

The multi-level governance imperative

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Abstract

Governments are facing increasingly complex policy challenges, ranging from climate change, demographic pressures, rising inequalities and discontent, to the global health crisis that countries are presently confronting. Successful responses require more integrated approaches to policy making at all levels of government, so that economic, social and environmental actions reinforce each other rather than compete. They also require effective coordination across levels of government to manage shared responsibilities, mutual dependence and common challenges. This commentary highlights the progress in the multi-level governance concept since its first use, and focuses on some current dynamics driving multi-level governance, in particular the trend towards differentiated subnational governance. It then highlights that the way multi-level governance systems are designed has a direct impact on policy outcomes, hence the imperative to strengthen multi-level governance systems. The commentary offers insight into how the Organisation for Economic Co-operation and Development is tackling this imperative to best support countries in their development processes.

Keywords

citizens, decentralisation, democracy, differentiation, local governance, multi-level governance, policy outcomes, regional development, subnational governments, trust

Introduction

Governments around the world are facing increasingly complex policy challenges, ranging from climate change, demographic pressures, rising inequalities and discontent, to the global health crisis that countries are presently confronting. Successful responses require more integrated approaches to policy making at all levels of government; ones that are based on a better understanding of the complementarities and trade-offs across policy domains so that economic, social and environmental actions reinforce each other rather than compete with one another. They also require effective coordination across levels of

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government to manage shared responsibilities, mutual dependence and common challenges.

Since its first use in the 1990s and its further development in the early 2000s (Hooghe and Marks, 2001, 2003), the concept of multi-level governance (MLG) has evolved significantly in terms of scope, policy and geographic coverage, measurement and implementation (Hooghe and Marks, 2016; Hooghe et al., 2019). With scale and coordination issues at its core, it has implications for many academic fields beyond political science, notably fiscal federalism and institutional economics. Over the past two decades, the concept of MLG has been instrumental in many respects – notably to better understand inter-governmental relations (including with supra-national organisations), as well as the interactions among all types of actors – public, private, citizens – at different scales of government. Over the same period, the Organisation for Economic Co-operation and Development (OECD) has explored the issue of MLG in policy-making, and MLG approaches have gained prominence in recent years, as the OECD has shifted to greater focus on policy implementation and place-based policy approaches.

MLG has also its critics, who say it is unclear in scope, hard to measure, insufficiently prescriptive: critics also argue that it is Eurocentric, with its origins in the European Union with cohesion policy in the early 1990s. The main challenge in the MLG concept probably lies in the broad scope of the theoretical underpinnings – which is both a strength and a limitation.

This commentary highlights the progress in the concept, focusing specifically on national/subnational relations. It focuses on some current dynamics driving MLG, in particular the trend towards differentiated subnational governance. It then highlights that the way MLG systems are designed has a direct impact on policy outcomes. It is thus imperative to strengthen MLG systems. The commentary offers insight into how the OECD is tackling this imperative to best support countries in their development processes.

The progress of MLG: Scope, geographic coverage, measurement

While the concept of MLG was first applied to cohesion policy and to Europe (Marks, 1993), it was then expanded well beyond cohesion policy, to capture the policy-making dynamics in many other policy areas. The MLG approach emphasises the increasingly frequent and complex interactions between different levels of government: central, regional and local. Yet, MLG goes well beyond supra-national or local public actors. Since its inception, the literature on MLG drew attention to how non-state actors, including citizens, non-governmental organisations and private actors, participate in the policy-making process.

The main normative argument for multi-level policy is that public authorities are confronted with externalities that differ in territorial reach (Hooghe and Marks, 2001). Two of the other novelties of MLG approaches are the focus on *mutual dependence* among levels of government (Bache and Flinders, 2004; Hooghe and Marks, 2001) and to transcend the traditional dilemma of fiscal federalism focusing on trying to find optimal scales or optimal assignment of responsibilities (Allain-Dupré and De Mello, in Ongaro, 2016). Complex challenges, linked to climate change, globalisation or demographic pressures require effective partnerships among levels of government and jurisdictions, as externalities are too strong for any one jurisdiction – be it a country or a local government – to manage the challenges on their own. The global pandemic in 2020 also shows that

coordination is more essential than ever to minimise the health, social and economic impact of the Covid-19 crisis (OECD, 2020).

Progress in MLG measurement

The development of the MLG concept has gone hand in hand with progress in its measurement. This is a critical step forward, as measuring decentralisation has been a challenge for decades due its multi-dimensional nature, covering fiscal, administrative, and political dimensions. Measuring MLG dynamics is particularly complex given the interdependencies at stake and the fact that responsibilities for most public policies are shared among levels of government. In this respect, the distinction between self-rule and shared rule is particularly useful,¹ as it helps measure the different facets of MLG, which have very different policy implications.

The MLG concept gave a new impulse to the measurement of the authority of different tiers of government, particularly through the Regional Authority Index (RAI) first developed in 2010² (Hooghe et al., 2016), and the Local Autonomy Index (LAI), which was developed following the same methodology than the RAI³ (Ladner et al., 2016). The RAI is broadly recognised as the most comprehensive set of indicators to measure the authority of regions, as it goes beyond fiscal indicators to include indicators linked to institutions, policy scope, representation, law making, executive control, and constitutional reform.

A more accurate picture of decentralisation dynamics. This improved measurement of regional and local authority has confirmed the global trend of increasingly greater decentralisation (Hooghe et al., 2019; OECD, 2019). In Europe, the LAI shows that local autonomy increased between 1990 and 2005, especially in Central and Eastern European countries (Ladner et al., 2016). Of the 81 countries covered by the RAI, 52 experienced a net increase in the degree of regional authority and only nine experienced a net decline. Decentralisation reforms are and have been implemented for a wide variety of political, historical, and economic reasons that vary greatly across countries. Mega-trends such as information revolution, digitalisation, the globalisation of economic activity and urbanisation, also contribute to the stronger role-played by subnational governments.

The improvements in measuring MLG have contributed to a more accurate picture of decentralisation dynamics. Decentralisation trends have also gone hand in hand with an upscale in subnational governance through municipal cooperation, metropolitan governance, and the strengthening of regions. Today, inter-municipal cooperation is widespread in the OECD, benefitting rural and metropolitan communities alike. Currently, around two-thirds of the metropolitan areas in the OECD have a metropolitan governance body (OECD, 2015a). The latest RAI data also confirm that the number of metropolitan governance authorities of all types has increased, in particular since the 1990s. In general, however, the metropolitan governance bodies have less responsibilities and more limited fiscal power when compared to individual municipalities (Hooghe et al., 2019; OECD, 2019). In a vast majority of large urban areas, metropolitan governance is still more a political plea than a reality on the ground, and effective metropolitan governance remains at its premises.

Two other corollary aspects are important to highlight and have been analysed in-depth by the OECD in recent years. The first one is the fact that MLG goes hand in hand

with a transformation – but not necessarily a reduction – in the role of the state. Decentralisation is not a zero-sum game in which the state loses what local and regional authorities gain. The second aspect is the fact that subnational governance is increasingly differentiated (asymmetric), thus multiple types of MLG systems coexist at the same level of government.

MLG does not only imply a strengthening of the local scale, the dynamics are much more complex. Decentralisation policies affect subnational governments, certainly, but also national governments. They imply a renewed role for central governments, one that is more strategic but also more focused on setting the conditions for proper coordination and alignment of policy objectives, monitoring the performance of regions and local governments, and ensuring the balanced development of all parts of the national territory. Decentralisation reforms involve a shift from a direct role in service delivery to one of enabling, advising and assisting, ensuring consistency, and facilitating the work of subnational governments. This requires building new capacity at the central government level in order to effectively manage these new functions (OECD, 2019). Often, this changing role of the central government is under-estimated by countries undertaking decentralisation reforms.

MLG does not imply a homogeneous strengthening of the local level. Differentiated subnational governance (or asymmetric decentralisation) means that at the same level of government, different types of responsibilities or MLG arrangements exist. Asymmetric arrangements have been used since at least the 1950s. However, they are growing in popularity and the trend is accelerating. During the last seven decades or so, asymmetric arrangements have become more common especially among unitary countries. The trends also indicate that once adopted, asymmetric arrangements are maintained in the long-term.

The current rationale for differentiated subnational governance goes well beyond identity issues, to reflect the capacity and efficiency dimensions. There are historical, cultural and/or ethnic reasons for the special treatment of some regions or subnational governments. The aim can be to safeguard the unity of a nation-state, and to avoid secession and political unrest. Accommodating diverse preferences for political and fiscal autonomy across regions may help maintain political stability. The benefits of differentiated subnational governance are increasingly linked to the fact that institutional and fiscal frameworks are better targeted to local capacities, and may allow a better response to local needs. In general, asymmetric decentralisation favours experimentation, learning-by-doing and innovation in policy-making. Asymmetric decentralisation also helps implement tailored governance frameworks and place-based regional policies (Allain-Dupré et al., forthcoming).

The challenges of asymmetric decentralisation are associated with the cost of coordinating a complex system that may be unclear for citizens and lead to accountability challenges at various scales. If widely applied, asymmetric arrangements may reduce the transparency and accountability of governance and result in complex administrative systems (Bahl and Martinez-Vazquez, 2006). Other potential challenges include increasing disparities in capacity across regions. To limit the risks, asymmetric decentralisation should be part of a broader strategy of MLG and territorial development.

The MLG imperative

MLG has become an imperative rather than a theoretical option to respond to a much more complex and networked system of interactions among stakeholders in the design

and implementation of public policies. The OECD has worked on MLG for many years⁴ and is seeking to help policy-makers diagnose challenges and priorities to strengthen their MLG systems. In 1999, the OECD created the Regional Development Policy (RDPC) with an explicit mandate around place-based policy approaches and MLG. Today, the RDPC is recognised as a leading international forum on MLG issues.

The growing mistrust vis-à-vis central governments calls for a more networked system of governance, involving a broader range of actors – including citizens, firms and small- and mid-size enterprises (SMEs), non-governmental organisations (NGOs) – but also better connecting local governments to national policy-makers. Proximity matters more than ever, and local governments can play a key role to help restore confidence, including by being a ‘broker’ between national institutions, firms and citizens.

While these were once considered niche issues by many policy-makers (and even international organisations), the geography of discontent and backlash against globalisation have pushed these questions into the centre stage. It is increasingly recognised that space-blind policy approaches and dysfunctional MLG systems are part of the story behind the current crisis of democracies (Dijkstra et al., 2020; OECD, 2019). Thus, finding ways to make MLG systems more effective is an essential part of the remedy.

However, this is easier said than done. While there is considerable research and broad consensus on the challenges to effective MLG, there is less consensus on the solutions. Even more challenging is operationalising these solutions in a way that takes specific national and regional contexts into account. It is one of the critical tasks that the OECD is trying to achieve.

MLG challenges

MLG is hampered by different sets of obstacles which make its implementation very challenging on the ground. These obstacles include:

- **Coordination failures and several gaps stemming from the interdependence and asymmetries among the different levels of government.** When managing relations among levels of government, public actors at all levels are confronted by a series of gaps (Charbit, 2011; Charbit and Michalun, 2009). These gaps, resulting from the fact that one level of government will depend on another – either for information, skills, resources, or competences – can exist vertically and horizontally. *Contracts* are powerful coordination tools to bridge these different gaps, by involving a variety of incentives (conditions, funding, performance, reputation of contractual parties, etc.) and by adapting to various socio-economic geographies (Charbit, 2020).
- **Costs associated with coordination.** Formal co-ordination and collaboration procedures may imply some transaction costs, at least in the short term. Policy makers need to balance these costs with the long-term benefits brought by consistent and regular cooperation. These costs tend to rise exponentially as the number of jurisdictions rises (Scharpf, 1994). Different mechanisms and background conditions, such as clarity in the assignment and objectives, trust, the establishment of adequate incentives, contractual arrangements, arbitration mechanisms, can help limit the costs and maximise the benefits of coordination (OECD, 2018).

- **Challenges and uncertainties in managing complementarities across sectors, within the same level of government.** Policy complementarities are conducive to growth and development (Braga de Macedo et al., 2014), but too often policy complementarities emerge by accident, as the unintended by-product of interactions between sectoral policies. Effective MLG arrangements are required to manage these complementarities and trade-offs, as they never occur spontaneously.
- **Lack of capacities at all levels of government** (including the central level) to effectively manage MLG systems. MLG instruments require a high degree of capacity by all levels of government. The lack of sufficient administrative, technical, fiscal or strategic capacities is probably one of the bigger challenges in the field of MLG. Capacity building is also a ‘learning-by-doing’ process in which supranational, national and subnational stakeholders learn by repeated interactions. This takes time and therefore needs a long-term commitment from central and subnational government levels. Developing a culture of experimentation and trial-and-testing permits a better definition of objectives, as well as an easier identification of barriers or bottlenecks to policy implementation, be they technical or political (OECD, 2018).

MLG and its effects on policy outcomes

The OECD has worked quite extensively on the link between certain types of MLG arrangements and policy outcomes. For example, the links between municipal fragmentation in metropolitan areas and productivity have been analysed. The results show that administrative fragmentation is correlated with 6% lower city productivity – and higher spatial segregation (OECD, 2015). In short, less fragmented urban agglomerations have experienced higher economic growth: so this pleads for metropolitan governance.

The links between decentralisation and growth have been debated for decades, and many empirical studies are not conclusive because it is very hard to prove the causality, as decentralisation has so many indirect effects that are hard to capture. Some recent OECD studies have shown that *revenue* decentralisation is more conducive to growth, in line with Rodrigues Posé (2009). Subnational governments that are able to generate their own revenues respond better to local demands and promote greater economic efficiency.

As argued in OECD (2019) *Making Decentralisation Work*, the question should not be whether decentralisation is good or bad in itself, or whether a degree of decentralisation is optimal, but that decentralisation outcomes – in terms of democracy, efficiency, accountability, regional and local development – depend greatly on the way decentralisation is designed and implemented (OECD, 2019). This is true for MLG as a whole: the way MLG systems are designed, with flexibility for various types of coordination arrangements, has a direct impact on policy outcomes.

Strengthening MLG systems

The OECD is seeking to support governments in their efforts to strengthen their MLG systems. To this end, in 2016, the OECD launched a new series of country reviews – the ‘MLG Studies’ series, which include both thematic studies and country reviews. Reviews on MLG have for example already been conducted with Bulgaria, Chile, Colombia,

Portugal, Slovakia, Ukraine and Wales/UK. A wide range of thematic studies⁵ have also been conducted (OECD, 2015b, 2017).

There are two potential pitfalls to avoid when considering recommendations on MLG. The first is looking for one-size-fits-all solutions or a governance optimum that would apply to all regions and contexts. The degree of decentralisation and administrative capacity, the institutional culture and traditions, and the importance of formal versus informal coordination arrangements all shape the selection of instruments that can help address coordination and capacity failures. The second trap is precisely the opposite of the first one, that is, stating that given that all governance arrangements need to be context-based, it is impossible to identify good practices and operationalise MLG in pursuit of policy goals. There is, therefore, a middle ground that the OECD is seeking to pursue, which aims to identify lessons that might be relevant for all countries, and ‘families’ of countries sharing the same specificities, and in-depth policy guidance based on the understanding of each country’s specificities.

The OECD has also worked extensively on MLG and diverse policy areas linked to regional development, public investment,⁶ water, migration, health, education, and more recently climate investment and digitalisation, for example. Beyond specific policy fields, the OECD has also focused on providing guidance to strengthen the MLG systems as a whole. In OECD (2019) *Making Decentralisation Work*, 10 guidelines for designing and implementing decentralisation have been developed (Allain-Dupré, 2018; OECD, 2019). MLG systems are not set in stone, they keep evolving and need regular adjustments – even in the most advanced economies.

Looking ahead

Looking ahead, it is essential to continue to better connect the academic world and practitioners, in order to find ways to strengthen MLG systems on the ground, and to bridge gaps across disciplinary silos. This is all the more important in the context of a ‘geography of discontent’, and the growing divides between places that feel left behind by globalisation and technological change and those that may benefit from the opportunities offered by megatrends.

Many OECD countries are going through a crisis of democracy, with groups of citizens feeling left aside or excluded from the opportunities provided by mega-trends, and harbouring a strong mistrust in public institutions and the functioning of the socio-economic system as a whole. The current Covid-19 global crisis may exacerbate inequalities, discontent and populism. Strengthening MLG systems and pursuing research on how to do so, in the academic world and international organisations like OECD, is imperative to counteract these risks and build more resilient countries and regions.

Progress on measurement needs to continue, by going even more granular in measuring MLG, better measuring differentiated subnational governance, including at the municipal level, – better assessing coordination mechanisms, and better linking the measurement to outcomes. The use of RAI should continue to extend beyond the academic sphere, as it is already the case with the OECD using the RAI data in both thematic work and country reviews. Further work is also needed in applying MLG tools to specific policy areas and sectors, like health, housing and the governance of small and medium sized enterprises (SMEs).

Finally, it is essential to continue extending the MLG approach globally, as it can help avoid some of the major mistakes that arise from narrowly conceived decentralisation

reforms in developing countries. Developing countries have a lot to learn from the MLG approach to make it an instrument to better fit policies to places. The World Observatory on Subnational Government Finance and Investment recently created by the OECD in partnership with United Cities and Local Governments might be a key tool in that respect, as it contains data and qualitative information on MLG systems in more than 120 countries around the world.

Author's note

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Notes

1. **Self-rule** refers to autonomy and hence the extent to which sub-national units (*Länder*, cantons, States, provinces, autonomous communities etc.) are free in deciding, financing and implementing their own policies. **Shared rule**, by contrast, can refer to the participation of subnational units in decisions that concern the whole political community, and not just their region (Hooghe et al., 2016)
2. The **Regional Authority Index (RAI)** tracks regional authority on an annual basis from 1950 to 2010 in 81 countries (Hooghe et al., 2016). The dataset encompasses subnational government levels with an average population of 150,000 or more. Regions with a special autonomous statute or asymmetrical arrangements are also coded separately. Regional authority is measured along ten dimensions, to reflect both self-rule and shared rule: institutional depth, policy scope, fiscal autonomy, borrowing autonomy, representation, law making, executive control, fiscal control, borrowing control, and constitutional reform. The Regional Authority Index provides a picture of multi-level governance, which is closer to reality than what is seen when looking at fiscal indicators only.
3. The **Local Autonomy Index (LAI)** follows, where applicable, the methodology of the RAI. The Local Autonomy Index (LAI) was developed for 39 European countries and it reports changes between 1990 and 2014. For the LAI, some adaptations had to be made to capture the specific characteristics of local government. Furthermore, more dimensions have been taken into account and some revisions of variables have been made (Ladner et al., 2016).
4. OECD (1997), *Managing Across Levels of Government*, OECD, Paris.
5. The most recent focusing on the impact of Covid-19 crisis on MLG (OECD, 2020), *Making Decentralisation Work* (OECD, 2019) and (OECD, 2018) *Rethinking Regional Development Policy-Making*.
6. See Allain-Dupré (2011).

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