

# Democratic Dentralization and Economic Development

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

## Overview

"We cannot have successful globalization without successful localization."

Peter Cardinal Turkson

*An instructive point for trying to understand the different histories of post-colonial development in countries like Nigeria and Botswana:*

Shortly after independence, the first elected regional governments in Nigeria acted to suppress pre-existing elected local councils.

But the first elected government in Botswana acted to create elected local councils where none had existed before.

*Thesis:* The relationship between local and national politics is vital for economic and political development.

Local democracy may be severely undersupplied in much of the world.

***Democratic development must begin by increasing the supply of leaders with reputations for using public funds responsibly to provide public services, and not just to give jobs to their supporters.***

***Local democracy can help increase this supply of democratic leadership, but established national leaders may have vested interests in limiting it.***

## Feudal roots of underdevelopment

When first establishing rule in India (& after Mutiny), the British granted local power and privileges to local agents called zamindars.

Holding local power as a permanent property right, zamindars became a class of local leaders with a vested interest in the regime.

The effectiveness of their feudal power proved remarkably durable.

Long after independence, Banerjee-Iyer (*AER* 2005) find lower agricultural productivity and higher infant mortality in zamindar regions.

Feudalism can help to establish a stable political regime,  
but it can also have serious long-term economics costs.

How much of global underdevelopment has resulted from such strategies of traditional and colonial state-building?

Analysis of economic development is incomplete without considering local political leadership.

*In traditional communities, trusted local leaders often served to defend against the outside world, not to build a framework for trading profitably with it.*

## **Key constitutional question: how are governors chosen**

Political systems differ crucially on whether governors and other local officials are centrally appointed or locally elected.

Either constitutional system can become self-sustaining.

Agency theory tells us that such powerful offices have large moral-hazard rents.

Where governors are centrally appointed, these offices become valuable patronage prizes that national leaders offer to key supporters.

Then leaders cannot easily disappoint their supporters' hopes for such rewards.

Where governors are locally elected, a move to centralize these offices would threaten the established positions of powerful local power-brokers.

Then a reputation for working with local leaders within the existing constitution becomes a vital asset for national leaders to build strong coalitions. (...*Putin?*)

## Effects of centralization on local public services

Communities need trusted leadership to organize the provision of local public goods, as free rider problems limit voluntary individual contributions.

(Fortmann, *Role of local institutions in communal area development*, 1983)

With central appointment, local officials depend primarily on their relationships with national leaders and may not need trust of the local population.

Holding these officials more accountable to local complaints would reduce the value of their offices as rewards for national political service.

Thus, centralization can degrade public services and weaken the state outside the capital (Bates, *When things fell apart*, 2008).

Inefficient taxation can prevent Coasean bargains for better local government.

## **To build a democracy, democratic leaders are needed**

What is essential for success of democracy is not just elections, but competition among candidates to serve the public interest.

Voters would not reject a corrupt incumbent unless they could expect better from another candidate.

Thus, the key to democratic development is to increase the supply of leaders who have good reputations for using public funds to provide public services.

This supply is best developed when democracy is applied in both national and local governments.

Elected local leaders who successfully provide better local public services can demonstrate qualifications to become strong candidates for higher office.

So democratic local government can make national politics more competitive, lowering barriers against new entrants into national politics. (My *QJPS* 2006.)

But established leaders do not want more competition, and so national leaders may generally prefer a more centralized political system. (*Pakistan, Egypt*)

## **Institutional pillars of successful democracy**

*...Democratic local government can make national politics more competitive, lowering barriers against new entrants into national politics.*

Conversely, national democracy can strengthen local democratic competition, as national parties can support alternatives to established local bosses.

Thus, strong competitive democracy depends on a multi-party national assembly, and elected local councils with autonomous local responsibilities, with budgets allocated according to clear rules by the finance ministry.

*Ethnic cleavages can reduce the value of local democracy, however.*

*Where local governance was traditionally organized on ethnic lines, the introduction of democratic local government may make ethnic leaders rivals for local power.*

*Ethnic rivalries in a nation may also reduce successful local leaders' ability to appeal broadly to voters in other regions as candidates for national office.*

## **Policy implications for foreign development assistance**

For political development, the essential measure of a project's success is how it enhances reputations of the political leaders who direct it.

Outputs of public goods count only towards this political end.

All public services should be directed by indigenous leaders, but they should include both national and autonomous local leaders.

To cultivate leadership at all levels, assistance should be distributed to national and local governments (perhaps also to minority parties).

Largest share of assistance funds should go to national government, but conditioned on some decentralization also to local public service agencies (Collier, 2007).

Foreign donors should require transparent public accounting for all funds, both by the donors and by the national finance ministry.

This accounting should be to the local population, so they can learn what their leaders have spent, and what this spending has achieved.

*(See also my "Standards for state-building" at*

*<http://home.uchicago.edu/~rmyerson/research/std4sb.pdf> )*



## **A charter for custodians of democratic state-building:**

1. With the broadest possible **multinational political supervision**, the intervening powers should sponsor a broadly representative interim national assembly.
2. National executive ministers in the transitional period should be responsible to the assembly, in a **parliamentary system** with constructive no-confidence votes.
3. With the participation of parties represented in the interim assembly, **local elections** should choose local councils in districts throughout the nation.
4. Once these local councils are in place, the transitional national assembly should be reconstituted to include **representatives of the local councils**.
5. Funds must be **allocated transparently** to local councils and national executive. Foreign donors should work with the national finance ministry to give the people a full accounting of the funds spent at all levels of government.
6. In the commission to draft a permanent constitution, a minority of 1/3 or more should be able to report an **alternative draft** for the national ratification vote.

(From "*Standards for state-building*" (2012) at

<http://home.uchicago.edu/~rmyerson/research/std4sb.pdf> )

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## **Suppression of local leadership as the moral basis of a backward society**

- "That the Montegrani are prisoners of their family-centered ethos – that because of it they cannot act concertedly or in the common good – is a fundamental impediment to their economic and other progress."
- "Amoral familism is not a normal state of culture. It could not exist for long if there were not an outside agency – the state – to maintain order and in other respects mitigate its effects. Except for the intervention of the state, the war of all against all would sooner or later erupt into violence, and the local society would either perish or produce cultural forms which would be the functional equivalent of the 'social contract' philosophers used to write about. Because the larger society has prevented indigenous adaptation of this kind without making possible the full assimilation to itself of the local culture, the Montegrano ethos exists as something transitional, and in this sense, unnatural."
- "A few persons, at least, must have the moral capacity to act as leaders. They need not act altruistically either; they may lead because they are paid to do so. But they must be able to act responsibly in organizational roles to create and inspire morale in organization."
- "The extreme centralization of power in the prefect, which is now one of the conditions preventing the development of a competent political style in the village, could be used to further an educational program."
- "The suggestion made here is for the rapid devolution of as many governmental functions as possible from the ministries in Rome first to the provincial prefects and then from them to local bodies which demonstrate capacity for self-government."

Edward Banfield, *Moral Basis of a Backward Society* (1958).