

# MPRA

Munich Personal RePEc Archive

## Why Decentralization ? The Puzzle of causation

Chanchal Kumar Sharma

17. May 2004

Online at <http://mpa.ub.uni-muenchen.de/196/>  
MPRA Paper No. 196, posted 7. October 2006

# WHY DECENTRALIZATION? THE PUZZLE OF CAUSATION

CHANCHAL KUMAR SHARMA

## ABSTRACT

Most countries especially the developing ones around the world are facing external as well as internal pressures to decentralize and are actually becoming part of the trend which if not universal is nonetheless the dominant trend. General causes include systemic forces like democratization and economic development; specific causes however are different for different countries. In some countries the policies of opening up of economy and policies devised to deal with the challenges posed by new 'globalized' world are interacting with domestic political and economic institutions in such a way so as to create incentives for decentralization. In addition there is external pressure coming from IMF and WB who implicitly and explicitly have declared 'decentralization' as their most favoured policy prescription especially for the developing world.

## Introduction:

There is a world wide trend toward increasing transfer of power, resources and responsibilities to the subnational levels of government. Both federal and unitary countries, whether industrialized or developing are moving toward more decentralization. Decentralization can appear in form of devolution of major functional responsibilities, major increases in fiscal transfers to subnational governments thus collectively ceding the fiscal impact to subcentral entities. Decentralization can also appear in form of more administrative autonomy to subcentral /noncentral levels relative to the central control or finally it can appear as a shift from appointed to elected subnational governments thereby assigning these levels the political functions of governance such as representation. Decentralization in fact alters the structure of governance by shifting the structure of local accountability from central to local constituents, and also (as Aaron Schneider, 2003 puts it) by "changing the geographical boundaries of political contestation and by altering the relative power of different actors and by changing the location of government interaction with society."

Central governments across the globe are decentralizing functions and responsibilities to the lower levels. Fiscal Decentralization is in vogue. A worldwide trend towards greater fiscal decentralization that began in 1980's with many developing countries embarking on the path to devolve more functions to the local jurisdictions, gained momentum during 90's. Section I examines this worldwide trend in detail and section II looks into the explanatory causes behind this trend. As globalization is often correlated with the decentralization trend, the globalization-decentralization nexus is analysed separately in section III. Next section (section IV) explores how federal systems are responding to the rapidly changing scenario. While talking of the current trend toward decentralization and the causes behind,

the discussion would be incomplete if the role of IMF and WB is left out. Thus the last section (section V) briefly comments on this role. The main arguments are summarized in the conclusion.

### I. The Worldwide Trend:

The overlapping issues of fiscal federalism and decentralization that had earlier received little attention on part of political scientists and economists<sup>1</sup> became the theme of international professional interest by 1990's and have continued to attract attention of the specialists and policy makers ever since. Paul Smoke (2001) asserts that during the 1990s, fiscal decentralization and local government reform have become among the most widespread trends in development. Central governments around the world are decentralizing fiscal, political and administrative responsibilities to lower level governments and to the private sector.

The current trend can be seen as a final stage of the dialectical movement of the development paradigm. Till mid 1980s there was a trend in favour of more economic role for the state (this paradigm gave rise to the extreme forms of centralization). The centralized decision making was seen as a way to 'rationalize scarce resources and depoliticize the masses' while decentralization was viewed as likely to heighten cleavages; political radical ethnic and religious. The second phase emerged in late 1980s and early 1990s accompanying an obsession with curtailing the economic role of the state and reducing the size of the public sector, as these were seen as major causes for financial crisis in the developing countries. The public sector far from being regarded as engine of development came to be perceived as an obstacle to it. There was a fascination with the private sector. (Privatization is seen as extreme form of decentralization). By mid 1990s, however, a renewed appreciation of the public sector's development role began to emerge. Economic development literature has over the past decade re-discovered the importance of public sector that is sub-national in focus.

This trend, according to Ter-Minassian (1997), is evident not only in federal countries but also in many unitary countries including some that have a long tradition of centralist government. Political developments in Latin America, Asia and Africa point toward a trend en route for increasing decentralization. The trend is visible in post communist Central and Eastern Europe (CEE). The trend can also be observed even in essentially centralized countries such as Jordan and Morocco. Countries like India, Mexico and Pakistan are also trying to improve upon their fiscal federal arrangements to make them more responsive and efficient. Certain studies have shown that out of the 75

developing and transition countries with populations greater than 5 million, 63 have embarked on some form of fiscal decentralization ( Helmsing, 1999, Robert D.Ebel, 2001). Decentralization strategies are also being worked out in industrialized countries to formulate policies in accordance with local priorities. For instance, in United Kingdom, both Scotland and Wales opted (under the Blair Government) for their own regional parliaments. In Spain also there is a shift of powers to regional governments. Addressing the challenge of devising best achievable array of assignment of functions and responsibilities is, in words of Richard Bird (1993) "...a question at the centre of policy debate in countries around the world."

On basis of such escalating trend toward decentralization, World Bank's World Development Report (1999) asserts-- "localization" (the growing economic and political power of subnational entities)—as one of the most important trends of the new century. The report states that globalization and localization are simultaneously transforming the development landscape. This trend has come to be known as "glocalization"<sup>2</sup>, obviously a problematic term, but which attempts to signify a strategic trend that has emerged for creation of a more stable and just world. Earlier in 1990 the U.S Agency for International Development had identified such trends as "the establishment of open markets and the movement toward more accountable democratic governance." (USAID, 1990 p1).

However, the WB report (1999) adds that this is happening at the cost of the nation state. According to the report, the global economy has unleashed economic and political factors strengthening both international and local pressures at the expense of the traditional nation state. Thus it is argued that such trends indicate a movement towards beginning of the end of the Nation States and rise of regional economies, signifying that the city or "citistate" (Ohamae 1995) is becoming the principle actor in the global economy. This kind of analysis suggests that as a consequence of globalization national economic sovereignty is weakening. Such thesis finds support in the analysis of Kahler and Lake (2003) and Michael J Hiscox (2003). The argument generally put forward by such scholars is that globalization- defined narrowly as "economic integration in international system" has created pressure for relocation of decision making authority away from the state. Thus there is a change in location or site of governance. States are either delegating more responsibility over decision making "upwards" to supranational institutions or devolving decision making powers "downwards" to sub national political units. In fact the trend whereby a large number of developing and transitional countries have embarked on some form of decentralization programmes, is coupled with growing interest in the role of civil society and the private sector as partners to the governments in seeking new ways of service delivery

(UNO, 1996 P.7). Thus it would of immense interest to look into the literature to probe the causes working behind this world wide movement toward decentralization.

## II. The Causes:

Literature has spilled over the academic circles to investigate the causes and motivations behind such a trend. The current fondness for decentralization according to Aaron Schneider (2003) began during the 1980's and represented a striking reversal from the advice that dominated earlier ideas of development where centralized decision making was seen as a way to rationalize scarce resources and depoliticize the masses while decentralization was viewed as likely to heighten cleavages; political, racial, ethnic and religious. During 1980's the tide began to turn and pressure to decentralize began to rise. Stagnant economies and inefficient central bureaucracies led researchers to reconsider centralization as a solution to the problems of developing countries and multilateral institutions began to include decentralization components in their programmes.

Though it is not easy to understand in a systemic way where the impetus for decentralization is coming from (Yilmaz and Ebel, 2002) yet the recent adoption of decentralizing policies in countries throughout the developing world has led scholars to focus attention on the broad, systemic forces behind decentralization.

One of the most salient hypotheses about decentralization to emerge in the contemporary period traces the adoption of decentralizing policies to democratization (Bird and Vaillancourt 1998; IDB 1997; Nickson 1995). According to this argument, the historic "third wave of democracy"<sup>3</sup> (Huntington, 1991) that began in the mid-1970s triggered a subsequent and equally profound wave of decentralization in the 1980s and 1990s.

Apart from democratization, another factor identified in the literature responsible for decentralization is economic development. Roy Bahl (1999) observes, "Economic development has eroded some of the arguments in favour of centralization." Mohammad Arzaghi and Vernon Henderson (2002) have prepared a model to find a s t o " why countries are fi scally decentralizing" In their model they argue that income and population growth and shifts in relative population across regions of countries, which occur during economic development, explain the move toward greater federalism and greater fiscal decentralization. However in the end they argue that institutions affect fiscal outcomes. Having a federal constitution encourages both effective federalism and fiscal d ecentralization. A nd national democratization leads to potentially regional representation and the development of regional demands for greater fiscal autonomy.

Though various explanations have been proposed, yet the dominant force behind decentralization, in final analysis is political (Shahid Javed Burki, Guillermo E. Perry, and William R. Dillinger, 1999, Rojas 1998, Willis and others 1997). In broad terms it can be suggested that it is an outcome of the declining credibility of the centralized state. Groups that have historically been denied power now demand it and the central governments are increasingly reluctant to combat this demand with force. The state's declining credibility in turn, has been attributed to economic failure (with consequent alienation of important business and labour support), to the relative absence of war and civil unrest (with the consequent decline in the acceptance of strong authoritarian government) and to the emergence of educated urban middle classes (with the consequent decline of traditional patron client relationships between the government and the governed) (O'Donnell, Schmitter and Whitehead 1986, Potter 1993). Specific cases however, do not lend themselves to such global generalizations.

A broader review of literature, in fact shows that the causes behind the wave of decentralization could be more varied and diverse. That is, different countries or regions may have different motivations or objectives for adoption of decentralization policies (which in fact (in part) determines how, in what degree and in what combination of other policies and programs the process of decentralization will be carried out and what will be the outcome since the path does influence the final outcome). While enunciating the diverse causes behind this world wide trend toward decentralization, Ebel and Yilmaz (2001), observe, "Developing Countries are turning to decentralization to escape from the traps of ineffective and inefficient governance, macroeconomic instability and inadequate economic growth... Throughout post communist Central and Eastern Europe, decentralization of the state is the direct result of the transition from socialist system to market economy and democracy... In Latin America, the origin... is the political pressure from the people for democratization... In Africa, decentralization has served as a path to national unity..." In a World Bank Sector Studies Series it is stated "Decentralization is particularly wide spread in developing countries for a variety of reasons: the advent of multiparty system in Africa; deepening of democratization in Latin America; transition from a command economy to market economy in Eastern Europe and the former Soviet union; the need to improve delivery of local services to large populations in centralized countries of East Asia; the challenge of ethnic and geographic diversity in South Asia, as well as ethnic tensions in other countries (Bosnia and Herzegovina, Ethiopia, Russia) and attempt to keep centrifugal forces at bay by forging asymmetrical federations and the plain and simple truth that central governments have often failed to provide effective public services". (Litvek et al. 1998 p 1).

Thus, it can be stated that while in some countries the main concern behind fiscal decentralization is to perk up the performance of public sector, the reason behind widespread interest in fiscal decentralization in some other countries is failure of central planning to achieve its promised goals of economic stability and growth. Some are turning toward decentralization in order to respond to the challenges of the market economy ( since involvement of regional levels in development of national economic development strategies is seen as important way to respond more favorably to new challenges, the central governments' role in building local capacity to ensure meaningful local engagement assumes crucial significance) and still others view it merely as an effective mechanism for countering centrifugal forces and for easing the frustration of the local aspirants of political power thereby curbing separatism by devolving more decision making powers to the sub central levels. In this sense it can also be seen as a strategy to maintain political stability, to provide an institutional mechanism for bringing opposition groups into a formal, ritualized bargaining process. In Mozambique and Uganda, for instance, decentralization has been the outcome of long civil wars and has allowed for greater participation of all former warring factions in the governance of the country. In such cases decentralization constitutes an alternative to civil war or other forms of violent opposition.

### III. The Globalization Connection:

Another debatable question is how the trend is related to globalization? Indeed there seems to be a correlation between the trend toward globalization and decentralization, but does this correlation necessarily mean causation? There is no unanimity among the scholars in this regard and empirical literature does not provide a universal reply. One set of scholars have shown that globalization is the cause behind decentralization; others argue on the contrary that it is centralization that is the consequence of globalization. There is another set of scholars who argue that globalization has created conditions for both the tendencies to grow up, while still others maintain that the trend for 'localization' is independent of and simultaneous to globalization. In order to take a glimpse of the above mentioned depiction of the inconclusive state of affairs in "globalization—decentralization" literature and to pull out a bottom line assertion, observations of the leading studies from each group are required to be analyzed.

Taking up the simultaneity argument first, the World Development Report (1999), perhaps the most quoted mainstream document, suggests that governments are increasingly facing the paradoxical desires of their people to be both global consumers and local citizens. Globalization incites countries

to reach out to international partners to manage the growing volumes of trade, financial flows and global environment <sup>4</sup>, while localization, defined as the push to expand popular participation in politics and to increase local autonomy in decision making, promotes administrative decentralization. The report states that the very forces behind “globalization” that are circumventing the nation state in developing countries are the same forces that are leading to a public sector focus that is subnational. In such a context, various forms of federal relationships between different interacting levels of government seem to provide a way to mediate the variety of global and local citizen preferences. Thus the report has projected the trends toward globalization and decentralization as two simultaneous and independent trends while asserting that the “forces” behind both the trends are same.

The simultaneity of globalization and decentralization led some scholars to investigate the globalization – decentralization nexus hypothesis. The argument generally offered is that the international integration of markets has facilitated decentralization by reducing the economic costs of smallness (Alesina & Spolaore 1997, Bolton & Roland 1997). The argument is that technological changes and global integration of factor markets have changed the size of government needed to manage economic systems. Now an increasing number of public services can be efficiently provided by decentralized and often private organizations (World Bank 1995). Additionally, it is argued (Aaron Schneidr, 2003) “Free trade, international treaties and loan conditions led central governments to choose or be forced to abdicate their traditional roles and left critical functions to non central government entities if they were to be performed at all”. Synder (1999) for instance show how Mexican state governments stepped in to provide regulatory frameworks where the central government abdicated its role in coffee production.

While most studies establish a causal relation between globalization and decentralization yet there are equally persuasive and authoritative studies by the leading and prominent experts putting forth sound arguments and compelling evidence against globalization-decentralization nexus. Geoffrey Garrett and Jonathan Rodden (2001), for instance have shown that using one natural indicator of political economic authority – the balance of taxing and spending between central governments and state and local governments – international market integration has been associated with fiscal centralization, rather than decentralization. The authors argue that there are several reasons why this might be the case. It may become more costly for the central government to hold a heterogeneous country together in the global economy. Economic integration might increase demands for a) fiscal stabilization covering the entire country and b) insurance for regions adversely affected by asymmetric economic shocks. Both fiscal stabilization

and inter-regional risk-sharing require a pooling of economic resources at the center. Another strand of literature, that is perhaps most extensive argues that globalization is generating tendencies in both the directions. That is both centralization and decentralization are simultaneously at work. [Brown and Smith (1991), Galligan (1993), Knop et al (1995), Boeckelman and Kinciad (1996)]. It has been argued that centralizing tendencies are likely to be more salient in countries like the United States where intrastate authority was initially more decentralized, while decentralizing tendencies are more salient in states that are initially more centralized like China and India <sup>5</sup>. Globalization, according to this line of thought, on one hand promotes decentralization by creating incentives for sub national governments to play a more active role in attracting foreign investment, promoting trade, providing infrastructure and enhancing human capital yet on the other, globalization also promotes various forms of centralization by increasing the importance of macroeconomic policy levers, especially monetary policy and central banks. Though viewing both decentralization and centralization as a consequence of globalization is complex proposition yet existence of both trends could be explained, as Vogel (1996) argues that the outcome of changes incited by globalization are contingent on the previous configurations of authority and the relative development of capacities within a state. Thus implying that globalization can generate support for political integration, supranational governance and centralization on one hand and for disintegration, localization and decentralization on the other in different contexts. Michael J. Hiscox (2003) have shown on the basis of a simple formal model of the provision of public goods that the benefits of political integration (relative to disintegration) for individuals in different political units depends critically upon differences in income and income distributions in those units- and these can be altered significantly by globalization. In essence where globalization has variegated or heterogeneous effects on incomes across a set of political units, it will raise the redistributive stakes associated with political integration among them, while reducing the mutual benefits of integration. In such cases, globalization can be expected to encourage demands for political disintegration or to diminish support for political integration. The converse of this also holds; where globalization has a homogenizing effect on incomes across a set of political units, it will tend to make political integration more likely. In fact, it will make political integration more closely resemble a positive-sum rather than a zero-sum game between the median voters in different political units. The author has tested this hypothesis in a rudimentary fashion using evidence on political decentralization in 56 nations during 1980s and 1990s. Such a study in fact provide adequate stimulation for investigation of those conditions (i.e. what kind of political processes, political institutions, incentive structures and political goals), under which globalization is likely to facilitate more

centralization or decentralization or a kind of a mix of the two in a particular country.

#### IV. Centralization- Decentralization trend in Federal Systems:

In current times when decentralization and more specifically the fiscal decentralization is said to be in vogue, it becomes essential to observe how federal systems are responding to the changing scenario. It is to be noted that some federations are moving towards more decentralization while others are showing a centralizing trend. Before analyzing the centralization or decentralization tilts in federations it is important to understand what federalism is and what it is not..

Lijphart argues that decentralization and federalism do not always mean the same thing. In support of his argument he quotes Daniel Elazar, according to whom “federalism is the fundamental distribution of power among multiple centers..... not the devolution of powers from a single centre or down a pyramid.” (Quoted in Lijphart p187). In fact, centralization-decentralization is a continuum, rather than a dichotomy and federalism is a special case. Thus, a federal political system is not always coterminous with a decentralized system and should be viewed as making continuous adjustments over centralization or decentralization continuum due to their own ‘endogenous’ reasons. This implies that decentralization can be viewed as a complex process that is a product of many factors including cultural heritage and geography. De Tocqueville wrote “It is as impossible to determine beforehand, with any degree of accuracy, the share of authority which each of two governments to enjoy, as to foresee all incidents[s] in the existence of a nation.” (Democracy in America Ch VIII). While studying the centralization- decentralization tilt in federal systems, Ronald Watts (1998) argued that the interactions of social, political, economic and ethnic factors have shaped institutional structures and political processes in such a way that has resulted in producing trends toward centralization in some federal systems and decentralization in others. In fact, it is not entirely exceptional to find that in practice, some federations for their own reasons may decide to give more powers to the center while others will attribute the majority of authority to their constituent units. Thus due to some endogenous reasons some federations remain highly centralized while others remain much decentralized. Therefore analogy between federal and decentralized nations could be erroneous, while “it is appropriate to view federalism as a process of unifying power within the cluster of states and decentralizing power within the unified state” (Ademola Ariyo 2003). Federalism thus is not a fixed allocation of spheres of central and provincial autonomy or a particular set of distribution of authority between governments, it is a process, structured by

a set of institutions, through which authority is distributed and redistributed. In words of K.C. Wheare, "There is and can be no final solution to the allocation of financial resources in a federal system. There can only be adjustments and reallocations in light of changing conditions." (Wheare, 1963 p.117). Federations have evolved as ongoing incomplete contracts (Hart 1988, Aghion P. and P. Bolton. 1992 Seabright, 1996) and by their very nature are under constant renegotiation. Viewing federations as incomplete contracts does to some extent help solving the puzzle as to why some mature federations like Australia, USA and Canada are evolving toward more centralization when there is an increasing trend toward decentralization in developing federal countries. The insight yielded by the new institutional economics (North, D.C. 1990) – that the motivations and incentives of economic agents, and the options available to them, are influenced in a fundamental sense by the incompleteness of contracts – may throw considerable light on such evolution.

Though the above description of centralization-decentralization trend in federal countries has not made any reference to the impact of globalization yet it does indicate that federal countries, not being a system of fixed allocation, can be influenced by external or internal pressures to move toward more centralization or decentralization. This in turn implies that intergovernmental relations in federal countries are equally susceptible to change. Thus there is a case for 'revisiting intergovernmental relations in federal countries in changed global economic order'. It can be argued that apart from the role of interactions of social, political, economic and ethnic factors and that of 'incomplete contracts' in influencing the incentives of economic agents, the process of globalization also plays its role by altering the matrix of incentives for policy makers at the national level and the decision making incentives of policy makers at the subnational level by exposing them to the opportunities presented by globalization. Friedan and Rogowski (1996) however, offer to depart from 'role of incentives' and give importance to the pressure created by the interest groups in restructuring of intergovernmental relations because according to them globalization has changed the policy preferences of economic interest groups, who then initiate political process to pressurize state officials to implement policies that reflect their changing interests. Bates and Kruegar (1993) however argue that pressure/interest group model is inappropriate for developing countries where pressures for reform seldom come from interest groups. Policy makers in these countries have frequently implemented policies with little direction from interest groups.

While holding out the above debate, it seems but logical to suggest that globalization might add to the economic incentives that motivate policy makers to initiate reforms. Even otherwise it is not difficult to observe that

the emergence of global economy has had a major impact on the roles and activities of national and subnational governments. Globalization also provides impetus to central government policy makers for decentralization. An interest in reassessment of the changing character of federal systems in context of globalization can thus be seen in scholarly works such as Boeckelman and Kincaid (1996).

#### IV. Role of IMF and WB:

Apart from all the causes mentioned in the literature it won't be too wide off the mark to state that international agencies like IMF and WB, who are investing enthusiastically in spreading "understanding" through dissemination of academic literature supporting their philosophy are in fact themselves one of the crucial forces working behind the trend. A growing number of Bank-funded projects are in effect supporting sectoral decentralization strategies. These agencies themselves oblige (by politics of aid) the countries who seek their help to undertake reforms as they dictate. The Bank supports decentralization through loans for structural adjustment to the central governments and specific projects and state level structural adjustment loans to subnational governments (Andhra Pradesh in India). James Manor and Richard Crook (2000) in a WB, OED working paper have made suggestions as to "What Can the World Bank Do to Facilitate Democratic Decentralization?" (pp, 24-25). World Bank, has exclusively figured fiscal decentralization and the desire for local discretion and devolution of power (along with and in parallel to the globalization) as the most important factors shaping governance and development today (World Bank, 1999), and along with many others (such as, USAID and Asian Development bank) has supported fiscal decentralization as a part of world wide "reform agenda to strengthen governance" (Bahl, 1999 b). According to World Development Report 1999/2000 (Ch. 5, p 124) "Strategies to stop decentralization are unlikely to succeed, as the pressures to decentralize are beyond government control. Rather than attempt to resist it, governments should face decentralization armed with lessons from countries that have gone before them".

Roy Bahl (1999 b) recognizes that the external advisors play an important catalytic role. When funding is brought as carrot government officials are stimulated by them to take a harder look at decentralization issue. Here Bahl adds an interesting observation. He says, "Unless the government itself is enthusiastic, the harder look will not lead to meaningful policy reform and in fact will be quickly forgotten when the money is gone. Often implementation stage is never reached". (p27).

In fact the 'Washington Consensus' (generally seen synonymous with neoliberalism <sup>6</sup> though not originally intended to mean so <sup>7</sup>) is known for its distrust in governments' capacity to run large industrial and commercial enterprises and thus sponsors shrinking of the government and privatization (divestment) just as the classical liberals of the 18th century, represented by the American Founding Fathers, were willing to give only framework-maintenance role to the government as they were highly skeptical about the capability and willingness of politics and politicians to further the interests of the ordinary citizen and considered governments to be a necessary evil, made necessary by the elementary fact that all persons are not angels (Madison 1966[1787]: 160). The devices aimed to accomplish this purpose are the familiar ones; splitting sovereignty and designing federalism to allow for decentralization of coercive state power. The dominant policy view of IMF and WB and U.S. Treasury department became easy to impose over rest of the world as most centrally planned countries fell apart economically and politically in 1980's and 1990's along with shocking demise of former Soviet Union. These bodies (IMF and WB) found in Buchanan's works, their intellectual foundation, who was known for his views on potentially deleterious effects of majoritarian politics on the economy and society <sup>8</sup>. Buchanan received Nobel Prize in 1986 for development of public choice theory. His message was of combating government intervention in the market as against Richard Musgrave's theory of public finance that gave a very activist role to the public sector (market economy being subject to serious malfunctioning in various basic respects). According to Buchanan, fiscal decentralization is a mechanism for disarming a huge central government with monopolistic powers. In a system of decentralized public finance, state or local governments must compete for residents, firms and tax base.

#### Conclusion:

In this paper it was pointed out that till mid 80s the development paradigm was that of extreme forms of centralization (centrally managed public sector as engine of development) then came the development paradigm emphasizing extreme forms of decentralization (privatization) and finally the development paradigm seems to have come of age with a renewed appreciation of public sector that however is sub-national in focus.

While considering the broad systemic forces behind decentralization trends it was pointed out that different scholars have tried to analyse the trend from their own vantage points. Thus while some scholars put the current decentralization trend within the framework of 'democratization wave' some others point towards 'economic development' as a cause that infact has eroded some arguments in favour of centralization. Apart from these there is

another set of scholars that correlate decentralization with globalization. But there is wide diversity among the four set of scholars; (a) the scholars who establish a causal relation between globalization and decentralization, (b) the scholars relating globalization to centralization (c) scholars who have shown that globalization is associated with both the tendencies and finally (d) those to whom globalization and decentralization are independent events that somehow managed to mix together. Extending this discussion in the context of federal countries it is asserted that in wake of any external happening of the magnitude such as that is of globalization, the federal structure cannot but gets altered precisely because federalism is not a fixed allocation of the spheres of central and provincial autonomy, instead it is a 'process' structured by a set of institutions through which authority is distributed and redistributed.

While admitting the difference of opinion among the scholars it can safely be asserted that most countries especially the developing ones around the world are facing external as well as internal pressures to decentralize and are actually becoming part of the trend which if not universal is nonetheless the dominant trend. General causes include systemic forces like democratization and economic development; specific causes however are different for different countries. In some countries the policies of opening up of economy and globalization are interacting with domestic political and economic institutions in such a way so as to create incentives for decentralization. In addition there is external pressure coming from IMF and WB who have clearly declared 'decentralization' as their most favoured policy prescription especially for the developing world.

#### References:

- Aaron Schneider (2003), 'Who gets what from whom? The impact of decentralization on tax capacity and pro-poor policy'. IDS Working Paper 179, Institute for Development Studies (IDS) February 2003. Web source: <http://www.oecd.org/dataoecd/46/60/30395116.pdf>
- Aghion P. and P. Bolton. (1992). 'An incomplete contracts approach to financial contracting'. *Review of Economic Studies*. 59: 473-94.
- Alesina and Spolaore (1997), On the Number and Size of Nations, *Quarterly Journal of Economics* November 1997, 112, 1027-56
- Ariyo Adimola (2003) "Theories of Federalism" Paper presented at Ad-Hoc Expert Group Meeting , 7-9 Oct, 2003, Addis Ababa.
- Arzaghi, Mohammad and Vernon Henderson. 2002. Why Countries are Fiscally Decentralizing, working paper, Brown University
- Bahl, R., (1999a). Implementation Rules for Fiscal Decentralization [online]. Atlanta: Andrew Young School of Policy Studies. Available from: [www.worldbank.org/decentralization](http://www.worldbank.org/decentralization)
-

- Bahl, Roy. (1999 b). "Fiscal Decentralization as Development Policy." *Public Budgeting & Finance*. Vol 19 (summer), pp 59-75. Bates, Robert H. and Anne Kruegar (eds.) (1993) *Political and Economic Interactions in Economic Policy Reform* Cambridge MA: Blackwell.
- Bird, Richard and Francois Vaillancourt, eds. 1998. *Fiscal Decentralization in Developing Countries*. New York: Cambridge University Press.
- Bird, Richard M. (1993). "Threading the Fiscal Labyrinth: Some issues in Fiscal decentralization." *National Tax Journal*, Vol.46, no. 18: 207-228.
- Boekelman, Keith and Jhon Kinciad (eds) (1996), "Federal System in Global Economy", *Publius*; Vol 26, No:1, Winter January 1, 1996.
- Bolton, P., and G. Roland (1997), "The break-up of nations : a political economy analysis", *The Quaterly Journal of Economics*, 112(4), 1057-90
- Brown DM, Smith MG. 1991. *Canadian Federalism: Meeting Global Economic Challanges*. Kingston, Ontario, Can: Inst. Inter-gov. Relat. Queen's Univ. xiii, 300 pp.
- Burki Shahid Javed,Guillermo E. Perry, and William R. Dillinger. (1999) *Beyond the Center: Decentralizing the State*. (Washington, D. C.: World Bank)
- Crook Richard and James Manor (2000) *Democratic Decentralization*, OED Working paper Series, No 11, The World Bank, Washington DC.
- Ebel, R.D. and Yilmaz, S. (2001). "Concept of Fiscal Decentralization and Worldwide Overview", Room Document, International Symposium, Quebec Commission on Fiscal Imbalance, Quebec, September 13-14,2001, Mimeo.
- Ebel, Robert.D. (2001). "Democracy, Decentralization and Development" *Intergovernmental Fiscal relations and Local Financial Management program*. World Bank Institute, WB.
- Frieden, Jeffrey A and Ronald Rogowski (1996) "The impact of the International Economy on National policies : An analytical Overview", in Robert O. Keohane and Helen V. milner (eds.) *Internatinalization and domestic politics* (Cambridge university Press, 1996) pp 25-47.
- Galligan B, ed. (1993). *Federalism and the Economy: International, National and State Issues*. Canberra: Fed. Res. Cent., Austr. Natl. Univ. ix, 123 pp.
- Garrett, G and Jonathan Rodden (2001) "Globalization and Fiscal Decentralization" in Miles Kahler and David Lake, eds., *Governance in a Global Economy: Political Authority in Transition..* Princeton University Press, 2003, Pp. 87-109. Earlier the Paper was presented at Annual Meeting of the Midwest Political Science Association April 27-30, 2000 Chicago, IL and with some changes at a conference on "Globalization and Governance" at The Grande Colonial Hotel, La Jolla, CA. March 30-31, 2001
- Hart, O. (1988). 'Incomplete contracts and the theory of the firm'. *Journal of Law Economics, and Organization*. 4.

- Helmsing, Bert. (1999). Decentralization and Emerging Patterns of Local Governance: A Comparative Analysis of Uganda, Zimbabwe, and Zambia. Working Paper No. 4. Regional and Local Development Studies. Addis Ababa University. Ethiopia.
- Hiscox, Michael J. (2003) “ Political Integration and Disintegration In The Global Economy” in Miles Kahler and David Lake (eds) Globalizing Authority, Princeton University Press.
- Huntington, S.P.,(1991). The Third Wave: Democratization in the Late Twentieth Century, University of Oklahoma Press.
- Inter-American Development Bank. (1997). Latin America After a Decade of Reforms. Washington, D.C.
- Kahler Miles and David A Lake (2003) “Globalization and Governance : Definition, Variation and Explanation” in Miles Kahler and David Lake (eds) Globalizing Authority, Princeton University Press.
- Knop K, Ostry S, Simeon R, Swinton K, eds. (1995). Rethinking Federalism: Citizens, Markets and Governments in a Changing World. Vancouver: UBC Press 356 pp.
- Lijphart, Arend. (1977). Democracy in Plural Societies. New Haven: Yale University Press.
- Litvak, Jennie., Juniad Ahmad and Richard Bird (1998) Rethinking decentralization in Developing Countries. Sector studies series, The World Bank, Washington D.C.
- Madison, J. (1966 [1787]) “The Federalist No. 51” in The Federalist Papers. Edited by Roy P. Fairfield. New York: Doubleday
- Musgrave, Richard A. The Theory of Public Finance. New York: McGraw Hill, 1959.
- Nickson, R. Andrew. (1995). Local Government in Latin America. Boulder: Lynne Rienner.
- North, D.C. (1990). Institutions, Institutional Change and Economic Performance, Cambridge University Press, Cambridge.
- O'Donnell, Guillermo, Philippe C. Schmitter, and Laurence Whitehead (1986). Transitions from Authoritarian Rule: Prospects for Democracy. Baltimore: The Johns Hopkins University Press.
- Ohmae, Kenichi, The end of the nation State The Rise of Regional Economies (New York : The Free Press, 1995).
- Potter, D (1993). “Democratization in Asia”. In D. Hold, ed., Prospects for Democracy. Palo Alto: Stanford University Press.
- Rojas, Fernando. (1998). “LAC Regional Study on Decentralization.” Background Paper for World Development Report 1999/2000, September. Washington, D.C.
- Seabright, Paul. (1996). “Accountability and decentralization in Government: An Incomplete Contracts Model.” European economic review 40(1): 61-89.
- Smoke, Paul (2001). Fiscal Decentralization in Developing Countries : A review of Current Concepts and practice, Democracy, Governance and

- Human Rights Programme Paper Number 2, United nations Research Institute for social development (February).
- Synder,R.(1999) "After Neoliberalism : The Politics of reregulation in Mexico" World Politics, Vol 52, No 2 : 173-204.
- Ter-Minassian, T., ed., (1997). Fiscal Federalism in Theory and Practice, Washington, DC : IMF.
- Tocqueville Alexis de. (1980). Democracy in America. NY: Vintage Books Random House : first published 1838.
- United nations (DDSMS and UNDP) [1996] Report of the United nations Global Forum on Innovative Policies and Practices in Local Governance, Gothenburg, Sweden, 23-27 September 1996.
- USAID (United States Agency for International Development Programme), Democratic Institution Support Project Report (Washington DC : USAID, 1990).
- Vogel, Ezra (1989) One Step In China : Guangdong Under reform. Cambridge : Harvard university Press.
- Watts, Ronald.L. (1998) " Federalism, Federal Political systems and Federations", Annual Review of Political science 1:117-137.
- Wheare, K.C. (1963) Federal Government, 4th ed. London: Oxford University Press.
- Willis, Eliza, Christopher Garman, and Stephan Haggard.(1997). "The Politics of Decentralization in Latin America." Department of Political Science, University of California, San Diego, La Jolla, CA.
- World Bank. (1995). Better Urban Services: Finding the Right Incentives. A Development in Practice Book. Washington, D.C.
- World Bank (1999) World Development Report, 1999-2000 : Entering The 21<sup>st</sup> Century, WB, Washington DC USA

#### NOTES:

1. Richard Musgrave, for instance in his 600 pages long monumental treatise on public finance, dedicated a total of only five pages to the 'multilevel finance'. (Musgrave 1959,p179-183)
2. The term first appeared in the late 1980s in articles by Japanese economists in the Harvard Business Review. According to the sociologist Roland Robertson, who is credited with popularizing the term, glocalization describes the tempering effects of local conditions on global pressures. At a 1997 conference on "Globalization and Indigenous Culture," Robertson said that glocalization "means the simultaneity --- the co-presence --- of both universalizing and particularizing tendencies."
3. Beginning with the revolution in Portugal in 1974 and moving on to Latin America before returning to Eastern Europe in 1979, represents a 'wave' of democracy which for Huntington is the third wave of democracy effecting some 30 countries in all.

4. This in fact has made it difficult for the states to effectively pursue key policy objectives, like dealing with economic recession, financial crisis and environmental problems, without coordinating their actions with those of other states at some supranational level, thereby resulting in demand for supranational forms of governance.

5. The World Development Report (1999-2000) states, “Trends in mature decentralized countries suggest that costs are important consideration.... Some countries have recently been reducing the number of sub national units, largely on the grounds of efficiency and costs. But in a number of developing countries sub national governments are proliferating”

6. The evolution of neoliberalism as a “policy revolution” however had its beginning in violent ouster of social democratic government of Chile in 1973 and consequent imposition of free market policies and other elements of neo liberalism by group of 25 Chicago boys (of which Milton Friedman was most prominent) and culminating in government policies of Reagan and Thatcher governments who used their control over Bretton Woods institutions to impose their policies on the rest of the world.

7. Jhon Williamson [2000] claimed that the term Washington Consensus has developed into something different from that which he intended. He says, “I invented the term “Washington Consensus” to refer to the lowest common denominator of policy advice being addressed by the Washington-based institutions to Latin American countries as of 1989. I find that the term is now used as a synonym for what is often called “neoliberalism” in Latin America, or what George Soros (1998) has called “market fundamentalism.” In “What Should the World Bank Think about the Washington Consensus?” The World Bank Research Observer, vol. 15, no. 2 (August 2000), pp. 251–64. On the other hand, Paul Davidson (2003) (Editor, Journal of Post Keynesian Economics) says that the term not only mean different things to different people but also “even different things to John Williamson at different times” (p.1) In “What is wrong with the Washington Consensus and what should we do about it?” Paper presented at conference on “Reforming The Reforms: What Next For Latin America?”, Rio de Janeiro, July 25, 2003

<http://econ.bus.utk.edu/washington%20consensus.pdf>

8. Buchanan , in his book ‘The Calculus of Consent’ published in 1962. But at that time (1960’s and 70’s) it was Musgrave era of activist public sector and Buchanan, in words of Oates (1999) “found only a small audience to give him a sympathetic hearing”. Oates Wallace E. (1999) “Musgrave and Buchanan On the Role of the State” Regulation Vol 23 No 4 (pp40-44).