governments, SNGs in Moldova are still deprived

⁶ Adept Data analysis - <http://www.e-democracy.md/monitoring/politics/comments/20071031/>

from a truly autonomous financial autonomy⁷. Although, a National Strategy of Decentralization and the Action Plan for the implementation of a Strategy of decentralization for 2012-2015 were adopted in April 2012 by the Parliament of Moldova (ordinary law, most of the actions stipulated for 2012, 2013 and 2014 suffered ample delays or have never been implemented. CALM concludes in its evaluation report that the Government is not respecting its commitments for the annual review of decentralization strategy; it does not communicate on the accepted priorities and simply lacks will to cooperate with local governments. Major setbacks are reflected in the government's refusal to adopt sectorial policies in water management, disposal and public procurement⁸. Often, SNGs were able to reach out to compromise and sometimes to success in negotiating their stances with central government. In 2011, Ministry of Social Protection advanced a bill on civil servants salaries, without any prior consultation with local governments. This prompted a prompt reaction from CALM and, as a result, Minister has failed to pass the bill in the Moldovan Parliament, to her big surprise, in spite of the being originally endorsed by the standing committee. This led afterwards to a 'golden period' in bilateral relations between CALM and the Ministry on Social and Labor Affairs. In 2012, a new road tax was raised in Moldova, which raised a quick reaction from the local authorities. In 2013, CALM has mobilized hundreds of Mayors in capital to call for immediate negotiations of the budgetary allocations and limits of the local taxes, followed by strong support shown from the Moldovan partners for development. In particular, Sweden and USA announced they will stop financing on-going projects on decentralization, unless the Government will guarantee that all pending obligations and bills (local finances) will be adopted and implemented, as convened.

⁷ European Section of Unified Cities and Local Authorities (ESUCLA): The local autonomy in Moldova is closely monitored by international organizations. The Parliamentary Assembly of the Council of Europe (Resolution, October 2013) urges Moldovan Government to approve legislative modifications on local finance reform to be implemented from 2014. In addition, the Congress of Local and Regional Authorities of the Council of Europe (Resolution on Local and regional democracy in the Republic of Moldova, March 2012) ask for urgent decentralization and local finance reform in order to support the country's public administration system. Source: <http://www.ccre.org/en/actualites/view/2718>

⁸ Critical bills on decentralization were delayed (Land Code, No.2474 of 26.10.2012, Law of Constitutional Court (recognizing the right of local governments to contest various acts belonging to the Government and Parliament, if this affect the essence of the subsidiarity principle).

Playing Chicken with local governments

Pluralistic by default⁹, Moldovan society had to accommodate diverse actors, including ones with certain ethnic differentials and traditions. Take for instance two of the most problematic regions, Transnistria and Gagauzia. Both of them challenged Moldovan Government in 90th, pursuing a radical mobilization agenda that led to intense violence and conflict. A cease – fire agreement was signed up in July 1992 by Moldovan and Russian Presidents, to end the military hostilities, but swirled the country into a prolonged political stalemate. Moldovan political elites recognized the need to transform the military and political standoff via devolution. Adopting its first Constitution, this strategy pointed out the basic principles for subsidiarity: elective character of local authorities, fiscal decentralization, property rights. Some authors argue that devolution in Moldova emerged as a response to the ‘waves of reactive nationalism following Soviet dissolution’¹⁰. This sounds to me rather problematic. In fact, all national groups (including the Gagauzians) were much suppressed by the Soviet State’s, thus, when it dissolved local leaders followed suit to claim a reparation to the previous injustices and, therefore, aspiring to retribute lost pride or cultural rights and freedoms (language, history). But, they also did not like the idea of being ruled from another ‘big center’, thus, Gagauzians showed preference to establish their own ‘self-ruled land’. Lack of outside ‘sponsors’ narrowed the radical parties and options towards a successful separatist project in Gagauzia. So, when Chisinau accepted to compromise, regional elites responded by down-sizing their previous demands (independence), which was substituted, by a strategy to ‘muddle through’ with central authorities, while retaining certain territorial and political power attributes.

Moldovan elites claimed that granting a territorial autonomy and proclaiming its ‘permanent neutrality’ in the 1994 Constitution would outstrip the main arguments favoring regional separatism (Transnistria) with plain support from Russia. This naiveté was embraced then by the Agrarian leaders, who attempted to off-shore the blame for 1992 war to anybody

⁹ This term is attributed to Lucan Way, who employed it in ‘Pluralism by Default in Moldova’, *Journal of Democracy*, Vol.13, Number 4, October 2002, pp.127-144

¹⁰ The term belongs to W.Crowther (1991), but it was swiftly accepted by a wide range of American and European scholars: Jeff Chinn and Robert J. Kaiser, *Russians as the New Minority: Ethnicity and Nationalism in the Soviet Successor States* (Boulder, Colo; Oxford: Westview, 1996), 168.

else, but not to Russia, and engage substantial minorities in a civic project¹¹. This strategy enabled Moldovan Government to unlock the conflict with Gagauz elites, but ended in stalemate with Transnistrian separatism, although it is difficult to assume that conflict with Gagauz elites is over. In economic terms, the Gagauz elites still push central government to adopt a 'single channel' fiscal arrangement, whereby the autonomy would keep all revenues from all taxes collected in the region, and would negotiate also a single annual payment with central budget of Moldova, as contribution to the costs of national services¹². In political terms, the region has its own political representative bodies, an elected executive chief (Bashkan), who has a reserved seat in the National Government (Chisinau), but regional elites demand also reserved seats in the Parliament of Moldova. Most often, Gagauzia use an inflammatory rhetoric to secure additional capital investments from the state budget, while keeping wide open anchors to expand and maximize current status quo (SQ).

Most of the conflicts in strategic games are traceable to disputes about the values and outcomes. So, what is the expected outcome from Gagauzia to the national government? One would say – to play by rules, perhaps, full integration with the rest of the country's economy, in terms of language, cohesion, civic identities. Some would say, Gagauzia is too politicized, too ambiguous; for instance, how can be Comrat a credible partner if he wants to rip all benefits from the state budget, while trying to play a separate game with separatist Transnistria, and also its heavy-lifting sponsor, Russia? Also, Comrat is insisting on the primacy of its Regional autonomy charter, in spite of its long series of ambiguities, while also accepting that its moves conflict with Moldovan Constitution. In 1998, Moldovan authorities decided to reform the administrative organization of the country by creating 9 larger districts instead of existing 33 rayons, while also planting Central Government's Offices (Prefectura) in each of the newly emerging regions. Comrat disagreed saying that this will downsize the political statute of the autonomy, claiming instead to get direct political representation (fixed number of MPs in the National Parliament, but also ethnic representation in all state bodies. The claims remained rhetorical

¹¹ In 1994, Agrarian Democrats were joined by Unitate-Edinstvo & socialist block in a ruling coalition government.

¹² A 'single channel' fiscal arrangement is often proclaimed Comrat as an indispensable recognition of the region's special autonomy statute, although the National Government of Moldova continues to rebuff the argument that this overstretch the interpretation of the regional Charter (Ulojenie).

because the 1994 Charter of the Autonomy does not have any reference to a quota of seats in the national parliament. Thus, while repeatedly trying to bypass the authority of the national government, while opposing the laws, adopted by the Moldovan Parliament, has inflamed mutual resentments and fears that both sides are not able to reach out a compromise.

Political entrepreneurs tried to design various strategies to prevent what they call 'further encroachment of the autonomy rights' by appealing to the Constitutional Court, and other Courts, but with little success. Thus, Gagauz leaders believe that by pressing Chisinau to accept them as a subject in negotiations with Transnistria¹³, this will cement their political status to a level that would never be affected by Moldova's geopolitical preferences. This obsessive fixation on acquiring a sort of observer in the negotiations process revealed their intentions towards a federalization project that is categorically opposed in Chisinau. Also, Gagauz have refused repeatedly to accept implementation of laws that, in their views, restrict or undermine existing regional Charter (Ulojenie), fearing that this will rank them as equal to other SNGs. Data show that radical rhetoric from the regions heightened when the political power of the national government was weak and fragmented (2000, 2009, 2013), spurring mobilization of the region and inviting external actors. Both, Comrat leaders and other SNGs sought external support to expand their status, but only in Gagauzia, regional elites could really embark on effective para-diplomatic agenda with other actors and raise the costs for national government, if they would defect.

In 1998, when Parliament adopted a package of laws on self-governments (Law on local governments + Law on territorial organization + Law on local finances), Gagauzian authorities refused to comply with the new law, based on its particular special statute, and in sign of non-compliance, it voted its own regional law on local authorities. Consequentially, it also blocked installation of Prefectura's Office, and pushed hard to get the permission to nominate its own people for the judiciary, intelligence, custom officers, established in the Autonomy. Since the claims raised disputes with the national government, talks lasted for years. Thus, decentralization negotiations spurred fears in Comrat that their

¹³ In 2005, when ex-President V.Voronin visited Gagauzia, he promised to offer Comrat "all rights stipulated in the special juridical status of the region," adding at the same time that "all local laws contradicting the national legislation would be cancelled." President Voronin rejected Comrat's offer to join the discussions between Chisinau and Tiraspol--in Transnistria--on the future common state.

special autonomy could be surpassed or equal to the powers devolved to other non-special units. Statute differentials and power-preferences invited Comrat to challenge central government to win new concessions on various aspects and legal powers, repeatedly denying attempts to be compared with other conventional self-government units. As rational actors, elites in Comrat tried to avoid escalation of open conflicts with central government over the status of the autonomy. But, full accommodation was not in the reach either. So, the latter adopts a flexible strategy to get the benefits it wants, when it wants, maximizing its weight by consequent claims, radicalization of demands, and call for unity inside of the autonomy. The range of powers devolved to Gagauzia has been substantial over the last 20 years, with regional leaders calling central government to adapt the national legislation according to the existing regional statute and, in 2001, Moldova legislative authority responded to these claims by enshrining the autonomy statute in art.111 of the Constitution, pointing out however that the regional charter cannot preclude other laws to be implemented throughout the country, including in Gagauzia¹⁴.

Gagauzian region is the only precedent of de jure autonomy status, granted to an ethnic group. But, Moldova remains still a unitary single national state, according to its Constitution, which prescribes a staunch control over the lands and resources, customs, monetary policy, foreign policy and imposing a single jurisdiction over other facie regulations. As a rational actor, Moldovan government aimed at setting its own intuitive ‘circular defense’ in negotiations, pursuing a double-trac strategy – (1) setting up new avenues for dialogue on devolution, but also (2) creating firewalls against unbearable concessions sought by regionalist movements (RM). With 2001 power-change, Gagauzians called Moldovan Parliament to adopt constitutional provisions enshrined in the existing regional realms. Thus, Gagauz demands towards a ‘ethno-political regionalism’ found a firm ground in the Moldovan Constitution of 1994, which heralded devolution as a toolkit for state- and nation-building. So, if at the beginning of transition,

¹⁴ The issue of legal competencies proved to be an especially controversial topic in the process of the implementation of the 1994 statute law in Gagauzia. These controversies were, to a significant extent, ‘programmed in’ at the stage of drafting the autonomy statute. The minimalist approach to the content of the drafted provisions, which obviously made negotiations easier at the time of drafting the document, resulted in a lack of any specification in the document regarding what having authority in a given policy area means or how decision-making rights in that particular area are distributed between the central and autonomy governments.

Comrat mobilized for a strategy of separation, later on, finding difficult to supply necessary resources for confrontation with Chisinau, has embarked on a strategy to maximize its benefits within the existing political system. To their credit, one can remark a superb combination of mobilization skills, persistence and skillful use of foreign actors, in this regard. Often, strategies used by Gagauz leaders to promote their interests resemble the ‘escalation’ model of strategic interaction, where defenders ward off challenges from an actor or group of actors willing to change the status quo. Following Frank Zagare and D.Marc Kilgour¹⁵, one can see that application of this model into domestic political realism can explain the motives that make actors to avoid a ‘big war’, but instead practice a series of small ‘combat strikes’ or guerilla operations, everywhere their interests intersect each other, choosing thus to cooperate or defect (conflict). For this model, we assume that a Status Quo (SQ) exists, and that a Player (Ch1) attempts to change it through a n-stage mobilization. If Ch1 chooses to cooperate /C/ then the game ends as it supports the SQ, but if Ch1 attempts to precipitate a crisis, taking some actions to challenge SQ, crisis expands.

The simplest use of this model is that if two players (A and B) will interact they will have a finite number of 3 options: (1) **status quo**, if Actor B will defect, (2) **A wins if B cannot revoke A’s veto**, and (3) **standoff or conflict**, if B defeats A. Both will maximize their negotiations rhetoric through vocal narratives (historic, legal, political, socioeconomic or of other origins). So, when actors A and B will enter into an escalation model of strategic confrontation, will display competitive stances: B will attempt to deter A, and the game will take place into a sequential stage model. So, B as a Challenger will begin playing its game at decision node {1} by deciding whether (a) to cooperate /C/ and accept the status quo or (b) to defect /D/ and demand its alteration. If B will choose C, the game ends and the outcome is SQ, but if not, then A will be entitled to decide at node {2} whether to concede /C/ and accept the compromise proposed by B, in which case it recognizes his victory or deny (D) and precipitate the conflict. Conflict will evolve through consecutive nodes {...} of a decision tree, enabling analysts to predict over the end of actor’s interaction through a backward inductive analysis and determine what would be logically correct for actor B and A to do at every decision node. As rational actors, both A and B will face a choice between conceding or confronting each other.

¹⁵ Frank Zagare and D.Marc Kilgour, *Asymmetric Deterrence*, International Studies Quarterly (1993), p.37

But, if confrontation is the worst possible outcome, then both actors will refrain from escalation. We assume however those actors can constantly revise their own sense of threat and stakes, usually depicted from a preference analysis. So, if actor B perceives A as weak, lacking so called threat-credibility¹⁶, then the most preferred outcome is not to concede, but to escalate. Thus, actor A will choose to accept challenger's claim (A) to alter the status quo or defend it, which will be confrontation, and even cooperation is a form of accepting that B defects. But, decisions will be shown at the nodes: {1} and {2} and many others ahead. But, actors can incorrectly assume about their opponents 'weakness' or 'threat', be it as a result of inconsistent information or of tactical moves, aimed at touching the ground with the rationality of the opponents. Uncertainty is a major source of choosing E for escalation, while C (concede) will mean limited options or resources. How credible shall be each actor's offer (explicit option) in order to be read as retaliation or cooperation?

One shall notice that SQ is always unstable, and deterrence of the Challenger's opponent is rarely sustainable on a long run. So, A's choice to deter B at the first node is dependent on the abilities to execute a credible deterrence, imposing costs that are not affordable to B. This move may incur costs for A, if B does not believe in it, and B knows A has preferences of changing SQ. So, Challenger will move if he does believe it can gain, and freeze the move, if the response may cause a loss. If Government acts as a Defender, then he hold power, by preserving the status quo, or advance counter-proposals, showing preferences towards a peaceful resolution or sanctions. Another sort of strategic game is called in the Theory as 'Chicken' or mutual-defection game, where two and more players are moving toward each other until they either crash or one move out of the way. Both pretend to be brave, in expectation that the other will defect, and avoid a clash. The payoffs are difficult to quantify if one or both players move because all that is gained by not crashing is glory or 'loss of face' for the loser and victory for the 'brave' victor. If neither player moves, the payoff is certainly negative for

¹⁶ A formal definition of credibility in perfect deterrence theory is consistent with the theoretical linkage between threats that are credible and threats that are both believable and rational: credible threats are precisely those that are consistent with rational choice, that is, with threats that the threatener prefers to execute. In traditional strategic literature, credible threats are oftentimes equated with threats that ought to be believed (e.g., Smoke 1987: 93). Since threats can be believed only when they are rational to carry out (Betts 1987: 12), only rational threats can be credible (Lebow 1981: 15)

both, which is a non-zero-sum game, one player's loss is not necessarily the other's gain.

One recent example of the 'Chicken game' was the conflict escalated on the eve of the Moldova's Association Agreement ratification with EU (November 2013). At the Vilnius summit of the EU (November 26, 2013), Ukraine was invited to sign, while Georgia and Moldova to ratify the Agreement with EU. As Russia warned it will block any sort of economic relations with the all 3 signatories, as it contradicts its long-term economic interests, Ukraine defected, while Moldova and Georgia stood firm. Then, Russia announced a renewal of trade embargoes on the signatories. Instead of joining the ranks and stand firm on its feets, pro-Russian actors (inside Moldova) moved out on the streets of Chisinau, and many other cities of Moldova, to dismiss the need for the trade agreement with EU. Thus, some of the Gagauzian leaders posted they will go for a Referendum on (!) whether the autonomy will still belong to Moldova or move away, after the ratification of the Association Agreement. Some even called for civil disobedience if Chisinau will ignore this protest, while pro-Russian parties marched to increase their political pressures on the Government. It was remarked then that most radical leaders have been invited to visit Russian State Duma, Kremlin, and lots of Duma's politicians doubled their visits in Moldova, with final destination in Gagauzia, but also in other places.

Then, when Moldovan vegetables and wines were rebuked from Russia and the standoff emerged again in 2014, *Rosspotrebnadzor* suddenly announced it will differentiate Gagauz wines from Moldovans, as it differentiated earlier Transnistrian brandies from Moldovans. In February 2, 2014, a referendum took place in Gagauzia on the future, in which 97,2% voted against closer EU integration, while 98,8% supported Gagauz right to declare independence should Moldova lose or surrender its own independence¹⁷. Although, Government tried to settle a standoff, and PM called referendum 'a defiance of law', local elites shielded against accusations by saying that it is but a people's consultation. In theory, both Players (Gagauz Administration and National Government officials) each had at least 2 strategies of proceed or back down. The Outcomes ranked from the highest to lowest, with '4' assigned to each player's best outcome, "3" to each player next-best outcome, and so on. The reasons why central government tried to disavow any legitimacy of the so-called referendum in Gagauzia are rather clear. Contemplating how a regional government is

¹⁷ <http://www.rferl.org/content/moldova-gagauz-referendum-counting/25251251.html>

attempting to replace the national government in foreign policy is equal to surrender, recognizing that the center cannot exercise its powers south of capital, admitting that the *divide et impera* principle, played by some external forces, were successful. So, Chisinau responded by ‘holding power’ (stay firm), compelling regional elites to move. One may admit that originally the idea of holding a referendum aimed only to warn or blackmail central authorities, perhaps with the hope that someone will blink; this is why, Gagauz leaders found soon that they lack necessary means to conduct the referendum and applied for help. Ironically, some of them resorted to central government additional funding to conduct a referendum that was declared illegally by a court. To conclude, the holding power statute was relevant only for Chisinau, while Gagauz leaders were compelled to move, and tactical implications of their move, had affected the situation of the radical wings in the political centre of the region, Comrat.

Table 3. Strategic interaction between two competitive actors

	Gagauzian leaders		
		Hold Firm	Back Down
National Government	Hold Firm	0, 1	4, 2
	Back Down	2, 4	3, 3

The case with referendum is telling on how the payoffs are seen when one or both players back down or run to the end of the race. If neither party back down, the result is of confrontation, producing negative outcomes for both. Nevertheless, in November 2013, Gagauz leaders opposed the signature of the Association Agreement with EU, warning to re-escalate political rifts by calling local referendum on this issue. In spite of having the Supreme Court of Moldova outlawed the decision to uphold a referendum; Gagauz Regional Assembly adopted in December 2013 its own Election Code to bypass a previous court ruling that said the decision to hold the referendum was illegal. So, Gagauz played hardball with Chisinau, attempting to challenge its course towards EU association statute, and targeted a competence that is not in the areas of local / regional autonomy attributes (foreign policy is an exclusive attribute of the national government)¹⁸.

¹⁸ Former Governor of Gagauzia, M.Furmuzal did not hide his personal plan, saying that "I think that for the next 10 years it is in our interest to be in the Customs Union (with Russia), and only this would enable us to modernize our economy, secure reliable markets for our goods (RFERL February 03,2014).

Other pro-Russian parties (Socialists) backed the holding of the poll, saying that Chisinau shall listen to its regions. Thus, when Comrat leaders implemented in February 2014 the referendum, local leaders stated they know the results will not be validated, but “people’s support will be necessary in future talks with Chisinau”. In the fall of 2014, the same arguments prevailed in the runoff for regional elections, this time with additional resources and impact from external (Russian) forces. Both, Comrat leaders and other SNGs sought external support, but only in Comrat, regional elites resorted to para-diplomacy¹⁹ to negotiate special conditions, which confirmed thus the existing allegations about the aims to challenge constitutional unity of the country. A generous endorsement for Pro-Russian parties in the Gagauz fief, caravans of celebrities from Russia, to endorse the candidate, backed by Kremlin, had also sent a very clear message in Chisinau that Moscow is using its long-hands and money to shatter territorial integrity and stability. Failing to veto pro-EU course for Moldova, and contemplating the possibility to lose control on Transnistria, Russia will remain highly motivated to use existing footholds to build up a growing stake in Moldova’s political project.

Keeping eyes open to opportunities

In contrast with the special region of Gagauzia, ordinary SNGs (districts, cities and villages) can enjoy some forms of autonomous rule, but under a stronger oversight from the national government. So, while Gagauzia is seen as homogenous conglomerate, other local players (SNGs) are perceived to hold a weaker leverage when negotiating with central government. To follow a single strategy (Si), they shall first coordinate among themselves, calculate the payoffs for their individual members, and later on, based on coordinated positions - attempt to bring the national governments at the negotiations table. But, strategic interaction between competitive actors may imply also that neither actor waste his time senseless. To the consolidation strategy heralded by the SNGs, central government adopt a dominant strategy to dissuade them to act as a unified force, or

¹⁹ Para-diplomacy as an emerging policy capacity of sub-state entities in general can be enjoyed by both the states (or provinces, regions, Länder) of federations and the autonomous entities of otherwise unitary states. The latter are often established to overcome another, not uncommon challenge to state sovereignty—the demand for self-determination by particular communities who normally define themselves qua a distinct (ethnic) identity from the rest of a state’s population and as part of this claim a portion of that state’s territory as their own.

corrupt them as groups or individual actors, based on plenty of leverages under its own control. In response, SNGs (regions) may reply by mobilizing nationalistic leaders and groups of population that demand more rights and access points to the local decision-makers. In the Southern region, Gagauz leaders have competed to attract adjacent Bulgarian settlements to join the autonomy, after 1995. Their failure to incorporate Taraklia tiny rayon into a larger Gagauz autonomy was explained at large²⁰.

Competition of sub-national governments to attract residents or investors keeps them well-motivated to provide public services cost-effectively. While accepting in principle the need to devolve decentralized competencies, central government is usually responding that “its caution to decentralize is explained by inability of the local governments to deal with complex local affairs, constant errors and mismanagement practices, and so on”. So, sharing power with local and regional governments is seen as a risk to worsen the fiscal balance of a state, while devolution as a political process is perceived an “attempt to lose a monopoly of political power”. Since local officials will be elected by local populations, this may let central governments to increase re-distribution of resources to those sub-national governments that are closer in cultural or political terms to the party in power. It may occur also that when center’s leverage fails, subnational governments join alliances to resist against a decaying center, even in the case when this may raise the stake and be perceived as a challenge to the national interests. Devolution remains yet largely an asymmetrical endeavor prone to conflicts and centrifugal rifts, because of the ethnic diversity of Moldova, of a frozen conflict in Transnistria, and failure to pursue a consistent decentralization policy so far. In 2006, Moldova was next to the Baltics to get CoE membership, long before other fSU states did, and Membership obligations largely influenced a political push for subsidiarity. So, National Government opted for three major strategies towards SNGs: (1) incremental decentralization with conventional (district/commune) levels of government, (2) punctuated devolution with authorities of Gagauzia, and (3) mediated talks on ‘common spaces’ with breakaway authorities of Transnistria. All these priorities had to deal with a complex interplay of actors, interests, fears and tradeoffs, also influenced by third parties actions/views.

²⁰ Jeff Chinn and Steven Roper, *Ethnic mobilization and reactive nationalism: the case of Moldova*, Nationalities papers, Vol.23, No.2, 1995

Under constant fire from local authorities, Government of Moldova decided in 2013 to accelerate decentralization, by accepting to adopt a Strategy, Road Map of Actions, but having an incomplete control over its implementation. With so many actors involved, National Government launched this process without delegating a high-level authority in charge for this process. Holding power strategy was the only dominant strategy so far, suggesting that it look at decentralization as a liability rather than a political chance to reform centralized but ineffective governance. “Central Government admits the use of consultations, but never negotiates”, remarks a representative of the SNGs²¹. On various occasions, the Government makes use of 3-party format of negotiations (government-unions-business), but accepts to engage in talks only when some professional groups are set to strike (farmers, unions, professional groups, such as teachers, doctors, municipal service providers, etc). In some instances, games are played as cooperative interactions, when players can negotiate coalitions, based on binding and enforceable agreements, while non-cooperative games involve players that act alone. Cooperation creates binding agreements, helping players to share common interests and even codes of conduct (win-win), while non-cooperation is based on the logic of ‘winner takes all’. What is also true is that players can signal their preferences towards cooperation or non-cooperation, projecting new sequences of the game between interactive participants. They shall know however the payoffs and costs of their decisions, but one shall admit that lack of information can affect their objective reasoning. But, competitive games are played in long sequences; therefore the theory infers that in each of the game, all involved Players will be able ante tempted to adjust their strategies, if this will be necessary.

Why Decentralize and for what?

Decentralization means power-sharing for decision-making powers. As a related concept, deconcentration defines a re-localization of operations, rather than full-fledged power-sharing between various tiers of government, preserving the control to the central government over distributed resources. Of course, decentralization does not mean erosion of the central control nor of powers over issues and processes with national dimensions, keeping the political, administrative, fiscal and other related fields as operational circuits,

²¹ Interview with the CEO of the Congress of Local Authorities of Moldova (CALM), August 15, 2015

where central and local interests are integrated. The subsidiarity principle states that public service authorities must be exercised by the lowest level of government unless a convincing case can be made for higher level assignment. Unitary states do have a single or multi-tiered governments, in which effective control of government functions rests with central government, while federal governments do have multilayered structures with decision-making shared by all levels of governments. With the exception of con-federal Switzerland, all other European states follow unitary or federal models of government. Often, governments accept to devolve its powers to achieve national unity while paying tribute to existing claims for autonomy or even separation.

Political decentralization diminishes the likelihood of regional autonomy mobilization, affirms Hirschman, who believe that “political autonomy is likely to decrease the motivations of regional autonomy entrepreneurs by increasing the likelihood of loyalty to the state”²². In contrast, other authors affirm that decentralization contributes to the emergence of regional autonomy movements²³. Roeder (1991) and Treisman (1997) state that devolution of power and the creation of regional self-governing institutions enable political entrepreneurs to maximize their mobilization strategies, while further expanding the level of authority granted by state. Special autonomy status, as a form of politicized regionalism, is but a mechanism to further compete with central governments, based on the acquired already competencies and mechanisms at hand. Analyzing Catalonia and Quebec in full details, Kymlicka (1998) concludes that ‘federalism, may not provide a viable alternative to secession in multinational states²⁴, but that moving in this direction may actually induce more people to think that ‘secession is a more realistic alternative to federalism’. So, governments may adopt different instruments of conciliating their differences with sub-national governments – they can repress or integrate their claims, every strategy adopted by the central government will incur different types of behavior on the agents. Thus, accepting to devolve power to the regions, a state will adopt a policy to empower regional communities in political terms via decentralization of services (localization of decision-making), fiscal federalism, and other goods that make elected

²² Albert O. Hirschman, *Exit, Voice and Loyalty: Responses to Decline in firms, Organizations, and States*, Mass, Harvard University Press, 1970

²³ Ronald Rogowski, Edward A.Tiryakian, *First World nationalisms: Class and Ethnic Politics in Northern Ireland and Quebec*, in *social Forces*, vol.66, No.2 (Dec. 1987)

²⁴ Kymlicka (1998), p.142

officials accountable before their constituencies. This assumption is based on the 'benevolent' character of the central government, which accepts or even advocates for public good.

Not always economic and fiscal benefits are the original drivers for decentralization however. Political considerations always prevail when setting the course towards power-sharing. Not only optimization of resources, nor the delivery of services, but the runoff of different conflicts, mobilization of regional groups, often ethnic or economic, defines the outcomes of interaction. In decentralization, we identify players according to their strategic interaction affecting distribution of resources, which involves bargaining, chip-setting, alliance formation and conflict mitigation. They make choices according to their self-identification and expected outcomes. For instance, actors may want to negotiate if they feel (subjectively) that they may get an enhanced status or may suspend negotiations if the outcomes will not maximize their expected utility. As instrumentally rational players, subnational governments are purposeful actors; they define goals and are consistent with their interests. Of course, outcomes may vary according to subjective perceptions, as well. A regional autonomy movement (RAM) is a political organization seeking to express regional affinities and promote goals and interests associated with territorial units below the state level. It incorporates ad hoc advocacy groups, popular fronts, electoral blocks, forming different interests, and is able to adopt strategies for attaining these goals. Some of these strategies stipulate explicit references to alter the institutional configuration of the state, as they claim their region is 'under-represented', under-developed or ignored by the central power.

In 1972, Oates postulated the theory of fiscal federalism for the organization of intergovernmental fiscal relations, stating that in the presence of diverse preferences and needs, provision of services from a decentralized government will lead to increased citizens' welfare. The theory attempts to articulate a fundamental problem: to which level of government should the authority to tax and provide goods be allocated? One tenet of the literature holds that this choice depends on the size of regional or local public good spillovers and differences in preferences for (or costs of provision of) public goods between regions; when they are small, and difference across regions large, then decentralization is preferred and if the reverse holds, centralization is preferred. Administrative decentralization will enable local governments with the competence to hire and fire local staff,

while fiscal decentralization will ensure that all local officials weight carefully the joys of spending someone else's money and the pains with raising revenues. Miodownik and Eidelson (2004) examine the impact of various strategies of the central governments on three types of behavior of the agents acting as groups: ethno-political mobilization, secessionist activity and secession. They find that repression by the central government can reduce ethno-political mobilization fairly efficiently. A 'strong arm' would mean more sticks than carrots (repression against benefits), while in other case, governments may want to reduce secessionist appeal by addressing the region with new inclusive policies, delegated powers and voices of representation).

The underlying question is why some of the regions succeed to receive significant political representation, while others not? Why the transfer of power and competencies (fiscal, political, cultural) to elective bodies representing these regions may appease regional grievances and also, can reduce the likelihood of and support for regional autonomy movements, and in other instances they will not? Why central governments refute insistent claims for some populations, based on judgments and antecedents that often fail the logical filter of necessity²⁵. Decentralization is often a tradeoff between actors. They decide to act cooperate /C/or defect /D/, based on their own estimates of benefits or costs (Payoffs), signaling their preferences, based on the information they can get. If Player One demands an increase of local taxes, then Player Two shall resolve a dilemma: is Player One serious, and what will be the payoff if his demand will be met or remain unsatisfied. This means that temptation /T/ to maintain a status-quo /SQ/ is greater for the actors that do not see an improvement of his position. The structure of payoffs can reveal both actors incentives to cooperate or defect, or brake the move until a better solution emerges. Conflict /Defection/ may become a dominant strategy for both Players, if cooperation does not lead to satisfactory payoffs. Nevertheless, payoffs /P. P/ will be lower than Rewards /R, R/ if they would have cooperated under a dominant strategy /C/. One shall observe however that cooperation does not result from adding mechanical sums, but from subjective indicators of trust, of willingness to cooperate, and the fear to get the lowest payoff (F) in case of failure. So, a predictor of cooperation between Players could be estimated by the following fraction: $CI = (R-P)/(T-F)$. Choosing to cooperate however,

²⁵ Claims for autonomy emerged from both Gagauz and Bulgarian ethnic communities, but only Gagauz population was able to mobilize and get a recognized autonomy.

they have to trust that their opponent will also cooperate and take the risk of getting the lowest payoff – S (taken to be 0 in the present experiment). Rapoport and Chammah (1965) have proposed the quantity $CI = (R-P)/(T-S)$, called cooperation index $/CI/$, as a predictor of the probability of C choices, monotonously increasing with $/CI/$. Cooperation will require both interacting players compromise and forego their individual max payoffs. Yet translating the concept of devolution into legal and administrative and fiscal mechanisms appeared far more ambitious than it sounds now.

Conclusions

Game simulation can play an instrumental role in assisting central governments to design successful strategies in a multi-stakeholder environment, to hold power, or outsmart competitors, based on the decentralization goals, means and benefits. Modeling strategic outcomes reveal preferences of the involved players, narratives and expected gains, therefore, players can avoid costly failures or maximize expected payoffs, by channeling its resources into the areas which can influence the rules of the game, perceptions. Central government policies shall be raised and expanded into all regions of Moldova, winning the hearts and minds of the population is the strategy for today, not relying on the force of attraction for a self-sufficient capital. Moldova shall definitely change its strategic vision towards its conflict-prone regions (breakaway Transnistria and the politicized regionalism of Gagauzia), if one still expects to win against reluctant elites, sometimes supported by third-parties (Russia). Since, it cannot change Russian state's reasons to interfere in the Moldovan domestic affairs, it shall not be only focused on the status quo of the aforementioned regions, but identify new goals of anchoring the region to the strategic orientation of Moldova with EU. As examples would be the raising costs for entities, receiving unregistered funds from abroad, develop social projects for the older population, in Gagauzia, tough scrutiny of the financial transactions for companies, allowed by Rosspotrebnadzor to trade with Russian, when the rest of Moldovan companies are not. Moldova shall change its strategic approach on the strategy and means of decentralization; it must regard this policy not as a political liability, but as a vehicle of political transformation of the country's regions, municipalities and business zones, a recognized accelerator for boosting national growth. Playing with regional elites according to the rule, Moldovan authorities can effectively raise up a responsible class of political and economic entrepreneurs that will feed in

the loyalty towards the state, creating the much-expected engines of regional development.

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