

SPOTLIGHT 9

Decentralization

At their most effective, decentralized systems can spur experimentation that helps localities adapt proactively to changing circumstances. In the United States, Supreme Court justice Louis Brandeis famously referred in 1932 to the 50 states as “laboratories for democracy” that could “try novel social and economic experiments without risk to the rest of the country.”¹

By multiplying the number of more or less autonomous arenas within which public authority is exercised, decentralization increases the opportunities for policy innovations and the emergence of effective leaders (Tendler 1997; Campbell 2003). Often these innovations are spurred by political outsiders, who may not have access to the national policy arena but are more likely to acquire citizen support locally and spur local institutional reforms. For example, after direct mayoral elections were introduced in Colombia in the 1990s, municipalities led by political outsiders invested heavily in upgrading their administrative capacities (Fiszbein 1997).

Although decentralization increases *opportunities* for innovation and the entry of political outsiders, only certain arrangements provide the correct *incentives* for experimentation. To generate adaptive and innovative local governance, it is essential to have a well-defined assignment of responsibilities across levels of government and a clear expectation that subnational governments will be held responsible for their performance. To prevent clientelism or capture at the local level, citizens or central elites must have both the ability to hold local elites accountable and the incentives to do so.

Decentralized governance can create incentives for competent individuals to pursue political leadership, societal groups to invest in building political parties, or existing subnational governments to adopt innovative policy solutions. Competitive local elections can enable the entry of political outsiders and provide incentives for incumbent administrations to strive to show competence in governance. In India, which has a decentralized system, several regionally based parties have grown to form national coalitions, whereas two dynastic parties have dominated the politics of Bangladesh, a more centralized state. As a result, India has introduced a far greater range of policy innovations than has Bangladesh in spheres such as language and management of internal conflict (Norris 2008).

If the career prospects of subnational officials depend on their performance in running subnational governments, they have a strong incentive to seek policy innovations to address local governance challenges. In China, local policy autonomy has served as an incentive for local institutional innovations; leadership personnel are nominated by the upper level (and formally approved at the local level) in an arrangement dubbed “experimentation under hierarchy” (Heilmann 2008).

The nature of decentralization and central-local relations shape local incentives for innovation. For example, different incentives and pressures arise when local parties are in opposition to central parties. In Lagos, Nigeria, the opposition leadership could not rely on intergovernmental transfers from the center, and thus it put in place innovative approaches to secure greater internally generated revenues. Because new actors needed to be persuaded to cooperate in

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order to secure these revenues, more contestability emerged in the local policy bargains (Watts 2016).

National diffusion of local innovations

Even when successful, idiosyncratic local innovations in isolated local governments may not translate into systemic adaptation; these innovations must be diffused across jurisdictions. Decentralization can increase policy experimentation, but it also can increase the number of veto players. In some cases, a nimble unitary state may be more agile in policy adaptation, compensating for the reduced number of opportunities for experimentation and outsider entry.

Certain governance environments and power relationships encourage efficient diffusion of local innovations. Diffusion through “demonstration effects” requires both competition among local governments in different jurisdictions and relatively free flows of information, so that elites and citizens can identify innovations in other jurisdictions. In Brazil, participatory budgeting began in a handful of municipalities in southern parts of the country and eventually spread to hundreds of local governments. In this case, diffusion followed more or less partisan lines, demonstrating the effectiveness of political parties as institutional mechanisms to transmit information (see chapter 8).

Diffusion may also be facilitated by strong central control. In China, where subnational governments have acquired significant levels of autonomy over fiscal and economic affairs but where local leaders face accountability to upper-level governments, individual jurisdictions have emulated successes from other jurisdictions. When provinces faced a challenge of controlling local inflation soon after market-oriented reforms were introduced in the late 1980s, more effective approaches—such as a market-oriented measure adopted by one of the reform front-runners, the province of Guangdong—drove out less effective ones—such as a price-control policy introduced by the more conservative province of Heilongjiang, bordering Siberia (Montinola, Qian, and Weingast 1995).

Local innovations can translate into nationwide reforms through processes of political renewal when local leadership—whether through parties or as individuals—wins national power and leads their country in a new direction. Subnational political leaders are more likely to step up to the national level in a political system in which decentralization is institutionalized and political leaders have opportunities

to demonstrate their competence and deliver performance in numerous subnational governments (Myerson 2011). In recent years, Mauricio Macri of Argentina, Narendra Modi of India, and Joko Widodo of Indonesia all demonstrated their effectiveness as local governors before winning national office. Decentralized democracies allow opposition political parties to gain support in specific localities or regions and eventually to challenge the dominant national party. In India, the Bharatiya Janata Party (BJP), which carried Modi into the national government, gained strength over time by winning several elections at the state level (Rudolph and Rudolph 2001).

The politics of decentralization

The decision to decentralize can be spurred by many different combinations of incentives and arrangements of relative power among various actors. A split may arise among central actors, and to gain strength they may turn to supportive local actors. Sometimes, ruling elites have attempted to diffuse popular discontent with the performance of the national government by decentralizing roles and responsibilities to subnational governments. The military regime that governed Brazil from 1964 to 1985, for example, formed tacit alliances with subnational political elites to maintain both a modicum of political legitimacy and coalitional support (Hagopian 1996). In other instances, elites have tried to preempt rising demands for regional autonomy through greater decentralization, such as Bolivia in the 1990s and Indonesia in the early 2000s, or have introduced more decentralization to signify a move away from the authoritarian centralization of power and resources, such as the Philippines after the fall of Ferdinand Marcos. Formalization of a decentralized governance structure can also be a form of “settlement” after a prolonged internal conflict (see chapter 4).

Even after a political system decides to decentralize, the central-local relationship constantly develops; it is not linear. Changing power dynamics can generate pushes for recentralization if national and subnational elites are in competition. For example, in the Philippines, during legislative consideration of the Local Government Code in 1991, members of the House of Representatives, who were elected from congressional districts (typically smaller than a province), opted to weaken the fiscal resource base of provincial governments whose governors were viewed as potential rivals as dispensers of local patronage.

Senators, who were elected nationally, were more willing to devolve more power to the provinces (Eaton 2001; Matsuda 2011).

As these cases demonstrate, political incentives shape important aspects of the design of intergovernmental relations, with lasting consequences for the ability of the decentralized governance arrangement to adapt to emerging challenges. Decisions to decentralize (or recentralize) are primarily politically motivated and involve bargains among multiple stakeholders in which technocratic criteria often take a back seat. Outcomes reflect the relative bargaining powers of competing interests, mediated by the existing political institutions. Understanding how these bargains take place can help produce more effective, adaptive, and context-specific decentralization designs.

Note

1. *New State Ice Co. v. Liebmann*, 285 U.S. 262 (1932).

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