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DOES DECENTRALIZATION STRENGTHEN OR WEAKEN THE STATE?

Authority and social learning in a supple state

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Abstract

We examine how decentralization affects four key aspects of state strength: (i) Authority over territory and conflict prevention, (ii) Policy autonomy and the ability to uphold the law, (iii) Responsive, accountable service provision, and (iv) Social learning. We provide specific reform paths that should lead to strengthening in each. Decentralizing below the level of social cleavages should drain secessionist pressure by peeling away moderate citizens from radical leaders. The regional specificity of elite interests is key. If regional elites have more to lose than gain from national schism, they will not invest in politicians and conflicts that promote secession. Strong accountability mechanisms and national safeguards of minority rights can align local leaders' incentives with citizens', so promoting power-sharing and discouraging local capture or oppression. "Fragmentation of authority" is a mistaken inference; what decentralization really does is transform politics from top-down to bottom-up, embracing many localities and their concerns. The state moves from a simpler, brittle command structure to one based on overlapping authority and complex complementarity, where government is more robust to failure in any of its parts. Well-designed reform, focusing on services with low economies of scale, with devolved taxation and bail-outs prohibited, should increase public accountability. Lastly, by allowing citizens to become political actors in their own right, the small scale of local politics should promote social learning-by-doing, so strengthening political legitimacy, state-building, and 'democratic suppleness' from the grass-roots upwards.

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1. Introduction

Many developing countries are caught in a vicious circle of poverty, weak institutions, corruption, low levels of legitimacy and low economic growth rates. Decentralization has been widely advocated as a way out of this trap, and was exceedingly popular during the reform era of the 1990s and since. It has been promoted as a means of strengthening the state for developing countries suffering from low organizational capacity, poor public service provision, and sectarian violence (Brancati 2004). 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 (Manor 1999).

This is ironic, as a strong state has traditionally been equated with a centralized state. Strong states were understood as unitary rather than federal, with power concentrated in the executive branch (Evans, Rueschemeyer & Skocpol 1985; Skocpol 1985). Such centralized states were generally considered to be better able to formulate policy independently and carry 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, giving them greater authority (Evans, Rueschemeyer & Skocpol 1985; Skocpol 1985).

But the appeal of the 'strong state as centralized state' idea diminished during the 1990s, at the same time that decentralization was becoming the new consensus (Stepan 2000). Proponents argued that decentralized governance structures may actually be more effective in strengthening the state. While centralized states are strong in some respects, they may be "brittle" in others (Faguet 2013a & 2013b). 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.

Has decentralization lived up to this potential? Or has reform instead weakened state institutions, giving voice to disparate and competing factions? Traditionally – and oddly – the literature has been unable to answer these large questions (Treisman 2007, Faguet 2012). But 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 in the literature about what decentralization is and how it affects the state. This chapter uses such evidence to reconceptualize some of the key tradeoffs regarding decentralization and state strength, and then offers practical guidance to assist development scholars and policymakers

in navigating the potentials and pitfalls of reform. We review both the theoretical and empirical literature on the ways decentralization is believed to either strengthen or weaken the state, highlighting where theory is indeterminate, and focus on the underlying conditions that can cause the same reform to have very different outcomes. We suggest policy and structural factors that policymakers can use to design sincerely⁵ decentralized institutions that strengthen the state and promote its legitimacy.

Just as the flexibility of an aircraft's wings increases the aircraft's resilience through their capacity to dissipate shocks, we argue that decentralizing a state may increase its 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.

We make this argument piecemeal. We focus on some of the most important components of state strength identified in the literature, link these to the principal challenges facing weak states in developing countries, and then analyze how decentralization can affect each one. The major arguments are summarized in Table 1. Section 2 discusses some of the most important conceptualizations of state strength in the literature and identifies four key dimensions that should be affected by the level of (de)centralization in a country's government. Section 3 examines how decentralization might affect a state's authority over its territory and people, and its ability to maintain peace and prevent conflict. Section 4 discusses whether decentralization increases or decreases the state's ability to formulate policy autonomously and uphold the law. In Section 5 we consider whether decentralization can make public services more responsive and accountable to citizens. Section 6 delves into a potentially powerful effect that has received very little attention – social learning through democratic practice, and how decentralized government can achieve it in ways that

⁵ 'Sincere' decentralization refers to authentic attempts to devolve power and resources to subnational levels of government, as opposed to declarations of intent, or even promulgated laws and decrees, that have little practical effect (Faguet 2012).

centralized government cannot. We conclude with specific recommendations of policy and structural factors that can guide decentralization processes towards state-strengthening, and not state-weakening, outcomes.

2. Defining state strength and decentralization

What is a strong state? Though many scholars have considered the question, there is no agreed-upon understanding (see e.g., Kocher 2010; Mkandawire 2001). Numerous labels and analogous concepts have been used, including state capacity (Migdal 2001), state autonomy (Geddes 1996), state efficacy (Delacroix & Ragin 1981), good governance (Kaufman and Kraay 2002), state weakness, failed states (Esty et al 1997), fragile states, resilient states and developmental states (Putzel and DiJohn 2012; Johnson 1982), among others. Most definitions of state strength tend to comprise a list of partly overlapping but sometimes contradictory components or characteristics (Kocher 2010). Bräutigam et al (2008), for example, define state capacity as the administrative, fiscal, and institutional capacity of governments to interact constructively with their societies and pursue public goals effectively. Kaufman, Kraay and Mastruzzi (2005) define state efficacy broadly in terms of the efficiency of the bureaucracy and public servants, roles and responsibilities of local and regional governments, including the administrative and technical skills of government, effectiveness of policy and program formulation, governing capacity, and effective use of resources. Fukuyama (2004) distinguishes between two dimensions that have often been confounded in definitions of state capacity – state strength versus state scope. He argues that the hallmark of “stateness” is its enforcement functions, rather than the scope of activities performed.

While each of the many terms and definitions encapsulate nuanced differences, several common components of state strength can be derived. Strong states are typically characterized as being able to establish authority over their territory and population. Several definitions draw from Max Weber’s (1946) definition of a state as an entity that successfully has monopoly on the legitimate use of force over a territory. Often cited is the ability to maintain order, preventing large-scale violence, civil war and secession. Many other authors measure a state’s strength by the degree to which it is able to enforce the law, implement its policies, and react to external shocks. While some definitions list the ability of adopting decisions autonomously, independent of social groups, others emphasize the salience of organizational capacity and a stable professional bureaucracy. A third thread focuses on the degree to which a state can respond to the needs of its citizens and provide basic services

such as water, sanitation, electricity, health and education. Other scholars analyze the state's ability to extract resources, through taxation or otherwise. A last consideration, which few scholars address but which is potentially powerful, is the extent of social learning that occurs in a state, which can increase the effectiveness and legitimacy of its actions.

The sections that follow examine these key components of state strength or weakness as discussed in the literature, with specific bibliographical references, and discuss in detail how decentralization may impact upon them. In spite of much overlap across the components, they are put forward separately in the interest of clarity and presentational ease. Although the literature distinguishes several types of decentralization (Rondinelli et al. 1983; Faguet 2012), we focus on the variant that we consider to be analytically the most powerful and practically the most important. Decentralization is henceforth defined as a reform that establishes or increases the political power of subnational units 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, from delegation, where managerial responsibility is transferred to organizations outside the regular bureaucratic structure, and from privatization, where state assets and responsibility for service delivery are transferred to the private sector.

3. Authority over territory and people, maintaining peace, and preventing conflict

One key component of state strength is the ability of the state to exert authority over a given territory and its population (e.g. Price-Smith, Tauber & Bhat 2006). Many developing states were born out of international agreements, often with arbitrarily defined borders based on colonial partition more than internal political factors, with little to hold them together beyond guarantees by the international system (e.g. Jackson & Rosberg 1986; Englebert 2000; Herbst 2001). 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 (Jackson and Rosberg 1986). This is a fundamental problem facing many African leaders (Herbst 2001; Englebert 2000).

The state may instead be 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 (Myrdal 1968). The discussion that follows highlights the close interconnections between a state's authority over territory and people and its ability to maintain order and protect citizens from violence, as different aspects of the same dimension of state strength (e.g. Esty et al 1997; Homer-Dixon 1999; Migdal 2001; Price-Smith, Tauber & Bhat 2006).

3.1 Decentralization, self-determination and secession

How might decentralization affect these challenges? First, decentralization may help mitigate them by bringing 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 (Faguet 2004a, 2004b, and 2012). 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, and thus giving representation to people of different groups, may incite parts of the population that formerly felt excluded from the state to feel represented and included. Indeed, federal, decentralized institutions have long been recommended as a mechanism to hold together fractured, "multi-national states" (Lijphart 1977; Stepan 2001; Horowitz 2003; Brancati 2004). 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 (Stepan 2001). 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.

But there are also many opposing arguments. Some claim that decentralization will build a federalist mentality, undermining efforts to build national unity and identity. It may even deepen divides between groups and intensify conflict by reinforcing cultural or ethnic identities. Second, decentralization may lead fractious groups to want ever more autonomy. In this vein, former British Prime Minister John Major argued against devolving powers to

Scotland, claiming it was “the Trojan horse to independence” that would lead to friction and eventually demands for full independence (Major 1995, quoted in Brancati 2009). Powers were devolved by the Labour government that followed, and a referendum for full Scottish independence has now been called for 2014. With more power and independence, decentralized areas may realize they can manage their affairs better on their own. Decentralization may give subnational leaders experience in governing. Several decentralized regions have seceded after first setting up their own decentralized institutions. South Sudan is one recent example.

The key theoretical issue concerns whether decentralization will stoke centripetal or centrifugal forces. Opponents of decentralization claim devolving power and resources will empower those who seek secession, and – if they prove reasonably competent – assuage citizens’ ill-formed fear of the unknown by showing them local authorities who provide services and manage public budgets adequately. Proponents claim that the same stimulus – the devolution of power and resources to even secessionist politicians – will generate the opposite response. Like an onion, it will peel away the outer layers of support from such leaders and parties, stripping them of constituents whose demands can be satisfied by more limited measures of autonomy, such as local control over public services, minority language rights, and symbolic goods such as public art and celebration, so isolating the hard secessionist core that seeks full independence from the mass of citizens.

Which side of this argument is correct is not an issue of decentralization per se, but rather depends on the nature of the secessionist impulse and the source of such parties’ and leaders’ appeal. Where groups are distinct, geographically concentrated, and highly mobilized against one another through violence, it may be difficult to imagine continuing cohabitation within a single nation, barring the comprehensive defeat of one group. But where groups are harder to distinguish, or where they comingle, or where mobilizations are only partial, decentralization may offer the “steam valve” required to satisfy those who actually demand autonomy, not full secession, and hold a nation together.

In practice, the more important factor is likely to be the regional specificity of elite interests. If coherent regional elites (1) exist, and (2) have more to gain from secession (greater control over resources at the cost of lost markets and lost influence) than autonomy (partial control over resources, continued access to national markets and policy-making), then national integrity is in much greater peril. Regional elites will have an incentive to invest in creating conditions propitious to national schism. 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.

On the other hand, the evident success of both developed and developing federations that have strong regional identities but much stronger national identities, such as the United States, Germany, India, and Brazil, demonstrates that decentralized government can stitch together diverse countries in ways that lead to neither subnational tyranny nor secession. One of the keys is regionally diverse elite interests. There are undoubtedly powerful elites in California, North Rhine-Westphalia, Uttar Pradesh and Sao Paulo. Any of these would rank as a medium-sized to large independent country in both population and GDP. It would be a perfectly respectable country of important weight in the international system. And yet secession is not seriously debated in any of these places. Why don't these states' elites agitate for secession?

Because their political and economic interests span state boundaries. Business and political leaders in California and Uttar Pradesh have more to lose than to gain from splitting from the other 49 US or 27 Indian states, despite the fact that all of them are smaller. Pulling up the drawbridges would leave elites in North Rhine-Westphalia and Sao Paulo unambiguously in control of a non-trivial country instead of a state. But from their leading positions in these states, elites in all four exert considerable influence over much larger and more important countries. And they have access to considerably larger internal markets, and can influence international treaties that give them better access to the world economy and a stronger voice in international affairs. They benefit from the unity of a nation they can expect to sway and perhaps even lead. They would lose from its breakup. So they invest in unity, not division.

Interestingly, Stepan (1999) argues that another deciding factor in the ability of federalist states to hold together fractious groups is the timing of elections. When elections are introduced in the subunits of a new federal polity prior to countrywide elections, and in the absence of countrywide parties, the potential for subsequent secession is high compared to when national elections are held first. National elections produce a sense of common nationality whereas subnational elections can generate fractious local parties. Of the nine states that once made up communist Europe, six were unitary and three were federal. Yugoslavia, the USSR, and Czechoslovakia are examples of countries that first held subnational elections prior to national elections, and subsequently broke up into 22 independent states.

Can decentralization be designed in ways that hold fractious groups together rather than promoting 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 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.

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.

3.2 Decentralization and conflict

The relationship between decentralization and conflict has long been a topic of debate (Green 2008). Arguments overlap significantly with those on self-determination and secession, since the failure to integrate regions and minorities into the state is a key source of conflict. As argued above, decentralization can accommodate diversity by giving territorially concentrated groups the power to make their own decisions about issues that most interest them (Tsebelis 1990; Lijphart 1996).⁶ This may diffuse social and political tensions and prevent conflict (Bardhan 2005). Giving groups control may protect them against abuse or neglect from the centre or from one another, which can cause conflict. For instance, if a group is experiencing economic disadvantage, it could be given the power to control its own resources and decide how to allocate resources. If fear of social extinction is the cause of

⁶ As Brancati (2008) points out, this is less so for territorially dispersed ethnic or other groups.

conflict, it could be granted control over issues such as education, religion or culture in order to protect its language and customs (Brancati 2009).

Others take the view that decentralization will instead lead to increased conflict with fractious groups. Roeder and Rothchild (2005), for example, contend that decentralization will give subnational leaders the resources and ‘institutional weapons’ they need to mobilize the local population and demand more political power from the center, thereby elevating tensions. Subnational leaders may also gain prominence and followers, and subsequently threaten the power of national political elites, again causing conflict. Some note that decentralization has produced local leaders who discriminate against minorities in their own regions (Herowitz 1991; Lijphart 1993). Brancati (2009), for example, points out that 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. This underlines the importance of protecting minority rights, which theorists going back at least as far as the *Federalist Papers* (Madison, Hamilton and Jay, 1961 [1788]), and including most major contributions since (see e.g. Dahl 1971 and 1989), have considered critical to the stability and sustainability of democracy as a form of government.

How can decentralization be implemented so as to dampen, and not promote, conflict? 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, threatening not just particular governments but the notion of democracy itself. Hence 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. And central government should enact strong safeguards of minority rights nationwide, to which individuals and groups can appeal in any locality.

3.3 Decentralization as a power-sharing arrangement

In a post-conflict environment, decentralization can be a key component of a power-sharing arrangement that settles power struggles and ends violent conflict. This operates by creating or empowering subnational levels of government to which political power and responsibility, and resources, are devolved. In doing so it also creates new fora for political competition, and hence new prizes over which opposing parties can compete. This solves the winner-take-all problem inherent to centralization, where parties in government wield huge central government 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 (O'Neill 2003), and hence enhanced voice in national debates and opportunities to display competence in government. The penalty of losing national elections is much less steep, and so the temptation to win at any cost greatly lessened. This can help cement the peace in a post-conflict environment.

Decentralization, for instance, has recently been advocated for Iraq and Afghanistan with exactly this in mind (Brinkerhoff and Johnson 2009; Barfield 2011). Green (2011) explains how Ethiopia's decentralization process in the 1990's was part of a civil war settlement that successfully maintained the peace. The country was divided into 11 federal regions. This fragmented the political opposition, creating various new parties that competed against one another for power over the newly created regions, while preventing a return to conflict for power over central government. Peace was maintained and the government in power at the federal level remained free of coups (and electoral defeat). Such shifts in power arrangements can be used to diffuse power struggles at the top. 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, Green (2008) argues that the ultimate effect was to replace conflict at the top with conflict at the local level.

Can decentralization be designed in ways that promotes 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.

3.4 Decentralization as an institutional constraint on the regime

Decentralization may also guard against the concentration of power of one group over other groups in the state (Leff 1999). In Peru following Fujimori's authoritarian regime, for example, a national consensus to decentralize crystallized around the desire to avoid a repeat of the abuses of overly powerful central government leaders through the safeguards and checks and balances that decentralization affords (de la Cruz 2004).

But decentralization may also cause political fragmentation of the opposition, and this may help authoritarian rulers remain in power. Sabatini (2003) argues that decentralization has been used in Latin America to split opposition parties into numerous small, uncoordinated local parties as a method for remaining in power. But the experience of at least two countries in Sabatini's sample, Bolivia and Colombia, suggests that something deeper is at work. The rise of local political competition that necessarily accompanies democratic decentralization undermines pre-existing national parties with weak local roots, and can generate many new, locally-based political parties with strong local roots. But the experience of both countries suggests that strengthening the official party and fracturing opposition parties is at best a short-term, transition dynamic. Over longer periods of time (e.g. two decades) some of these new local parties ally, federate, and otherwise morph into political organizations capable of contesting national elections. And official parties with weak local roots also do not survive expulsion from power (Faguet 2012).

What decentralization really does is to transform politics from an arena that is by definition national, top-down, and subject to oligopolization by a socio-economic elite based in a few powerful cities, to a meta-arena embracing many specific, local arenas where pressing local concerns are taken up and addressed, or not, by local politicians and the parties they choose to join. This sort of bottom-up politics is characteristic of federal countries like the US, Germany, and India, and is in many ways the opposite of politics in a unitary state. The transition from the latter to the former will be treacherous for many existing centralized political parties. That is an argument of interest, not of principle, against decentralization.

Decentralization has been a relatively successful tool for deterring conflict in some countries (such as Canada, Spain, Belgium, India) but not others (Yugoslavia). What accounts for the differences? By empowering a new set of players, decentralization inherently shifts the intrastate balance of power. Power shifts and disruptions in political settlements can cause conflict (Putzel and Di John, 2012). 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. The design of decentralization processes may play a role in their success or

failure as conflict mitigation tools, but it most likely depends on the specific power balance, and the political bargains and settlements of the players involved. Weingast (2013), North, Wallis and Weingast (2009) and Stepan (1999 and 2001), amongst others, examine this question. It remains a complex, important area ripe for further research.

4. Formulating policy autonomously and compelling compliance with the law

Further important components of a strong state are the ability to formulate policy goals autonomously from particular groups in society (Vogel 1986; Evans, Rueschemeyer & Skocpol 1985; Evans 1992, Kohli 2004) and the capability of compelling compliance with the law or policies while remaining autonomous from social influence or competing authority structures (Kay 2003; Geddes 1996). Some scholars add to this the ability to guide the economy (Johnson 1982; Woo-Cummings 1999; Mkandawire 2001).

The inability to implement goals or to police effectively, and the subversion of policy objectives by government agents (agency loss), on the other hand, are considered characteristics of weak states (e.g. Evans et al 1985; Engelbert 2000). Centralized states may have fewer players involved in the decision-making process, whereas decentralized countries with more than one level of government have more players involved (often a lower house) with *veto* powers. The command structure in centralized states has therefore been viewed as cleaner and decisions easier to execute, and execute quickly, than when certain decision-making powers are moved to other levels.

4.1 Decentralization and the command structure

In contrast with the view that a strong state is, by definition, a centralized state (Skocpol 1985), a major promise of decentralization is that the more proximal command structure can produce better policy outputs by creating a closer match between local government outputs and local preferences (Faguet 2004a and 2012). The greater homogeneity of preferences at the local vs. national level allows local governments to tailor policy decisions and public goods more precisely to local needs and preferences than central governments typically manage.

On the other hand, decentralization may bring about a certain loss of control at the top and an inability to act quickly or in concert. It may weaken coherence between local endeavors and national-level issues (Sabatini 2003; Treisman 2007). For example, it may be more difficult for the central government to exert fiscal discipline if it has granted spending

powers to subnational governments, leading to macroeconomic problems, as explained by Jaramillo and Grazzi (this volume) and Ardanaz, Leiras and Tommasi (2013).

In fact, both claims are true. Decentralization should not be viewed simplistically as a choice between “strong” centralized government and “weak” decentralized government. It is, rather, 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, which will tend to lead to government failure, 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 in the sense of robustness to failure in any of its parts, which – unlike centralization – need not be terminal for public services in the affected area. Hence in a centralized system, corruption or ineptitude amongst the officials responsible for local education will have serious consequences for education in that locality. In a decentralized system, by contrast, the same failings in local government officials can be attenuated or even overturned by the actions of regional and national authorities, who share responsibility for local education.

Local governments may also be more vulnerable to interest group capture of the local political process, and the 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. The logic is developed and tested empirically by Bardhan and Mookherjee (1999), Bardhan and Mookherjee (2006), Blair (2000), Crook and Sverrisson (1999), Dreze and Sen (1996), Manor (1999), and Prud’homme (1995), and is as follows. 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, decentralization can lead to weak local governments that are cowed and captured by local elites. One effective remedy is a centralized state that is comparatively wealthy and powerful – “large” compared to local elites. Decentralization will not lead to transparent, equitable local government because the local societies in which local governments operate are distorted by extreme inequalities of wealth and power. And thus reform will lessen the transparency, responsiveness and accountability of the state.

While this argument has much merit, it underplays the comparative threat that elite capture poses at the national level. As Hacker and Pierson (2011) show, 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 interest groups powers and privileges 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. It is not a special threat for decentralized government. As argued below, political openness and competition are the best antiseptics.

4.2 Decentralization, policy stability, and a stable institutionalized bureaucracy

Several scholars mention the existence of an autonomous institutionalized bureaucracy, as opposed to personal rule or neopatrimonialism and systemic privatization, as the characterizing feature of a strong state (Kocher 2010). This is expected to achieve policy continuity, decisions that are more likely to be in the interest of society rather than based on personal relationships, stability of expectations, and an organized professional bureaucracy. States are considered weak when their political institutions—e.g., constitutions, electoral rules—are often altered and lack continuity or support. If the “rules of the game” change frequently, this is said to undermine confidence in the state and the state’s ability to make “credible commitments” (Levitsky & Murrillo 2009). For instance, term limits may be regularly changed by incumbents, constitutions may be rewritten frequently, or life tenure for judges may be ignored in practice (Levitsky & Murrillo 2009). This instability and lack of institutionalization of rules and procedures undermines the ability of the state to generate shared behavioral expectations that shape and strengthen political structures.

States that are captured by special interests are argued to be less effective at formulating and carrying out social policy designed to meet the public good (Cox & McCubbins 2001). Traditionally, centralized states have been viewed as more autonomous in their ability to formulate policy by diminishing the influence of particular groups in society (Vogel 1986; Evans, Rueschemeyer & Skocpol 1985). By fracturing centralized power, such authors argue, decentralization reduces the autonomy of the state and makes it more susceptible to personalistic, clientelistic forces.

Proponents of decentralization contend that more players in the decision-making process may lead to greater policy stability, which in turn strengthens the state by making dramatic policy switches harder to achieve (Cox & McCubbins 2001). In fact, it has been argued that decentralized systems are stronger precisely because by increasing the total number of actors in government required to approve rules, laws and policies cannot be as

easily and frequently changed and greater stability is attained (Tsebelis 2002; Treisman 2007).

A better way of thinking about this is as a trade-off 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.

The relative autonomy of a centralized state may also come at the expense of efficiency. Although centralized states may be more autonomous in their ability to formulate policy, due to their relative isolation during this planning phase, they may face an uphill battle in implementing policies for which the participation and cooperation of other citizens and groups is necessary. As Grindle (1980) outlines, a central problem in implementation occurs when policies designed centrally are ill-suited to local conditions. For example, local implementers may need to appease local elites, who may stand to lose from certain programs. Opposition from such elites, especially in a context of inflexible implementation rules, will lead to dynamic inefficiencies as the policy is rolled out. 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”.

Furthermore, 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 (Faguet 2012). In Bolivia, the spread of local governments, a stable local bureaucracy, and the services they provide have clearly strengthened the legitimacy of the state in citizens' eyes.

5. Responsive, accountable public service delivery

Drawing again on Weber, another marker of a strong state is the ability to carry out policies in an efficient manner that is responsive to public needs (Bates 2008). Providing basic services to the population is regarded as a basic function of the state, and the extent to which it achieves this may be regarded as a direct component of state strength. It may also indirectly contribute to state strength as success will likely enhance its legitimacy and authority.

One of the most frequently cited and powerful arguments in favor of decentralization is that it will have a positive impact on public responsiveness to basic needs. By allowing government to tailor decisions to the specific demands and needs 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 (Tiebout 1956; Hayek 1939).

Decentralization is further expected to enhance public services by improving accountability and responsiveness of the government to citizens (see Green, forthcoming). By bringing decision making power closer to the represented and creating popularly elected positions at the local level, incentives for accountability can be transformed (Faguet 2012). 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, such a shift in incentives and accountability relations has altered investment decisions and resulted in significant improvements in basic service delivery (Faguet and Wietzke 2006; Faguet 2012; Faguet and Sánchez 2013). 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 (Rajkumar and Garcia 2007).

A related explanation of the benefits of decentralization for government performance rests on the ability of decentralized structures to leverage local social capital (Putnam 1993). A high density of civic organizations that encourage people to work together and build trust fosters behavior that makes for better performance in local institutions. 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.

However, while there is reason to believe that decentralization can foster local social capital by bringing governance closer to the people, proponents of social capital are skeptical that government policy can work to create this trust or build this capital. For instance, Putnam (1993) suggests that in Italy, areas which did not develop social capital in the Middle Ages are not likely to perform well in the twentieth century. Likewise, Fukuyama (2004) suggests that the success of certain public sector institutions in newly developed East Asian countries stems from their “mandarin bureaucratic tradition,” which cannot be easily replicated. In fact, direct investment in civil society is seen as weakening the state by bypassing it (Fukuyama 2004).

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 (Wallis & Oates 1988), and the possibility that decentralized funds may be more easily diverted or captured by local elites (Manor 1999). Opponents of decentralization argue in particular that the devolution of responsibility only increases the discretion of local elites in the distribution of public goods, and can strengthen patron-client relationships (Bardhan, Mitra, Mookerjee, Sarkar 2008). Also, subnational governments may not have the same technical or human capacity to provide services with the same efficiency and quality as central government (Treisman 2007). Studies of federal systems have tended to find that central governments are more effective at making equitable allocation decisions, especially for assisting the poor (Linz & Stepan 2000). And politically induced interregional inequality can lead to conflict, weakening the state.

“Fiscal laziness” is another potential unintended consequence of decentralization, which can critically undermine state stability and strength (The World Bank 1994). State and local governments may have little incentive to match intergovernmental transfers through local taxation (Peterson 1994). If the ability to tax is a marker of state strength and legitimacy as some have suggested (Levi & Sacks 2009), this fiscal laziness could be consequential, laying the foundation for a less capable state. But it can also attack state strength directly, as

happened in Argentina in 2001 (Ardanaz, Leiras and Tommasi 2013). There, the governors of certain poorer provinces who preferred to under-tax their populations were able to force central government to repeatedly bail them out via the requirements of the national congressional coalition. This fed persistent unsustainable fiscal deficits, which ultimately led to the 2001 economic collapse.

These risks can be combatted by decentralizing not only expenditure but taxation too, and prohibiting either bail-outs, local deficits, or both. In such cases, local governments will have a strong incentive to tailor local policies and services to the priorities of those who pay (Faguet 2012). And citizens will have a greater incentive to monitor the use of funds. Hence fiscal laziness is a problem not of decentralization per se, but of badly designed decentralizations, and can be remedied in a technically straightforward fashion by altering the subnational incentive structure (Ardanaz et al. 2013). 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 decentralization. Any rational decentralized system will involve continuing co-production of public goods and services at the central, regional and local levels (Faguet and Sanchez 2013). Goods with large economies of scale should be produced centrally, and those with significant heterogeneity or local informational inputs should be produced locally.

Where elite or interest group capture is concerned, it is worth reiterating that this is not a particular problem of local or regional government. Policy making in central governments as rich, powerful and professional as the United States can suffer from significant degrees of elite capture (Hacker and Pierson 2011). Empirical evidence shows that the way to combat this in a decentralized system is through open, free, fair political competition in a broader context of civic organizations and economic interests that interact extensively through politics (Faguet 2012). So long as there is transparency in politics and the playing field is level, economic interests and civic groups will have strong incentives to interact with one another as they compete through politics to obtain amenable outcomes, and this interaction itself will tend towards responsive, accountable government and away from capture and tyranny.

6. 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 the a final ‘meta-issue’ or mechanism through which

decentralization can serve to strengthen the state. Social learning has received far less attention in the literature. But the effects of decentralization on state strength via social learning, although second-order, may ultimately be the most powerful considered here, not least because it operates through each of the first three 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. Indeed, one of the overarching themes of this chapter is the need to analyze the effects of decentralization in a dynamic context, as decentralization is not a one-off change but rather a process that develops and matures over time. Our treatment builds on Faguet's (2012) analysis of the importance of interactions amongst social, private sector and political actors in the local political economy as critical determinants of responsive and accountable government.

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

To better understand this, let us follow Faguet (2004b) and 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. Preferences can be thought of as wants and needs, some of which are individual and hence private (e.g. my favorite sandwich, my favorite shirt), and others of which are shared in society and so the object of public action (preferred quality of schools, preferred level of taxation).

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.

Each of these processes – preference articulation, preference aggregation, and accountability – is necessary to democracy. All three operate continuously, relying on government-society and society-society interactions for their success. Civil society is conceived here as both individuals and the set of collectivities that aggregate their ideas and efforts, interacting amongst themselves and with the institutions of government. Such organizations develop their own norms of behavior and responsibility organically, and over

time may build up stores of trust and credibility that enhance capacity, or not. Governance relies on these autonomous organizations to mediate – and ultimately empower – citizens’ participation in the decision-making that governance implies.

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 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 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 induces 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’, introduced above. But we see now that ‘suppleness’ is far more than the linear concept of ‘more elected officials’. It is, additionally, the greater degree of organization that decentralization catalyzes in a society by providing strong incentives for group formation and strong incentives for organizational effectiveness. And it is the iterative experience at the level of individual citizens of interacting with others to define and solve collective problems that makes future such actions

easier, more reliable, and more easily sustained – through the simple fact of having done it before. As a result, 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.

This raises the difficult issue of metropolitan governance in a decentralized system. Urban giants such as Cairo, Mumbai, and Sao Paulo represent a large and increasing share of the population and economic output of the developing world; any one of these is larger in both dimensions than many small countries. They are natural political as well as economic units, but their scale dwarfs the idealized parameters outlined above. How can a decentralized system incorporate such behemoths? Unfortunately, this complex issue lies beyond our scope. We limit ourselves here to note that the government of large urban areas requires asymmetric approaches to decentralization, permitting different rules for different sizes and types of local governments. Large cities, for example, may require decentralization to the sub-municipal (e.g. district, ward) level in order for its full benefits to be captured. Further detailed treatment of this and related questions can be found in Bahl, Linn and Wetzel (2013), Ahluwalia, Kanbur and Mohanty (2014), and Rao and Bird (2011).

7. Conclusion

The academic literature contains different definitions and conceptions of a strong state. We argue in favor of the following key identifiable, intellectually discrete components of ‘state strength’: (i) Authority over territory and conflict prevention, (ii) Policy autonomy and the ability to uphold the law, (iii) Responsive, accountable service provision, and (iv) Social learning. Theory is indeterminate on the impact of decentralization on the first three

components, and the fourth 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 authority over territory, self-determination and secession 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. Such a decentralization can undermine secessionist movements by peeling away layers of support from citizens whose demands can be satisfied by more limited measures of autonomy. In practice, a key factor will be the regional specificity of elite interests. To support national integrity, regional elites must be made to have more to lose than gain from national schism, so that they do not invest in politicians, parties and events (including violent ones) that promote national breakup. Complementary reforms promoting a single internal market for goods and services, and improved infrastructure and transport links, can help convince elites that continued access to national markets and policy-making trumps dominance of local resources and power. Such reforms can also facilitate the flow of people and ideas across an economy, binding it together from the bottom up.

By reducing secessionist tensions, decentralization designed in this way should also reduce the threat of conflict in a society. Strong local accountability mechanisms combined with strong national safeguards of minority rights can help by aligning leaders' incentives with those of local citizens, preventing subnational governments from ignoring or oppressing local minorities. These should be paired with electoral measures that support open, competitive local politics on a level playing field, and campaign finance regulations that support transparency and fairness, so promoting power-sharing and discouraging capture.

Interestingly, the literature is ambivalent about whether decentralization should strengthen or weaken the central state. Some argue that it will fragment political opposition to authoritarian rulers, thereby strengthening their centralized control. Others argue that it will bring about a loss of control at the top by creating new centers of power and complicating a simpler, 'cleaner' command and control system. We argue that both perspectives are wrong because they fundamentally misunderstand one of decentralization's central effects.

What decentralization really does is to transform politics from a top-down, national arena subject to oligopolization by a small urban elite, to a bottom-up meta-arena embracing many specific, local arenas where local politicians are pressed to address local 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.

But will politicians? It is probably safe to categorize national leaders into two groups: (i) those who are primarily self-interested, and (ii) those whose self-interest is tempered by a concern for the common good, or their place in history, which may be observationally similar. Leaders who are primarily self-interested will tend to keep power and resources in their own hands. If they decentralize, such reforms will tend to be “paper decentralizations” of form, not substance, or perhaps outright mistakes. As argued in chapter 1, the first kind probably accounts for a large share of the world's decentralizations. And the second kind is strictly irrational, perhaps the product of calculative mistakes, and so not a good subject of analysis.

Category (ii), by contrast, is far more interesting. Leaders with at least some concern for the collective good (or their place in history) may well decide that decentralizing power and resources is the superior alternative. As Faguet (2012) stresses, decentralization is not a switch that can be flipped, but rather a process that consolidates over time. A leader who announces decentralization at the start of her term is likely to see it fully implemented only towards the end of her term. Reform is likely to constrain her successors far more than herself. In many political contexts, this may in itself be an appealing prospect. And history will credit her, not her successors, for the initiative. Furthermore, as we saw in chapter 2 for the case of Bolivia, if the leader's party has a strong subnational presence, then reform will tend to appeal to the larger number of party members who are regional or local – but not national – party figures.

This implies that the apparently deep paradox of self-interested politicians who devolve power to others may, at least sometimes, actually be a logical response to objective opportunities. Let us assume a leader with long time horizons (i.e. ‘a place in history’) who privately believes that decentralization can improve governance. What will she do? Real

power and authority would drain much more from future leaders than from her. And where the party is well organized, her followers would be rewarded with the creation of many subnational offices that they will disproportionately win. These considerations transform reform from ‘paradoxical’ to ‘attractive’. Furthermore, her substantive belief and her concern for the future make it far more likely that the reform she pursues is sincere. Rather than an historical aberration, Goni Sánchez de Lozada is thus a good example of a class of rational leaders with a strong party and an eye on history.

Whether or not decentralization will increase the responsiveness and accountability of public services is another major cleavage. Proponents claim that taking government “closer to the people” will transform public incentives from upward-looking to the bureaucracy to downward-looking, to voters. Opponents counter that local governments are more susceptible to interest group capture, and suffer from lower economies of scale, lower technical and human capacity, and a tendency to fiscal laziness. We argue that these objections 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, we develop the concept of social learning in a decentralized environment. The small scale of local politics allows citizens to become political actors either individually or through their civic organizations. It provides ordinary citizens with access to repeated interactions on matters of public policy and resources, both directly and indirectly through civic organizations that debate positions and compete with firms, other interests and each other to influence government. In this learning-by-doing fashion, it 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.

Table 1: Summary arguments – Does decentralization strengthen or weaken developing states?

Components of State Strength	Strengthen	Weaken
1. Authority over territory and people, maintaining peace, and preventing conflict		
<i>Decentralization and the ability to hold together fractious groups</i>	Decentralization and federalist institutions act as a pressure valve to alleviate ethnic tensions.	Can reinforce cultural or ethnic identities leading fractious groups to demand ever more autonomy, with the potential for secession.
	<p>Recommendation: <i>Decentralize below the level of major groups, so that decentralized government is identified with service provision and not group identity or privilege. I.e. if ethnicities are concentrated in regions, decentralize down to the municipal level.</i></p> <p><i>Complementary reforms that promote a single internal market for goods and services.</i></p> <p><i>Improved infrastructure and transport links that help integrate people and the economy.</i></p>	
<i>Decentralization and conflict</i>	Decentralization reduces pressures for conflict by empowering and including local minority groups whose concerns are often ignored by the center, and makes the state more accountable to them.	Encourages separatism. Empowers chauvinist leaders to discriminate against local minorities.
	<p>Recommendations: <i>Strengthen democratic local accountability in subnational units and implement strong central safeguards of minority rights to which individual and groups can appeal, to protect against decentralized governments becoming little tyrannies.</i></p>	
<i>Decentralization as a power-sharing arrangement</i>	Decentralization can end the winner-take-all problem by shifting power and resources to subnational governments that opposition political parties can win control of.	Can shift conflict to the local level rather than eliminating it.
	<p>Recommendation: <i>Complementary reforms that promote open, competitive local politics, especially electoral finance laws that support a level political playing field, can help turn conflict and violence into electoral contestation.</i></p>	
<i>Decentralization as an institutional constraint on the regime</i>	Decentralization can guard against the concentration of power of one group over other groups in the state.	Can cause political fragmentation of the opposition, which can be exploited by authoritarian rulers to remain in power.
	<p>Recommendation: <i>Given open, competitive politics, a fragmentation of the opposition that strengthens the official party is a short-term dynamic at best. In the longer-term, decentralization is likely to transform politics, and all parties, from a top-down into a bottom-up activity with strong local roots.</i></p>	

2. Formulating policy autonomously and compelling compliance with the law

Decentralization and the command structure

Due to greater homogeneity of local preferences, local decision making can avoid the policy deadlocks that occur among more heterogeneous preferences at the centre.

Weakens centralized control mechanisms and the chain of command. Increases the chances of elite capture.

Correction & Recommendation:

The question is not “strength” vs. “weakness”, but rather of a move from a simpler, clearer but more brittle centralized system of command and control, to a more complex system of overlapping authority that demands coordination amongst multiple actors to operate well, but is more supple and robust to failure in any of its parts.

Elite capture is always a threat for all kinds of government.

Openness and competition are the best counter-measures.

Decentralization, policy stability, and a stable institutionalized bureaucracy

A greater number of actors in the decision-making process leads to greater policy stability, making dramatic policy switches harder to achieve.

1. Multiple interests at different levels weaken state autonomy and increases clientelism.
2. Policy implementation may be hampered if the preferences of local government conflict with the preferences of the center.

Corrections:

1. *A better way to view these issues is the strength of leaders vs. the strength of the state. Decentralization strengthens the state by strengthening subnational actors and the systems in which they operate. This comes at the expense of leaders’ discretion.*
2. *This is equivalent to arguing “Central government should decide without local input”. The point of decentralization is give local preferences some, as opposed to no, systemic weight.*

3. Responsive, accountable public service delivery

Decentralization and responsive, accountable public services

Local democratic decision making is more responsive and accountable, and thus better matches local government outputs to local preferences.

Local governments may be more vulnerable to interest group capture of the local political process, and the distortions of political representation in small electoral environments. Economies of scale will be lost. Technical and human capacity is lower subnationally. Local fiscal laziness can undermine state stability.

Recommendations:

Interest group capture is a threat to governance at all levels of the state. Open, free and fair political competition and the presence of an active, free press are the best guarantees against capture by any single group or interest.

Decentralize goods and services with low economies of scale; retain production with high economies of scale centrally.

Decentralize taxation as well as expenditure, and prohibit bail-outs.

4. Social learning

Decentralization and social learning in a dynamic context

By reducing the scale of government, decentralization makes it possible for citizens and their voluntary associations to participate directly in government. This in turn generates social learning at the individual and group level, which improves democracy substantively and strengthens its legitimacy in voters' eyes.

No such learning occurs, and so the additional costs of a decentralized administration are uncompensated by benefits.

Recommendation: *Decentralize to local units small enough that individuals and voluntary groups can actively participate and regularly affect decision-making.*

Open, free and fair political competition and the presence of an active, free press are the best guarantees against capture by any single group or interest.

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