




# Political Decentralization

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# Introduction/Agenda

## Part 1 - High Level

1. Motivation
2. History of Decentralization
3. Why Decentralize?
4. Explaining the Decentralization Paradox
5. The Solution: Overcoming the Paradox

## Part 2 - My Current Research (more conjecture)

1. State-Building in the West
2. State-Building Elsewhere
3. Potential Solutions? Charter Cities
4. Case Studies

# Motivation

- Decentralization is one of the broadest movements, and simultaneously one of the most contentious policy issues in development
- World Bank (1999): Between 80% - 100% of world's countries
  - Various types: for example, subsidiarity, devolution, federalism in the EU, UK, & US
- Not just breadth...but depth:
  - In Latin America: 10%-50% of central revenues spent subnationally (Campbell, 2003)
  - In Argentina, 50% of total resources spent by provinces/municipalities
  - In Kenya, 20%-30% of central revenues are spent subnationally

# History of Decentralization

- Past 15,000 years → a story of increasing state centralization
  - ~200,000 yrs ago: earliest modern humans lived in groups of a **few dozen hunter-gatherers** in Africa. Largely egalitarian and unorganized (Gronn, 2010).
  - 15,000-10,000 yrs ago: earliest agricultural communities exploit productivity gains (10-100x) from domestication → settled into **tribes of a few hundred**, acquiring primitive organization and clear leaders.
    - Further farming improvements → villages grew into **chiefdoms** with populations in the thousands; had centralized, hereditary leaderships, and multilevel bureaucracies
  - 6,000 yrs ago: In river valleys of modern Egypt, Pakistan, India, and Iraq, these societies became the **world's first cities**.

# History of Decentralization (cont'd)

- Past 15,000 years → a story of increasing state centralization
  - 5,700 yrs ago: **First states** emerge in Mesopotamia with populations of **50,000 or more**, many cities and villages centralized decision-making, sophisticated bureaucracies and religious orders, systems of laws and judges, taxation, and a capital city (Diamond, 1998).
    - These centralized states have a big advantage over smaller polities in the mobilization of resources and the projection of power.
  - Then...
    - Roman and Persian empires → 2,000 yrs ago.
    - Medieval European Kingdoms → Middle Ages (~5th century-15th century)
    - Nation-states → 17th century onwards (Treaty of Westphalia in 1648)

# History of Decentralization (cont'd)

- **Takeaways:**
- 1) Increasing centralization is the defining characteristic of the past 10,000 to 15,000 years of human society (excepting the Dark Ages).
- 2) The rise of decentralization over the past 50 years (especially since the 1980s) represents an **unexpected and dramatic historical reversal**.

...Why the change?

# Why Decentralization? - In Theory...

- **Theory provides a strong rationale**

- Bringing gov't "closer to the people" → better public goods/more responsive gov't

- Supply: [Smaller-scale makes it easier for citizens to supply...]

- Better information

- Greater participation

- More accountability

→ Deepen democracy [**check & balance**]

- Demand: [Citizen policy preferences...]

- National heterogeneity

- Local homogeneity

- Other purported benefits (Faguet, Fox, Poschl, 2015): Increase political stability, shrink bureaucracy, decrease public spending (and thus better macroeconomic stability), bolster individual freedom, decrease political tensions/risk of civil war.

# Why Decentralization? - In Practice...

- **Empirical literature does not!**

- Litvack et al. (1998): “One can prove, or disprove, almost any proposition about decentralization by throwing together some set of cases or data.”
- Shah, Thompson & Zou (2004): Decentralization sometimes improved, other times worsened...service delivery, corruption, macroeconomic stability, and growth across a large range of countries.
- Treisman (2007): Results are inconclusive, weak, and contradictory. **“To date there are almost no solidly established, general empirical findings about the consequences of decentralization.”**
- Key problem in Global South: the problem of local elite capture (for Africa, see Olowu & Wunsch, 2004; Reinikka & Svensson, 2004; Bardhan & Mookherjee, 2006; Mamdani, 1996).

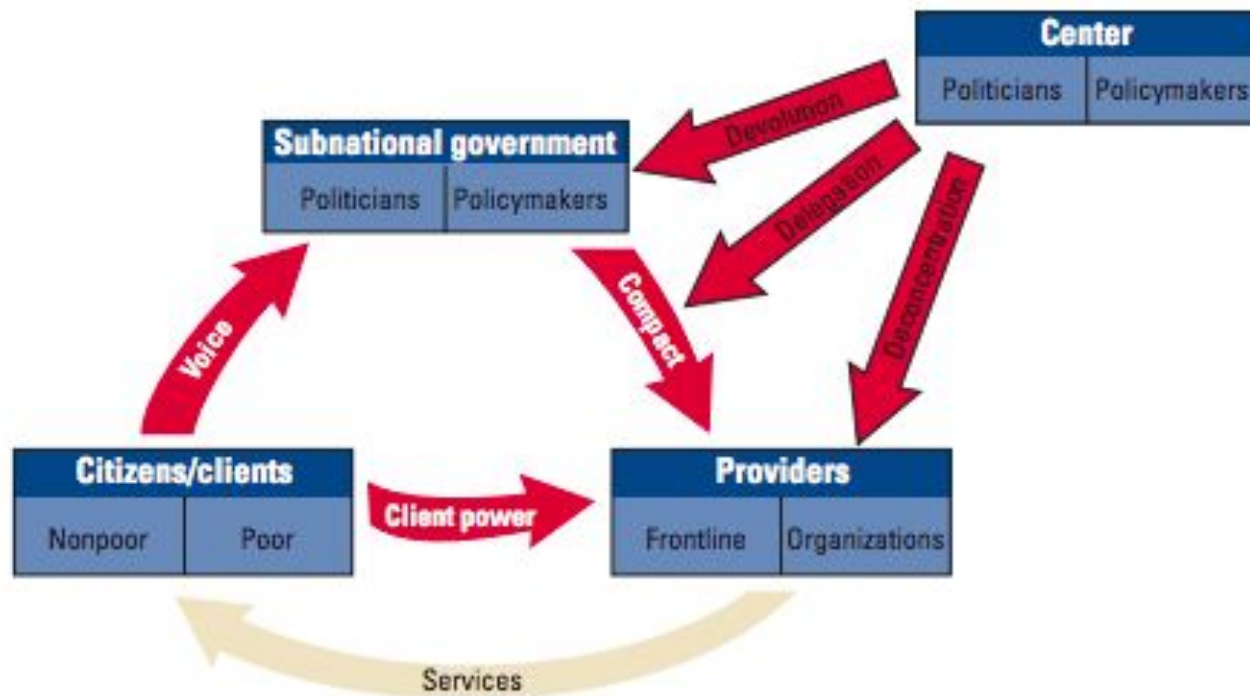
- **Bizarre paradox** → After ~50 years of policy experimentation and hundreds of studies, we still know very little [empirically] about whether decentralization is good or bad.



# Explaining the Decentralization Paradox

- **Why don't we know more?**
- **1) Conceptual Confusion:**
  - What is decentralization? → *deconcentration, delegation, devolution, privatization*?
  - Where is it *actually* implemented?
- **2) Non-rigorous methodologies:**
  - Qualitative case studies; small sample size (small-N)
  - Simple before-and-after regressions (correlation, but not causation)
  - Cross-country studies (confounded by differing contexts...institutions, cultures, histories, geographies, laws, etc)
- **3) Wrong research question:**
  - "Is decentralization good or bad for X country?"

Figure 10.3 Decentralization and the service delivery framework



- World Bank (2004)

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# The Solution: Overcoming the Paradox

- **1) Consistent/Precise Conceptual Definition**

- What is decentralization? → *deconcentration, delegation, devolution, privatization*?
- “Decentralization is the **devolution** of specific functions to democratic local governments that are independent of the center within a geographic and functional domain.”
- Sincere implementation!

- **2) Empirical rigour:**

- Quant, large sample size (large-N), *within* one country context (no confounders).
  - ^this controls for external shocks, political regime type, institutions/laws, and other exogenous factors.
- Then qualitative studies to probe mechanisms, get at nuance.

- **3) Right research question:**

- Why are the good good and the bad bad?
- Outcomes of decentralization will be determined by who/what/where you're decentralizing powers to!

# Some Examples...

- **Bolivia:** see <http://governancefrombelow.net/> by JP Faguet
- **Kenya:** see “Decentralization: Road to Development or Bridge to Nowhere? Estimating the Effect of Devolution on Infrastructure Spending in Kenya” by Kurtis Lockhart



## PART 2

# My Current Research...



# State-Building in the West

- Local self-governance [re]emerges in medieval Europe (see Henrich, 2020; Stasavage, 2020; Spruyt, 1994).
- Henrich, 2020: in ~11th century Europe “[u]rbanization was accompanied by the development of administrative assemblies and town councils, with representatives from the communities’ [merchant] guilds and other [civic] associations. Some **became self-governing**, or at least relatively independent of an array of princes, bishops, dukes, and kings.” (p. 309)
  - E.g., **Magdeburg Law**: founded ~965 CE by group of Jewish traders) diffused to over 80 cities who copied Magdeburg’s effective charter, laws, and civil institutions.
  - E.g., **Lubeck Law**: received initial charter in 1188, became the richest city in northern Europe by mid-14th century with merchant-friendly constitution, and its laws spread to over 43 cities in the Baltic region (forming **Hanseatic League** that dominated Baltic trade).
- Stasavage, 2020: in ~11th century Europe “[a]utonomous towns established town assemblies for governance, and they also **demand representation** in the broader assemblies that princes and monarchs called.” (p. 120)

# State-Building in the West

- Fast forward → 19th cent (Ansell et al., 2020)
- NW (central & public):
  - 1839: 11% of public services
  - 1939: 36% of public services
- SW (local & public):
  - 1839: 55% of public services
  - 1939: 34% of public services
- SE (local & mixed/priv):
  - 1839: 28% of public services
  - 1939: 23% of public services
- NE (central & mixed/priv):
  - 1839: ~5% of public services
  - 1939: ~5% of public services
- Ansell et al. (2020): “In the early 19th cent, **most public services were provided locally**, if at all, and they were often provided by churches, religious orders, or philanthropic associations, not by secular, public authorities.” (p. 21)

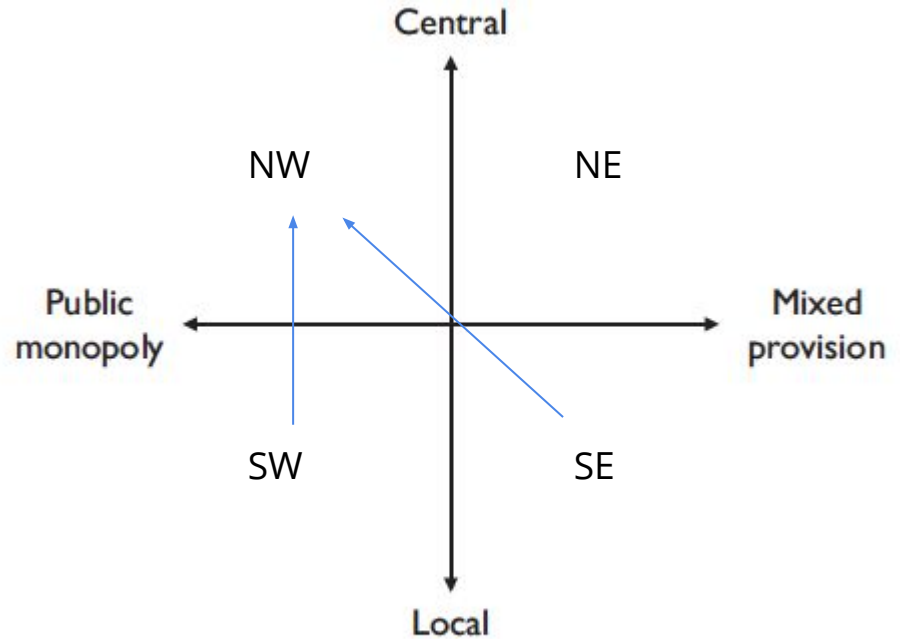


FIGURE 2.1 Governing public services.



# State-Building in the West (cont'd)

- **Takeaways:**
- 1) Local self-governance established **first** (before centralized bureaucracy or state). Self-governance entailed compromises between merchant guilds, churches, voluntary/civic associations, and elites. **Balance.**
- 2) Over the span of centuries (almost 1000 years) -- and after the founding of modern nation-states -- more and more powers were **increasingly given to the central government**, which, by the mid-twentieth century, took over much of the provision of public services (historically provided locally).

# State-Building in the Rest

- Alexis de Tocqueville (*Democracy in America*, 1835):

“If a democratic republic similar to that of the United States were ever founded in a country **where the power of a single individual had previously subsisted**, and **the effects of a centralized administration had sunk deep into the habits and laws of the people**, I do not hesitate to assert that in that country a[n] insufferable despotism would prevail...”

- **...sequencing matters**
  - Self-governance before central state?
  - Central state before self-governance?
  - ^Stasavage (2020)

# State-Building in the Rest (cont'd)

- **...sequencing matters**

- Self-governance before central state → **Medieval Europe**
- Central state before self-governance → **Colonialism (in much of the Global South)**

- Colonialism disrupted the **sequence** of events that occurred in Europe.
- In medieval Europe, the three pillars (Rajan, 2019) of society -- the state, the market, and citizens/civil society -- had come to **balance** each other.
- Colonialism prevented this balance from emerging in much of the rest of the world.
- Cheeseman (2015): "the creation of centralized state structures with greater coercive control and a monopoly over economic opportunities undermined the potential for a more democratic politics to emerge." (p. 17) **No balance (state overpowers markets and citizens).**
  - The exception proves the rule: Botswana & its history of **kgotlas** (AJR in Rodrik, 2003, p. 93)

# Potential Solutions?

- **How to reverse this trend of poor governance?**
- **National reforms unlikely...** due to Mancur Olson's *logic of collective action*.
- Collective action problem: concentrated benefits, dispersed costs.
  - E.g., elites benefiting from the status quo are unlikely to enact national reforms to alter this status quo.
- Solution:
  - Localize the reforms (no need for national-level).
  - Enact reforms where there are few people, and thus few elites that could block reform (i.e., greenfield or sparsely populated land).
  - E.g., China's opening up in 1978 under Deng Xiaoping (starting with 4 SEZs).

# Potential Solutions? Charter Cities

- **Charter cities:** a delimited geographic area given devolved powers that allow this jurisdiction to develop a more competitive business environment. In essence, **new cities with better rules.**
- In a way, a return to the autonomous cities and new, self-governing charter towns of medieval Europe (e.g., Magdeburg Law, Lubeck Law).
- A way to restore the **balance** between the state, the market, and citizens/civil society in much of the Global South.
- The logical end result of decentralization.

# Charter Cities...Solves Additional Problems

- In addition to **poor governance**, charter cities can help solve the problem of **rapid urbanization** across the Global South (especially Asia and Africa).
- 2018-2050: an additional 2.5 billion new urban residents, this means over 70 million new city dwellers **every year** (UN).
  - E.g., Nigeria will have 189 million new urban residents by 2050 (~equivalent to its total current population).
- Developing world cities often lack the authority and autonomy needed to accommodate this rapid urban expansion.
- **Historically urbanization** → higher wages, manuf jobs, higher productivity, better health, better education, higher economic growth
- **Current urbanization wave** → if governance failures continue = downsides of density (congestion, crime, contagious disease, expansive urban slums, etc.)
- Must act now to bring about upsides of density, and avoid downsides.

1964



Now



## Case Study: Shenzhen

- Declared a special economic zone in 1980
- Attracted over 50% of Chinese FDI first year of its existence
- 1980 population: 30,000
- 2018 population: 12 million
- Manufacturing capital of the world

## Case Study: Hong Kong

- John Cowperwaithe implemented positive non-interventionism
- Operated under common law
- Per capita GDP increased from \$429 in 1960 to \$46,000 in 2017







## Case Study: Dubai

- Oil only contributes 6% of annual budget
- Grew from a lifeless desert to an international destination due to farsighted leadership
- In 2004 created the Dubai International Financial Centre by importing common law and hiring a British judge
- The Dubai International Financial Centre is one of the best financial centers in the world and has been copied by Qatar and Abu Dhabi



## Case Study: Singapore

- Kicked out of Malaysia in 1965
- GDP per capita in 1962: \$490
- GDP per capita in 2017: \$56,000
- British Privy Council was highest court from independence to 1989

# Learn More About the Charter Cities Institute

- [www.chartercitiesinstitute.org](http://www.chartercitiesinstitute.org)
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