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IS DECENTRALIZATION GOOD FOR DEVELOPMENT? Perspectives From Academics and Policymakers

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Abstract

Decentralization research has become more quantitative and formal over the past two decades. But as technical rigor has increased, the focus of research has narrowed to decentralization's effects on particular policy variables, leaving aside larger, more nuanced and complex questions of crucial importance to policymakers contemplating reform. This book seeks to return attention to issues like this that rank among policymakers' first concerns, but are methodologically difficult to answer. We do this by marrying the insights and experience of senior policymakers involved in driving decentralization forward at the highest levels, with academics working at the forefront of the field in economics, politics, and development and policy studies. This chapter introduces the book by analyzing the following questions: Why do politicians decentralize in the first place? How can reform be made politically feasible? How can decentralization lead to improved development outcomes? Do municipalities compete amongst themselves, and what effects might this have on public policy and services? Will decentralization promote clientelism or broad-based development? And finally, will decentralization strengthen or weaken developing states? The evidence presented in the book provides a firm basis for concrete answers to all of these questions, allied to specific policy advice for aspiring reformers.

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1. Introduction

Decentralization is at the center of the policy reform agenda all over the world. Developing countries as disparate as Mexico, Egypt, Ghana and India have active decentralization programs in place, citing the need to make their public administrations more efficient, flexible and responsive. And under the guises of subsidiarity, devolution and federalism, reform is firmly in the foreground of policy discourse in rich countries too. In 2000 the World Bank estimated that between 80-100% of the world's countries were experimenting with one or another form of decentralization, and its 2004 World Development Report examined decentralization as an instrument for improving public service delivery. Since then, new or deepening reforms have been announced in countries as disparate as Japan, Cambodia, France, Turkey, and Kenya, amongst many others.

Widespread policy enthusiasm has been accompanied by a large literature studying the effects of reform. This literature has changed substantially over the past two decades as economists and policy analysts have employed econometrics and formal modeling to study the effects of decentralization on such issues as education and health services, infrastructure investment, corruption, macroeconomic stability, and growth, to name a few. The decentralization studies of 30 and 40 years ago are now often criticized for a lack of academic rigor, and for relying too much on case study and “anecdote”. But increasing technical rigor has come at the expense of increasing distance from the concerns and constraints of the policymakers who drive decentralization forward, or fail to. At the simplest level, much of this new literature is now beyond the grasp of practitioners (and many graduate students). Furthermore, the laudable quest for rigor leads technical studies to abstract away from the “details” of how policy reform actually works. Even when methodologically necessary, this has the effect of leaving potentially important aspects of real decentralization reforms outside the purview of academic analysis.

This book seeks to re-unite academics studying decentralization with the policymakers who implement it. It comes out of an extraordinary workshop held at Columbia University in June, 2009 under the auspices of the Initiative for Policy Dialogue's Decentralization Task Force. The two-day workshop brought together academics working at the empirical and theoretical frontier of research on decentralization and subnational government with policy practitioners who have implemented or supported reform at the highest levels of government and international organizations. The purpose of the workshop was not only to exchange ideas, but to marry policymakers' detailed knowledge and insights about real reform processes with academics' conceptual clarity and analytical rigor. The workshop was explicitly structured to facilitate this integration, and this volume is one result.³

The synthesis of academic with policymaker perspectives naturally shifts the analysis towards questions that the literature has had trouble addressing empirically, but that are of great interest to policymakers and politicians contemplating reform. These are reflected in the structure of the book. Our first section focuses on **Decentralization, Stability and the Strength of the State**. The first chapter asks the question: Why do policymakers decentralize? This has been referred to as the “black hole” of the decentralization debate. Why do national politicians decide to devolve some of their power and resources to others who are beyond their control? Considerations of efficiency or effectiveness are surely insufficient to explain the number and

³ Another is Faguet, J.P. (ed.). 2014. “Decentralization and Governance.” Special Issue of *World Development*, 53: 1-112.

extent of announced decentralizations. We take this question head-on, with a chapter by the Bolivian President who decided to decentralize his country shortly after taking power. This is followed by chapters examining how and why decentralization came about in Pakistan and India, and its effects on state capacity and political stability there. A fifth chapter dissects the fiscally destabilizing effects of reform in a number of Latin American countries, and then a second generation of reforms that dramatically improved the fiscal situation. The final chapter in this section seeks to answer the question ‘Does decentralization strengthen or weaken the state?’ with a survey of the theoretical and empirical literatures, and some theoretical contributions of its own. All of these are classic examples of questions that are crucially important to policymakers, but are difficult to address with quantitative evidence.

Once reformers have made up their minds to proceed, how should they design reform? What are the advantages and disadvantages of assigning taxes, transfers and expenditures to different levels of government? Our second section, **Designing Decentralization: Taxes, Transfers and Expenditures**, examines these issues through a combination of logical argumentation and evidence that focuses on Argentina, Bolivia, Canada, China, India, Indonesia, Italy, Nigeria, Peru, and the Philippines, but also ranges farther afield in Latin America and Europe. The authors are senior academics, some of whom have been instrumental in developing the underlying theory, and practitioners with extensive real-world experience.

And after reform is implemented, what happens? **Decentralization and Local Service Provision** turns to the area on which the most decentralization research has been done – decentralization’s effects on the provision of health, education, anti-poverty programs, etc. We present original research by academics working on the frontier of their respective fields. These four chapters by no means cover the full range of “the effects of decentralization”. Rather they update our knowledge in a few specific, important areas in which authors with acknowledged expertise have new and innovative research findings. Much care has been taken to present their empirical findings in a form that is accessible to policymakers, development practitioners, and a wide audience of students from different disciplines. The evidence presented comes from deep studies of China, the Philippines, and West Bengal (India), plus a more summarized survey of evidence from Bolivia, Colombia, Ghana, India, Morocco, Nicaragua, Pakistan, Uganda, Vietnam, and Zambia.

Before proceeding, it is useful to define ‘decentralization’. We follow Faguet and Sánchez (2013) and Manor (1999) in defining decentralization as the devolution by central (i.e. national) government of specific functions, with all of the administrative, political, and economic attributes that these entail, to regional and local (i.e. state/provincial and municipal) governments that are independent of the center within given geographic and functional domains.

The rest of this chapter is organized not according to the sections mentioned above, but rather by the substantive, cross-cutting conclusions that emerge from the analysis therein. We first analyze why governments decentralize. Using examples from several sections of this volume, we show that decentralization reforms are largely driven by motivations of political survival and consolidating power. This, as well as the fact that decentralization reforms often need to be negotiated against opposing political demands, leads us to the second conclusion: decentralization may fail to enhance development because it never actually happens. Instead, partial and ‘cynical’ decentralizations are widespread in which, for instance, spending responsibilities are devolved without decision-making autonomy, or opposition forces are merely divided into various powerless entities to facilitate continued rule by the center.

In part three we show that the design of decentralization is more important than the decision to decentralize or not. In several countries analyzed in this book, serious fiscal and political problems that followed decentralization were the result of flaws in the design of reform. But these were successfully corrected through subsequent policy revisions that changed the incentives of subnational officials, and hence performance throughout the system. We also discuss other examples of how different decentralization designs can achieve divergent goals in developing countries.

Finally, we summarize evidence from this volume showing *how* decentralization can enhance development in four important ways: (1) by improving governance, (2) reducing clientelism, (3) creating competition among subnational governments, and (4) by strengthening the state. We map positive and negative outcomes in each of these areas to particular elements of the decentralizations implemented. We argue in particular that the dynamic of decentralized government provides strong incentives for social learning: for long-term strengthening of the organizational effectiveness of civil society, and consequent increases in government accountability.

2. Why do governments decentralize?

Let us begin with the most basic question about decentralization. Why would any national leader do it? In order for decentralization to happen, central government leaders – who by definition hold large aggregates of power and resources in their hands – must decide to devolve non-trivial shares to lower-level politicians with independent mandates and sources of authority, whom they cannot control. Why would any president, having spent a career achieving the pinnacle of power, willingly do this? This is the black hole at the heart of the decentralization debate that few address and none have satisfyingly answered (Faguet 2012).

At the simplest level, the urge to decentralize is irrational in those who must do it. Are presidents motivated by normative arguments about state effectiveness? Is decentralization politically convenient? Can politicians be altruistic? These questions are not just interesting in their own right. They are also important because they point to the common incentives that leaders must face in cases of sincere reform. Such incentives surely shape the character of sincere decentralizations, and distinguish them from decentralizations that fail, or are never actually implemented.

One way to analyze this paradox is via close empirical examination of a case of reforming success. This is the work of Faguet and Sánchez de Lozada in chapter 2, which plumbs the political, institutional, and personal circumstances of the reformers who decentralized Bolivia, as related by President Gonzalo “Goni” Sánchez de Lozada, the man who presided over it all. Sánchez de Lozada’s account not only benefits from an intimate knowledge of the situations and relationships out of which the reform emerged, but is also strongly rooted in Bolivia’s long-term historical trajectory, which created its rich, complicated social and political tapestry.

In Goni’s case, the main factor driving his decision was the need to overcome his image as a foreign, upper-class interloper who bankrolled his own campaigns and was distant from the lives and problems of ordinary Bolivian voters. He felt respected by Bolivians in the sense of professional competence, but was equally sure that voters could not relate to him. “So I decided to do something that ended up being very wise. I got in a car with a driver and visited almost

every town in Bolivia. I said ‘Goni's listening’. Instead of giving speeches, I would listen. I would bring people together and they would tell me their problems.”

This brought him into prolonged contact with living conditions strikingly different from urban Bolivia, and taught him that all over the country, especially amongst the rural, poorer, more deprived majority, people’s highest priorities were improved health and education. These were the problems that most affected their lives on a daily basis. And therein also lay the main solutions to the real poverty they faced – the only kind of income redistribution in which they were willing to believe.

And in the doing, he came to the realization that “the people who know the best solutions are the people who have the problems, not the people who don’t have the problems,” and hence, “an idiot close to a problem is better than a genius a thousand miles away.” In order to enact these solutions, it was necessary to redistribute power in the Bolivian polity; not just to delegate actions or devolve responsibility for government performance, but to hand down real authority to Bolivia’s most deprived citizens. This was a radical vision for any centralized, unitary state – and much more so for a large, diverse country haunted since independence by the specter of disintegration.

This radical vision also promised to solve a second crucial problem that a possible Sánchez de Lozada presidency would certainly face: Bolivia’s strong, militant regional interests. As the Minister of Planning who defeated hyperinflation, Goni had himself done battle with the centrifugal forces that extracted resources and concessions from the center by threatening to break the country apart. These were led by regional business elites, most prominently in Santa Cruz and Tarija, where leaders were particularly adept at mobilizing broader movements behind them. In essence they were hangovers from Bolivia’s military regimes: Self-appointed regional bodies representing the strongest local interests in the name of the entire region. They demanded a federal Bolivia that would increase their ability to capture natural resource rents, under threat of secession or joining Brazil. Goni realized he could undermine them and cleave off their supporters by going directly to the grass roots and creating local governments instead.

Contrast this with decentralization in Pakistan, described by Cheema, Khan and Myerson, which differs from the Bolivian case in almost every possible way. Here, decentralization has been a tool of military regimes to legitimize themselves and strengthen their control over the state, and to try to peel popular support off the main, deposed political parties. Since independence, military regimes have sought on three occasions to build an alternative base of political support by creating and then patronizing a new class of locally elected politicians. Established political parties were consistently excluded from participating in local elections or even endorsing candidates. Such rules could be selectively applied against opponents of the regime, without limiting the generals’ favored candidates. As a result, non-partisan local governments became tarnished in the popular imagination – and especially amongst the main political parties – as an instrument of military regimes for creating a class of political collaborators who displace parties at the local level.

Thus we have, in Bolivia, decentralization as a democratizing riposte to the agitation and demands of authoritarian regional movements that threatened repeatedly to fracture the country. And in Pakistan we have decentralization as an authoritarian strategy to undermine established political parties and legitimize military rule. It is not surprising that Bolivia’s political parties – both established and new – took to local politics with relish, organizing territorially throughout

Chapter 1 in J.P. Faguet and C. Pöschl (eds.). 2015. *Is Decentralization Good for Development? Perspectives from Academics and Policy Makers*. Oxford: Oxford University Press.

the length and breadth of the country, while Pakistan's parties treated decentralization like a pox on the body politic, vitiating it and closing down local governments upon their return to power. Reforms born out of different imperatives were designed in different ways and led to different consequences, resulting ultimately in very different fates for each: in Bolivia a strengthening and deepening of decentralization 15 years later, and its abolition in Pakistan.

In Chapter 6, Faguet, Fox and Pöschl provide examples of other motivations to decentralize. In many cases, decentralization processes were embarked upon for sheer political survival; in other cases for the consolidation of power, for example in the face of serious threats to the integrity of a country's borders by secessionist movements, or a (violent) opposition. In Canada and Spain, decentralization helped appease fractious groups and hold these nations together. Reform has also been introduced as a power-sharing instrument to defend against conflict from warring factions, as in Afghanistan and Iraq. Central governments may use it as a means to fragment the opposition and remain in power (Sabatini 2003). In Ethiopia, decentralization was used by the central government to diffuse a menacing political opposition, allowing the ruler to remain in power while opposition parties competed against one another at the subnational level (Green 2011). As discussed in the next section, the design and outcomes of decentralization – and their effect on development – are very much determined by the motives of those who wield power.

3. Political obstacles to reform and partial decentralizations

That national leaders may have strong reasons to decentralize does not, however, imply that national governments will proceed to do so. Admittedly, a military hierarchy like Pakistan's in the early 2000's may require little more than the agreement of a few commanders to ensure that reform proceeds. But in a democratic regime such as Bolivia's, even a president driven by a clear vision must convince his political coalition to approve such a reform, and then his by-definition centralized bureaucracy to implement it. And neither is likely to want to for the reasons outlined above: to devolve authority and resources to significantly independent local officials with their own mandates and sources of legitimacy is to willingly give away the basic currencies of power to others – including potential rivals – whom they may influence but cannot control. Sincere decentralization requires those who implement it to change what they do in a way that reduces their own power, status, and sources of patronage for the benefit of others. It obliges those who must carry it out to diminish themselves professionally. The self-interested agents of positive political science are not expected to act in this way, and in practice real bureaucrats tend not to.

Pakistan faced comparatively miniscule obstacles to reform, but its long-term prospects were similarly small in a society where the sponsoring coalition was tiny and the largest political organizations were bitterly opposed. In Bolivia, by contrast, the main party of government – the MNR, also the most extensively organized party in the country – quickly saw that it would capture the larger share of local governments and resources, and hence reform was in their interest. Other parties experienced regional demands as internal conflict, and so also stood to benefit. And business leaders, who feared rising populist parties based in peri-urban slums, liked a reform that shifted power to the countryside, where such parties were largely absent. With a broad and multifaceted base of support, it is not surprising that Bolivia's proved by far the more sustainable reform.

Politics thus plays a crucial role in determining the degree and kind of decentralization implemented, and the success or failure of those reforms (Montero and Samuels, 2004). Even sincere reformers are faced with many varied political obstacles, big and small, subtle and crass, along the way to implementing decentralization reforms. And many reforming governments are not sincere (Faguet 2012). In fact, one of the most common failures of decentralization reform is that it often does not really happen (Faguet 2012 and 2004, Faguet and Shami 2008). Good intentions – or absent these, the letter of the law – are undermined by a central government that does not actually intend to hand power and resources down to legally distinct subnational governments with independent political and legal authority. Powers are thus often decentralized half-heartedly, or in exchange for others, and the structures that result may diverge widely from the original plan, let alone any theoretical ideal. In practice, political motives can easily hijack the incentives that reformed fiscal systems aim to create. Intergovernmental power relations and political motives thus merit close attention in any decentralization reform strategy.

Mani Shankar Aiyar, for example, contends that decentralization to rural villages in India has been incomplete because of the central bureaucracy's reluctance to give up power. Rather than allowing village communities to decide their own issues, the bureaucracy captured decision-making. This has led to a duplication of efforts and perverse outcomes, as various ministries fail to communicate with one another and provide overlapping services in the same areas, without allowing space to the village communities to identify their own specific needs. In this way, local knowledge about local needs has remains mostly unexploited while administrative overlap and inefficiencies prevail. The key benefit from decentralizing governance – those who know best about the specific needs of people in each locality are empowered to make decisions – is undermined.

How can we tell where decentralization is sincere and where it is not? Can such efforts be measured empirically? Bossert attacked this question in a pioneering 1998 article that introduced the concept of “decision space”, which he defined as the local discretion allowed by central government for functions and sub-functions about financing, service delivery, human resources and governance. Carefully operationalized for empirical analysis, measures of decision space allow us to investigate the extent to which local authorities have policy discretion, or central authorities effectively circumscribe local choice through rules and incentives that promote central objectives.

As Bossert points out, the decision space approach has several advantages. It puts the focus squarely on the extent to which authority over public choices is shifted from central to local authorities. And it stresses that the choices in question are neither simple nor monolithic, but rather involve a range of discretion over different functions and types of decisions. Therefore we should expect a given decentralization reform to permit more local choice over budgets and financing in some areas (e.g. primary education), and hiring and firing in others (e.g. public infrastructure). This is a more realistic way of analyzing the complexity of real-world experience than the simple decentralized-centralized dichotomies that dominate the literature, concealing more than they reveal. Bossert proposes specific definitions of the range and levels of choices in question, using health sector functions as an example, with the goal of testing whether greater decision space at the local level results in better health system performance.

In his chapter, Bossert updates his 1998 findings with evidence from a broad range of countries across Africa, Asia and Latin America. Interestingly, he finds that even in countries with reputations for decentralization, many functions remained highly centralized (i.e. local

officials have “narrow” decision space). There is considerable variation in decision space among different countries, and within countries decision space varies significantly among different functions.

Bossert finds evidence for strong positive correlations among what he terms the different dimensions of decentralization: local decision space, local capacities, and local accountability for given functions in specific services and sectors. Hence municipalities reporting high levels of decision space in a specific function also reported high levels of capacities and accountability for that function. For example, districts with high decision space for strategic and operational planning also had high decision space for organization and delivery of a given service (e.g. vaccinations, primary education). Capacities and accountability also show consistent synergies amongst the three dimensions in three different country contexts (Pakistan, India and Vietnam), and similar weaknesses of accountability and limitations on human resources decisions.

4. Design matters

How should expenditures and revenues be assigned across levels of government? The theory of fiscal federalism holds that public services whose benefits are locally specific should be financed by local taxes on those residents. But where benefits spill over onto a wider population, it is often appropriate for them to be partly financed by transfers from higher levels of government (Bird and Smart 2010). Higher level governments are better at redistribution and stabilization and hence should levy broader-based taxes. But lower level governments are better at eliciting preference and time-and-place information (Ostrom *et al.* 1993), and hence should have significant expenditure responsibility. The resulting vertical imbalances can be corrected by intergovernmental transfers. These must be large enough to sustain local services, but not so large that local governments become “transfer dependent”. Subnational governments’ budget constraints should remain hard (Rao and Bird 2011).

These broad, well-established insights nonetheless leave open many important questions in the design of fiscal systems. Pöschl and Weingast turn to these in Chapter 7, analyzing how the distribution of tax powers, responsibilities, and resources vitally shapes not only subnational government institutions, but also policy choices, and economic performance. The design of transfer formulas can, for example, provide incentives to subnational leaders to collect taxes by tying central government transfers to tax effort. The motivation to collect taxes can, in turn, incentivize local officials to growth-promoting policies and investments, greater sensitivity to residents’ needs, and better fiscal discipline (Moore 2007). By contrast, a dependence on central transfers can achieve opposite outcomes on each count.

As several of the chapters in this volume show, there are many varieties of intergovernmental spending and revenue systems in existence. They, and the various institutions that surround them, have different and powerful effects on outcomes. Grazi and Jaramillo show that decentralization in Argentina and Brazil in the 1990s was expected to improve public accounts through efficiency gains. What occurred instead was “an explosion of decentralized expenditure and a deterioration of fiscal outcomes”. A lack of clarity in the division of responsibilities between central and subnational governments and periodic bailouts created “tragedy of the commons” problems and moral hazards, leading to fiscal debts and severe macroeconomic complications. But since then, decentralization programs have been adjusted to mitigate these problems. Fiscal responsibility laws in Argentina and Brazil have curbed subnational debts by setting limits on subnational spending and borrowing. More stringent

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accounting rules have increased transparency and control of accounts. And an increase of subnational autonomy to raise own revenues appears to have created incentives for more fiscally responsible behavior.

Much of the decentralization and fiscal federalism literature lays out normative ideals of how intergovernmental tax and transfer systems should be designed in order to bring about the benefits of improved resource allocation, deeper democracy and increased accountability. But views on what constitute optimal fiscal arrangements, and on which formulae will achieve these goals, differ markedly. Any particular design faces sharp trade-offs, and is bound to generate different sets of winners and losers. There is no consensus about ideal intergovernmental distributions of power and competencies, and enormous empirical variation across countries in these arrangements. But this, we hold, is as it should be. There should be no common model. Fiscal arrangements should be carefully tailored to each country's fiscal, political, and economic characteristics, and should be expected to differ as much as the countries do themselves. Research can help by laying out the trade-offs clearly, and analyzing how reformers chose between them in real episodes of reform, and what the consequences were.

5. How does decentralization affect development?

Decentralization and governance

The most common claim made in favor of decentralization, and doubtless the most frequent normative aspiration of reformers, is that it can improve the quality of a nation's governance by taking government 'closer to the people'. The latter – more a slogan or rubric – can be broken down into three analytical arguments in decentralization's favor. The smaller scale of local government should permit: (1) Better information about citizens' needs and wants; (2) Greater participation of citizens in selecting, planning and executing public projects that respond to these needs and wants; and (3) Greater accountability of public officials to citizens for their decisions and use of resources. Taken together, these three advantages of decentralized government should lead to a democratic deepening that produces better-quality public goods and more effective government.

These claims can be tested at two distinct levels: Have government *processes* changed in the ways described above, and Are government *outputs* or *outcomes* more efficient or better matched to local needs? This book provides detailed evidence on changes at both levels.

Under which conditions can decentralization improve governance processes? Bossert's empirical evidence leads to specific recommendations for fine-tuning decentralized service provision systems. Evidence from Guatemala and Ghana suggests that better performance could be achieved if inventory control and logistics information systems were centralized, while planning and budgeting was decentralized. Both suggestions have a strong logical base. Allowing variation in technically rigid functions like inventory control and information system formats is likely to result in poor quality logistics, while local knowledge of needs and finances would strengthen planning and budgeting. Ultimately, Bossert concludes, decision space studies support the idea that it is not so much *whether* policy makers choose to design and implement decentralization, but *how* they do so that matters. Where decision space over particular services was effectively decentralized to local authorities, local capacity and accountability for these services tended to be high. And where all three of these criteria held, health system performance was superior than in more centralized cases.

Bardhan et al. report complementary findings, albeit in a very different research context, from their study of local governments in West Bengal, India. The governance processes they focus on are political participation and awareness by ordinary citizens in rural areas, many of whom are relatively poor. Their objective is to investigate how participation and awareness vary with socioeconomic status, and how this in turn affects the poverty targeting of public services. They find high average levels of political participation in elections, political campaigns, and village meetings, as well as high awareness of programs administered by *gram panchayats* (GPs), the lowest level of local government.⁴ They find no evidence of any significant variation in participation rates or awareness with either land ownership or the caste status of households. In particular, neither landless nor low-caste households participate significantly less than others. The main determinants of participation are education, immigrant status and gender, rather than land or caste.

What effects does the introduction of these decentralized governance processes have on public sector outputs and outcomes? For the health sector, Bossert finds clear and surprising evidence that decentralization led to increased equity of allocations. Since decentralization, the gaps between the wealthiest municipalities and the poorest in Chile and Colombia have been reduced significantly. This is true both for intergovernmental transfers from the center, and for locally generated tax revenues. Before decentralization, intergovernmental transfers in Colombia favored the wealthiest fifth of municipalities, with six times higher per capita allocations than the mean before decentralization. After decentralization, the application of a population based formula for allocations resulted in almost equal allocations from central government. While good news, this is less surprising given the Colombian government's stated goals. The real surprise is that the gap in own-source revenues for health also declined between rich and poor municipalities, from a difference of almost 42 times higher per capita expenditures in the wealthiest municipalities to only 12 times higher. Decentralization seems to have encouraged poorer localities to increase health expenditures, and wealthier localities did not keep pace.

With respect to service outputs, Bossert finds that stronger institutional capacities and broader decision space were associated with both improvements in health coverage and better administration of the health system. These are amongst the few findings that show how capacity building interventions to improve decentralization at the district level may contribute to improved decision-making abilities, and improved health system performance.

Likewise for the targeting of public benefits, Bardhan et al. find little evidence that public services are distributed in a biased way on the basis of agricultural landownership, caste, gender, education or immigrant status within villages in West Bengal. They find no bias in favor of those voting for the majority party, nor for those actively involved in political campaigns. This sums to no evidence that local governments at the lowest level discriminated on the basis of caste, education, political partisanship, or wealth in allocating benefits within villages.

Across villages, however, the story is different. Bardhan et al. find large biases against villages with many landless households, which received fewer benefits from upper level governments. Villages with greater land inequality allocated significantly lower shares of benefits to households from scheduled castes (SC) and scheduled tribes (ST). These results

⁴ Each GP has a jurisdiction typically covering 10-15 villages, each of which elects a representative to the GP governing council.

suggest greater accountability at the lowest level of local governments (GPs), compared with higher-level block or district governments.

The authors also find a tendency to allocate more resources to GPs where the Left Front political coalition was solidly entrenched (i.e., with a two-thirds majority or higher), compared to electorally more competitive GPs. They interpret this as evidence of partisanship in inter-village, as opposed to intra-village, allocations. Lastly, they find that villages with greater levels of *gram sabha*⁵ (GS) participation delivered more benefits to landless and SC/ST households; and villages with fewer ST and landless households exhibited higher GS participation. This is consistent with the view that village meetings form a channel of accountability of GPs to poor and low-caste groups.

Competition amongst municipalities

How can we explain the sorts of changes in governance processes and outputs that Bossert and Bardhan et al. chronicle? Theorists claim that decentralization can improve governance through a variety of channels, some of the most powerful of which are: better information on local needs, greater accountability to citizens – both mentioned above – and competition amongst municipalities for the prestige that attaches to better outcomes (Faguet 2014b, Channa and Faguet 2012, Treisman 2007). The former two channels have been researched far more extensively in the literature than the third (Besley and Case 1995a and 1995b). This book adds to the evidence on the municipal competition, both ‘yardstick competition’ and area-based competitions and awards, with careful empirical studies of China and the Philippines.

Many developing country governments suffer weak mechanisms of public accountability. In such a context, can decentralization improve the delivery of public services through yardstick competition? Capuno et al. investigate whether a local government’s expenditures or revenues from local sources are influenced by the fiscal behavior of its neighboring localities (“yardstick competition”), controlling for the mayor’s term limit status. They find some evidence that yardstick competition in the Philippines has the predicted impact.

As in many developing countries, decentralization seems to have entrenched elites in control of local governments in the Philippines. Members of political clans continue to occupy elected local office despite improvements in electoral institutions (e.g. computerized ballot counting), and the institutionalization of a recall system by which officials who have lost voters’ confidence can be removed from office. Local government’s provision of a range of services, they find, is positively influenced by the mean expenditures on the same services of neighboring municipalities within the province. But this effect is present only when the incumbent mayor is not term-limited. This supports the hypothesis that electoral pressures make local officials responsive to constituents’ needs. It also suggests that collecting and publishing standardized, comparable information on the performance of all local governments can influence how voters assess their own local government, through comparisons with others nearby. Interestingly, even members of the Philippines’ powerful political clans appear to respond to yardstick-induced electoral pressures. This suggests that political dynasties persist in developing countries because they are substitutes for missing strong parties (de Dios, 2007).

⁵ Broadly, these are town-hall style village meetings where elected officials must answer questions and account for GP activities to local citizens.

But competition need not be subtle, indirect or implied. In some countries, competitions amongst municipalities are overt, explicit, and may be more effective in promoting municipal effectiveness and particular policy goals. The Chinese government, for example, has extensive experience with area-based competitions (ABCs) and awards as motivating tools to improve municipal performance and local service provision. They are not alone. As Li and Zhang point out, such competitions are also common in the UK, EU, Singapore, and in the regular worldwide competitions to host the Olympic games and World Cup. Their chapter analyzes the potential of ABCs to motivate local governments to invest in and provide public services, both theoretically, and empirically via the case of Xining City in Qinghai Province, China.

How do ABCs work? Local governments or service providers in different areas compete for prizes offered by regulators or higher authorities. The competitive dynamic transforms the local service provider into a “representative” of the area. Properly crafted, such competitions can boost popular support when the local identification of people living in a certain area is boosted. Motivation schemes of this kind can potentially reconcile alienated service providers and users, turning users into principals who actively monitor performance and work with providers to achieve shared goals. In this way, the interests of all three parties, the center, local authorities/service providers, and users, are brought into line with one another. ABCs can be focused on a single policy goal, such as GDP growth or educational targets, or a complex menu of goals and targets across different sectors. Li and Zhang examine one of the largest and longest-running ABCs in China: the Hygienic City program, a multidimensional competition that seeks to improve standards in the environment, service sector hygiene, and pest control.

For the case of Xining, they find that local governments, including provincial, city, and district authorities, were all keen for Xining to perform well in the campaign. All prioritized the campaign and spent significant resources on it. There was a striking increase in the number of volunteers from all different sectors of society who joined Xining’s Hygienic City campaign. This transformed the relationship between citizens and government. Instead of treating the campaign like another government project, the public began to see themselves and their government as members of a single team, and were willing to dedicate time and energy to support the campaign. Because user voice and participation can be the margin between winning and losing competitions, local authorities are more willing than usual to listen to suggestions, and are more open to innovative ideas that can help the city gain advantage. Indeed, ABCs may be an important source of innovation in local government.

But not all was rosy in Xining. In a city that has been almost entirely rebuilt from the 1980s, much of the city’s campaign revolved around the demolition of less-new houses in favor of new-new ones. This was done in the name of “city beautification”, a concept never well defined by the competition. The danger of such vagueness in the design of a campaign is that beautifying a city can take up resources that could be better spent improving basic services. For a city that is already under-resourced, the costs of a competition such as this can be exceptionally high. Also, the massive increase in the number of competitions across China has placed exhausting burdens on local governments and citizens, which can ultimately become counterproductive. Recognizing this fact, the Chinese central government carried out large-scale crack-downs on ABCs in 1996, and again in 2006 and 2007. In 2007, 1705 national competitions were cancelled, as well as 90 percent of competitions organized locally. But since 2007, the number of competitions has crept back up. Li and Zhang conclude that, as predicted by theory,

participation in ABCs promotes a great deal of local learning-by-doing, and hence the educational effects of competitions are very strong.

Clientelism vs. development

Clientelism is a political phenomenon⁶ that argues against decentralization through its capacity to distort local government performance. Clientelism is “characterized by the combination of particularistic targeting and contingency-based exchange”⁷ in electoral and non-electoral political markets. This is as opposed to political programs based on public investments and policies that promote public goods, universal access, and broad-based development. In some countries and regions clientelism fades away with economic development, but in others it adapts and persists (Hicken 2011). The threat of clientelism has received much attention in the decentralization literature. But most of the empirical treatment has been qualitative, based on case studies and stylized facts. Amongst the few researchers who have attempted to explore the issue with quantitative data are Bardhan and Mookherjee in a series of studies on the political economy of decentralization (some examples are 1998, 1999, and 2006). In their chapter for this book, they are joined by Sandip Mitra and Abhirup Sarkar in an empirical study that plunges still further into the topic with household data from West Bengal.

Their findings are nuanced and detailed, yet provocative. The likelihood of voting for the Left Front coalition is correlated with the benefits received under previous Left Front-dominated local governments. But rather than infrastructure improvements or one-time benefits, it is recurring short-term benefits that affect voting patterns. Improvements in agricultural land ownership mattered, while improvements in income or housing did not. Emergency help provided by Left Front *gram panchayats* (GPs) in the past – classic symptoms of clientelism – were significant determinants of voting in favor of the Left Front. Controlling for these factors and other personal characteristics, poorer and SC/ST groups within a village were more inclined to vote in favor of the Left Front. Left Front support was also greater in areas with more agricultural workers.

These findings support the hypothesis that the continued Left Front domination of local governments in West Bengal over five successive electoral cycles is partly due to the dispensation of recurring short-term benefits (e.g. subsidized credit, agricultural minikits, employment and relief programs) by Left-dominated GPs to poorer voters. Personalized, short-term benefits of this type had a stronger effect on voter support than infrastructure improvements or more substantial one-time benefits, such as registering a tenancy contract or receiving a land title. Interestingly, this also explains why the Left Front’s fortunes in local elections have been declining in recent years. Agricultural land ownership and occupations are in long-term decline due to rising population pressure, stagnation in agricultural yields, and increasing urbanization. At the same time, the awareness and aspirations of citizens have been raised through improving education and living standards, reducing their vulnerability to personal shocks and their subsequent dependence on local governments for emergency help.

This implies that in the short term, clientelistic appeals based on targeted benefits are electorally more effective than universalistic, long-term development investments and policies. Such a dynamic can slow down a society’s long-term development by restraining a certain class of public policy and public goods production. But the evidence from West Bengal also implies

⁶ Related to, but analytically distinct from, elite capture – see below.

⁷ Hicken, p.289.

that it is unlikely to stop it entirely. In the long term, deeper development trends, including improvements in human development indicators related to improving education and health, will tend to undermine a clientelistic party's electoral support. In this sense, it may be important that there is no evidence that supporters of rival parties were excluded from benefits, nor of favoritism towards active political campaigners.

Strengthening the state

Perhaps the greatest fear about decentralization is that it will weaken the state and promote separatism in a diverse country, undermining national identity and making it more likely to break apart. The key question in this debate, Faguet, Fox and Pöschl stress, is: Will decentralization stoke centripetal or centrifugal forces? Will reform empower those who seek secession, giving them a podium and a chance to demonstrate competence? Or will it peel away more moderate layers of support that can be assuaged with autonomy-type reforms like local control of primary services, minority language rights, etc., so isolating the hard secessionist core from their previous constituency?

Analyzing this question empirically is difficult, as the variables in question are not easy to see. In practice a more indirect analysis may in any event be more useful, as the determining factors are likely to be the regional specificity of elite interests. If coherent regional elites (1) exist in a particular country, and (2) have more to gain from secession (i.e. greater control over resources at the cost of lost markets and lost influence) than autonomy (i.e. partial control over resources, continued access to national markets and policy-making), then national disintegration is far more likely. The authors' question thus morphs into: When will regional elites have incentives to invest in candidates, parties and social movements, infrastructure, and programs that promote either national breakup or national unity? Examples of the former include politicians who campaign on regionalist pride and secession, and exclusive local language and culture programs. Examples of the latter include improving transport and communication links to the rest of the country, and national educational and cultural programs built on shared elements of history and identity.

Answers to these questions will vary as according to countries' historic, demographic, and other characteristics. Very little systematic advice can be given on this score beyond stressing that reformers must take careful account of these factors before designing or attempting decentralization in any particular place. Shifting power and resources downward by definition implies a shock to the power balance between interstate actors and institutions. It may disrupt existing political settlements between elites, it may decide the demise or survival of a political party in power at the center, or alter the power of separatist groups threatening to dissolve a country. And it will inevitably create winners and losers in the population, including between regions and between different levels of government. These are the risks that reformers face when they decentralize, and hence reforms that promise one kind of shift of power and resources often accomplish a different kind of shift, or none.

But where the design of reform is concerned, such concerns can be built into a reform program in a way that tends to hold fractious groups together rather than promoting secession; and this leads to much more general policy advice. Reforms tending to exacerbate regional tensions are those that limit themselves to the spatial confines of those tensions – i.e. decentralizations to administrative units that coincide with a country's major ethnic, linguistic, or other fractures.

Reforms that transcend these boundaries and ways of thinking instead underpin unity. By decentralizing power and authority to a level beneath that of a country's major cleavage – e.g. to municipalities rather than provinces – empowered subnational units will tend not to be identified with group identity or privilege. Local government will become identified with issues of efficiency and service provision instead of stoking divisive tensions. Reformers can go further too, with complementary reforms that promote a single market for goods and services nationwide, thus helping prevent the development of elites with regionally-specific economic interests who might gain from secession. This implies binding a country together ‘from the bottom up’ through improved infrastructure and transport links, which will additionally tend to promote economic growth. Faguet, Fox and Pöschl provide examples from Ethiopia, Canada, Spain, Bolivia, Afghanistan and Iraq.

Another version of this debate contrasts the presumed strength of purpose and reach of a centralized state with the smaller reach and greater chance of contradiction when policy is made by many decentralized units. Against these claims, proponents of decentralization counter that a decentralized state will be more sensitive and responsive to local needs and conditions, leading to more appropriate, better quality public goods and services. This debate has for years stagnated at a theoretical level, with anecdotal or partial empirical evidence supporting one or another claim without general effect. Faguet et al. cut through this impasse by pointing out that, in fact, both claims are true. It is wrong to view decentralization as a simplistic choice between “strong” centralized government vs. “weak” decentralized government. The correct dichotomy contrasts: (a) 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, which will tend to lead to government failure, on the one hand, with (b) 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.

A starker way of conceptualizing these issues is in politically personal terms, as a trade-off between the strength of a national leader and the strength of the state as institution. Under centralization, the leader has more discretion, her power is greater, and she can effect more, 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 before proceeding, then the state is stronger and more stable at the expense of the leader. By empowering subnational leaders and requiring a measure of consensus between them and the center for policy-making to proceed, decentralization sacrifices central leaders' authority and autonomy in the interests of increasing the institutional strength of the state as a whole.

A separate aspect of this argument that lacks theoretical subtlety, but in practice is quite important, concerns the extension of government in its local form to large areas of a developing country that previously lacked it. In centralized states, local government structures are often non-existent. The central administration is far away, and ordinary citizens have little experience of elections, accountable public authorities, or public decision-taking of any form. Exposure to new local governments can strengthen the state by expanding its presence, thereby improving the perception of state responsiveness and enhancing the legitimacy of national governments.

Another dimension of the state strengthening/weakening debate concerns decentralization's effects on political party systems. Ruling parties may use reform as a means to fragment the opposition and keep authoritarian parties in power (Sabatini 2003). But the more

important effects of reform, Cheema, Khan and Myerson point out, are likely to go in the opposite direction, strengthening parties and the party system. In Pakistan, for example, Pres. Musharraf's 2001 reform increased the number of popularly elected representatives by nearly 80,000 – mostly at union council level, the lowest tier of government – and provided many more reserved seats for peasants and women. In a competitive party system where local candidates represent local chapters of national political parties, the election of such local leaders should contribute to the strength of the parties and the strength of the democratic system. But this effect is lost when national parties are disconnected from local government, as happened in Pakistan, where parties were banned from local politics. There, democratic competition to improve local government was weakened, and barriers to entry in provincial and federal politics were raised. It would be much more difficult for a future military ruler to displace elected politicians, Cheema, Khan and Myerson observe, if their political organizations extended into local politics.

This is because what decentralization really does, as Faguet, Fox and Pöschl argue, is to transform politics from an arena that is by definition national, top-down, and hence subject to oligopolization by a socio-economic elite based in a few powerful cities, to a 'meta-arena' embracing many specific regional and local arenas, where pressing local concerns are taken up and addressed, or not, by local politicians and the parties they choose to join. Countries as diverse as Bolivia, Colombia, India and the UK offer clear examples of political-systemic transformations along these lines following decentralization reforms. What can appear as a fragmentation of political forms in the short run should instead be viewed as the integration of constituencies and interests from the grass-roots upwards over the long run.

But what about the threat of elite capture? The possibility that powerful individuals or interests will weaken the state by capturing local governments and distorting policy is one of the longest-standing, theoretically most robust arguments against decentralization. It is also a real threat, observed in regional and local governments across the world (Bardhan and Mookherjee 1999, Treisman 2007). Indeed, some decentralizations appear designed to facilitate political capture – by central authorities. Khemani offers a theoretical model of how this can work, plus some empirical examples. She argues that by dividing jurisdictions and creating small local governments that are highly dependent on central government grants (through expenditure decentralization without corresponding tax decentralization), the central government exerts power and control and keeps its party in power. When subnational governments depend on its grants, the central government can decide where funds are targeted. And it can target them for benefits to specific groups in exchange for political power (through patronage, vote-buying and pork barrel projects) at the expense of broader public goods. Such a system goes beyond the 'partial decentralization' described above, and might be termed 'cynical decentralization'.

Without doubt, arguments about capture have much merit. But by focusing on capture of local governments, which completely dominates this literature, its advocates underplay the comparative threat that elite capture poses at the *national* level. Hacker and Pierson (2011) show that the much greater rewards from distorting central policy-making lead the richest interest groups to invest enormous sums in capturing national government, with potentially deleterious effects for an entire nation. Not least because the distortions introduced by local capture may still be attenuated or overturned by national government institutions and policies. But what combination of subnational governments will counteract a central government that is captured? Elite capture is a real threat. But it is a threat for all kinds and levels of government. It is a threat neither special nor more dangerous for decentralized government.

We come last to the issue of social learning. ‘Social learning’ refers to the collective acquisition of knowledge, norms and practices, and trust that occurs amongst groups of voters organized by geography or issue-areas of their concern. It is social because it necessarily concerns shared values, beliefs and behaviors; the knowledge in question concerns cooperation and group-wise maximization, as opposed to individual maximization.

Social learning is intrinsically a learning-by-doing phenomenon, Faguet, Fox and Pöschl argue, and hence relies on direct interactions amongst citizens. Unlike central government, local government provides ordinary citizens with real access to repeated interactions on matters of public policy and resources, both directly with local government *per se*, and indirectly through civic organizations that debate positions and compete with firms, other interests and each other to influence policy. Either individually or through their civic organizations, the small scale of local politics allows citizens to become political actors themselves. Decentralized government accelerates social learning over time in a way that centralized government does not and, for the most part, cannot.

The key issue is scale. Scale is determinant and its effects are non-linear. The large scale of central government demands disproportionately greater resources and levels of organization than local government does for effective engagement. Therefore the experience of participation and engagement with public decision-making abounds in government in its decentralized, but not centralized, form. And so experience accrues and learning occurs amongst individual voters and their small-scale collectives (e.g. civic groups, local lobbies) in local government, as opposed to think tanks, professional lobby firms, and peak associations in central government. Participation in local government leads naturally to collective learning around narrow questions of effectiveness, but also higher-order issues like fellow citizens’ needs, resource constraints, and the multiplicative effects of public as opposed to private action for certain classes of problems.

Local governments can thus promote political legitimacy and long-term state-building from the grass-roots upward in a way that centralized government cannot. According to Faguet, Fox and Pöschl, decentralization can make the state more ‘democratically supple’, in the sense of the greater degree of organization that decentralization catalyzes in society, by providing strong incentives for group formation and strong incentives for organizational effectiveness.

6. Conclusion

The academic and policy literatures on decentralization and local government abound in studies of decentralization. Initially based mainly on qualitative evidence and case study, this research has become more quantitative and formal over the past two decades. But as sample sizes have multiplied and methods become more technical, the focus of research has narrowed ever further to decentralization’s effects on any number of policy variables X_1 , X_2 , X_3 , etc., leaving aside issues of crucial importance to policymakers contemplating real reforms, such as: How can decentralization be made politically feasible? Does decentralization improve governance? Do municipalities compete amongst themselves and what effects might this have on public policy and services? Will reform promote clientelism or broad-based development? How can decentralization be used to strengthen or weaken the state? Real-world reformers need to know the answers to some, if not all, of these questions before estimating the efficiency gains that decentralization might provide in specific policy areas. A reform that undermines a president’s political party, or is likely to lead to national break-up, is stillborn regardless of the efficiency gains it may promise.

This book seeks to return attention to such large, nuanced, complex questions that rank among policymakers' first concerns, but are methodologically difficult to answer. We do this by marrying the views, insights and experience of very senior policymakers involved in driving decentralization forward at the highest levels with academics working at the forefront of the field in economics, politics, and development and policy studies. The insights gathered here are the product of a five-year collaboration that began with a conference sponsored by the Initiative for Policy Dialogue at Columbia University, and culminate in this book.

Before addressing feasibility or governance we must answer a more basic question: Why does anyone decentralize? If we take the tenets of modern social science seriously, then we must admit that giving away power and resources to people you cannot control, some of whom are likely to be your opponents, is an absurd thing to do. And yet reform appears to be happening all over the world. What are we to make of this? Why does reform happen anywhere? In Bolivia, a much-cited example of radical reform, the answer is the confluence of an urgent short-term political problem that decentralization could solve, with a deeper conviction that the country's many failings and challenges required a fundamental redistribution of power in the Bolivian polity, from the heights of La Paz down to the people in the towns and villages where they lived.

Are both these elements necessary and sufficient to push through sincere reform? We cannot tell from a single case study. But the tactical difficulties – and sheer improbability – of devolving power anywhere suggest that both are required. A comparison with Pakistan strengthens the argument. Here, decentralization solved the short-term problem of legitimizing military rule by undermining established political parties. But this came at the cost of poisoning decentralization in the eyes of those parties, and in the absence of any longer-term vision of governance and development in Pakistan. Hence whereas Bolivia's successive governments deepened and strengthened reform, Pakistan's return to democracy saw parties close down local governments and recentralize power.

Was the Bolivian President right to try to improve governance through decentralization? This book provides new, empirically rich, nuanced evidence that sheds light on this question. Across a range of countries in Africa, Asia and Latin America, Bossert shows that the dimensions of "decision space" – essentially local discretion over resources and actions – tend to go together. Where decision space over, say, health services was effectively decentralized to local authorities, local accountability and capacity for health tended to be high. Where all three of these criteria held, health system performance was higher than in more centralized cases. Along broadly similar lines, Bardhan et al. examine the political participation of rural dwellers in West Bengal, and find high mobilization in political campaigns, elections, and village meetings, as well as high awareness of programs administered by low-level GP administrations.

Focusing on Latin America, Grazi and Jaramillo show that decentralization initially led to a sharp deterioration of fiscal deficits via an explosion of subnational expenditure. Since then, however, fiscal accountability laws, more stringent accounting rules, and greater subnational tax-raising powers have changed subnational officials' incentives, leading to much more fiscally responsible behavior across the region. Pöschl and Weingast provide a more general analysis of how the design of tax and transfer formulas can provide incentives for subnational leaders to collect taxes, in turn incentivizing local officials to improve fiscal discipline, increase engagement with citizens, and improve accountability.

Changing governance processes can change incentives, and thus behaviors, up and down the system with powerful effects on fiscal outcomes. But do they change substantive outcomes as well? Across a large range of countries and regions, Bossert says yes. He finds that broader decisions space and stronger institutional capacities led to improvements in health coverage and better health system administration, in one of the first studies of its kind. In a similar vein, Bardhan et al. find that high levels of political participation led to greater accountability at the lowest level of government, with little evidence of discrimination based on caste, education, political partisanship, or wealth in the allocation of public benefits. It is striking that this does not hold *across* villages, however, suggesting that the benefits of mobilization and participation were locally specific, and higher levels of policy making suffered some sort of distortion or capture.

All of these results underline the fundamental point that it is not *whether* a country decentralizes, but *how* it decentralizes that matters. Shifting power and resources downwards implies by definition a shock to the power balance between interests, actors and institutions. It is likely to disrupt existing political settlements between elites, and it may decide the demise or survival of a political party in power at the center, or alter the power of separatist groups threatening to dissolve a country. Politicians and bureaucrats are typically loathe to take on such challenges, implying that even legally sanctioned reforms will be renegotiated and recalibrated as they are implemented. Hence reforms that promise one kind of shift of power and resources often accomplish a different kind of shift, or none. This explains the many cases of partial decentralization across the world (Devarajan et al. 2009).

The larger lesson that reformers should take away is that the benefits of decentralization are achievable but never guaranteed. To succeed, decentralization must be implemented as sincerely as possible, and subsequently modified and recalibrated based on initial results, once the new incentives created by changes in rules and structures have played themselves out in practice. The ultimate effects of any multidimensional, complex institutional reform are impossible to predict with any accuracy, and this is especially true of decentralization. Decentralization is not a panacea. It is a process, and usually a long and detailed one, that requires sustained attention to get right.

Are improvements in policy outcomes due mainly to the better internal accountability that decentralized governance generates, or are competitive dynamics between municipalities also involved? We shed light on this question through a quantitative study covering over 90% of the municipalities in the Philippines, and a qualitative study of the effects of China's Area Based Competitions (ABCs) in Xining City, China. In the Philippines, Capuno et al. find that local governments provision of a range of services is positively influenced by neighboring municipalities' expenditures on the same services. This effect is only present amongst mayors who don't face term limits, implying that electoral pressures do operate in the Philippines to make local officials responsive to voters' needs. In China, Li and Zhang find a striking increase in the number of volunteers from across society who joined Xining's campaign to win the Hygienic City Competition. This transformed the relationship between citizens and government in their view. China's ABC's may thus be an important source of innovation local government, promoting learning-by-doing across the country.

If decentralization is associated with local level learning-by-doing in China, improving fiscal governance in Latin America, fiscal stability and growth in China, and improved health system performance across three continents, how are we to understand the continued domination of local governments over five successive electoral cycles by the Left Front in West Bengal?

This seems at odds with an emerging picture of reform that can improve citizen participation and learning, and systemic stability across many countries. Bardhan et al. find the answer in the dispensation of personalized, recurring short-term benefits by Left-dominated local governments to poorer voters. Clientelistic benefits of this type proved electorally more potent than longer term public investments, such as infrastructure, or more substantial one-time benefits that were highly personalized.

Clientelism is bad news for those who hope decentralization can improve governance and lead to better development outcomes. But Bardhan et al.'s findings also highlight the continued decline of the Left Front in these same districts due to longer-term trends such as urbanization, the decline of the agricultural sector, and improving health and education standards, all of which conspire to reduce the susceptibility of the poor to electoral appeals based on small, personalized transfers. So while decentralized clientelism can restrain public investment in the sorts of public goods that promote development over the medium term, longer-term changes in many developing societies will naturally limit its electoral appeal, and hence its practice.

Perhaps the biggest question reformers face is Will decentralization undermine national unity and promote separatism? Or can it be used to further integrate the sorts of diverse societies and economies typical of so many developing countries? The question is best framed this way: Will decentralization stoke centrifugal forces, empowering those who seek secession, giving them a podium and a chance to demonstrate competence? Or will it stoke centripetal forces instead, peeling away more moderate layers of support that can be assuaged with autonomy-type reforms like local control of primary services, minority language rights, etc., so isolating the hard secessionist core from their previous constituency?

In practice the issue morphs into a question of the incentives and behaviors of regional elites. Where regional elites have incentives to invest in candidates, infrastructure, parties and social movements, and programs that promote national breakup, reform can interact with national fissures in a dangerous way. But where regional elites tend to invest in further integration, decentralization can actually strengthen the state by strengthening legitimacy and improving public sector outputs at both the center and periphery simultaneously. The key consideration, not surprisingly, is the type of decentralization implemented. Reforms that limit themselves to the spatial confines of a country's major social or economic cleavages – e.g. to regions dominated by different ethnic groups – make breakup more likely by exacerbating regional tensions. By contrast, reforms that transcend these boundaries and ways of thinking underpin unity instead. Consider the Bolivian example. By decentralizing power and authority to a level beneath that of the country's major cleavage – to municipalities rather than departments, reform undercut the divisive power of regional elites. The local governments so empowered became identified not with group identity or privilege, but rather with issues of efficiency and service provision. This helped to steer political competition away from zero-sum conflicts over the distribution of fiscal resources, towards positive-sum negotiations about public investment and service provision. In so doing, it helped bind the country together 'from the bottom up' through improved infrastructure and faster economic growth.

It is wrong to view decentralization as a simplistic choice between "weak" decentralized government vs. "strong" centralized government. The correct dichotomy instead contrasts: (a) a simple, clean centralized command structure that is ultimately brittle in that it lacks internal complementarities and redundancies, and so is susceptible to failure in any of its parts, with (b) a system that is more complex, based on independent actors with overlapping authority and

Chapter 1 in J.P. Faguet and C. Pöschl (eds.). 2015. *Is Decentralization Good for Development? Perspectives from Academics and Policy Makers*. Oxford: Oxford University Press.

separate information flows, where coordination and cooperation are far more important than command and control. While the former is likely to take faster decisions, the latter is likely to take better informed, more accountable ones.

A starker way of conceptualizing of these issues is as a trade-off between the strength of political leaders and the institutional strength of the state. Under centralization, the leader is strong at the expense of the state. Under decentralization, her discretion is circumscribed by procedure, rules, and the need to agree decisions with other independent actors. The state is stronger and more stable at the expense of the leader.

One important way in which sincere decentralization does this is by transforming politics from a top-down activity subject to oligopolization by a socio-economic elite, to a bottom-up system of representation where pressing local concerns are taken up and addressed by local politicians and parties. This changes the nature of political competition in a country, and very likely the nature of political organizations most likely to prosper. Parties structured to win in a narrow, oligopolized national politics are likely to be ill-suited to the broader, bottom-up politics of decentralization.

Many reforming politicians and parties seem not to understand this point. Others, however, probably do, and so design ‘cynical decentralizations’ that create small local governments dependent on the center for resources. This facilitates continued central control over decision-making via the capture of local administrations not by local elites, but by the center.

The final way in which decentralization can strengthen the state is subtle but powerful, especially over the longer term. We call this ‘social learning’ – the accretion of collective knowledge, trust, and norms and practices by groups of voters. Because social learning is intrinsically a learning-by-doing phenomenon, direct interaction amongst citizens is required for it to happen. The small scale of local politics encourages participation and allows citizens to become political actors either individually or through civic organizations. Decentralization thus accelerates social learning in a way that centralized government does not and, to a great extent, cannot.

Over time the dynamic of decentralized government provides strong incentives for group formation and strong incentives for organizational effectiveness in civil society. It does so indirectly for the state as well, as the state is forced to respond to increasingly mobilized civic groups. The state thus becomes more ‘democratically supple’ as the number of intermediating organizations and the density of their social interactions increase, in the sense of becoming more legitimate through greater responsiveness to society’s needs. Social learning can also play a role in the deeper transformation of clientelistic politics into broad-based pro-development politics. Clientelism is a kind of divide and conquer strategy on the part of parties against voters’ collective, public interests. By making citizens see their common interests from the grass-roots upwards, and teaching them to organize and cooperate, social learning can help transform clientelistic politics into policies and actions that drive development forward.

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