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# 17 Developing Democracy in Developing Countries

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## 1 PROBLEMS IDENTIFIED

For the purpose of this chapter, the analysis of the political dimension of economic growth and development, two major aspects of all the problems confronting a developing country have been singled out: (i) authoritarian politics and the concomitant oppression of the population; and (ii) the bureaucratization and excessive interference of the government in an economy with overcentralization. The first topic deals with democracy, the second with federalism, both often weak in developing countries.

Following the methodological individualism which states normatively that individual preferences should be fulfilled as far as possible, democracy can be considered an intrinsic value for all societies including developing economies. Democracy, and in particular forms of direct democracy where the participation of individual citizens is actively sought via popular initiatives and referendums, is a particularly good way to achieve this goal.<sup>1</sup> Democracy may also serve a more instrumental purpose: because of the induced responsiveness of the government to the wishes of the population, public policy is more efficient (Mueller, 1989).

Developing countries tend to be even more bureaucratic than industrialized countries, and rent-seeking distortions are rampant. For example, public officials often receive wages relative to other occupations far in excess of what is observed in developed countries, waste is pervasive, and central government bureaucracy, by its excessive interference, is above all a major impediment to economic growth. It stifles investment and innovation with red tape (see Ostrom, 1990; and Krüeger, 1992). While some Third World countries are officially federal, the central government is located in the capital city, far away from the fragmented local problems and demands, and consequently utterly neglects them (de Valk and Wekwete, 1990). Often, central government interference

actively destroys traditional and effective production and distribution arrangements – in particular, self-governing units (Ostrom, 1990, pp. 159–64; 1994).

Developing countries are faced with a paradoxical situation: at the same time there is ‘over government’ (so interventionist that economic progress is hindered) and ‘under government’ (too few governments to care for the fragmented local problems). It follows that three changes in government structure are needed:

- (i) More democracy;
- (ii) Multiple, decentralized political units; and
- (iii) Flexible government structures.

Based on modern political economy (Mueller, 1989) this chapter advances a proposal designed to meet these requirements which was first developed in Frey and Eichenberger (1994). It is radical in the sense that it deviates strongly from existing conditions. It suggests local democratic self-government within a federal political system. It is called FOCJ – the acronym made up from the initial letters of – Functional, Overlapping, Competing, Jurisdictions and should be compared to APJ<sup>1</sup> All Purpose Jurisdictions.<sup>2</sup> Section 2 presents the basic idea of FOCJ for developing countries, and Section 3 discusses possible counter-arguments. The question of how FOCJ can be established are briefly dealt with in Section 4; and Section 5 offers concluding remarks.

## 2 MULTIPLE DEMOCRATIC GOVERNMENTS

Our proposal is to establish FOCJ as widely as possible in developing countries. This radical form of federal decentralization, and at the same time of democratization, has four major characteristics:

*Functional* Each political unit extends over areas defined by the task to be fulfilled. Such functional units may provide particular communal services, such as fresh water and the treatment of used water, electricity, gas and telephone; roads; and police protection and security against foreign aggression. Following Klitgaard’s (1995) argument, in addition to these ‘modern’ functional units, the long-established tribal borders would be conserved as they cater for particular services. In each case, the benefits and costs should match geographically<sup>3</sup> in order to minimize spillovers. As a result, the different units would be able to cater for differences in local demand.

*Overlapping* In line with these diverse tasks, there would be many different governmental units spanning geographical areas of varying size. Many of the functions, such as water, police protection, mentioned above, can be most efficiently provided at the local, communal level, while others would extend over a wider geographical area, for example, overland roads. A few should remain in the realm of the national government, most importantly the guarantee of free mobility and free trade. However, the bulk of public activity should be provided at lowest cost and in the form best suited to meet local demands at the communal level. In the case of cities, the most efficient unit might be even lower, at the level of wards or perhaps, blocks.

*Competing* Two mechanisms serve to induce the FOCJ to conform closely to their members’ preferences. (i) the possibility of leaving a particular FOCUS (as we call the singular of FOCJ) which mimics market competition; and (ii) the use of the vote which ensures political competition.

- (i) Exit may be effected by individuals or firms migrating. In many cases, it would even be possible to switch FOCJ without changing the physical location. Political units such as blocks, wards or communes could change the FOCUS to which they belong for particular services, if they felt that another FOCUS provided better services at a lower cost. The freedom to exit is a powerful force restricting government, and in particular the central state (Weingast, 1995). This is in stark contrast to the prohibition of secession which is assumed in countries, and which has led to bloody and self-destructive wars: for example, in Katanga (1960–3), Biafra (1967–70), Bangladesh (1970–1), and, more recently, Yugoslavia and Russia. It should be noted that the type of exit envisaged here differs from secession. The switch from one FOCUS to another – for example, from one provider of police services to another – is only a partial exit; all other governmental units would be unaffected. The possibility of a partial exit in contrast to being forced to an all-or-nothing choice of secession is a particularly appealing feature of FOCJ.

When leaving or entering a FOCUS, there are circumstances which warrant a charge. When an individual leaves, jurisdictions may charge a fee equal to the marginal cost of the public services privately appropriated. This is of particular importance in the case of higher education. On entering, one may have to pay a fee in order to share the use of the infrastructure accumulated

and financed by the present members. One of the major functions of the central government is to prevent FOCJ from charging monopolistic entrance and exit prices in order to secure competition.

- (ii) Political competition is effected via democratic institutions. The citizens directly elect the persons managing a particular FOCUS, and they can participate in decision-making about substantive issues by undertaking popular initiatives and referendums. Wherever possible, the traditional forms of direct democracy should be employed, such as assemblies of all citizens concerned.

*Jurisdiction* A FOCUS is a democratic governmental unit with authority over its citizens. Most importantly, it has the power to tax for the services provided. Individuals and communes can establish such a jurisdiction when they feel they are better able to supply a public good. There are thus two kinds of FOCJ, comprising (i) individual citizens; or (ii) various communes (wards or blocks).

As with all other forms of federalism, the power to tax is an essential ingredient of FOCJ. Whenever central government allocates funds, as is the case in 'federal' developing countries, (Oates, 1993) the lower-level units become dependent on central government, so that most of the advantages of decentralization are lost. However, if FOCJ have the power to levy their own taxes, they risk going bankrupt. Therefore, they have an incentive to control budgetary expenditure.

These four characteristics of FOCJ produce major advantages over the existing forms of government in developing countries.

- They break the virtual monopoly in politics enjoyed by many governments in developing countries, which stifles economic development and oppresses the population. FOCJ shift political power to initiatives from below. Effective local governments become viable because they have the power to raise taxes to finance their functions.
- FOCJ allow for combinations of various forms of political rule. They not only blend federalism and democracy – or exit and voice – but also modern and traditional styles of governing. Proven local ways of public decision-making are not driven out, but integrated.
- FOCJ solve what Bhardan (1993, p. 47) calls the 'fundamental organizational dilemma' between an open polity and decentralized development.
- FOCJ deal with another 'fundamental dilemma of government'

(Montignola, Qian and Weingast 1995, pp. 54–5), that is, how to be not only strong enough to enforce the legal rules, but also to establish credible limits against exploiting citizens – such as, expropriations without compensation, or excessive taxation. The threat of bankruptcy faced by all FOCJ is credible, and imposes a hard budget constraint, because most FOCJ are small, and substitutes exist.

There is an emphasis on local public production and efficient polycentric organization.<sup>4</sup>

The fiscal decentralization induced by FOCJ reduces the volatility in macroeconomic variables, for example, in budget deficits or income growth.

The concept of FOCJ gets away from the fruitless contradiction of 'government versus market' which was typical of many of the writings on developing countries. Rather, a third form of governance is enabled to play its role, the self-government of the people directly involved in a particular public task (Klitgaard, 1991; Ostrom, 1990).

### 3 TOO GOOD TO BE TRUE?

A system of FOCJ marks a radical departure from much of the earlier literature on developing countries, which emphasized the need for a strong, well-organized central state and bureaucracy to steer and support economic growth. It also strongly departs from the recent emphasis on private property and free markets for developing countries. In both cases, the local government structure needed for successful economic development is neglected. It may, however, be argued that the advantages claimed for FOCJ are too optimistic, and that the proposal is just naïve. Five important counter-arguments are discussed below:

1. *FOCJ lack historical roots* This critique is factually incorrect. Manglapres (1987) makes the point that the pre-colonial political system in developing countries was characterized by various forms of self-government, although these were not democratic systems. Vestiges remain even today, but this traditional way of governing was destroyed by highly authoritarian colonial rule (Chazan, 1994; Oates, 1993; Oberreuter and Weiland, 1994). The liberation struggle and post-colonial governments wanted to centralize as much power as possible in their hands, and this further destroyed traditional, quasi-democratic local rule (Diamond, 1994; Ostrom, 1990).

Involving the population in the decision process where they are directly affected and decentralizing government enables the population's vast historical experience to be accessed.

2. *FOCJ are not suited for people in developing countries* The 'culturalist position' as argued by Booth and Seligman (1994) claims that individuals in developing regions are basically different from those who live in the West, and therefore need a completely different form of government, arguably a more authoritarian one. A more popular version is that people in Third World countries lack the discipline and initiative to form FOCJ. The economic approach to human behaviour (Becker, 1976; Frey, 1992) suggests the opposite causation. The lack of discipline and initiative observed is the consequence, and not the cause, of unfavourable institutional settings. Three types of empirical observations strongly support the economic view:

- (i) When individuals in developing countries shed the stifling restrictions imposed upon them by government bureaucracies, they become active and venturesome (in particular, de Soto, 1989);
- (ii) To the extent self-governance should be preserved, it often functions well and is even able to solve difficult common property resource problems (Ostrom, 1990; Ostrom, Schroeder and Wynne 1993; Wade, 1988); and
- (iii) Experiences with popular referendums are positive, provided they are devoted to substantive issues and not simply plebiscites to support the authoritarian or dictatorial rulers (Rourke, Hines and Zirakzadeh, 1992).

People in developing countries do participate in political affairs if they are allowed to do so, and if they are taken seriously. Chazan (1994), for example, has made this point when writing about Africa, and Oberreuter and Weiland (1994) with reference to Mexico.

3. *FOCJ worsen inequality* It is a common misunderstanding that central governments promote equality compared to federal systems. Central governments are at best formally committed to an equal (whatever the definition means) provision of public services, but in reality there are huge differences in the services provided over space – Ostrom, et al. (1993, p. 211) speak of the 'myth of equality'. Typically, as Bates (1988) shows, the population in the capital city is grossly favoured, in particular by highly subsidized food, while the poorer inhabitants in rural areas are taxed. FOCJ redress these imbalances, which should lead to a more equitable distribution of income.
4. *Spillovers abound* This argument is unfounded, because FOCJ are

established to minimize spillovers, as they extend over the relevant functional areas. It could be argued that there are spillovers between FOCJ; however, the same problem exists within unitary centralized governments, where cooperation between various state agencies is difficult, but not impossible to achieve.

5. *The idea of FOCJ is nothing new* This may well be true but virtually all ideas can be traced to one or more forerunners (Frey and Eichenberger, 1995). Moreover, even old ideas can be useful. What matters is whether the idea is relevant to the current intellectual debate, and can be applied in reality. On both counts, FOCJ seem worth developing, even if in two recent authoritative politico-economic works on developing countries, by Krueger (1992) and Bates (1988), the concepts of 'federalism', 'devolution', 'decentralization' or 'direct democracy' were not mentioned once.

#### 4 CONDITIONS FOR FOCJ

FOCJ need not be established by government *fiat*; they can arise endogenously from below if the population considers them to be advantageous. The only, but crucial, conditions are that (i) the constitution allows the establishment of FOCJ; and (ii) existing and future FOCJ are tolerated by higher-level governments and bureaucracies.

Many Third-World nations, particularly in South America, are committed to a legalist and constructivist concept of institutions and laws, so that the formal FOCJ prerequisites are difficult to achieve. The second condition is more difficult to achieve. Professional politicians, both inside and outside government – that is, including the opposition, comprising typically the established elite, put up fierce resistance to FOCJ because they would necessarily lose some of their power. This shows that the emergence to FOCJ would indeed change politics radically in developing countries. There is no easy way to overcome this resistance, but development aid by international agencies such as the World Bank and donor nations could be used to circumvent established political elites as much as possible, and specifically used to favour local self-government in the form of FOCJ.<sup>5</sup>

#### 5 CONCLUDING REMARKS

FOCJ provide a useful system of federalism and democracy that can overcome many of the problems of economic and social development

in Third-World countries. In particular, it breaks the monopoly of central government and shifts power to local units, without being committed to any naïve 'marketecring' view of economic development.

#### Notes

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1. There is a huge literature on democracy in developing countries. Among recent works I found Bates (1988), Diamond (1992 and 1994) and Ostrom, Schroeder and Wynne (1993) most useful.
2. The concept was initially developed for industrial economies, see Frey and Eichenberger (1995).
3. 'Fiscal equivalence' is from Olson (1969) and Oates (1972).
4. 'Little attention has been paid [in the literature] to the efficiency of local government expenditure in developing countries', Rondinelli, *et al.* (1989, p. 71); see also Ostrom, Schroeder and Wynne (1993), p. 210.
5. Ostrom, (1990, 1993) *et al.* are rather optimistic. The incentives of the donors are analysed in Frey and Schneider (1986).

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