

DEMOCRATIC DECENTRALIZATION AND DEVELOPMENTⁱ

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Introduction

I am a game theorist. This means that I study general mathematical models of competition, which help social scientists to see connections between competitive incentives in many different areas of economics and politics. In particular, my Nobel-honored work developed some basic techniques that economists use to analyze transactions between people who have different information and have difficulty trusting each other. To me these are mathematically beautiful ideas, but they provide a general framework for better understanding important practical problems in our world.

In macroeconomics, for example, game-theoretic perspectives can help economists to see how the booms and busts like the Great Recession may be driven by the constraints that banks and other financial institutions must satisfy to maintain the trust of their depositors. To a game theorist who studies the rules of games, it is remarkable that traditional macroeconomic theory paid so little attention to the rules of bank regulation, but that is changing in economics.

But the effects of the Great Recession on human welfare are small by comparison to the great benefits that economic development has had during our lifetimes for billions of people in the poorer parts of the world. There is no better place to think about these great questions of development than Zimbabwe, which has come so far and yet still can and will go so much farther for the welfare of all its citizens. The perspective of game theory can deepen our understanding of development, by providing a general framework for analyzing how political, economic, and social institutions may function differently in different countries. I want to talk today about some basic questions of development theory, about the potential importance of democratic decentralization of government.

On the word "democratic," let me add first one remark about China. Even if China does not have multiparty democratic competition, it does have an effective constitutional decentralization of powers from national to local and provincial governments. This political decentralization has been vital to China's great economic success in the past 30 years. Autonomous local governments have been engines of economic entrepreneurship that have

driven much of China's outstanding economic growth. But even China may soon find that it needs more democratic political competition, at least to provide a mechanism for holding local political bosses effectively accountable for the quality of local public services. So today I will focus on democratic development.

I will argue here that the key to successful democratic development in a nation is to increase its supply of leaders who have good reputations for exercising power and spending public funds responsibly. To the question of how can we increase this vital supply, I will suggest that local government can be potentially the largest source of such proven democratic leadership for a nation.

Local roots to strengthen national democracy

Everyone understands the importance of government services for economic growth. Prosperity comes from trade and investment, which depend on legal protection and public infrastructure that must be provided or supervised by government. The quality of government, in turn, is shaped by its political leaders who must compete for power under the rules of their political system. In the long run, these constitutional rules can determine the quality of leadership in a nation.

So we should ask: *How might we modify our political system today to have the best possible leadership 50 years from now?* To try to answer this question, we must think about where our future leaders may come from, and what they might be doing in the years before they rise to the top. We must think about the role of leadership in the foundations of the state.

Under any political system, power is held by leaders who must organize networks of supporters, and these supporters must be mobilized by an expectation that their service will be well rewarded. This need to maintain a reputation for reliably rewarding loyal supporters is the primary imperative for any political leader anywhere.

Without political competition, then, even a benevolent ruler would find it hard to resist his courtiers' urge for greater privileges, if their exploitation of the public entailed no risk of losing power. We may hope, however, that democratic competition should limit elite privileges and yield better government services for the public, just as competition in economic markets can limit producers' profits and yield better values for consumers. This is the basic argument for democracy.

But successful democracy requires more than just elections. Even with free elections, a corrupt political faction could win re-election from the voters and maintain its grip on power if the voters believed that other candidates would not be any better. For each elective office, democratic competition can effectively provide incentives for better public service only when voters can identify two or more qualified candidates with good public reputations. When such trusted leadership is lacking, democracy is inevitably disappointing. A presidential election by itself can give prestige to its winner, but it does nothing to develop the broader supply of trusted alternative candidates on which success of democracy will ultimately depend.

This essential supply of trusted democratic leadership can develop best in responsible institutions of local government, where successful local leaders can prove their qualifications to become strong competitive candidates for higher office. When locally elected leaders have clear administrative and budgetary responsibility for the successes and failures of local government, then those who succeed will enlarge the nation's vital supply of popularly trusted leaders.

Thus, I would suggest, if voters feel disappointed at the quality of their national political alternatives then, in the long run, a remedy may be found in responsible institutions of democratic local government. In effect, local democracy can reduce barriers against entry into national democratic competition. Economists understand that barriers against new entrants can be important determinants of the level of profit-taking by suppliers in any imperfectly competitive market.

Other benefits and costs of federal democracy

Democratic decentralization can also help economic development by providing better mechanisms for local public investment. A poor community can mobilize its resources for public investments that are essential for its economic development, but only when members of the community are coordinated by local leaders whom they trust to appropriately reward contributors and discipline free-riders. Such trust can be expected only with leaders whose authority is based in local politics. Local officials whose positions depend on national political patronage are inevitably less concerned about developing trust among the residents of a small poor community. Thus, integrated efforts to achieve economic development throughout a nation may depend on a political system which devolves some real power to autonomously elected local leaders.ⁱⁱ

Interactions between local politics and national politics can strengthen democracy at both levels. I have argued that local democracy can help to make national democracy more competitive, as a record of using public resources responsibly in local government can prove a local leader's qualifications to become a competitive candidate for power at higher levels of government. But conversely, national democracy can strengthen local democratic competition when national political parties support competitive challengers against unpopular local bosses.

For such mutually-reinforcing interactions between local and national politics, the institutional pillars for a strong democratic system should include a multiparty national assembly and elected local councils with clear autonomous budgets and responsibilities. We could further suggest that an ideal federal structure should have several levels of sub-national governments, so that elected offices at different levels should form a ladder of democratic advancement that effective leaders can climb from local politics into provincial and national politics.ⁱⁱⁱ

We must recognize, however, that such new competition from popular local leaders may be against the interests of established incumbent national leaders. Nobody wants to face new competition. Further, in a centralized state where governors and mayors are appointed by the national leader, these positions may be among the most valued rewards that a leader can offer to key supporters. It could be very costly for a leader to disappoint important supporters by letting such valuable positions be given away by local voters instead. So we should not be surprised that national leaders have often chosen to retain centralized control of local government, even when decentralization could strengthen their country's development.

But a constitutional system with democratic local government can become politically stable once it is established. When governors and mayors are locally elected, they become important local power-brokers from whom national politicians must regularly seek support in their competition for national power. It then would be very costly for any national leader to threaten the constitutional powers of these elected local officials.

Broader historical perspectives on local democracy

Political decentralization has a long history in England, where Parliament first developed around 1300 as a forum that gave local leaders an influential voice in national politics. In 1700s, under parliamentary charters, local government leaders managed the turnpike trusts that made England's roads the best in the world, setting the stage for the industrial revolution.

England granted its American colonies democratic municipal governments and elected provincial assemblies, to encourage English settlers to come to America and offer loyal service in local militias. This long tradition of democratic local government, over 100 years before the first presidential election, has been America's greatest political asset. The establishment of competitive national democracy in America after 1789 depended on the deep supply of local leaders with proven records of public service in the 13 provinces.

Political decentralization has been applied less in Africa than in other parts of the world. In a 2007 survey of 82 selected countries around the world, the average share of national GDP spent by local governments was about 6.6%, but the average in sub-Saharan Africa was only 1.8%, with all African countries well below the global average.^{iv}

Traditional forms of local politics in Africa were manipulated and distorted by colonial rulers, even as they claimed to respect the traditional rights of local chiefs. Traditionally, a chief might have theoretically claimed absolute authority by right of inheritance, but in fact he could maintain such claims against challengers only with a broad network of trusting local supporters throughout his domain. However, when colonial magistrates registered the "legitimate" chief in each area, then the chief's authority could be effectively based on the recognition of a colonial magistrate, rather than on broad support from his subjects. Thus released by the colonial regime from any need for broad political support, a chief would have more incentive to assert the privileges of his position and less incentive to maintain the traditional obligations of leadership in his society. In return for these privileges, of course, the registered chief would be expected to prevent people in his domain from demonstrating open opposition to the colonial regime.

For the vital goal of increasing the nation's supply of popularly trusted leaders, traditional leadership may have a value that should not be neglected. To realize this potential, however, the position and potential advancement of a traditional leader should depend, not just on certification by a magistrate, but on some expression of broad popular approval from his community.

I have argued that the key to democratic development may be to increase the supply of leaders with reputations for using public funds responsibly to provide public services, and not just to give patronage jobs to supporters. This goal has basic implications for international development assistance.

With this goal, the essential measure of success for any development project is how it enhances the reputations of the political leaders who direct it. To help cultivate leadership at all

levels, one may suggest that foreign assistance should be distributed among national and local governments, perhaps even to minority parties and other local NGOs, although the national government may get the largest share. Funding for the national government could be conditioned on its accepting donors' rights to fund also subnational governments and other auxiliary public service agencies. Donors should also insist on transparent public accounting for all assistance funds. When the goal is to develop reputations for spending public funds responsibly, people must be able to learn what their leaders have spent and what this spending has achieved.

<http://home.uchicago.edu/~rmyerson/harare.pdf>

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ⁱⁱ See Louise Fortmann, "The Role of Local Institutions in Communal Area Development," (Botswana Ministry of Local Government and Lands, 1983), http://pdf.usaid.gov/pdf_docs/PNAAT392.pdf

ⁱⁱⁱ Consider the careers of Joko Widodo in Indonesia or Narendra Modi in India this year.

^{iv} See United Cities and Local Government's 2007 report on "Local governments in the world: basic facts on 82 selected countries" at http://www.cities-localgovernments.org/gold/upload/pocketbook_complete.pdf