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Decentralizing for a Deeper Democracy and a  
More Supple State

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# Decentralizing for a Deeper Democracy and a More Supple State

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## Abstract

Well-designed decentralization can deepen democracy and strengthen the state in five key ways. Decentralizing below the level of social cleavages should undermine secessionism by peeling away moderates from radical leaders. The “fragmentation of authority” critique is mistaken; decentralization transforms the state from a simpler, brittler command structure to one of multilevel complementarity more robust to local failure. Decentralizing services with low economies of scale, with devolved taxation and bail-outs prohibited, should increase accountability. Lastly, the small scale of local politics allows citizens to become political actors, promoting social learning-by-doing, strengthening political legitimacy and ‘democratic suppleness’ from the grass-roots upwards.

**Keywords:** Decentralization; state strength; fragile states; social learning; government accountability; political legitimacy; elite capture; secession; subnational governance; public services.

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## Introduction

Can decentralization strengthen democracy, or is it doomed to weaken the state? Decentralization<sup>5</sup> has been widely advocated as a means of strengthening democracy in developing countries since the 1970s. It has been promoted as a way to ensure political pluralism and enhanced accountability in service provision. The policy response has been highly enthusiastic, with most of the world's countries experimenting with some form of decentralization over the past three decades.

Yet many analysts worry that decentralization may also weaken the state. Strong states are typically characterized as being able to establish authority over their territory and population. This implies maintaining national unity, enjoying legitimacy while preventing internal conflict or secession, and providing public services and responding to citizen needs. Strong states were traditionally understood as unitary rather than federal, with power concentrated in the executive branch. Centralized states were generally considered superior in exerting authority over their territories, formulating policy independently and carrying out specific goals without obstruction. They were seen as exercising greater control over their populations, ensuring conformity in legal mandates and concentrating power at the top of the chain of command.

The appeal of the 'strong state as centralized state' idea diminished during the 1990's, as decentralization reforms cascaded throughout the world. While centralized states are strong in some respects, they may be "brittle" in others. They may stoke tensions amongst fractious groups, leading to violence. They may be unresponsive, inefficient or wasteful in the use of public resources. And they may facilitate tyranny of the majority or elite capture on a national scale.

A surge of new evidence from diverse countries provides a basis for settling some of these disagreements, and also correcting some of the fundamental misunderstandings of how decentralization affects democracy and state strength. This study uses such evidence to re-conceptualize some of the key tradeoffs regarding decentralization, democracy and state

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<sup>5</sup> Although the literature distinguishes several types of decentralization, we focus on the variant that we consider analytically most powerful: a reform that establishes or increases the political power of subnational governments via the devolution of power and resources to locally elected subnational officials. This is different from administrative deconcentration, where the central government delegates functions to local agents but retains decision-making control; or delegation, where managerial responsibility is transferred to organizations outside the regular bureaucratic structure; or privatization, where state assets and responsibility for service delivery are transferred to the private sector.

strength, and then offers practical guidance to assist policymakers and scholars in navigating the potentials and pitfalls of reform. We review the arguments and evidence on how decentralization may weaken or strengthen the state, focusing on the following questions:

- Does decentralization encourage secession, or help hold diverse populations together?
- Does decentralization exacerbate or mitigate internal conflict?
- Does decentralization weaken or strengthen the state's ability to formulate policy autonomously and compel compliance with the law?
- Does decentralization improve public service delivery?
- How does decentralization affect social learning?

Most of these outcomes, as we shall see, are contingent. We discuss the factors that drive different possible outcomes, and suggest feasible reform paths. We argue that decentralization can deepen democracy without compromising state strength if adequately designed. Well-designed decentralization can foster higher levels of participation and legitimacy, which lower the costs of maintaining order, compel respect for the law, and reduce the need to project power. Moreover, an ability to mobilize resources and provide services in a context of low opposition and modest transaction costs will bolster the legitimacy of the democratic practices that underpin these results. Lastly, we show how decentralization can increase social learning, producing a dynamic that strengthens the state from the grass roots upwards.

Just as the flexibility of an aircraft's wings increases its resilience through their capacity to dissipate shocks, we argue that decentralizing a state may increase its democratic strength by making it more "supple". By increasing the density of government structure in terms of elected local and regional representation, decentralization can generate more feedback loops and increase the overall level of accountability to which government is subject. This serves to both increase the state's sensitivity to local complaints and conditions, and increase its options for response through overlapping responsibility and multiple redundancy in the policy realm. Simply put, in a centralized system a citizen has one authority to appeal to. In a decentralized system she has several, each with its own powers and independent incentives to listen. All else equal, she is more likely to get satisfaction for at least some of her concerns in the latter. And by bringing government "closer to the people", decentralization may increase participation in state-building processes from the ground up.

## Maintaining national unity

A key component of state strength is the ability to exert authority over a territory and its population. Many developing states were born out of international agreements, often with arbitrarily defined borders based on colonial partition more than social or political characteristics, with little to hold them together beyond guarantees by the international system. They exist *de jure* but, unlike European states in which power over a territory and its population generally came first and sovereignty and international recognition followed, many developing countries have not been able to consolidate power in order to achieve the internal consent or territorial reach necessary to exert authority over the entire state.<sup>6</sup>

Many developing countries are instead made up of different ethnic groups spread over sometimes vast geographic areas, each with its own customs, language, and culture. A consciousness of common nationality is often lacking. Citizens do not feel represented by the government, and perceive that leaders cater mainly to people of their own tribe or region, rather than to all citizens equally. In addition, parallel or rival forms of authority (e.g. traditional chiefs, religious leaders, or drug lords) may supersede the authority of the state. For these reasons many states suffer from disunity within, sometimes resulting in violent conflict or secession.

How does decentralization affect national unity? By dispersing power from the center to many subnational units, decentralization may deepen divides between groups by reinforcing local cultural or ethnic identities, undermining efforts to build a single, national identity. Decentralization can also give subnational leaders the resources and ‘institutional weapons’ they need to mobilize the local population and demand more political power from the center, thereby raising secessionist tensions. Beyond funding political parties and campaigns, this may well extend to supporting armed insurgencies and investing in the sorts of violence against civilians that peace talks cannot later reconcile. The recent history of the Balkans richly and sadly illustrates this dynamic.

Decentralization may also lead fractious groups to demand ever more autonomy. With more power and independence, and with subnational leaders more experienced in governing, decentralized areas may realize they can manage their affairs better on their own. For such reasons, former British Prime Minister John Major refused to devolve powers to Scotland, claiming it was “the Trojan horse to independence” that would lead to friction and eventually

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<sup>6</sup> Jackson, R. and Rosberg, C. (1986). “Sovereignty and Underdevelopment: Juridical Statehood and the African Crisis,” *Journal of Modern African Studies*, 24(1): 1-31.

demands for full independence.<sup>7</sup> The Labour government that followed did devolve powers, and a referendum for full Scottish independence followed. Elsewhere, a number of regions have seceded after first setting up their own decentralized institutions. South Sudan is one recent example.

Other arguments suggest, instead, that decentralization can strengthen state authority. Decentralization brings government ‘closer to the people’. When small subnational governments with decision-making powers are created throughout a country, citizens can more easily raise concerns with public officials; the closer government authorities are to them, the more they are likely to work with them. Decentralization can thus give the state greater presence and reach, enabling citizens in every corner of the state to have their interests reflected in policy and public services.

Similarly, bringing locally elected subnational leaders from different segments of the country into government, thereby giving representation to people of different groups, may make formerly excluded parts of the population feel better represented and included. Where divisions are defined territorially, decentralization is said to promote the formation of multiple but complementary identities where citizens can simultaneously carry both an ethnic identity and identify with the polity as a whole. By giving territorially concentrated groups the power to make their own decisions about issues that most interest them, decentralization can accommodate diversity and protect groups against abuse or neglect from the center, or from one another. Decentralization can thereby act as a pressure valve for nationalist aspirations. In Canada and Spain, for example, decentralization has been deemed a success in keeping fractious provinces like Quebec and Catalunya from seceding. In the UK, the devolution of regional powers to the Northern Ireland Assembly was the critical element that made successful peace talks with the Irish Republican Army possible.

Can decentralization be designed in a way that holds fractious groups together rather than promotes secession? Yes – by decentralizing power and authority to a level *below* that of major ethnic, linguistic, or other identity groups. In this way, empowered subnational units will tend not to be identified with group identity or privilege. Rather than stoking divisive tensions, local government will instead become identified with issues of efficiency and service provision. In a country where an ethnic minority is concentrated in one region, decentralizing to the regional level is far more likely, all else equal, to reinforce ethnic

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<sup>7</sup> Quoted in Brancati, D. (2009). *Peace by Design: Managing Intrastate Conflict through Decentralization*. Oxford: Oxford University Press.

divisions and place authority and resources in the hands of those with most to gain from national breakup. Decentralizing to the local level, by contrast, will create many units of any given ethnicity, and most likely others that are mixed. No level of government will be associated with any particular ethnicity, nor with ethnicity per se. Comparisons across local governments will tend to focus more on issues of competence in service provision than identity, revindication, or pride. Nigeria is a good example of the benefits of drawing boundaries in this way.

Complementary reforms that promote a single internal market for goods and services nationwide can also help by preventing the development of elites with regionally-specific economic interests who might gain from national schism. These would instead be substituted by elites whose assets or historical bases might be in a particular region, but whose economic interests are multiregional, and who therefore have a strong interest in national integrity and growth. Specific measures such as improved infrastructure and transport links can help bring this about, in addition to facilitating the flow of people and ideas across an economy, so binding it together from the bottom up.

### **Mitigating internal conflict**

By empowering a new set of players, decentralization has a strong tendency to shift the intrastate balance of power. This can be dangerous. Power shifts and disruptions in political settlements can cause conflict. And conflict can be stoked with a view to shifting the balance of power, as discussed above. On the other hand, power shifts can also be used to diffuse conflict. Where conflict already exists, decentralization can be designed in ways that mitigate or inflame violence. The difference between mitigation and inflammation depends on a country's specific balance of power, and the political bargains and settlements of the players involved.

Decentralized governments that are responsive to national minorities will drain tensions from the polity. But local governments that become 'little tyrannies', ignoring or oppressing local minorities, will stoke tensions. Decentralization has produced local leaders who discriminate against minorities in their own regions. For instance, allowing parts of northern Nigeria to adopt their own (Sharia) law has aggravated rather than defused tensions between Christians and Muslims, when the Christian minority was forced to comply.<sup>8</sup>

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<sup>8</sup> Brancati (2009).

To combat this, decentralization should be designed with strong local accountability mechanisms that align local leaders' incentives with the will of local citizens, and allow voters to hold politicians responsible for their decisions. Additionally, central government should enact strong safeguards of minority rights nationwide, to which individuals and groups can appeal in any locality.

Decentralization can be a key component of a power-sharing arrangement that settles power struggles between different groups in society. Political decentralization creates new fora for political competition, and hence new prizes over which opposing parties can compete. This solves the winner-takes-all problem inherent to centralization, where parties in government wield huge resources and reap huge rewards, and opposition parties are left to wither. In a federal system, by contrast, opposition parties can still win power over states and local governments, and hence enhanced voice in national debates and opportunities to display competence.<sup>9</sup> The penalty of losing national elections is much less steep, and so the temptation to win at any cost greatly lessened. This can starve violence of the oxygen that feeds it, and help cement the peace in a post-conflict environment.

For exactly this reason, decentralization has been advocated for Iraq and Afghanistan, though results are so far unconvincing. In Ethiopia, by contrast, reform is linked to solid material, though not democratic, progress. Decentralization was key to the settlement that ended the civil war, in which a victorious coalition of regional militias agreed to divide the country into 11 federal regions, each dominated by a party linked to one of the militias. This fragmented the political opposition and helped the ruling party maintain its grip on power. It also secured the peace, paving the way for an economic recovery that eventually made Ethiopia the fastest growing economy in Africa (Khan et al. 2014). Regional and local governments became important conduits for increasing investments in education, agriculture, and health, which helped drive strong progress towards the MDGs. We can thus view decentralization in Ethiopia as a two-sided coin: crucial for maintaining the post-war peace, but also a means for oligopolizing power and perpetuating the rule of a dominant coalition.<sup>10</sup>

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<sup>9</sup> O'Neill, K. (2003). "Decentralization as an Electoral Strategy," *Comparative Political Studies*, 36(9): 1068-1091.

<sup>10</sup> Green, E. (2011). "Decentralization and political opposition in contemporary Africa: evidence from Sudan and Ethiopia". *Democratization*, 18:5, 1087-1105; Khan, Q., J.P. Faguet, C. Gaukler, and W. Mekasha. 2014. "Decentralization's effects on education, health and agriculture outcomes, and on distribution: Evidence from Ethiopia." Conference paper for the first Annual Bank Conference on Africa, Paris, June 2014; Lefort, R. 2013. "The Theory and Practice of Meles Zenawi: A Response to Alex Dewaal," *African Affairs*, 112/448, 460-470; Khan, Q., J.P. Faguet, A. Ambel and C. Gaukler. 2015. "The Triumph of Upward Accountability: Federalism and Inequality in Ethiopia", Department of International Development Working Paper, London School of Economics.



But in other cases, decentralization may merely shift conflict downward rather than eliminating it altogether. Uganda's government under President Yoweri Museveni implemented a decentralization program in 1986 in order to reduce national-level conflict. While successful in this regard, the ultimate effect was arguably to replace conflict at the top with conflict at the local level.<sup>11</sup>

How can decentralization be designed in ways that promote power-sharing? A properly operating decentralized system should naturally lead to the sharing of powers that have been devolved to different subnational levels of government. Few additional reforms are required other than the avoidance of electoral and fiscal distortions. In countries where politics is closed or captured, measures that promote open, competitive local politics will tend towards fairness and power-sharing, and away from capture and conflict. Electoral finance laws that support a level political playing field have particular importance in this regard, as one of the most powerful and prevalent ways in which democracy is distorted is through the flow of money into campaigns. Where political competition is open to new entrants and the playing field is level, elections will tend to be fought over issues of substance to local voters. In such places, political conflict and violence will tend to transform naturally into electoral contestation, which is less risky for participants.

### **Formulating policy autonomously and compelling compliance with the law**

Further important components of a strong state are the ability to formulate policy goals autonomously, and compel compliance with policies and the law, while remaining independent of pressures from particular groups in society or competing authority structures. This implies independence not just of politicians from powerful interests, but also of the bureaucracy that implements policy decisions. A typical tool for achieving the latter is an organized, professional cadre of civil servants that achieve policy continuity, stability of expectations, and decisions more attuned to the general interest of society rather than specific groups or individuals. States possessing such characteristics are likely to retain broad legitimacy in the eyes of their citizens.

By contrast, an inability to implement goals or to police effectively, and the subversion of policy objectives by government agents (agency loss), are considered characteristics of weak states. Such states often feature neopatrimonial, personalized rule, and systemic privatization of public assets and benefits. States are also considered weak when their

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<sup>11</sup> Green, E. (2008). "Decentralization and Conflict in Uganda". *Conflict, Security and Development*, 8(4): 427-450. ISSN 1478-1174.

political institutions – e.g., constitutions, electoral rules – are often altered or ignored in practice. If the “rules of the game” change frequently, this is said to undermine confidence in the state and its ability to make credible commitments, in turn undermining its ability to generate shared behavioral expectations that shape and strengthen political structures.

Will decentralization improve the state’s ability to take autonomous decisions and implement them? At first blush, the answer would appear to be no. Decentralized countries with more than one level of government tend to involve more players, some of whom may have veto powers over policy decisions. In centralized countries, by contrast, the command structure is cleaner, simpler, and decisions easier and faster to execute. Decentralization can lead to a loss of control at the top, and an inability to act quickly or in concert. It may weaken coherence between local and national policies. For example, it may be more difficult for the central government to exercise fiscal discipline if it has granted spending powers to subnational governments, leading to macroeconomic problems, as occurred in Argentina and Brazil in the 1990’s. Centralized governments, by contrast, can take decisions more efficiently, and implement them with more authority.

Proponents of decentralization reply that having more players in the decision-making process is actually a benefit, as it leads to greater policy stability. Dramatic policy switches, which would require coordination amongst more independent agents, are harder to achieve, and hence less likely. The resulting policy stability makes the state stronger.

These are the typical answers provided by the policy debate, and they are somewhat superficial. A better answer is rooted in an analysis of decentralization in terms of actors, incentives, and complexity. Decentralization should be viewed neither as a simplistic choice between “strong” centralized government and “weak” decentralized government, nor low vs high transaction costs. It should be viewed, instead, as a move from a centralized command structure that is simpler and cleaner, but ultimately more brittle in the sense of susceptible to failure in any of its parts, to a system that is more complex, based on more actors with independent sources of overlapping authority, where coordination and cooperation are far more important than command and control for the system as a whole to operate well. This greater complexity is more difficult to manage, and coordination harder to achieve than command adherence. But it also implies greater *suppleness*.

Hence in a centralized system, corruption or ineptitude amongst the officials responsible for, say, local education will have serious consequences in that locality. In a decentralized system, by contrast, the same failings in national government can be attenuated

or even overturned by the actions of regional and local authorities, as recent evidence from India, Bolivia and Colombia shows.<sup>12</sup>

A better way of framing the key trade-off in question is between the strength of the leader and the strength of the state as institution. To the extent that the leader has more discretion, her power increases and she can effect greater, faster changes to public policy and organizations. The leader is stronger at the expense of the state. But where her discretion is circumscribed by rules, procedure, and the need to agree decisions with other independent actors in order to proceed, then the state is stronger and more stable at the expense of the leader. By increasing the number of independent actors and requiring a measure of consensus amongst them for policy-making to proceed, decentralization weakens central leaders and creates or empowers subnational leaders, thus increasing the strength of the state by strengthening it institutionally.

But local governments may be more vulnerable to interest group capture of the local political process, and to distortions of political representation in small electoral environments. Where these phenomena exist, interest groups can gain a decisive influence over local government, and decentralization will tend to favor these small local groups disproportionately. Local elites are “large” compared to local civil society and local governments, which will often be too weak to oppose them and may even internalize elite priorities as their own. In such a context, policy autonomy is lost, as decentralization produces weak local governments that are cowed and captured by local elites. In Indonesia, for instance, old predatory interests in North Sumatra reconstituted themselves to capture local politics after decentralization, while corruption thrives throughout the country as authoritarian local elites collude with political bosses to capture local governments and resources.<sup>13</sup>

While the local capture argument has much merit, it underplays the comparative threat that elite capture poses at the national level. The much greater rewards from distorting national policy-making lead the richest interest groups to invest enormous sums in capturing national government. When successful, this gives such interests powers and privileges

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<sup>12</sup> Muralidharan, K. and V. Sundararaman. 2013. “Contract Teachers: Experimental Evidence from India.” NBER Working Paper 19440, <http://www.nber.org/papers/w19440>; Faguet, J.P. (2012). *Decentralization and Popular Democracy: Governance from Below in Bolivia*. Ann Arbor: University of Michigan Press; Faguet, J.P. and F. Sánchez. (2014). “Decentralization and Access to Social Services in Colombia.” *Public Choice*, 160(1-2): 227-249. DOI 10.1007/s11127-013-0077-7.

<sup>13</sup> Aspinall, E. and G. Fealy. 2003. *Local Power and Politics in Indonesia: Decentralisation and Democratisation*. Singapore: Institute of Southeast Asian Studies; Aspinall, E. 2010. “The irony of success.” *Journal of Democracy*, 21(2): 20-34.

enormously greater than anything available through local capture, with potentially deleterious effects for an entire nation. Elite capture is a real threat. But it is a threat for all kinds and levels of government. Central policymaking is not necessarily autonomous policymaking. The question is how to combat elite capture both nationally and locally. The answer lies in the accountability and transparency measures described above. But achieving transparent, accountable government is far, far more difficult than wanting it. It is a long-term project requiring not one-off measures, but rather sustained action and constant vigilance. The recent slaughter of 43 students in Guerrero, Mexico by corrupt local officials in league with the police reminds us just how big the challenge is, and how difficult implementing these ideas is likely to be.

The greater decision-making efficiency of a centralized state may come at the expense of implementational efficiency. Although a centralized state may be more process efficient in the formulation of policy, it may face an uphill battle in ex-post implementation, where the participation and cooperation of citizens and groups is necessary. A central problem in implementation occurs when policies designed centrally are ill-suited to local conditions. By granting opportunities for participation to regions and local governments in policy design, decentralized decision-making will respond more precisely and dynamically to diverse local conditions, will tend to be regarded as more legitimate, and is likely to gain greater compliance from civic actors. Decision-making may be slower, but the resulting decisions are more likely to “stick”.

Lastly, in many highly centralized states local government structures are simply non-existent. Exposure to new, vibrant local governments can strengthen the state by expanding its presence, providing citizens with more direct interactions with government and elections, thereby improving the perception of state responsiveness and enhancing the legitimacy of national governments. For instance, prior to decentralization most of the Bolivian countryside lacked any form of local administration that provided services or represented citizens. Following decentralization, elected local governments accountable to local voters sprang up throughout the land. In countless interviews, poor rural citizens responded to the question “How has decentralization affected your life” with assurances that they finally felt Bolivian, that decentralization had given citizenship meaning, and that at last there was evidence that they mattered and the state cared for them.<sup>14</sup> In Bolivia, the spread of local governments, a

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<sup>14</sup> Faguet (2012).

stable local bureaucracy, and the services they provide have clearly strengthened the state in citizens' eyes.

### **Responsive, accountable public service delivery**

Another marker of a strong state is the ability to carry out efficient policies that are responsive to public needs. Providing basic services to the population is regarded as a basic function of the state. States that do so well may be regarded as more legitimate and authoritative, in turn building state strength further.

One of the most frequently cited and powerful arguments in favor of decentralization is that it will have a positive impact on government responsiveness. By allowing government to tailor decisions to the specific demands of the local population, decentralization facilitates matching resources with citizen needs more precisely and cost-effectively. Additionally, competition between subnational governments for residents and investment may induce them to improve services.

Decentralization is further expected to enhance public services by improving accountability and responsiveness of the government to citizens. By bringing decision making power closer to the represented and creating popularly elected positions at the local level, incentives for accountability can be transformed. Rather than local officials being accountable mainly to their superiors in higher levels of government, they become accountable to their constituents as they become dependent on them for their votes and tax revenue. It is also generally easier for citizens to scrutinize, participate in, and make demands of nearby local administrations than of a distant central government in a far-off capital. In both Bolivia and Colombia, for example, shifts in incentives and accountability relations have altered investment decisions nationwide, resulting in significant improvements in basic service delivery.<sup>15</sup> In Ethiopia, too, decentralization from the 1990s devolved spending powers to the regions, allowing funds to reach many previously neglected poorer local governments (*woredas*) for the first time. The shift in spending decisions that resulted improved health and education indicators markedly in these localities.<sup>16</sup>

A related argument is that decentralized structures can leverage local social capital to improve government performance. A high density of civic organizations that encourage people to work together and build trust can foster behaviors that make for better performance.

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<sup>15</sup> Faguet, J.P. and F.B. Wietzke. (2006). "Social Funds and Decentralization: Optimal Institutional Design." *Public Administration and Development*, 26(4): 303-315; Faguet (2012); Faguet and Sánchez (2014).

<sup>16</sup> Khan et al. (2014).

Where social trust and civic organization are present, local government will have a strong tendency to respond to local needs more precisely and effectively, and work with less waste and corruption, than would otherwise be the case. This appears to have worked in northern and central Italy and many parts of Bolivia.<sup>17</sup> Researchers are skeptical that social capital of this sort can be built by centralized government.<sup>18</sup>

Other arguments counter the view that decentralization will improve government's ability to respond to basic needs and services. These include the loss of economies of scale, and the possibility of elite capture described above. Opponents of decentralization argue that decentralization will increase the discretion of local elites in the distribution of public goods, and can strengthen patron-client relationships. Also, subnational governments may not have the same technical or human capacity to provide services with the same efficiency and quality as central government. Studies of federal systems have tended to find that central governments are more effective at making equitable allocation decisions, especially for assisting the poor. And politically induced interregional inequality can lead to conflict, weakening the state.

Overspending by subnational governments is another potential risk of decentralization, which can cause fiscal imbalance and macroeconomic problems, critically undermining state stability and strength. These risks can be combated by decentralizing not only expenditure but taxation too, prohibiting bail-outs, and setting hard budget constraints. These measures are likely to bolster local governments' incentives to tailor local policies and services to the priorities of those who pay. And citizens will have a greater incentive to monitor the use of funds. Hence fiscal problems are not a result of decentralization per se, but of badly designed decentralizations, and can be remedied in a technically straightforward fashion by altering rules and the subnational incentive structure. Likewise, the question of loss of economies of scale can be addressed through well-designed decentralization. A decentralization that loses important economies of scale is a badly designed reform. Any rational decentralized system will involve continuing co-production of public goods and services at the central, regional and local levels. Goods with large economies of scale should be produced centrally, and those with significant heterogeneity or local informational inputs should be produced locally.

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<sup>17</sup> Putnam, R. (1993). *Making Democracy Work: Civic Traditions in Modern Italy*. Princeton University Press; Faguet (2012).

<sup>18</sup> Fukuyama, F. (2004). *State Building: Governance and World Order in the 21<sup>st</sup> Century*. Ithaca, NY: Cornell University Press.

## Social learning

We have seen that well-designed decentralization can strengthen the state by averting secessionist tendencies and conflict, enhancing compliance with the law, and improving service delivery. We now turn to a mechanism through which decentralization can serve to strengthen the state: social learning. The effects of decentralization on state strength via social learning may ultimately be the most powerful of all, not least because it operates through each of the components discussed above, as well as in other ways.

The key to understanding social learning is that it occurs over time and thus requires dynamic analysis, unlike most of the literature, which uses comparative static analysis to discuss decentralization's effects on both technocratic (e.g., education investment) and governance-related (e.g., compliance with the law) issues. Social learning can be thought of as a dynamic view of the idea of social capital discussed above, with stronger micro-foundations. It hearkens back to Tocqueville's focus on the role of civil society in democracy, and his celebration of America's vibrant associational life.<sup>19</sup>

Decentralized government accelerates social learning over time in a way that centralized government does not and, for most people, cannot. This is because decentralized government operates at a community level that is susceptible to personal action and initiative, as opposed to regional and national governments that operate through elected or delegated representatives, where agency is exercised through higher-order collectives. The small scale of local politics allows citizens to become political actors either individually or through civic organizations. Such organizations are often informal, with small or no budgets, and rely on volunteers to staff critical positions. They are ideal entry-points for naïve citizens to first encounter politics, expose themselves to political debate and public decision-making, and become politically engaged.

Social learning is a learning-by-doing phenomenon, and hence relies on direct interactions amongst citizens. Local government provides ordinary citizens with real access to repeated interactions on matters of public policy and resources, both directly with the local government apparatus and indirectly through civic organizations that debate positions and compete with firms, other interests and each other to influence government. It does so for the common citizen in a way that central government, with its high resource thresholds,

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<sup>19</sup> Tocqueville, A. de. 1994 [1835-40]. *Democracy in America*. P. Bradley (ed.). trans. H. Reeve. London: Everyman's Library.

professionalized organizations, formal and intricate rules and norms, and obscure jargon, cannot.

To better understand this, let us consider some elemental tasks that are crucial to democracy, but which are commonly overlooked. For democracy to represent and then act on the will of its citizens in a way that is fair and responsive, it must be able to: (i) identify and articulate shared preferences and opinions, (ii) aggregate shared preferences, and (iii) enforce accountability.

Consider how a new political idea arises in society. Only some of an individual's many needs and preferences are shared with others. For politicians to be elected, they must identify those needs shared by the most voters, articulate them in ways voters find convincing, and propose viable policy solutions. By making people realize certain demands are shared, politicians convert private into public preferences; they create political voice where before there was none.

Once the public has been convinced that certain policy ideas are important, society must weigh competing demands and the tradeoffs they imply, and choose which options to pursue. In other words, social preferences must be aggregated. This is where political process and government come in, trading off the needs and demands of different groups, firms and organizations in the search for something like a social optimum. This occurs most obviously through elections, where individuals vote for competing candidates offering different combinations of policies, and the most preferred wins. But in a well-functioning democracy it operates in many other ways, continuously, at all levels of society.

Once a polity has expressed its preferences, formed them into political options, and chosen which of these it wishes to pursue collectively, it requires mechanisms for holding politicians to account. In a democracy, citizens must have levers of influence over elected officials that allow them to ensure that: (a) socially-preferred bundles of policies are implemented, (b) with reasonable efficiency. Absent accountability, all the preceding is for naught – an illusion of democratic choice that confers little voice and no power to the people. Regular elections are the most obvious accountability mechanism by which voters can remove unsatisfactory officials from power. But, again, there are others.

Why does decentralization matter? Because scale is determinant and its effects are non-linear. The large scale of central government demands disproportionately greater resources and levels of organization for effective engagement than does local government. Hence the autonomous organizations that populate the space between politicians and voters are open to citizen participation and agency at the local level, but closed to most citizens at the central



level. The overwhelming majority of citizens who might become participants in local governance must remain as voters, onlookers, and perhaps dues-payers where central government is concerned.

Hence the experience of participation and engagement with public decision-making abounds in government in its decentralized, but not its centralized, form. And so experience accrues and learning occurs amongst individual voters and their small-scale collectives (e.g. civic groups, local lobbies). Participation in local government leads naturally to social learning around narrow questions of effectiveness, but also higher-order learning about fellow citizens' needs, resource constraints, and the multiplicative effects of public as opposed to private action for certain classes of problems. The experience of working together teaches people to work together better. A gradual convergence of individuals' perspectives around local needs and service standards ensues, generating greater political legitimacy. Initial impulses to conflict and contestation can be transformed into regularized interaction and cooperation, which induce stores of trust that can be drawn on when real conflict threatens. The workings of central government, by contrast, tend to reinforce the organizational, technical and financial advantages of highly professionalized groups, thus deepening the chasm between policy-making and the ordinary citizen.

Decentralization and local government can thus promote political legitimacy and long-term state-building from the grass-roots upward in a way that centralized government cannot. This is the deeper meaning of a state that is 'democratically supple'. But we see now that 'suppleness' is far more than the linear concept of 'more elected officials'. Democracy as a method of choosing leaders and arriving at collective decisions is deepened, substantively improved, and made more legitimate in the eyes of voters who engage in it directly, locally.

The dynamic described above should operate naturally in a sincerely decentralized system; little is required additionally in terms of complementary reforms or institutions other than the absence of active distortions. Our main recommendation follows logically from the analysis: reformers should decentralize to government units sufficiently small for individuals and their voluntary organizations to actively participate in decision-making and regularly impact outcomes. The degree of non-linearity of resource and organizational thresholds required for effectiveness will vary by country and level of development. But for a "typical" developing country, a local government in which citizen participation is viable might number in the tens of thousands of inhabitants, as opposed to hundreds of thousands or millions. It should also be sufficiently geographically compact that an ordinary citizen at one edge of a local government has some direct knowledge of how her similar at the other extreme lives.

The existence of small units with populations below 100,000 does not imply the abolition of larger units providing services and intermediating between citizens, localities, and the central government. Rather, it is the simple extension of our logic of decentralization to the developing world's mega-cities. It makes no sense to laud the potential of decentralization to small units in, for example, rural areas, but arbitrarily limit it in urban areas to cities of several million inhabitants. In order to reap the full benefits of reform, suitable services with few economies of scale and low spillovers should be further decentralized below city level, to boroughs, local councils, and the other sub-metropolitan units that naturally occur in most countries. Examples include trash collection, street lighting, local parks, and primary education in cities like La Paz and London. City and state governments would retain dominant roles coordinating across these sub-units, and financing and managing more sophisticated services and assets, such as tertiary education and healthcare, urban transport, and most environmental services. But the fact that a citizen lived in, say, Mumbai rather than a village would not prohibit her from meaningful political participation.

### **A deeper democracy, a more supple state**

How does decentralization affect five key elements of state strength: (i) National unity, (ii) Mitigating conflict, (iii) Policy autonomy, (iv) Responsive service delivery, and (v) Social learning? Theory is indeterminate on decentralization's impact on the first four components, and the fifth has been largely ignored. But a surge of evidence over the past two decades from real policy experiments provides a basis not only for settling theoretical disagreements, but for reconceptualizing decentralization's effects on the state in fundamental ways.

Where conflict and national unity are concerned, the key question is whether decentralization will stoke centripetal or centrifugal forces. We argue that a well-designed reform that decentralizes power and resources to a level below that of major social or regional cleavages is most likely to identify local government with issues of efficiency and service provision, as opposed to social identity and grievance.

Regarding policy autonomy and upholding of the law, interestingly, the literature is divided between claims that decentralization will strengthen vs. weaken the state. We argue that both perspectives are wrong because they fundamentally misunderstand one of decentralization's central effects. That is the transformation of politics from a top-down, national theater subject to oligopolization by a small urban elite, to a bottom-up meta-theater embracing many local theaters where local politicians are pressed to address specific

concerns. It represents a move from a simpler command structure that is ultimately more brittle in the sense of being susceptible to local failure, leading to government failure, to a system based on more actors with independent sources of overlapping authority, with complex complementarities amongst them, which as a whole is more robust to failure in any of its parts, and hence more supple. Decentralization strengthens the institutions of government, their accountability and legitimacy, at the expense of central leaders' discretion. We think this is a good trade-off.

Whether decentralization will increase or decrease the responsiveness and accountability of public services is another major cleavage, and another major misunderstanding. We argue that the dangers are not problems of decentralization per se, but rather of badly designed reform. They can be overcome in a technically straightforward way by decentralizing only activities with low economies of scale, devolving taxation, and prohibiting bail-outs and/or subnational debt.

Lastly, social learning is likely to accelerate in a decentralized environment, where the small scale of politics allows citizens to become political actors either individually or through their civic organizations. In a learning-by-doing fashion, decentralization makes citizens better at democracy across all stages of the formation and aggregation of public preferences, and the enforcement of accountability. It promotes political legitimacy, long-term state-building, and 'democratic suppleness' from the grass-roots upwards in a way that centralized government, with its comparatively high resource thresholds, professionalized organizations, formal and intricate norms, and obscure jargon, cannot.

The overarching lesson of this analysis is that decentralization's most powerful impacts on state strength come not through its direct effects on the structure of the state per se, but rather on the democratic norms and practices that underpin the state. Even where decentralization's first-order effects on the state itself (e.g. unit costs, overheads, corruption, macroeconomic instability) are indeterminate or negative, it has powerful second-order effects on democratic participation, transparency, information, and legitimacy that are likely to dominate. The promise of decentralization is not that it alters the state so much as it deepens democracy. And a deeper democracy makes the state stronger, and better.