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Introduction

The Mexican novelist Carlos Fuentes believes that federalism may be the only way to preserve local cultures in a world of increasing economic integration. *The Federalist Papers*, he has argued, "should be distributed in the millions." When British Prime Minister Tony Blair set out to modernize his country, he made devolving power outside Westminster a key element in the campaign. This was necessary, he said, to protect Britons' "fundamental rights and freedoms" and to "develop their sense of citizenship." In the 1990s, the diplomat and historian George Kennan confessed to dreaming of a United States reconstituted as a confederation of twelve regional republics, each of which would be small enough to provide "intimacy between the rulers and the ruled."[1]

For anyone who might not yet have noticed, political decentralization is in fashion. Along with democracy, competitive markets, and the rule of law, decentralized government has come to be seen as a cure for a remarkable range of political and social ills. Enthusiasm extends across geographical and ideological boundaries, uniting left and right, East and West, and North and South. It is hard to think of any other constitutional feature – except perhaps democracy itself – that could win praise from both Bill Clinton and George W. Bush, Newt Gingrich and Jerry Brown, François Mitterrand and

[1] Carlos Fuentes' comments are in "Where Have All The Leaders Gone? Federalism Is the Great Healer," *Los Angeles Times*, December 16, 1990, p. M1. For Tony Blair's opinions, see his "Britain Speech" in *The Guardian Unlimited*, March 28, 2000, at http://www.guardian.co.uk/britain/article/0,2763,184950,00.html, downloaded March 27, 2005, and his speech at the Council of Europe Summit, October 10, 1997, from the prime minister's web site at www.number-10.gov.uk/output/Page1062.asp, downloaded March 27, 2005. Kennan's remarks are in Kennan (1993, pp. 143–51).

Jacques Chirac, Ernesto Zedillo and Vicente Fox, Mikhail Gorbachev and Boris Yeltsin.[2]

Political decentralization means different things to different people, and I will discuss definitions in Chapter 2. But most would agree that a political system is more decentralized to the extent that local officials are chosen locally and have the right to make final decisions on important policy issues. Political decentralization differs from mere administrative decentralization, under which the central government delegates some policy responsibilities to its appointed local agents but retains the right to overrule its agents' decisions. Complete political and administrative centralization – found only in small, unitary states such as Monaco – exists if all policy decisions are made and implemented by a single central government and its centrally located agents.

The belief that political decentralization is a good thing has been reshaping government across the globe. In Western Europe, Italy, Spain, and France created directly elected regional legislatures in recent decades, and Belgium turned itself into a federal state. The United Kingdom introduced parliamentary assemblies in Scotland and Wales, reversing centuries of precedent, and revived one in Northern Ireland.[3] In the postcommunist East, countries from Poland to Kyrgyzstan have been strengthening local

[2] For Clinton on decentralization see "Transcript of President Clinton's Remarks to National Building and Construction Trades Department Conference," April 5, 1995, U.S. Newswire, downloaded from Factiva database, August 20, 2006. For Bush, see his memoir, *A Charge to Keep* (Bush 1999, p. 235). For Gingrich, see R. W. Apple Jr., "You Say You Want a Devolution," *The New York Times*, January 29, 1995, Section 4, p. 1. For Brown, see "Luncheon address by Jerry Brown" to the American Society of Newspaper Editors, April 14, 1999, at http://www.asne.org/kiosk/archive/convention/conv99/jerrybrown.htm, downloaded March 28, 2005. On Chirac and Mitterrand, see Robert Graham, "Chirac gives blessing to Raffarin's radical decentralization proposals," *The Financial Times*, October 17, 2002, p. 8. For Zedillo, see his speech at the International Forum of Federations, Mont-Tremblant, Canada, Wednesday, October 6, 1999, at http://zedilloworld.presidencia.gob.mx/PAGES/library/sp_07oct99.html, downloaded March 28, 2005. For Fox, see Elisabeth Malkin, ed., "Vicente Fox on the Transition, NAFTA, Corruption, Drugs, the Economy . . ." *Business Week*, July 17, 2000, downloaded March 29, 2005, from http://www.businessweek.com/2000/00_29/b3690043.htm. For Gorbachev, see "Gorbachev considers that disintegration of the USSR was avoidable," Interfax, Moscow, December 24, 2001, wherein Gorbachev discusses his attempts to decentralize the Soviet Union in 1990–1 and insists that "Reform, the broadest decentralization, was the correct strategy." On Yeltsin's commitment to decentralization, see Aron (2000, p. 394).

[3] On Western Europe, see Hooghe and Marks (2001, pp. 205–6), European Union (2001, pp. 48–9).

governments. ("Before the Decentralization Program, we were like camels," one Kyrgyz village leader enthused to a visiting aid worker, "but now we are horses.") In Latin America, Argentina, Bolivia, Brazil, Chile, Colombia, Paraguay, Peru, Venezuela, and many of their Central American neighbors introduced local or provincial elections, and most devolved responsibilities to subnational bodies. In Africa, Ethiopia adopted a federal constitution, and post-*apartheid* South Africa gave its provinces considerable autonomy. Seventeen other countries – from Benin to Zimbabwe – introduced elections for local councils. In Asia, India rewrote its constitution to empower rural *panchayat* governments, and post-Suharto Indonesia shifted functions and resources to its subnational units. The Philippines transferred responsibilities for health care, education, social services, and the environment to localities. Even China, not to be left out, began holding village elections in the late 1980s and authorized the elected committees to arbitrate civil disputes and provide local services.[4]

Although the impetus has come from many directions, international development agencies have been energetic – and generous – cheerleaders. Calculating how much such agencies have spent promoting decentralization is difficult, but in recent decades it has surely run into the billions. According to its Web site, the Inter-American Development Bank approved $671 million in loans to support "decentralization and subnational government" in Latin America between 1961 and 2005.[5] In 1997–2003, the World Bank was allocating about $300 million–500 million *a year* on loans to projects with a decentralization component.[6] Besides this, the Bank claimed to have 180 members "holding meetings, sponsoring seminars and workshops, and developing Web sites to ensure that the latest

[4] On Eastern Europe and the former Soviet Union, see Bird, Ebel, and Wallich (1996). The Kyrgyz village leader is quoted in Pandey and Misnikov (2001). On Latin America, see Burki, Perry, and Dillinger (1999). On Africa, see Brosio (2000), and on South Africa, Inman and Rubinfeld (2005). On Indonesia and the Philippines, see chapters in Brillantes and Cuachon, eds. (2002). On India, see Singh (1994). On Chinese village elections, see, for instance, Alpermann (2001).

[5] Information from its web site, http://www.iadb.org/projects/index.cfm?language=english#, "Approved Loans by Sector/Subsector," downloaded March 9, 2005.

[6] See http://www1.worldbank.org/publicsector/decentralization/operations.htm, downloaded March 9, 2005. It is not clear from the published statistics how large the "decentralization component" was in each of these. Some projects probably involved improving the quality of government at lower levels within already decentralized states rather than getting states to decentralize in the first place.

thinking on [decentralization] is widely available" (Ayres 2003, p. 74). According to the same report, half the education projects supported by the Bank recently included "decentralization strategies in their design" (ibid., p. 76).

Various United Nations agencies have also done their part. As of 2000, the UN Development Program was supporting decentralization programs in ninety-five countries (UNDP 2002). The UN's Capital Development Fund and Food and Agriculture Organization were both financing decentralization and local government in Africa (Morell 2004). The European Union provides grants, as do many of its member countries.[7] The Asian Development Bank allocates loans and grants for decentralization in Asia. The U.S. Agency for International Development said in 2000 it was "supporting decentralization and democratic local governance initiatives in some 50 countries" (Dininio 2000, p. 2). Its funding for "democracy and local governance" averaged $141 million a year recently, some of which went to decentralization projects.[8] In part, such flows probably aimed to make already decentralized structures more effective rather than to stimulate further decentralization. But for a developing country short of money, devolving power must look like an easy way to cash in on the rich world's desire to help.

Behind these aid dollars stands a series of arguments. Many have a familiar, common-sensical feel to them. Decentralization brings government "closer to the people." It focuses authority at a level at which governments must compete against one another – like firms in a market – to please footloose voters or investors. It makes it easier for citizens to hold their representatives accountable. Devolving power to local governments makes better use of local knowledge, protects individual liberty, encourages citizen participation, nurtures civic virtue, and alleviates ethnic grievances. Decentralized units can serve as "laboratories" of democracy, hosting parallel policy experiments. Besides being intuitive, these arguments have a distinguished provenance. Many date to the work of political thinkers such as Montesquieu, Rousseau, Tocqueville, or John Stuart Mill. Others are

[7] For instance, in January 2004, the EU announced aid of €20 million for decentralization in Guatemala and €21 million for education decentralization in Nicaragua (Commission of the European Communities, press release, IP: 04/63, "Commission approves co-operation actions for EUR 250 million in Latin America" January 16, 2004, downloaded from Lexis-Nexis, March 24, 2005).

[8] Table 3b, from USAID web site, downloaded March 22, 2005, http://www.usaid.gov/policy/budget/cbj2004/summary_tables_table3.pdf. The average is for fiscal years 2001–4.

associated with great twentieth-century economists such as Friedrich Hayek and James Buchanan.

Not all scholars are sure that decentralization is always beneficial. Skeptics have argued that empowering local governments can undermine macroeconomic discipline because of "common pool" problems or "soft budget constraints" that lead governments to overspend (Prud'homme 1996, Tanzi 1996). Others have been disappointed by the record of decentralization reforms in practice. Sophisticated advocates of decentralization have taken such reservations in stride. While remaining enthusiastic about the objective, they have sought simple rules to guide how countries should decentralize, as well as remedies for the inconveniences decentralization might generate.

The goal of this book is to reexamine these arguments – both those of decentralization's advocates and those of the skeptics. In the chapters that follow, I consider a dozen or so of the most common and influential arguments about how decentralization affects economic and political outcomes. I use formal modeling where useful to clarify the logic underlying each of these, to test for consistency, and to see what conditions or assumptions each presupposes. Are there reliable reasons to think that decentralizing government will in general have the effects the arguments predict? Even if the effects are not fully general, can one identify precise, observable conditions under which the arguments do hold?

The short answer to both these questions turns out to be no. When examined closely, neither the arguments about benefits of decentralization nor those about macroeconomic dangers are general at all. Some are simply invalid. Others do hold given certain conditions. But the conditions are so complicated and difficult to observe that the results provide little basis for empirical work or policy advice. One argument withstands scrutiny a little better, but even this implies nothing general about when decentralization is beneficial and when it is harmful. Although it might seem a waste of time given this conclusion even to review empirical studies of the consequences of decentralization, I do so briefly in Chapter 11. I find there that, as one would expect given the uncertain and conditional results of theory, almost no robust empirical findings have been reported about the consequences of decentralization.

To be clear, I do not find that decentralization is generally bad. In fact, the arguments against decentralization appear to be as partial and inconclusive as those for it, and the empirical evidence for them is just as weak and inconsistent. Rather, decentralization's consequences are complex and

obscure. Many effects pull in different directions, leaving the net result indeterminate. To choose to decentralize, in most settings, requires a leap of faith rather than the application of science. To devote hundreds of millions of dollars to persuading others to decentralize, given the current state of knowledge, seems odd to say the least. The emperor may not be completely naked. But he is dressed in little other than his underwear.

This conclusion will seem controversial and unappealing to many readers, and I do not expect it to be readily accepted. Critics will find points to question in my treatment of the arguments. I think it is harder to question the general picture that emerges. At the least, the analysis should cast doubt on certain widely shared assumptions and challenge advocates of decentralization to develop a more systematic and compelling theoretical case.

1.1 A Quick Look Back

The question of how governments should be organized must be as old as the study of politics.[9] From Aristotle to Polybius and Cicero, classical authors debated whether public authority should be entrusted to a monarch, a senate of aristocrats, a popular assembly, or some mixture of the three. The advantages of different constitutions were scrupulously examined.

Almost all the ancient scholarship focused on the institutions of central government. It is striking how little, by comparison, classical thinkers had to say about the vertical structure of government – the division of states into several tiers and the distribution of responsibilities among them. Local government did not entirely escape notice. Cicero, who served himself as governor of Cilicia, expounded on the duties of provincial governors, and Plutarch offered memorable advice to Greek municipal councilors on how to deal with their Roman overlords.[10] But both – like other writers – seem

[9] The following pages focus on the history and political theory of decentralization in the West, for no other reason than my lack of familiarity with Eastern sources. It should not be taken as a comprehensive survey.

[10] On Cicero, see Lacey and Wilson (1970, pp. 275–89), as well as his famous prosecution of Gaius Verres, the corrupt former governor of Sicily (Cicero 1960 [70 B.C.], pp. 35–57). In his *Moralia*, Plutarch instructs the Greek municipal councilor that he should not stir up the common people with tales of ancient heroes and should remember "the boots of Roman soldiers just above [his] head." Maintaining some autonomy, Plutarch argued, required keeping one's distance. Those "who invite the sovereign's decision on every decree, meeting of a council, granting of a privilege, or administrative measure, force their sovereign to be their master more than he desires" and risk wholly destroying the city's "constitutional government, making it dazed, timid, and powerless in everything" (Plutarch 1936, pp. 798–825).

to have taken the existing vertical structure for granted. How functions should be divided among central and local organs does not appear to have struck them as an interesting or relevant question.[11]

This is strange because multi-tier states have been common since the beginning of recorded history. The Sumerians, who left some of the oldest writing, inhabited a network of twelve or so theocratic city-states, each of which was divided into villages or rural communities, which were in turn subdivided into hamlets (Diakonoff 1974, pp. 8–10; Crawford 1991; Finer 1997, vol. 1, pp. 104–27). Every unit had its own priest-ruler. All the great empires – from Egypt to Persia – were administered by territorial governors, viziers, satraps, or other agents. The Israelite tribes and the Greek city leagues compete for the credit of having invented the confederation (Larsen 1968, Elazar 1987). The Roman republic and its provinces were integrated by an innovative system of administrative law, in which centrally appointed provincial governors could be sued, after leaving office, by those they had governed. Even the polis, that symbol of unitary, direct democracy, was not as flat as might be thought. Athens, after Cleisthenes' reforms of 508–507 B.C., was divided into 139 *demes* – city wards or rural villages – that served as both administrative subdivisions and "self-contained and self-determining units of local government in their own right" (Whitehead 1986).[12]

Scholarly analysis of multilevel systems seems to have begun with a few paragraphs in Aristotle's *Politics* (1996).[13] Aristotle begins by deconstructing

[11] Finer (1997, vol. 1, p. 380) wonders at the apparent silence of the Greeks about composite states: "Unless there is a corpus of political literature that has not come down to us, it seems that they did not develop any explicatory theory relative to this class of states." Whitehead (1986, p. 51), in his study of local government in Attica, notes with surprise that neither Plato nor Aristotle shows "any interest whatever in the Attic demes as an object of study in themselves." Larsen (1968, p. xi) is puzzled by Aristotle's and Polybius' "failure[s] to give adequate attention to the federal state." (Polybius, in his discussion of the Roman constitution [1979, Book 6], discusses only the three key elements of central government – the consuls, the Senate, and the people – and does not address how they relate to lower-tier actors such as the provincial governors or municipal organs.) J. P. Genet (1981, p. 20) makes a similar observation about medieval political thought: "No theorist was concerned with 'local communities' as one of his central themes . . . A distinct characteristic of late medieval theory is its failure, both in France and in England, to insert local communities into the framework of the *politia*."

[12] Besides Athens, Rhodes was also divided into *demes*. Sparta contained 5 villages or *obae*. And in Alexandria, the structure consisted of 5 *phylai*, 60 *demes*, and 720 *phratries* (Ehrenberg 1960, p. 30).

[13] Plato's ideal polity, Magnesia, described in *The Laws* (1970 [350s–340s B.C.] Book 5), is divided into twelve territorial segments, each inhabited by a different tribe. Teams of five "country wardens" and sixty young men, all from the same tribe, rotate through the twelve

the Greek city into a three-tier hierarchy of households, villages, and the polis, each of which aims at a different good. In fact, only the third of these is political. The household exists to "supply men's everyday wants" – material provision and procreation (ibid., pp. 12, 1252a–b). The polis is the setting in which a citizen can participate in self-government, realizing his nature as a being capable of practical wisdom. What purpose there is for something in between is not spelled out. Aristotle says only that the village aims at "something more than the supply of daily needs." He does not mention the *demes* (the word used for "village" is *kômê*).[14] In short, the passage does not so much justify multilevel government as explain why some nonpolitical communities are needed to supplement the uniquely political one.

Medieval Christian scholars, starting from this passage, stretched Aristotle's city into a five- or six-tier hierarchy – rising from the *domus* (household) to the *imperium* (Empire) – that more closely approximated their own world (Gierke 1966, p. 277). The particular function of each tier was often left vague. However, Dante, in *De Monarchia*, provided a reason why multiple levels were necessary. Only in a pyramid of different-sized, nested communities could the full multiplicity of human potential be realized all at once:

> There is, then, some distinct function for which humanity as a whole is ordained, a function which neither an individual nor a household, neither a village, nor a city, nor a particular kingdom, has power to perform. . . . [This function is] to actualize continually the entire capacity of the possible intellect, primarily in speculation, then, through its extension and for its sake, secondarily in action. (Dante 1904 [c.1314–20], Book 1, chs. 3–4)

God created the multi-tiered Empire as the stage on which the different dramas of human life could be simultaneously and peacefully enacted.

Aristotle's and Dante's images of social organization may seem foreign. But the notion that different public functions should be assigned to different-sized units in a hierarchy, so that multiple goals can be achieved simultaneously, continues to inform constitutional thinking. Another source of modern ideas about decentralization was the medieval – and, before that, Roman – association of law with custom. As the Institutes of

territories, providing justice and defense. However, Plato provides no explicit reasons why this arrangement is to be preferred to any other. Thomas More offers a parody in *Utopia* (More 1965 [1516], pp. 70–1).

[14] In his *Constitution of Athens*, Aristotle describes Athenian local institutions in some detail (1996, p. xxi).

Justinian put it, "immemorial custom approved by consent of those who use it supplies the place of law" (quoted in McIlwain 1932, p. 128). In the fragmented world of medieval Christendom, reverence for custom led naturally to the empowerment of local groups and individuals. Because customs were clearly rooted in particular places, judging what was and was not customary required consulting the locals. In medieval society "the normal way to prove custom was to have it stated by a body of people who represented the community within which it applied" (Reynolds 1984, pp. 42–3). In England, as described by Blackstone, that meant asking a twelve-man jury of local citizens.[15] Local tribunals such as the hundred courts, gathering together freemen to interpret custom, established a tradition of local assemblies and popular participation in the administration of justice that extended across the feudal world (Bloch 1961, vol. 2; Reynolds 1984, p. 19). This history implanted a close association between local government, freedom, and democracy into the subconscious of Western societies.

As nation-states solidified in the early modern period, the interaction between central authorities and local communities became a more common preoccupation of political thinkers. One can trace the emergence of three counterposed, ideal-type representations of this relationship. The first casts the state as a top-down hierarchy, in which local officials are subordinate agents of an all-powerful sovereign. The purest exponent is Hobbes, for whom state officials are mere mechanical devices, resembling "the Nerves, and Tendons that move the severall limbs of a body naturall" (Hobbes 1968 [1651], p. 290). So long as these agents faithfully implement the sovereign's orders, the subjects have an obligation to obey them. Bodin (1992 [1576]) also placed complete authority with the crown but argued for some enlightened – always reversible – delegation.[16]

A second image conceives the state as the creation of freely associating, self-governing local units, which covenant among themselves to delegate

[15] "The trial . . . (both to shew the existence of the custom, as 'that in the manor of Dale lands shall descend only to the heirs male, and never to the heirs female;' and also to shew that the lands in question are within that manor) is by a jury of twelve men, and not by the judges, except the same particular custom has been before tried, determined, and recorded in the same court" (Blackstone 1979 [1765–9], Vol. 1, p. 76).

[16] "Monarchies become corrupted when little by little the privileges of bodies and cities are taken away, and when, instead of limiting themselves to a general supervision, which is alone worthy of a sovereign, princes want to rule everything alone without intermediary." Quoted in Norton (1994, p. 6); see also Hoffmann (1959, p. 115).

authority upward while retaining their individual sovereignty. This is Montesquieu's "federal republic" – really a confederation – a "society of societies that make a new one" (Montesquieu 1989 [1748], Part II, Book 9, ch. 1). The image, taken up by American Antifederalists such as Melancton Smith, reaches its extreme expression in Proudhon's ideal state, in which higher governments are the strictly accountable and highly constrained agents of local governments, subject to recall at any time, and limited to contractually pre-specified tasks (Vernon 1979, p. xxiv).[17]

The third ideal type – that of the "compound republic," later the "federal state" – appears first in the writing of Harrington (1992 [1656]), Milton, Hugo, and Leibniz, and then in practice in the U.S. Constitution of 1789.[18] This conception seems at first to fall between the first two, but in fact it is distinct from both. In a compound republic, neither central nor local governments command the other; they act in parallel, deriving separate grants of authority from a common sovereign. The supreme power, James Wilson declared, "*resides* in the PEOPLE, as the fountain of government . . . The power both of the general government, and the State governments, under this system, are acknowledged to be so many emanations of power from the people" (Wood 1969, pp. 530–1). While sovereignty remained inalienable and undivided, it could be exercised simultaneously by several mechanisms. These separate mechanisms – state and federal governments – were equally legitimate, authorized by the sovereign's consent and by the constitutional compact that defined them and their powers.[19]

[17] Some might also include in this category the German legal theorist Johannes Althusius, who in 1603 described the state as an "association of associations," in which each type of association – from the family, to the collegium, city, province, and state – is constituted by a covenant between the units at the lower level and serves its own particular purpose. Sovereignty, in Althusius' scheme, was not held by a particular actor but inhered in the *ius regni*, or fundamental laws of the realm (Carney 1964, p. xxiv). However, Althusius' vision of the state is not easy to classify. Others would characterize him as an early disciple of federalism (Gierke 1966, Elazar 1987), or as a theorist of medieval constitutionalism (Riley 1976). On Melancton Smith's invocation of Montesquieu, see Storing (1981, p. 334).

[18] Some might argue that the Holy Roman Empire around this time was also a compound republic.

[19] In the American case, this formulation reflected a political compromise that both sides regretted having to make rather than a sudden stroke of genius (see, e.g., Riley 1976). The Federalists hoped for something much more centralized; the Antifederalists, for a reinvigorated confederation. Madison, as late as the spring of 1787, favored "a due supremacy of the national authority," with local authorities tolerated only "so far as they can be subordinately useful" (quoted in Wood 1969, p. 525).