

CHAPTER 2. LEADERSHIP SELECTION RULES AND DECENTRALIZED GOVERNANCE

Guy Grossman

**Assistant Professor of Political Science, University of
Pennsylvania**

INTRODUCTION

This chapter explores the state of academic knowledge regarding the effect of the institutional rules for selecting leaders at the subnational (regional and local) level. I start with the distinction between administrative and fiscal decentralization on the one hand, and political decentralization on the other. While the former forms of decentralization are primarily concerned with the roles and responsibilities of regional and local governments, the latter is concerned with the constitutional arrangement that governs how subnational leaders get selected into their positions.

Following Falleti (2005), *administrative decentralization* is defined as the set of policies that transfer the administration and delivery of social services such as health and education to subnational governments, while *fiscal decentralization* refers to the set of policies designed to increase the fiscal autonomy of subnational governments. By contrast, *political decentralization* is the set of institutions (e.g., constitutional and electoral reforms) designed to devolve political authority, especially electoral capacities, to subnational actors. Examples of this type of reforms are the popular election of governors, mayors, or village heads who previously were appointed to their positions.

One form of decentralization does not necessarily entail the other: countries can devolve greater administrative or fiscal responsibilities to subnational governments without reforming the rules for selecting key subnational officeholders. Interestingly, the literature debating the pros and cons of decentralization to date has focused almost exclusively on the tradeoffs inherent to the devolution of fiscal and administrative responsibilities. With few exceptions, since the seminal work of Riker (1964) on fiscal federalism, the tradeoffs inherent to the choice of institutions governing the selection of subnational leaders have received far less theoretical and empirical attention. Indeed, the growing

theoretical literature on the tradeoffs inherent in electoral institutions (for example, Persson and Tabellini (2005)) focuses almost exclusively on constitutional arrangements at the national level. This gap is problematic since the effectiveness of administrative decentralization reforms is strongly tied to political institutions that shape the incentives of political actors at both national and local levels (Inman and Rubinfeld, 1997).

In this chapter I address three related questions. I first explore the tradeoffs associated with choosing between appointment systems on one hand, and direct elections on the other at the regional or provincial level. Specifically, I examine the conditions under which each of the two leader-selection rules might be more effective in securing positive development outcomes. I argue that at the regional (i.e., state or provincial) level, neither of the two leader-selection rules—appointments from “above” and popular elections—unconditionally dominates the other. Instead, the relative effectiveness of leader-selection rules is determined by local conditions. In particular, the effectiveness of popular elections increases with the constituency’s level of political competition, strength of national parties, and the quality of the media market. Appointment systems, by contrast, are more desirable when the central government’s survival depends on local output, citizens are uninformed, political competition is low, and the center is controlled by a strong and cohesive party that can induce competition for government positions through promotions and retention.

I then examine the tradeoffs between elections and appointments (both from “above” and by peers) at the local level. I argue that one cannot simply borrow from the fiscal decentralization literature, since the move to a more local context has important implications to the relative effectiveness of leader-selection rules. I further argue that there are good theoretical reasons, and growing empirical evidence, that elections dominate both types of appointments at low levels of government. This is especially the case in high-information settings characterized by dense social ties and relatively low levels of inequality.

Finally, I discuss briefly how variation in electoral institutions might affect the responsiveness of democratic local governments. Specifically, I discuss the possible tradeoffs involved in partisan vs. non-partisan

elections, “at-large” vs. district elections, and the presence of term limits. Given the dearth of literature regarding the effect of electoral institutions at the local level in the developing world, my main goal in this part of the chapter is to point to some recent findings (almost exclusively from developed countries) in order to help steer researchers (and donors) to address this disturbing gap.

Following this brief introduction, in section 2 I discuss the theoretical and empirical literature regarding the impact of elections versus appointment at the provincial level, before moving to section 3 where I discuss the tradeoffs associated with these leaders selection rules in the context of local governments. In section 4 I discuss the possible implications of institutional design when holding elections at the local level.

LEADER SELECTION RULE AT THE STATE AND PROVINCE LEVEL

The key tradeoff underlying the choice of elections versus appointments at the provincial level is between the benefits of *tailoring* against those of *harmonization*. On the one hand, elections arguably strengthen local leaders’ incentives to adopt policies that are tailored to local demands. On the other hand, subnational leaders that are appointed by the central government are better positioned to aid economic activity by leveraging technocratic expertise; providing more coherent, coordinated, and uniform policies; and supplying tighter control over how those policies are implemented (Amsden, 1992).

THE ALLEGED BENEFITS OF POLITICAL DECENTRALIZATION (ELECTIONS)

Consider the set of arguments put forward by the “first generation” of fiscal federalism (Oates, 2005) in support of fiscal and administrative decentralizations—local, but not national, preference homogeneity (Oates, 1972), informational advantages (Hayek, 1948), and mobility that facilitates interjurisdictional competition (Tiebout, 1956). These criteria all assume that political institutions accompanying fiscal and administrative decentralization should be designed to maximize the extent to which local officeholders have incentives to respond to the needs and preferences of local populations. The literature, dating back to Riker (1964), assumed that under certain conditions (robust media

market and high level of political competition), direct elections are more effective in securing this key goal.

Why are popular elections expected to increase the responsiveness of regional executive officeholders to the interests and preferences of their local constituents? Elections strengthen, on average, local political accountability, defined as the probability that the welfare of a given jurisdiction determines the (re)-selection of an incumbent government (Seabright, 1996). However, the idea that political decentralization strengthens accountability does not rely on regional constituents having informational advantage over the central government in selecting candidates or in disciplining under-performing incumbents. In fact, when the local media market is weak, the central government likely has better information than voters about the connection between a local government's actions and outcomes.²⁰ It is also not always the case that the central government has a weaker incentive to discipline appointed subnational governors. When the survival of the central government depends on economic performance, it is likely to use its appointing authority to sanction and replace poorly performing agents in a fashion similar to voters (Blanchard and Shleifer, 2002).

Instead, the accountability argument rests mainly on change in what I term *responsive orientation*, which refers to the idea that leaders are expected to be more responsive to the preferences of the median voter of the group that selects them (De Mesquita and Smith, 2005). To the extent that the preferences and interests of a small number of appointers at the center are different from those of the average local constituency member, popular elections should better orient incumbents to be responsive to local preferences, needs, and conditions (Grossman, 2014).²¹ To be clear, the alleged shift in responsive orientation from the center to local constituents should be associated

²⁰ Gélinau and Remmer (2006), for example, demonstrate that uninformed Argentine voters erroneously blame and reward subnational officials for national performance, leading to a very tenuous match between citizen preferences and allocation of public resources.

²¹ For example, there is some robust evidence suggesting that the Russian central government under Putin judges provincial leaders, first and foremost, by their level of support they deliver for the ruling party, and not constituents' welfare (Nye and Vasilyeva, 2015). See also variation in electoral orientation of appointed and elected officials in post-democracy Indonesia.

with policies that more closely reflect local demands, even if the center and its appointed officials are well-meaning. In the absence of political decentralization, it is more likely that policies would fail to reflect multiple local preferences, needs, and conditions, and produce a more uniform level of results from government. This is due to political considerations that typically constrain the central government from providing different (especially more generous) results in one jurisdiction than in another.

We had argued, following Persson and Tabellini (2000), that when elected regional leaders believe that their survival in office depends on local voters' approval, they are more likely to implement policies that satisfy their constituents. Indeed electoral accountability of public officials has been shown to powerfully motivate the adoption of growth-friendly policies and nurture an attractive investment environment (Besley and Case, 1995). There are, however, three conditions for this to be true.

First, the effectiveness of elections as a responsiveness-inducing device increases with the level of uncertainty that incumbents have about their re-election; i.e., when turnout is high and political competition is more intense (Beazer, 2015). When political competition and voter turnout are low, there is a greater concern that making public officials accountable to smaller constituencies would result in capture (i.e., theft of public assets) and corruption (Bardhan and Mookherjee, 2000). Using the case of Mexico, Careaga and Weingast (2003) find that higher levels of political competition result in policies with lower levels of corruption and greater provision of public goods.

Second, the effectiveness of popular elections in creating a responsive government increases with voters' level of information about the performance of their incumbent government; i.e., voters must be able to link incumbents' actions and outcomes. At the provincial level, the quality and availability of mass media are thus crucial for incentivizing elected governments to be responsive to their constituents' needs. For example, using data from the sixteen major Indian states for the period 1958–1992, Besley and Burgess (2002) show that state governments are more responsive to drops in food production and crop flood damage via public food distribution and calamity relief expenditure not only where

political competition is stiff, but also where newspaper circulation is higher.

A relatively stable party system is a third condition for popular elections to effectively induce local political accountability. The more erratic the party system is, the greater the danger that elections at the provincial level would depress economic performance by creating a more volatile policy environment and a larger divergence between short-term and long-term incentives that deter investment (Nooruddin, 2010). Alesina and Perotti (1996) demonstrate theoretically and empirically that regulatory volatility is especially problematic when political turnover is high (i.e., weak incumbency advantage) and the electorate is fickle. Consistent with these arguments, Enikolopov and Zhuravskaya (2007) find—using data from 75 developing and transition countries over 25 years period—that when local elections are accompanied by strong national political parties (measured by the age of main parties and fractionalization of government parties), there is significant improvement in core outcomes of fiscal decentralization such as economic growth, quality of government, and public goods provision. Strong, stable national political parties allow also to mitigate the problem of interjurisdictional externalities, a point to which I return below.

When voters feel that their local politicians are directly accountable to them—i.e., that the probability of an incumbent government's re-election is a function of its constituents' welfare—they are significantly more likely to contribute toward public goods. This theoretical argument has been substantiated both in laboratory and observational studies. Using a series of novel laboratory experiments, Dal Bó, Foster, and Putterman (2010) show that a policy's effect on the level of cooperation is greater when the subjects democratically choose the policy. Similarly, using public goods experiments, Grossman and Baldassarri (2012) show that Ugandans are more likely to contribute to a common pot when the cooperation norm-enforcer is directly elected by subjects rather than appointed. Outside the laboratory, Fujiwara (2015) finds that an election reform that expanded enfranchisement and made state government officials more accountable also increased public goods provision.

THE ALLEGED BENEFITS OF POLITICAL CENTRALIZATION (APPOINTMENTS)

Notwithstanding the above benefits, there are, however, several costs associated with institutionalizing popular elections. First, by increasing the responsiveness of regional leaders to local preferences, popular elections may incentivize subnational politicians to overlook the interests of populations in other jurisdictions. The failure to internalize externalities, i.e., to consider issues and conditions from constituencies other than one's own, or from the nation, can completely undermine the benefits of decentralization (Wibbels, 2006; Rodden and Wibbels, 2002). For example, when regional governments are pressured to please local voters in order to win elections, they might adopt policies that undermine macroeconomic stability and increase budgetary deficits. Furthermore, due to local pressure and divergent interests, regional governments may fail to assist the central government in implementing policies that require coordination and harmonization across constituencies (Rodden, 2002; Rodden, Eskeland, and Litvack, 2003). The attempts of popularly elected governors in the USA to undermine the Affordable Care Act illustrates the difficulty in implementing national policies that require local buy-in from subnational executives who may not share the interests and preferences of the center.

Riker (1964) suggests that political centralization offers a viable solution in the face of grave interjurisdictional spillovers. Subordinating subnational leaders to an appointing center frees subnational governments from the pressure to consider the interests of their constituents above all. Reorienting accountability toward the center thus may mitigate the problem of interjurisdictional externalities as well as the difficulty to execute policies that require coordination and harmonization across jurisdictions. Comparing the rapid growth in China to the disappointing economic conditions in Russia during the 1990s, Blanchard and Shleifer (2002), argue that China's political centralization, i.e., the subordination of provincial leaders to the national center, is among the main reasons for the success of its fiscal and administrative decentralization reforms. The authors further argue that Russia's poor growth during that period owes much to its decision to subject governors to popular elections in the face of a weak national party system.

Central governments in an appointment system face an interesting and generally overlooked tradeoff. On one hand, central governments, at least those that believe that their incumbency depends on economic performance, have an incentive to induce interregional competition; for example, by tying the promotion and retention of regional governors to the governors' performance. On the other hand, the more the center induces interjurisdictional competition, the more it undermines the alleged benefit of appointments in curbing externalities and in harmonizing policy.

Consider again the case of provincial governors in China. Analyzing unique turnover data of senior provincial leaders between 1979 and 1995, Li and Zhou (2005) find that the likelihood of promotion increases with their economic performance, while the likelihood of termination decreases with their economic performance. Guo (2007) further demonstrates that even without popular election, a strong national party can induce competition between career-seeking provincial leaders.²² On the other hand, a recent study by Jia (2014) demonstrates how interregional competition in China is increasing pollution, a quintessential environmental externality. Similarly, Birney (2014) shows how the immense discretion that local officials have over which laws to implement makes it harder for the central government to detect corruption.

In sum, appointment systems must trade off between interregional *competition* and interjurisdictional *spillover*; it is hard to have both. An appointing central government may decide to limit interregional competition, solve the problem of interjurisdictional externalities and prioritize cross-regional harmonization and coordination. Yet having central-level politicians reappoint only those local officials who are “well-behaved” from the central officials' point of view undermines the benefits of fiscal federalism in the first place. The more that appointed regional leaders are oriented to pleasing their bosses, the less they care for the preferences of the local population. There are no free lunches.

²² See Xu (2011) for a summary of the emerging literature on how the communist party in China holds regional leadership to account, using positions at the provincial level to groom, recruit, and screen capable leaders for national-level tasks.

It is thus worth noting that elections might have a relative advantage at curbing interjurisdictional spillover, at least in the presence of strong national parties that compete locally, since such parties force regional government leaders to seriously consider the preferences of voters in other jurisdictions (Riker, 1964). Strong national parties are able to align political incentives of locally elected politicians with national objectives by affecting the career concerns of local politicians. Unlike weak parties, strong parties have a high leverage over promotions of local politicians to national-level politics, and they are able to provide local politicians with valuable resources during local elections. Local politicians internalize interjurisdictional externalities of their policies in the search for promotion and political support by their national governing party precisely because the party cares about national-level performance. This argument is substantiated by Enikolopov and Zhuravskaya (2007), who find that decentralized countries perform better under elections, but only in the presence of strong political parties.

EMPIRICAL EVIDENCE AT THE PROVINCIAL LEVEL

It is notoriously difficult to test the effects of political institutions at the subnational level since political units endogenously adopt rules for selecting officials. Cross-national analysis, such as Enikolopov and Zhuravskaya (2007), is valuable, but in the absence of exogenous variation in political institutions, it is difficult to rule out the possibility that unobserved conditions that contribute to the choice of a leader-selection rule are also correlated with the outcome of interest.

Russia offers an interesting context to examine some of the above arguments. In 2005 Russia removed the direct election of regional governors in favor of gubernatorial appointments by the Kremlin. This allows for an interesting comparison of development outcomes before and after the reform. Using data on the election and appointment of Russian governors and regional economic indicators in 80 regions over the period 2003–2010, Beazer (2015) finds that political centralization improved economic performance, but only in regions where strong

incumbent governors had previously depressed political competition.²³ When political competition was low, governors were able to collude with those representing narrow economic interests at society's expense. In this setting, the move to an appointment system was instrumental in reducing local capture.

By contrast, moving to an appointment system decreased economic performance in Russia's politically competitive regions. Political centralization shifted local leaders' accountability away from voters, with their dominant interest in local economic concerns (Beazer, 2015). These findings are important in that they suggest that popular elections in decentralized settings can secure the beneficial effects, described above, but only when incumbents are uncertain about the likelihood of their reelection. This conclusion is consistent with Ferraz and Finan (2011) who, using audit reports in Brazil, find significantly less corruption in municipalities where mayors can get reelected, as compared to municipalities in which the mayor is in her last term in office and thus is not constrained by reelection considerations.

DISCUSSION

The above discussion suggests that political decentralization (i.e., local elections) accompanying administrative decentralization frees provincial governors from their subordination to the central government and allows reorienting their attention toward their constituencies. However, whether they would use this freedom to advance the interests of their voters or to advance the interests of small powerful interest groups strongly depends on the constituency's level of political competition and the quality of the media market. Robust media markets are important for providing citizens with benchmarked information on incumbents' performance. When citizens obtain such information they are less likely to select candidates based on ascriptive characteristics as compared to competence. Furthermore, even if elected governors are incentivized to advance the interests and preferences of their voters, elections might hurt economic outcomes due to interjurisdictional spillovers. Such

²³ Note that since the reform was implemented at the same time and across the board, and since some, but not all, appointed leaders have been previously elected to their position, the empirical strategy employed by Beazer (2015), does not allow for a clean causal identification.

externalities can be internalized in the presence of strong national parties that constrain local politicians through career incentives.

Strong cohesive national political parties are, however, hard to build in low-income countries, and the limited fiscal capacity of subnational units relying on central government transfers exacerbates problems stemming from external factors. Under such conditions, political centralization may seem appealing. Appointment systems, however, face their own set of tradeoffs: the more they incentivize interjurisdiction competition, the less they are able to address interjurisdiction spillovers. The more appointment systems deliberately reduce interjurisdiction competition, the more standardized local outputs are, undermining the main benefits of administrative decentralization: outputs tailored to local conditions and local demand. Appointment systems are thus most effective when the central government's survival depends on local output, local media markets are weak (and thus citizens are uninformed), political competition is low, national parties are relatively weakly institutionalized, and the center is controlled by a cohesive party that can induce competition among political appointees through promotions and retention.

LEADER SELECTION RULE AT THE LOCAL LEVEL

There are also tradeoffs associated with the choice of leader-selection rules at a more local level. Our starting point is the idea that local decentralized settings—e.g., villages, communes, counties and even districts—differ from regional/state settings in several important ways.

First, the central government, at least in most developing countries, lacks the capacity for effective oversight of low levels of local governments (Bardhan, 2002), which is further exacerbated by the fact that media outlets rarely report about very small administrative units. In addition, the state in most developing countries has a limited capacity to enforce laws against local leaders seeking to pad their coffers. Thus, in these environments local decision-makers have considerable discretion, which makes it highly possible for local leaders to capture revenue. Lax monitoring and enforcement, it has been argued, allow for ample opportunities to embezzle public funds, misallocate program benefits, or collect bribes (Keefer, 2007; Galasso and Ravallion, 2005).

Second, citizens likely are better positioned to elicit a response from local leaders, as compared to provincial/state governors. At the local level, citizens have better information on local leaders and candidates (Casey, 2015), leaders have more information about their constituents (Alderman, 2002; Galasso and Ravallion, 2005), and citizens know that local leaders know their preferences and priorities. In addition, at the local level, leaders and citizens are embedded in relatively tight knit social networks, allowing for greater role for norms of reciprocity (Baldassarri and Grossman, 2013) and for informal constraints on possible abuse of both *de jure* and *de facto* power (Tsai, 2007).

Third, the local level is characterized by decision-making under preference heterogeneity. Whereas models of fiscal federalism assume homogenous preferences at the regional level as compared to the national (see for example, Seabright (1996)), analysis of leader-selection rules at the local level must grapple with heterogeneous preferences (Galasso and Ravallion, 2005). This is clearly the case when local officials are called upon to administer targeted transfer programs (Alderman, 2002), or when they need to make decisions over public goods investments, where different constituents prioritize different types of goods (Foster and Rosenzweig, 2001). Given these conditions, what are the relative benefits of elections and appointment institutions?

THEORETICAL ARGUMENTS

At the local level, public officials implement relatively small-scale public goods projects, adjudicate disputes especially around land rights, and are called upon to administer targeted programs. Much of the debate regarding leader-selection rules at the local level focuses on an alleged tradeoff between unlawful revenue capture on one hand, and accountability, legitimacy, and informational advantage on the other.

Proponents of appointment systems from “above” commonly make two main arguments. First, due to significant power asymmetries between local elites and local populations, local elites are well-positioned to disproportionately steal development funds, or implement projects that advance their interests at the expense of the larger community (Platteau and Gaspard, 2004; Platteau and Abraham, 2002). This power asymmetry stems not only from wealth and educational disparities (Baird, McIntosh and Özler, 2013), but also from the fact that the

relationship between local elites and followers is multifaceted.²⁴ Villagers may be loath to challenge elites in one domain (governance), in order not to jeopardize relationship in other domains (e.g., access to credit).

Appointments ameliorate the problem of asymmetric power relations since local elites are allegedly more easily disciplined by external “higher level” officials than by villagers or commune residents.²⁵ The second argument of appointment proponents is that, at the local level, elections suffer from the problem of free-riding: compared to technocrats, elected local leaders have stronger incentives to exaggerate the severity of local conditions in an attempt to secure greater transfers from higher levels of government.

Proponents of direct (popular) elections make, in response, three main arguments. First, the disciplining capacity of the state can too easily be exaggerated. As mentioned above, the state might lack the information, reach, and capacity for judicial enforcement to hold appointed leaders to account. More so, appointment systems can, in effect, reduce the incentive to support the formation of formal monitoring institutions due to familiarity between the appointing and appointed officials (Grossman, 2014). In other words, appointment by itself is not panacea against capture, and some bias in targeting transfer funds or in program selection, relative to programmatic ideal, should be expected.

Second, though elite capture could undoubtedly be a serious problem when citizens lack information about development funds (Reinikka and Svensson, 2004), it might not be as pervasive as suggested by the elite-capture literature. Specifically, elite capture is minimized when the conditions of a moral economy hold: high-information environment, relatively low levels of inequality, and dense social ties (Scott, 1977). Schneider and Sircar (2015) explicitly argue that high information on candidates minimizes the problem of elite capture under direct elections, since citizens are expected to vote for candidates with

²⁴ Local leaders tend to also serve as moneylenders, provide collateral for loans, adjudicate family disputes, etc.

²⁵ Consider the debate around targeted transfer program; those arguing in favor of allocating responsibilities for such programs to appointed civil servants explicitly refer to the fear of capture, preferring to allocate benefits based on less precise, but less discretionary proxy-means test systems (Coady, Grosh, and Hoddinott, 2004).

pro-poor preferences. Similarly, Foster and Rosenzweig (2001) argue that under local democracy, an increase in the share of the poor should result in selection of leaders that support outcomes that are, *ceteris paribus*, more favorable to the poor, compared to different leader-selection rules. Placing high value on those supporting local safety nets, risk-sharing, and pro-poor policies is, however, predicated upon relatively dense social networks, where individuals are reasonably socially connected to each other (Fafchamps, 1992).

Third, direct elections should be associated with other benefits. These include, for example, greater knowledge in the hands of local leaders, leading to better targeting and better alignment of development projects with local needs. In addition, direct elections imbue local leaders with greater legitimacy, leading to heightened willingness to contribute toward shared goals (Grossman and Baldassarri, 2012). Finally, by making community members responsible for holding officeholders to account, direct elections likely incentivize villagers to invest in obtaining information on the behavior of incumbents, in order to make an informed vote choice. In other words, direct elections lead to more robust informal monitoring institutions (Grossman, 2014).

In sum, it is far from clear *a priori* that theft by elected local leaders should be larger than theft by appointed civil servants who might lack strong ties to the community. In addition, the extent to which interjurisdictional “free-riding” poses a serious concern at the local level is, too, an empirical question. Summarizing a growing body of evidence, described briefly below, I argue that concerns about elite capture are likely overstated, the informational advantages of elected local leaders are substantial, and thus on average, the introduction of local elections results in better targeting and in a higher level of local public goods provision. I thus conclude that the case for institutionalizing elections is especially strong at the local level.

EMPIRICAL FINDINGS

As discussed above, studying the effects of political institutions is fraught with great difficulties. In recent years several studies have designed innovative research, directly testing the relative efficiency of election and appointment rules.

First, as noted, there is growing empirical evidence that elite capture might be overemphasized. Focusing on targeted transfers that are especially prone to theft, recent studies have shown, using original survey data, that *within-village* distribution of antipoverty-targeting program resources are broadly pro-poor (Besley, Pande and Rao, 2012; Bardhan and Mookherjee, 2006; Galasso and Ravallion, 2005). Consistent with the moral economy argument, Galasso and Ravallion (2005) show that local officials are more likely to improve targeting of anti-poverty programs when land ownership inequality is low. Most notably, in a context of a field experiment in Indonesia, Alatas et al. (2013) test explicitly for the presence of capture by local leaders in targeted transfer programs, in order to estimate whether such capture is large enough to justify the attention it receives. Specifically, the authors test whether elite households are more likely to receive government benefits, conditional on their consumption levels. Alatas et al. (2013) find that elite capture was minimal, and at most had reduced the welfare gains from targeted transfer programs by less than one percent. Beyond targeted transfers, Fritzen (2007) and Dasgupta and Beard (2007) show that community leaders' profit-seeking behavior, in Indonesia, is reduced by introducing democratic arrangements. Similarly, Labonne and Chase (2009) show that inclusive participatory rules for selecting development projects in the Philippines resulted in equal representation of non-elite preferences.

Second, there is growing, robust, causal evidence that the introduction of elections at the local level is associated with a greater level of public goods provision, and more equitable outcomes (e.g., pro-poor prioritization of local public goods investment). Specifically, the introduction of direct elections at the village level in both China and India has allowed researchers to explore temporal variation in the introduction of elections to examine the causal effects of the rules for selecting local leaders. Consider the case of rural China, where during the 1980s and 1990s village-level elections were introduced. Historically, Chinese village governments were comprised of two bodies that were appointed by the Communist Party: the Communist Party Branch and the Village Committee. The reform put the Village Committee—whose responsibilities included the provision of local public goods such as schooling, irrigation, or village roads—up for elections. Since the timing of the introduction of elections has been shown to be unrelated to village characteristics, researchers could take advantage of the staggered

timing of the introduction of village elections, using a difference-indifference estimation strategy.

Using different village samples, slightly different years of observation, and different measures of public goods provision, several different studies have reported very consistent results. Martinez-Bravo et al. (2015) construct a large panel dataset of village administrative records that allowed them to document the history of political reforms and economic policies for over two hundred villages. Martinez-Bravo et al. (2015) find the introduction of elections increased total local government expenditure on public goods by approximately 50%, and the frequency of positive expenditures by six percentage points. These figures strongly suggest that the newly introduced electoral institutions pushed officials to exert effort in providing public goods, which had been neglected under the appointment regime. The authors conclude that elections have shifted the accountability of local governments away from the party and toward villagers.

Similarly, using original survey data that includes information from more than 2400 villages in rural China, Luo et al. (2010) find that the direct election of village leaders has led to increased public goods investment in the village. Furthermore, the authors find that when directly elected village leaders implemented a larger number of public projects during their terms of office, they were more likely to be re-elected in future elections. This finding strongly suggests that elections have indeed reoriented responsiveness away from the party bosses and toward the village residents. Consistent with the above findings, Wang and Yang (2010) find that elections substantially increased the share of public expenditures in the village budget.

Local elections not only increase the share of the budget that is devoted to public goods, but also result in policies that are generally more pro-poor. Shen and Yao (2008) study how the introduction of village elections in China affected income distribution at the village level. They find that elections reduced the Gini coefficient by 4.3% of the sample average, and significantly increased the income shares of poorer portions of the population. Similarly, Zhang et al. (2004) find that the introduction of elections in rural China significantly shifted the distribution of taxation from individuals to enterprises, again suggesting a reorientation of accountability. The results reported from China are

consistent with the effect of introducing local elections in India. Foster and Rosenzweig (2001) use a unique panel dataset from 250 villages, describing village governance, public goods allocations, and economic circumstances in India in the years 1979–1999. They find that only when local leaders are directly elected does an increase in the percentage of the poor lead to public resource allocations that improve the welfare of the poor.

What are the mechanisms tying elections to both greater public goods provision and more pro-poor policies? The data at hand suggest that direct elections increase the legitimacy of local elites and thus community members' willingness to contribute toward local public goods. Luo et al. (2010), for example, find that the introduction of local elections increased the overall contribution of villagers to their community's total public goods investment by more than 50 percent. Similarly, Martinez-Bravo et al. (2015) have investigated the source of funds used to pay for village public goods and the fees paid by households to the local government. They find that the increase in public goods expenditure is entirely financed by villagers, as the introduction of elections increased the amount of local fees paid by all households as a percentage of income. These results are consistent with Grossman (2014), which finds that the introduction of direct elections in Ugandan community organization has increased villagers' cooperative behavior, resulting in the provision of a wider range of group services.

Two recent lab-in-the-field experiments in India and Tanzania suggest an additional mechanism for the positive effects of elections at the local level. Schneider and Sircar (2015) demonstrate that voters, at least in the context of rural poverty, exhibit a preference for local leaders who target subsistence benefits to the poor. In a high-information village context, where voters and leaders know each other, they find that local elections lead to the selection of local leaders with pro-poor preferences over the distribution of these benefits. Similarly, Lierl (2015) uses a behavioral experiment with elected and non-elected village leaders in 48 Tanzanian villages, and finds that elections were remarkably effective at producing public spirited leaders who are intrinsically motivated to refrain from siphoning funds.

DISCUSSION

The growing evidence at hand suggests that in local settings characterized by high levels of information, relatively tight-knit social networks, and relatively low levels of inequality, elections have an advantage in mitigating classical principal-agent problems: both moral hazard and adverse selection. In other words, not only do direct elections allow selecting candidates who are known to have pro-poor preferences, but also they encourage the formation of local monitoring institutions, which reduces the possibility of wrongdoing once the leaders are in office. Future work should pay special attention to uncovering the conditions under which direct elections are more or less likely to produce desirable outcomes.

Finally, note that the above finding from a wide set of developing countries—that direct elections result in more responsive office holders—is consistent with work in Organization for Economic Cooperation and Development (OECD) countries; for example, on the tradeoff between elected and appointed judges, between elected and appointed state regulators, and between directly elected mayors and appointed city managers.

For example, consumer-price data suggest that elected state regulators produce more pro-consumer policies than appointed regulators, in areas as diverse as public utilities, telecommunications, and insurance (Besley and Coate, 2003). Similarly, Huber and Gordon (2004) find that elected judges become more punitive the closer they are to standing for reelection, independent of personal and ideological attributes. They interpret this as a sign that elections increase judges' responsiveness to the public. Moving to the choice between elected and appointed mayors, the dominant view among scholars is that cities with an elected mayor are more responsive to the views of their citizens than cities with a council-manager system (Sharp, 1997), though city managers might have a slight advantage in promoting efficiency (Stein, 1990). Future work in the developing world should pay closer attention to integrating knowledge accumulated over the past decades in governance studies of OECD countries.

VARIATION WITHIN DEMOCRATIC ELECTORAL INSTITUTIONS

In this section I discuss the possible implications of two institutional design choices, which are relevant where elections are used to elect representatives (e.g., city councilors) at the local level. First, I examine the tradeoffs between holding partisan or non-partisan local elections. Second, I examine briefly the pros and cons of “at-large” versus single-member districts elections.

Both non-partisan elections and at-large elections were designed by Progressive-Era reforms in order to reduce the power of special interests and to minimize the influence of clientelistic machine-based political parties. Given the dearth of research on both institutional choices in the context of the developing world, I draw heavily on the urban-politics literature in the United States. My goal is not to summarize the state of academic knowledge, but mostly to point to the significance of these institutions in order to steer new directions for future research.²⁶

PARTISANSHIP AND LOCAL ELECTIONS

Should local elections be partisan or non-partisan? Progressive-Era reformers had assumed that partisan elections helped to increase the power of party elites. As a result, they promoted the creation of nonpartisan elections for municipal office (Trounstine, 2010). In nonpartisan elections, parties do not officially nominate candidates for office, and candidates’ party affiliations generally do not appear on the ballot. The intent of the change to a nonpartisan format was to remove party cues from voters’ decision, thereby causing voters to seek out other information about the merits and qualifications of candidates (Schaffner, Streb, and Wright, 2001).

In partisan elections, the party label provides a low-cost policy guide for voting, at least where parties are somewhat programmatic. In nonpartisan elections, by contrast, voters are deprived of the party cue and thus must draw on whatever information they have or can infer from the ballot. In these types of contests, researchers have found that

²⁶ For a recent summary of the state of the academic knowledge of Progressive-Era city reforms, see Trounstine (2010).

voters rely on a wide variety of cues that are not necessarily welfare-enhancing; these include race, ethnicity, familiarity, and religion (Wright, 2008).

Though the US-based urban-politics literature is still debating the effect of partisanship election on local-government responsiveness, some clear findings emerge. First, non-partisan elections depress turnout, most likely because without party cues a significant fraction of the electorate finds no basis for a decision. Second, non-partisan elections increase incumbency advantage as compared to partisan local elections (Schaffner, Streb, and Wright, 2001). This is mostly because non-partisan elections increase the importance of candidates' name recognition. Finally, recent studies have found significant differences in the types of people elected when the nonpartisan ballot is adopted. Specifically, non-partisan local elections seem to hurt minority and working-class representation since they crowd out less informed voters with lower socioeconomic status (Wright, 2008).

The extent to which these findings apply to the developing world—characterized by non-programmatic parties as well as by dominant ruling parties—is an open question that should be explored by future work.

“AT-LARGE” VERSUS SINGLE-MEMBER DISTRICT ELECTIONS

Progressive-Era reformers in the USA also promoted citywide (at-large) elections to prevent narrow interests from influencing local government. When local politicians are elected by district, the political unit (e.g., city, town) is divided into geographic areas of roughly equal population size, each of which elects a single member to the local government or city council. An “at-large” system, by contrast, is one in which all local government councilors are selected by the entire city/town electorate.

What key tradeoffs are associated with this choice? One is between government responsiveness and descriptive representation of ethnic and racial minorities (Ferree, Powell and Scheiner, 2013). At-large systems are expected to increase local government responsiveness since they shift electoral power away from geographically concentrated interests toward a single median voter (Trounstein, 2010). On the other hand, at-large systems reduce representation of minority groups. Indeed, one of the most persistent findings by scholars of urban politics in the USA

is that compared to single-member district elections, at-large systems reduce representation of underrepresented racial and ethnic groups on local government councils. This finding finds support in both quantitative studies as well as by extensive case study and historical research. Single-member districts are especially conducive for minority representation when voting is polarized along racial lines and when racial and ethnic minorities live in segregated communities (Trounstine and Valdini, 2008). Similarly, Crowder-Meyer, Gadarian, and Trounstine (2013) find that women are significantly advantaged in districted elections. They argue that this is a result of competitiveness: single-member district elections are generally viewed as easier and less expensive to win.

The choice of district magnitude at the local level entails a second tradeoff: between voting for candidates with policy positions closest to one's own and candidates who are more competent; i.e., more capable of designing effective policies (Beath et al., 2014). The main idea is that anticipation of bargaining over policy causes voters in elections with multiple single-member districts to prefer candidates with polarized policy positions over more competent candidates. This theoretical expectation has found support in context of a community-driven-development field experiment in Afghanistan, where the authors randomized the electoral rule for selecting local leaders.

CONCLUSION

In this chapter, I examine the relevance of leader-selection rules to the effectiveness of decentralized governments. The chapter seeks to advance two key arguments. First, that the choice of leader-selection rules is highly consequential for efficiency, responsiveness, and representation and hence should receive greater attention from students of decentralization than has been the case to date. Indeed, understanding the conditions that impact the effectiveness of leader-selection rules should be viewed as an integral part of the study of the effectiveness of decentralized programs and reform policies.

Second, the choice of one leader-selection method over another—e.g. elections versus appointments—entails tradeoffs. In other words, each set of selection rules has pros and cons, and the choice between them crucially depends on the objective function of the implementer. In the case of leader-selection rules, not all good things come together.

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