**Abstract.** After conflict or breakdown of the state, successful democratic development will require an ample supply of leaders who have good reputations for responsible public service that can benefit all citizens. This essential supply of trusted democratic leadership can develop in responsible institutions of democratic local government, where successful local leaders can prove their qualifications to compete for higher office. If a transition to democracy begins with only national elections, however, then the winners will acquire a natural interest in centralizing power around themselves, and so political decentralization thereafter may become more difficult. Thus, those who would support the development of a new democracy need to recognize the potential advantages of decentralizing some power to elected local governments.

**Introduction**

Too often, bright hopes for new democracies have faded, and we need to understand why. In Egypt, for example, public demands for democratically accountable government in 2011 were followed by elections to choose a national assembly and a president in 2012, but then the 2012 constitution offered only a vague promise to introduce elected local governments some time in the next decade. The downfall of the elected president in 2013 has led to questions about what went wrong in the process of building a new democracy in Egypt. Many have asked whether the nation might have moved too quickly into a presidential election, but few have asked whether the move to introduce democratic local government was too slow. The purpose of this paper is to examine such questions from a basic theoretical perspective.

When a nation is beginning a transition to democracy after a conflict or breakdown of the state, others in established democratic countries may naturally want to offer their help and support, but we need to think deeply and carefully about how to help. Effective assistance in post-conflict political reconstruction must depend on our fundamental understanding of how successful democratic societies are developed. We must try to understand the foundations of a democratic state. As in other forms of construction, the chances of success in national political reconstruction can be improved only with some understanding of what makes a stable political architecture and in what order should its structural elements be introduced.

When we live in a successful democratic society, we are surrounded by a complex system of political, legal, economic, and social institutions, each of which seems to depend on many of the others. When these institutions do not exist or are not functioning, which institutions must be
established first to begin moving from anarchy toward prosperity? I approach this question as a theorist in economics and political science, with an understanding that there is no greater question in social theory. From this perspective, I would argue that the foundations of democratic development depend on both local and national politics, and that elections for local councils may be as important in political reconstruction as elections for leadership of the national government.

There may be several reasons for the common tendency to focus primarily on the development of national democracy. In broad global opinion, many people may expect a national election to be the primary indication of success of a new emerging democracy because news media regularly focus on national elections as the most important political events in established democracies. In the leadership of multi-national organizations, coordinators of international assistance may be accustomed to working with national governments and so may put priority on the development of an effective national government with which they can work. Most importantly, the major leaders who hope for national power in the newly reconstructed state may acquire a vested interest in the centralization of power and so may resist any devolution of power to independently elected local governments.

There are, however, other reasons to suggest that those who would truly support a cause of democratic political reconstruction should encourage a balanced development of democratic government at several levels, from local to national. Indeed, one could even argue for the priority of introducing democratic government at the municipal and provincial levels before national elections, as actually occurred in American history. This paper offers a summary overview of such arguments. (See also Myerson, 2013, 2014. For other general perspectives on state-building see Dobbins et al, 2007, and Ghani and Lockhart, 2008.)

Of course, every nation's political development must depend on its own traditions and culture. In this regard, the most important aspect of culture is what people expect of their leaders. In a nation where history has led people to expect that any political leader would maintain a corrupt patronage network that may violate laws with impunity, this expectation is likely to be fulfilled. For a successful transition to democracy, people must somehow come to expect better public service from their leaders. But an incumbent national leader has no incentive to raise voters' expectations, and voters have no reason to believe promises of better government from a candidate who has never exercised power. An incentive to raise expectations may be combined with the potential to do so only when voters allocate power at two or more
levels of government, so that officials at lower levels can hope for election to higher office if they demonstrate an ability to serve the voters better.

**Leaders' reputations and the foundations of the constitutional state**

The foundations of the state are not just an abstract topic of study for political philosophers or organizers of state-building assistance missions. The practical problem of establishing the state must be solved anew in every generation by political leaders who rise to the summit of political power, whether by election or conquest. Such leaders know the vital importance of maintaining good reputations with their supporters and with the broader public.

To compete for power in any political system, a leader needs to build a base of active supporters, and the essential key to motivating this base is the leader's reputation for reliably distributing patronage benefits to loyal supporters. Any leader needs supporters to trust his or her promises that their service will be rewarded. We cannot expect a leader to do anything that would cause his supporters to lose this basic confidence.

Thus, to maintain this essential trust of their supporters, leaders at all levels are fundamentally constrained by cultural norms that define what their factional supporters should expect of them. Constitutional constraints on powerful leaders can be enforced by such norms when a leader who violated the constitution would shock his supporters and so would risk losing their trust. (See Myerson, 2008.)

In power, a successful leader must oversee a government that is composed of people. The state is a network of agents who manage public resources and who enforce the laws that can sustain property rights and help maintain trust of contractual relations for people in other organizations of society. Agents of the state could profit from abuse of their powers, and so they must be motivated by the expectation of greater long-term rewards for good service. But promised rewards for good service become a debt of the state which its leaders might subsequently prefer to deny. The ultimate social function of political leadership is to maintain trust of long-term incentives in the government itself. (See Myerson, 2011.)

Doctrine for state-building missions often emphasizes training for professional development of security forces and administrative agencies (see US Army, 2007). But incentives in such units and agencies ultimately depend on political leadership. If political leaders do not support the standards for evaluating and rewarding the service of professionals in public service then these standards cannot be maintained. Security forces, no matter how well
trained, cannot be expected to protect a community in the long run without a clear line of accountability to the community's political leaders. Thus, in answer to our basic question of what comes first in building a successful democratic society, political development should be seen as the essential first priority that is fundamental to everything else in national reconstruction.

We have noted that any political leader must reliably protect the rights of political supporters and government agents to enjoy their promised rewards. The critical question of political economy, then, is whether property rights are to be securely protected only for a small elite who actively support the national ruler, or whether the protected circle of trust will extend more broadly to include people throughout the nation. Members in the securely protected group require some legal and political power that could be used against a government official who failed to protect their rights. A broad distribution of such power to threaten the privileged status of government officials may naturally seem inconvenient to established national leaders, but people who have been admitted into this circle of political trust can invest securely in the state, increasing economic growth. A fundamental fact of modern economic growth is that it requires decentralized economic investments by many individuals who must feel secure in the protection of their right to profit from their investments. Thus, modern economic growth requires a wide distribution of political voice and power throughout the nation.

Political systems can differ on at least two major dimensions that fundamentally affect the distribution of power in a society: democracy and decentralization. Democratic political systems distribute political voice more broadly in a nation by making leadership of government dependent on free expressions of popular approval from a large fraction of the nation's citizens. Decentralized political systems distribute power more widely to autonomous units of local government at the provincial or municipal levels.

Relationships between local and national political leaders are vital elements in the structure of any political system. National leaders can wield their power only with trust and support of local officials throughout the nation, and local leaders in turn rely on national leaders to affirm their privileged positions of local power. But under different constitutional systems, the primary leaders of local government may be agents appointed by the national leadership, or they may earn their positions by autonomous local politics. This distinction between centralized and decentralized states should be seen as one of the primary dimensions on which states vary, potentially as important as the distinction between democratic and authoritarian states.
Decentralized federal democracy and centralized unitary democracy may have significantly different implications for economic and political development. In particular, I will argue, political decentralization can significantly increase the chances of success for a new democracy. (See also Myerson, 2006.)

**Effective democratic competition requires more than just elections**

The basic argument for democracy can be expressed by analogy with competition in economic markets. As profits motivate economic production in markets, so privileges of power can motivate political efforts in government. But even a benevolent autocrat would find it difficult to resist his courtiers' urge for greater privileges if further exploitation of the public would entail no risk of losing power. Thus, one may argue, as competition in markets can limit producers' profits and yield better values for consumers, so democratic competition should limit elite privileges and yield better government services for the public.

Even with free elections, however, 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. Thus, a successful democracy requires more than just elections. It requires alternative candidates who have good democratic reputations for using power responsibly to benefit the public at large, not merely to reward a small circle of supporters. For democracy to be effective, voters must have a choice among qualified candidates with proven records of public service who have developed good reputations for exercising power responsibly in elected office.

However, a nation that has just emerged from autocratic rule and violent conflict is unlikely to have many widely trusted political leaders with such reputations for good public service. When such trusted alternative leadership is lacking, national elections can become simple exercises in ratifying the authority of the incumbent national leadership, with little effect on their incentives to serve the public better.

The 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 some real responsibility for both the successes and failures of their local administration, then those who succeed will enlarge the nation's vital supply of popularly trusted leaders. Thus, democratic decentralization can be an effective way to ensure that national elections are truly competitive and that their winners must act to earn the voters' trust. The chances for a successful transition to
democracy should be greater if the first transitional government includes locally elected councils that have substantial autonomous responsibility for local public services.

As an application of this point, consider a situation where a new democratic state has been established by a foreign state-building intervention, and the foreign interveners have selected the initial national leadership for the new state. If the first national leader is the only one in the new state (since the expulsion of the leaders of the old regime) who has had any opportunity to oversee public services and develop a patronage network, then his victory in the first presidential election will be very likely. After such an election, however, people would still understand that the national leader has achieved supreme power, not by earning broad popular trust, but by foreign influence. Thus, in such a situation, a national presidential election alone cannot prove that a state-building mission has established a truly sovereign democratic state. To avoid such a conclusion, foreign interveners who have pledged to rebuild a nation as an independent democratic state must develop the nation's supply of trusted democratic leadership, and they should do so by giving substantial responsibilities to elected local governments as soon as possible in the transitional regime.

**Advantages of democratic decentralization**

We 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 qualify a local leader to become a competitive candidate for power at higher levels of 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 an imperfectly competitive market.) From this perspective, an ideal system of federal democracy should have several levels of sub-national governments, so that elected offices at different levels could form a ladder of democratic political advancement that effective leaders can climb from local politics to provincial and national politics.

Conversely, the threat of small unrepresentative cliques or warlords dominating local governments can be countered by the participation of national political parties in local politics. Local political bosses should know that, if they lose popular support, they could face serious challengers supported by a rival national party.

Thus, the introduction of democracy in different levels of government, from local to national, can strengthen democratic competition at all levels. A multi-party national assembly
and elected local councils can together provide the institutional pillars on which a strong democratic system can be built.

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 only when members of the community are coordinated by local leaders whom they can trust to appropriately reward contributors and discipline free-riders. Such trust can be expected only from 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 admits autonomously elected local leaders into the national network of power. (See Fortmann, 1983.)

At any point in time, in any society, there are formal or informal structures of local social leadership in all communities. When a state has failed, such local leadership can become even more important to people as a source of basic protection. The long-term successful establishment of a political regime will depend on its general recognition and acceptance by such local leaders in all parts of the nation. If a new regime is endorsed by an overwhelming majority of local leaders throughout the nation, then the others will feel compelled to acquiesce. But if there are communities where the regime lacks any local supporters, then these communities can become a fertile ground for insurgents to begin building a rival system of power with encouragement from disaffected local leaders.

The regime's constitutional distribution of power can determine how many local leaders will find a comfortable place for themselves in the regime, and how many local leaders will feel excluded from power in it. Everyone understands that in the long run, once a state is firmly established, it will be able to redefine and redistribute positions of local leadership in the nation. When a state constitutionally devolves a share of power to locally elected officials, it gives these local leaders a stake in the political system that they should be willing to defend. Thus, political decentralization can actually strengthen a state against external challenges and insurgency by ensuring that, throughout the nation, there are local leaders who have a substantial interest in defending the state and who (by the fact of their election) have a proven ability to mobilize local residents for political action.
Forces against decentralization

In spite of the advantages listed above, there can be powerful forces against the introduction of democratic local government in nations where it has not previously existed. The potential of autonomous subnational governments to become sources of new competition for national power is an important reason why established national leaders might not want to share power with locally elected governors and mayors. The most important national leaders in a newly democratic nation will have a vested interest in maximizing the power of the national government and so may resist any devolution of power to independently elected local governments.

Indeed, a national leader is likely to find particularly strong opposition to political decentralization among his most important supporters, those who may hope someday to be appointed to an office of mayor or governor as a reward for their political support. In a centralized state where governors are appointed by the national leader, these powerful local offices can be among the most prized positions that the national leader can use to reward loyal supporters. A move to let local voters select their own mayors and governors would, from the perspective of these key supporters, be a disappointing diminution of their potential rewards for good political service. It is very risky for any political leader to do anything that would so disappoint his most important supporters.

Thus, we have fundamental reasons to expect that political decentralization may often be undersupplied, relative to what would be best for the general population, because it runs against the vested interests of those who hold power at the national level. Evidence can be found to support this prediction. In Pakistan, elected politicians of national and provincial government have three times dissolved institutions of local democracy that had been created by military rulers (see Cheema, Khan, and Myerson, 2010). In Egypt, three constitutions in row (those introduced in 1971, 2012, and 2014) promised an eventual devolution of power to locally elected councils but then allowed current national leaders to postpone such decentralization and continue the centralized appointment of local governors.

Problems of separatism and ethnic violence

Ethnic rivalries can complicate the problems of democratization in important ways. When people feel divided by different ethnic or tribal identities, a local leader who has governed well in one region may nonetheless be viewed with suspicion by people of other regions who
have different ethnic identities. Thus, the potential of democratic local governments to make national politics more competitive may be seriously reduced when ethnic rivalries make it harder for a successful local leader to present himself as a candidate whom voters throughout the nation can trust. For example, Nigeria has had imperfectly competitive elections at both the national and provincial levels since 1999. A few governors there seem to have earned reputations for providing better local government, but their ability to offer themselves as candidates for the national presidency has apparently been limited by inter-regional suspicions in Nigeria.

Varshney (2002) has emphasized that ethnic violence may be dependent on structures and traditions of local politics. We must acknowledge a risk that the introduction of local democracy could itself exacerbate ethnic tensions. There are many parts of the world where traditional autocratic regimes have long relied on ethnic or tribal leaders to provide basic justice and security within their local communities. When such local authority is transferred to the office of a locally elected mayor whose administration covers all citizens in a district, at most one ethnic leader can win election to mayor. Then there can be a serious danger that the traditional leaders of other ethnic groups may react against local democracy if they feel that it threatens them with a loss of power to serve their traditional constituents.

This risk of inciting ethnic violence could be reduced by vesting local power more broadly in a council where leaders of all traditional groups could hope to win seats. That is, where local ethnic tensions are a problem, it may be better to let an elected local council choose the mayor or head of local government by a local version of the normal parliamentary system, rather than to allocate such a powerful local office by a winner-take-all popular election.

There may also be concerns about decentralization exacerbating regional separatism. In a region that has a strong popular separatist movement, its candidates would be likely to win local elections, but local democracy would not then be causing the separatist movement. In fact, separatist movements are often caused by a history of oppressive centralized rule that leaves no place for local leadership. Election to local offices can actually give local leaders more interest in preserving the political status quo due to concerns that the next successor state might reduce or redistribute their local powers. In a province that is large enough to stand alone against the rest of the nation, however, the top provincial leaders could perceive some chance of gaining sovereign national power by cultivating a separatist movement. Thus, where separatism is a concern, political decentralization may be better limited to local councils for small districts.

Ultimately, ethnic divisions in national politics cannot be bridged unless there are some
political leaders who can be trusted by people of all major ethnic groups. Responsible local governments can provide more opportunities for such leadership to develop. In a nation where such broadly trusted leadership was lacking, a local leader who began to develop a reputation for working reliably and justly with members of all ethnic groups could hope to become a strong candidate with broad support for national leadership.

**Establishing a stable federal division of powers**

We have noted that national leaders and their most important supporters may feel a powerful vested interest against any decentralization of power in a traditionally centralized unitary state. Political decentralization can seem undesirable or burdensome to national leaders because it entails more difficult negotiations with local leaders, some of whom may have the potential to become new rivals for national power. But a national leader who accepts this cost may find, in the long run, that a reputation for working effectively with local leaders within an accepted constitutional system can become an essential asset for building strong broad-based political coalitions.

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

It may be argued that, to demonstrate an appropriate respect for national sovereignty, foreign supporters of a new state should try not to influence its constitutional structure. However, when foreign military or economic support is needed to maintain a national leader's authority, the offer of foreign support itself may affect the state's constitutional development. If there were no foreign support, the national leader could hope to gain effective national authority only by negotiating more political deals with local leaders. Thus, a greater centralization of power may itself be a result of foreign support. In this case, the constitutional impact of foreign support could actually be reduced when foreign supporters press national leaders to accept more political decentralization, even as such decentralization could reduce the state's costly dependence on its foreign supporters.
Conclusions

Questions of how to help a nation develop a strong democratic political system call for a deeper understanding of political systems in general and of democracy in particular. Under any political system, power is held by leaders who organize political networks or parties by promising their supporters that loyal service will be well rewarded. In a dictatorship, national power is exercised by one leader's political network, which tolerates no rival. In democracy, different leaders with rival political networks must compete for voters' approval as the key to power. But democratic competition can effectively provide political incentives for better public service only when voters can identify two or more qualified candidates with good reputations for each elective office.

Thus, the key to successful democratic development in a nation is to increase its supply of leaders who have reputations for using public funds responsibly to provide public services, and not just to give patronage jobs to their supporters. This essential supply of trusted democratic leadership can develop in responsible institutions of democratic local government, where successful local leaders can prove their qualifications to compete for higher office. 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 the success of democracy will ultimately depend.

We have argued that interactions between local politics and national politics can strengthen democracy at both levels. Local democracy can strengthen national democratic competition when elected offices in municipal and provincial governments provide a ladder of democratic advancement that effective leaders can climb from local politics into national politics. But conversely, national democracy can strengthen local democratic competition when national political parties support competitive challengers to established local bosses. For such mutually-reinforcing interactions between local politics and national politics, the institutional pillars for a strong democratic system should include both a multi-party national assembly and elected local councils with clear autonomous budgets and responsibilities.

Those who would encourage and support the development of democracy in a nation should try to support a balanced development of democracy across different levels, from municipal and provincial governments to the national government. Urging national elections before local elections or providing foreign support only for political leaders at the national level could upset this balance. International donors might better support balanced democratic
development by insisting that some share of development-assistance funds should be allocated directly to autonomously elected institutions of provincial and municipal governments.

We may ask, for example, how the fate of Egypt's first democratic system might have been different if global advocates of democracy in 2011 had urged a transition to democracy that included local elections with or before national elections. If Egypt's transition to democracy had started with local elections, many factions would have gotten opportunities to start building reputations for responsible democratic leadership in different areas. But in a presidential election, only one candidate can win the prize of centralized national power. In fact, the winners of the national elections in 2012 chose to delay the introduction of local democracy and retained centralized control of local government. Such centralization might have seemed convenient for the short-term interests of those who had won control of the national government, but it left Egypt's new democracy perilously vulnerable to fears of another autocracy. Empowerment of trusted local leadership throughout the country could have done much to reduce such fears.

For an example of a better transitional regime for democratic state-building, we may consider America's Articles of Confederation (1776-1788) which distributed power widely among thirteen locally-elected provincial assemblies. This decentralization of power admittedly created difficulties in financing the war effort, but it guaranteed that every community had local leaders with a vested interest in the new regime, and this broadly distributed political strength made the American Revolution unbeatable. The wide supply of local leaders with established reputations for public service in elected office was the best guarantee that strong competitive democracy would endure in America after the revolution. It is well understood that the Articles' weak national government was not suitable for the long run, but it was ideal as a transitional regime for the initial establishment of democratic national government. The contrast is stark between the decentralized political structures of American history and the centralized regimes that America has often supported abroad.

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