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Decentralization and Governance

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Summary. — The most important theoretical argument concerning decentralization is that it can make government more accountable and responsive to the governed. Improving governance is also a central justification of real-world reformers. But the literature has mostly focused on policy-relevant outcomes, such as education and health services, public investment, and fiscal deficits. This paper examines how decentralization affects governance, in particular how it might increase political competition, improve public accountability, reduce political instability, and impose incentive-compatible limits on government power, but also threaten fiscal sustainability. Such improvements in governance can help spur the broad historical transitions that define development.

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1. INTRODUCTION

Decentralization is one of the most important reforms of the past generation, both in terms of the number of countries affected and the potentially deep implications for the nature and quality of governance. A decade ago, estimates of the number of decentralization experiments ranged from 80% of the world's countries to effectively all of them (Manor, 1999). Since then, further reforms have been announced in several dozen countries as diverse as Bolivia, Cambodia, Ethiopia, France, Indonesia, Japan, Peru, South Africa, South Korea, Uganda, the UK, and many others. The trend encompasses all of the world's regions, and includes nations rich and poor, large and small, and with very different colonial histories. In short, decentralization is being implemented essentially everywhere.

The importance of reform goes well beyond the sheer number of experiments under way. At least in their intention, many decentralizations aim to reconstitute government—from a hierarchical, bureaucratic mechanism of top-down management to a system of nested self-governments characterized by participation and cooperation, where transparency is high and accountability to the governed acts as a binding constraint on public servants' behavior. In pursuit of this, the scope of authority and resources that many countries have devolved to their sub-national governments is impressive. According to Campbell (2001, p. 2), in Latin America “local governments began spending 10–50% of central government revenues.” Campbell calls this “the quiet revolution,” and argues that it has generated a new model of governance based on innovative, capable leadership, high popular participation, and a new implicit contract governing local taxation. Rodden (2006, pp. 1–2) makes a similar point: “[o]ther than transitions to democracy, decentralization and the spread of federalism are perhaps the most important trends in governance around the world over the last 50 years.”

This policy enthusiasm has inspired a huge wave of research seeking to identify the effects of decentralization on a range of policy-relevant outcomes, as well as attempts to understand why countries undertake reform, and the timing of such decisions. These empirical studies of decentralization number in the hundreds of published academic works over the past 40 years; add in policy reports from international and development organizations (such as the World Bank and UNDP)

and the number rises into the thousands. Most of these studies focus on decentralization's effects on public sector outputs, such as investment levels, public service provision, education and health indicators, and macroeconomic stability, to name a few of the larger threads. Good summaries of this research can be found in Rondinelli, Cheema, and Nellis (1983), Manor (1999), Treisman (2007), and Faguet (2012).

Comparatively few studies investigate decentralization's effects on the quality of governance; some exceptions include Bardhan (2002), de Mello and Barenstein (2001), and Oxhorn, Tulchin, and Selee (2004). The reasons for this are not hard to fathom: (i) the data required to empirically examine decentralization's effects on things like health investment or school enrollment are more commonly available than for governance-type issues like accountability, political competition, and participation in public decision-making; and (ii) the multilateral organizations that sponsor much decentralization research are more interested in service outputs than governance outcomes.

Nonetheless the divergence between the concerns that are most researched and the principal issues that motivate decentralization—both as a theoretical proposition and in real-world reforms—is striking. The strongest theoretical argument in favor of decentralization is that (a) it will improve the accountability and responsiveness of government by altering its structure so as to increase citizen voice and change the deep incentives that public officials face (Faguet, 2012). Other arguments in favor are that it can: (b) reduce abuses of power by transferring certain central government functions and resources to lower levels, (c) improve political stability by giving aggrieved minorities control over subnational governments with limited power over issues that affect them directly, and (d) increase political competition by creating many smaller arenas that politicians vie to control. Decentralization's effects on budgets and service provision are certainly important questions, but are not the most important, a point stressed also by Eaton, Kaiser, and Smoke (2011).

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Reformers around the world agree. Decentralization programs across rich and poor countries are centrally motivated by a quest to improve governance. The preamble of the Bolivian Law of Popular Participation states that its main goal is to improve citizens' quality of life by perfecting representative democracy and facilitating participation (Government of Bolivia, 1994). Sixteen years later, the Framework Law of Autonomies and Decentralization expands on these ideas by declaring as its goal "the effective participation of citizens in decision-making, the deepening of democracy, the satisfaction of collective necessities, and the integral socioeconomic development of the country" (Government of Bolivia, 2010). Likewise, devolution in Britain was aimed at "re-balancing power between citizen and government" in order to "move us away from a centralised Britain to a more democratic, decentralised, plural state" (Blair, 2001). Levels of investment and service provision are a part of this, but the ambitions of these reforms go much further. In Egypt, the Mubarak regime turned to decentralization in 2004 as a way of deepening democracy "and enhancing community partnerships."¹ Far from becoming derailed by the recent upheavals, enthusiasm for reform has increased, with influential voices calling on the transitional administration to decentralize more vigorously lest the grassroots rise up a second time and do it for them (Ben-Meir, 2011).

The Peruvian government views its decentralization as a means to improve citizen participation in government, and "a singular opportunity to confront the inequalities that have historically characterized our country, and promote equal access to opportunities . . . for all" (Government of Peru, 2011). According to the Cambodian government, decentralization is being pursued there above all to strengthen and expand democracy by driving it down to the local level. Reform, it is hoped, will strengthen democratic representation, increase popular participation, strengthen public accountability, and improve government effectiveness (Government of Cambodia, 2005; Romeo & Spyckerelle, 2003). These sentiments are closely shared by the Ugandan government (Mulumba, 2004). Likewise Mexico, which undertook decentralization in order to "improve the political involvement of the people in public decision-making," and so "strengthen democracy and spur the country's development efforts" (Muñoz, Acosta, & Moreno, 2006).

Other countries are motivated by more specific governance challenges. Colombia's decentralization was designed as an explicit response to violence. Elected local governments, it was hoped, would give citizens more voice in public affairs, and so drain the reservoir of discontent that fed its left- and right-wing insurgencies (USAID, 2009). South Africa's decentralization was an essential component of its transition from apartheid to democracy, demanded by a white National Party that could hope to hold on to power in certain jurisdictions as it lost power nationally to the African National Congress. Federalism was also demanded nationally by the majority-Zulu Inkatha Freedom Party (USAID, 2009). In Ethiopia, where social diversity is striking, decentralization was aimed at giving political representation to different ethnic groups in order to help the state meet the needs and aspirations of a heterogeneous population (IFAD, 2004). Lastly, and echoing—finally—the great mass of the empirical literature, both India and Tanzania chose decentralization primarily as a means to improve the low level and quality of their public goods (IFAD, 2004; USAID, 2009).

This collection of papers is aimed at the large gap between real reformers' motivations and what we consider to be the most powerful arguments in favor of decentralization, on the

one hand, and the bulk of the empirical literature on the other. It does so by focusing squarely on the role that decentralization can play in deepening democracy and improving governance at the national and local levels. Most of our contributions are empirical, based on both qualitative and quantitative methods. Our two theoretical contributions (Weingast, Myerson) take their analyses of the role of decentralization in constructing democratic governance deeper than the literature previously has done, examining the powerful interactions between decentralization and political competition, the vexed problem of over-mighty government, and alternative vectors of political instability.

The papers in this collection come out of an unusual workshop held at Columbia University in June, 2009, sponsored by the Initiative for Policy Dialogue's Decentralization Task Force. Seeking to re-unite academics studying decentralization with the policymakers who implement it, the 2-day event brought together researchers working at the empirical and theoretical frontiers of decentralization and local 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; this collection is the result.

The papers that follow are based on academic research presented at the workshop, revised in light of the detailed discussions they received, complemented by additional papers commissioned specifically for this issue. At its core this research is interdisciplinary political economy, with most authors trained mainly as political scientists or economists, but working in a way that reaches across that divide. The methods employed are both qualitative and quantitative, with several papers blending the two. This collection shows the analytical power of what might be called a one-country, large-N approach. This is an approach fast gaining adherents among social scientists (see e.g., Diaz-Cayeros, 2006; Faguet, 2012; Magaloni, 2006; Rao & Woolcock, 2003, chap. 8; Remmer & Wibbels, 2000; Rodden, 2006; Shami, 2010; Wietzke, 2012) in which a detailed knowledge of the institutional, historical, and economic characteristics of a country (or state or region) is combined with quantitative research on subnational units of analysis, such as municipalities or provinces. By blending deep qualitative knowledge with rigorous quantitative research methods, researchers can approach the elusive goal of explanations that have both generality and a fine-grained, nuanced understanding. They can avoid problems of cross-country comparison—variations in external shocks, political regimes, institutions, colonial legacies, cultural features, and other exogenous factors that are not well accounted for in the data—while still benefiting from the formal rigor that large-N studies provide. And they can stratify their analysis at the national, regional, and local levels, as different questions demand, and yet retain a central focus on complex explanatory factors, such as accountability, trust, and political entrepreneurialism, that are hard to treat quantitatively.

Before proceeding, it is useful to define the two terms in this paper's title. We follow Faguet and Sánchez (2008) 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. And we follow

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