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**Who gets what from whom? The impact of decentralisation
on tax capacity and pro-poor policy**

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Summary

This project studies patterns of decentralisation and public finance in 68 countries in 1996. Six indicators of decentralisation clustered around fiscal, administrative, and political dimensions, and these dimensions had independent and surprising relationships with how much governments taxed and what they did with their money. First, politically decentralised regimes taxed less overall and spent less on social policies. Second, administrative decentralisation showed a positive impact on social policies, but neither administrative nor fiscal decentralisation had a systematic relationship to tax capacity. These results suggest that multi-level governance might best be pursued in a partial fashion. Political centralisation favours the actors and interests who seek large amounts of progressive public action; administrative decentralisation allows competition, information, and innovation to lead to efficient and effective public policies. Together, political *centralisation* and administrative *decentralisation* may offer the optimal combination to achieve large quantities of effective, efficient, and redistributive public action. Fiscal decentralisation had no statistical impact in any of the models.

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1 Introduction

Decentralisation biases political conflict. By redrawing the political-administrative division of the state, decentralisation changes the geographical boundaries of political contestation, alters the relative power of different actors, and changes the location of government interaction with society.¹ The current project seeks systematic cross-national patterns in the ways that shifting resources and power from the centre to the local level affects policy outputs. The project proceeds by examining public finance by looking at two public finance decisions: tax capacity and pro-poor expenditure. The chief hypothesis is that political centralisation provides those with preferences for greater public action and more progressive public policy with certain organisational and material advantages that they either lack at the local level or possess only in scattered jurisdictions. In contrast, their opponents do not depend on political centralisation to advance their preferences, and they can wield influence at both the local and the national level.² Of course, cleavages focused on these issues do not define all types of political conflict, but when they do, this paper argues that, other things being equal, the amount of political decentralisation is a deciding factor in the outcome of struggle.

Many studies have attempted to explain how public finance varies across countries. It is beyond the scope of the current study to examine all the literature, but it is worth noting that valuable advances have been made through studies of welfare states, economic growth and distribution, and interest group politics. Still, we have far too little understanding of the independent impact of differences in the level and kind of decentralisation.³

The need to consider multilevel government institutions has increased in recent decades, as many central governments have decentralised functions and resources to lower levels. To test the impact of these changes, the project builds on measures of decentralisation that make conceptual and empirical distinctions between three dimensions of decentralisation: fiscal, administrative, and political.⁴ Fiscal decentralisation refers to how much central governments cede fiscal impact to non-central government entities. Administrative decentralisation refers to how much autonomy non-central government entities have relative to central control. Finally, political decentralisation refers to the degree to which non-central government entities satisfy the political functions of governance, such as representation. The dimensions are related to each other, but the current analysis suggests the independent impact of each dimension on public finance that can be estimated and evaluated.

¹ Schattschneider made a similar argument in the US case. See Schattschneider (1960). Schattschneider described political institutions as the mobilisation of bias, either organising interests into political institutions or organising them out.

² A theoretical argument along these lines is made by Slater, in a critique of decentralisation during the 1980s (Slater 1990).

³ There have been studies of the impact of decentralisation on related areas, however. For example, Bendor and Mookherjee (1987) examine the impact on the ability to organise collective action, Braun and Grote (2000) examine the impact on poverty, and Brandt and Zhu (2000) examine the impact on redistribution in China.

⁴ This distinction is not new; the World Bank makes exactly this division of the decentralisation concept on its webpage: www1.worldbank.org/publicsector/decentralisation/. For a statistical verification and measurement of these three dimensions, see Schneider (2002b). The individual country measures can be found in Appendix B.

In terms of public finance, the study looks at (a) the resources that government raises and (b) what it does with them. To paraphrase a well-known definition of politics, this is the study of ‘Who gets what from whom?’ The resources raised by government are addressed in the concept of tax capacity, which is the degree to which government can tap into the wealth of society. The uses to which public resources are put are addressed by the concept of pro-poor policy, which is the degree to which government spends its money on social policy. The analysis offers lessons to those seeking to fine-tune systems of multi-level governance in order to boost tax capacity and pursue pro-poor policy. The study suggests that the greatest degree of progressive public action is associated with *centralised* politics and *decentralised* administration.

To develop this argument, the paper examines data from 1996 for 68 countries (see Appendix A). A factor analytic exercise confirmed the conceptual validity and improved the accuracy of measures of three dimensions of decentralisation (Schneider 2002b). Here, the project applies regression techniques to these indicators to test the impact of decentralisation on tax capacity and pro-poor policy. By distinguishing between fiscal, administrative, and political decentralisation, the paper draws out the independent, and, at times opposite, impact of each dimension of decentralisation.

2 Conceptual frameworks for public finance

This project tests the impact of decentralisation on public finance, specifically tax capacity and pro-poor expenditures. Others have used public finance to reflect broad social science concepts, such as state-building (Tilly 1992) or reflections of economic structures (Goldscheid 1958). Here, public finance is used as a measure of the sum of various kinds and levels of state-society interaction. In particular, tax capacity and pro-poor expenditures are chosen to focus attention on those aspects of public finance that are likely to reflect the impact of decentralisation. More specifically, tax capacity reflects the relative size of the public sector, its administrative capacity, and the ability of government to call on private wealth for public purposes. Pro-poor expenditures are equally as rich for the information they convey: they reflect the social contract that ties citizens to the state; government attempts to target and transform society; and interest group demands for benefits.

Some might suggest that to truly test the way public finance links to these concepts, greater attention should be paid to social outcomes, such as social conditions or individual behaviours, rather than a focus on policy outputs, such as taxation or pro-poor expenditures. On this, the project is less ambitious; it limits itself to a partial understanding of the impact of decentralisation. Attempting to trace the impact of decentralisation through to its social conclusion would require accounting for the many other variables that determine social outcomes.⁵ Nevertheless, the project views tax capacity and pro-poor expenditure as interesting in and of themselves. In addition, they provide useful information about broader concepts associated with public finance.

⁵ In the case of taxation, this would require studying incidence. For an early discussion, see Harberger (1962). More recently, see Gemmill and Morrissey (2002).

Tax capacity indicates a fiscal choice about the size of government relative to the economy. How much economic wealth belongs in public hands? Indeed, some have posed this question within a general argument that a large public sector “crowds out” the private sector (Barro 1974). This perspective guided leaders in Europe and the United States during the 1980’s, and has been at the root of opposition to taxation since. For neo-Marxists, by contrast, growth in government parallels the growth of the private sector. As capitalism progresses, it faces ever greater monopoly and instability, and a larger and larger government is needed to manage crises of accumulation (O’Connor 1973).

Tax capacity also reflects the ability of government to administer and enforce tax rules. Milka Casanegra of the IMF made the oft-quoted statement that ‘tax administration is tax policy’. Executing tax policy requires tax administration to accomplish the complicated task of monitoring economic activities in such a way that government can categorise and quantify the surplus possessed by economic actors and generated in economic activities. By itself, this requires a vast effort of administrative resources and effort.⁶ Even if tax administration can calculate the value of privately held wealth, extraction also requires tax handles that effectively tap into bases. These bases, inevitably, attempt to avoid, and perhaps evade, taxes. Curbing such behaviour requires enforcement, and many countries have turned to revenue authorities in an attempt to patch the holes in a porous administration.

Finally, taxation is also an indicator of the level of quasi-voluntary compliance – the degree to which citizens are willing to pool their private resources to attain collective goods (Levi 1988). Governments cannot expect to monitor and enforce every single transaction and apply all tax rules; at a certain point governments depend on citizens accepting the legitimacy of tax payments and handing over their wealth. The principles that underlie taxation (e.g. ability to pay) and the justification offered (e.g. democratic rights and social benefits) must be enough to convince citizens to accept levies. The breakdown of this quasi-voluntary compliance leads more and more citizens to skirt the tax net and undercuts the ability of government to finance itself.

Like taxation, pro-poor expenditure offers a rich story about the way we think about governance.⁷ Some approach pro-poor expenditure in terms of universal rights and the establishment of a basic social contract. Others view pro-poor expenditures as targeted attempts by government to transform society, while others suggest that pro-poor expenditures are particularistic responses to interest group demands.

Each of these perspectives has a long intellectual history. Briefly, the social contract and universal view of pro-poor expenditure sees in social spending a contract that defines the relationship between citizen, state, and market. Each society must decide on the kind of protections that public actors provide for citizens, and the resulting view of universal rights can be read in pro-poor expenditures. These range from minimal safety nets to widespread protection from uncertainty and want. Some of the most vivid

⁶ James Scott tells of the story of the origins of last names (Tailor, Butcher, etc.) as the attempt of early European states to categorise their populations and calculate likely contributions to national tax efforts (1998: Chapter 1).

⁷ Other policies also have an impact on the poor, of course. Regulatory policies, macroeconomic policies, and financial policies can also have important effects. Still, one of the main concerns here is to use fiscal policies to understand the impacts of decentralisation, thus the focus on revenues and expenditures.

discussions of this conceptualisation can be found in the work of people who looked at societal responses to the early dislocations created by marketisation and industrialisation (Polanyi 1944). Later analysts focused on the compromises made to create welfare states during more advanced stages of development (Esping-Anderson 1990).

A second conceptualisation of social policy reads pro-poor expenditures as government attempts to shape and transform society. This reflects the statist perspective of early writers, who saw social policy as part of a wider phenomenon in which government bureaucratized social relations (Weber 1968: 956–89). Later, more neo-Marxist perspectives saw social policies as the means by which government removed obstacles to capitalist development (Cameron 1978). Both perspectives, albeit from different ideological origins, tended to see the state acting above and on society.

From a slightly different angle, more pluralist writers viewed pro-poor expenditures in terms of particular responses to the demands of interest groups. Unlike the universalistic social contract view, pluralists saw government action as the complex aggregation of social forces (Dahl 1961). Social policy was simply the sum of the particularistic benefits that interest groups had demanded and government had targeted.

Tax capacity and pro-poor expenditures are central to a fiscal sociology of governance. Measuring tax capacity tells us that governments have made a fiscal choice about the relative role of government and are able to implement that vision with administrative capacity and legitimacy. Measuring pro-poor expenditures tells us that governments and citizens have negotiated a social contract that defines the relationship between citizens and the state. In so doing, both are given shape. Governments pursue policies to transform society and allow production and power to continue; citizens form interest groups to obtain particularistic benefits. The sum of government and societal interactions is contained in the lines of public finance. Past theorists of public finance set lofty goals in analysing fiscal sociology:

The spirit of a people, its cultural level, its social structure, the deeds its policy may prepare – all this and more is written in its fiscal history, stripped of all phrases. He who knows how to listen to its messages here discerns the thunder of world history more clearly than anywhere else.

(Schumpeter, as cited in Swedberg, 1991: 100–1)

If Schumpeter is right, then there are powerful insights to be drawn from a fiscal sociology of the state. The current analysis begins with a narrow question, ‘who pays what for whom?’. It approaches that question in the context of comparing centralised and decentralised regimes, and it reads in fiscal policy much larger social science concepts. Before turning to this task, it is necessary to look a little closer at the concept of decentralisation.

3 Decentralisation in vogue

The current fondness for decentralisation began during the 1980s and represented a striking reversal from advice that dominated earlier ideas of development.⁸ In the 1950s and 1960s, military coups and regime breakdowns occurred across Latin America and instability followed decolonisation in much of Africa. Observers understood these circumstances as evidence that escalating demands and mass mobilisation had outstripped the capacity of state institutions (Huntington 1968). Centralised decision-making was seen as a way to rationalise scarce resources and depoliticise the masses; by contrast, decentralisation was viewed as likely to heighten political, racial, ethnic, and religious cleavages.

During the 1980s, the tide began to turn and pressure to decentralise began to rise. Stagnant economies and inefficient central bureaucracies led researchers to reconsider centralisation as a solution to the problems of developing countries, and multilateral institutions began to include decentralisation components in many of their programmes.⁹ Additionally, freer 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.¹⁰ There were domestic pressures for decentralisation also, as local politicians and civil society actors sought to capture power from central governments, and national leaders granted access to central power and resources as a means of purchasing support from local allies or meeting demands for democratisation.¹¹ As we enter the next decade, zeal for decentralisation has become more tempered, though a positive hue continues to tint most evaluations:

An overall conclusion of the paper is that decentralised fiscal structures are more suitable in the institutional environment of developing countries, especially so if careful attention is paid to the design of institutions vital for the success of decentralisation policies such as the rule of law, conflict resolution and coordination, charter of rights, effective limitations on the authority of governments beyond their designated spheres of influence, accountability and institutional capacity for evaluation at all levels.

(Shah and Huther 1998: 1)

The fervour that surrounded decentralisation both encouraged and reflected processes that were already under way on the ground. Developed countries had already become increasingly decentralised by the 1970s; and over the 1980s, developing countries began to narrow the gap. In the developed world, sub-national revenues as a percentage of total revenues stood at 23.3 per cent of total revenues in the 1970s

⁸ The current enthusiasm for decentralisation may be new, but it is not novel. The prior apex of enthusiasm for decentralisation was as a strategy to prolong colonial rule in much of Africa (Samoff 1990: 513).

⁹ For an example of the zenith of decentralisation enthusiasm, see Campbell (1997). Between 1993 and 1997, fully 12 per cent of all completed World Bank projects had a decentralisation component (Litvack *et al.* 2000: 1).

¹⁰ See Snyder (1999) for an example of how Mexican state governments stepped in to provide regulatory frameworks where the central government abdicated its role in coffee production.

¹¹ For an example of how decentralisation was used by the military regime in Brazil to legitimise its rule, see Sola (1991) and Samuels (2000).

and 23.9 per cent in the 1990s. In the developing world, the sub-national percentage of total revenues rose from 11.6 per cent to 13.2 per cent. Including all countries, including those in transition, the average sub-national percentage of total revenues rose from 16.1 per cent in the 1970s to 18.3 per cent in the 1990s.¹²

As governments shifted resources downward, they also created new administrative apparatuses to implement programmes and make decisions at the local level. In developing countries, 63 of 73 countries surveyed had governmental institutions that administered sub-national jurisdictions (World Bank 2000: 109).

Many of these jurisdictions also provided the ground for political representation, holding elections and organising civil society associations at the sub-national level. For example, in 1999, 94 of 127 countries (74 per cent) elected at least one sub-national tier of government (World Bank 2000: 216–7).

In short, sub-national governments are now doing a larger share of the work of government in both developed and developing countries. As more and more countries move away from centralised government institutions, the concept of decentralisation is studied in new contexts. Still, though many of these countries share characteristics of decentralisation, there are stark differences in the kind and degree of decentralisation that has occurred.

4 Conceptual confusion in decentralisation research

To their credit, researchers have been careful about the way they define decentralisation and the contexts in which they would like to study it. Yet, the differences in kind and degree of decentralisation have produced a conceptual muddle. The muddle has multiplied the conceptualisations of decentralisation; associated the concept with varied meanings; imbued it with positive normative value; conflated it with other concepts; and ignored its multi-dimensionality.¹³

A survey of the voluminous literature on decentralisation suggests that decentralisation has been approached by a variety of intellectual traditions with little agreement.¹⁴ Cohen and Peterson (1997: especially Annex I) offer a useful categorisation of disciplinary approaches based on what decentralisation achieves. Geographers and planners discussing spatial decentralisation focus on reducing concentration in urban areas by promoting regional growth poles. Political scientists discussing political decentralisation focus on bringing decision-making to low levels of aggregation. Economists discussing market decentralisation focus on the smallest unit that can efficiently produce goods and services that meet the revealed preferences of individuals. Lawyers and public administration professionals discussing administrative decentralisation focus on decreasing the hierarchical and bureaucratic control of central

¹² Data from World Bank Decentralisation statistics webpage, as cited in bibliography.

¹³ Related to the proliferation of conceptualisations, there has also been an explosion of units of analysis in studying the concept. These include studies of individual local jurisdictions, all local jurisdictions, entire systems of national and local government, and comparisons across national systems. For a discussion, see Cohen and Peterson (1997: 12–3).

¹⁴ For a survey of the 1980s literature on the topic, see Wallis (1991). Cohen and Peterson (1996) provide an excellent overview of methodological issues on the topic.

government units.¹⁵ In short, there are multiple approaches to decentralisation, and each carries implications about the most useful ways to define the concept. By way of contrast, decentralisation's antonym, centralisation, has a much more precise and accepted usage, which is the concentration of power, resources, and authority in a single head or centre.¹⁶

Two problems tend to arise with concepts given varied meanings. The concept can be associated with too many meanings (over-specified) or too few (under-specified).¹⁷ Either extreme produces conceptual muddle and causal uncertainty, as observers can approach the concept by delimiting the meanings and indicators that match their belief systems.¹⁸ This is especially problematic when the beliefs associate the concept with normative values, as in the case of the generally positive value associated with decentralisation.

In many cases, the original concept, decentralisation, becomes simply conflated with other evaluative concepts. For example, much research has included democracy or market reforms in the definition of decentralisation.¹⁹ The problem, of course, is that the relationship between decentralisation and these other concepts is a causal hypothesis, subject to empirical test. Indeed, one can certainly imagine democratic regimes that are centralised or decentralised regimes in which market reforms do not occur. When researchers try to be careful about mixing their concepts, they often end up substituting words for decentralisation that do not carry the normative implications; for example, multi-level government, de-centred governance, multiple centres, etc.

The types of problems that arise are typical of poorly defined concepts more generally.²⁰ The first problem is that one observer can claim that decentralisation exists in a given case, while another observer claims the opposite.²¹ This leads to disagreement simply about where to study the phenomenon. Second, the role of decentralisation in causal analysis becomes muddled. One observer claims decentralisation comes from one cause while another observer points to a different or opposite cause. Likewise, one observer can claim that decentralisation causes an outcome while another observer claims it causes a different or opposite outcome. In sum, the result is complete uncertainty about the appropriate universe of cases for comparison and the causes and effects of decentralisation.

This has contributed to a stand-off between cheerleaders and detractors of decentralisation. To take one example, cheerleaders argue that decentralisation leads to greater efforts at progressive public policies

¹⁵ Cohen and Peterson note that disciplinary differences explain some, but not all of the ambiguity. Sloppy social science and language differences also cause confusion. Specialists from France equated decentralisation with one of its subtypes, "devolution," (Prud'homme 1995); English speakers tended to settle for some variant of the Rondinelli, *et al.* definition (see below); and Spanish-speaking observers used "municipio" in ways that led to misunderstanding by those unfamiliar with the term.

¹⁶ According to the Oxford English dictionary, this usage has existed since the beginning of the nineteenth century.

¹⁷ On the dangers of poorly defined concepts, see Lakoff (1987).

¹⁸ The most complete discussion of concepts that become difficult is the framework offered by W.B. Gallie, who described essentially contested concepts. For an interesting discussion of measurement validity within concepts, see Collier and Adcock (1999).

¹⁹ For an analysis that examines the connection between democracy, decentralisation, and market reforms, see Fukasaku and Hausmann (1998).

²⁰ See Collier and Adcock (1999), Collier and Mahon (1993), and Sartori (1970).

²¹ For a discussion of competing measures of decentralisation in a single case, see Yilmaz and Ebel (2002).

while detractors argue that decentralisation leads to a “race to the bottom” and more regressive public policies.²² Among other arguments, the arguments of the cheerleaders include some combination of the ideas that decentralisation (a) allows experimentation, (b) makes government more accountable, and (c) targets small communities in which citizens empathise with each other. As a result, citizens will pay for public services, including progressive public policies.²³ The detractors argue quite the opposite. Among other arguments, they suggest that decentralisation (a) fragments the political voice of progressive actors, (b) increases the possibility of elite capture, and (c) leads to competition among jurisdictions for a tax base. As a result, narrow interests will avoid paying for progressive policies and governments will not attempt to implement them.²⁴

The current project suggests that some of the inconsistency between cheerleaders and detractors is caused by the two camps talking past one another. The most careful researchers from each camp specify a definition and stick to it within an individual context or study. Still, the abundance of research, not all of it careful, has led to an abundance of definitions and an abundance of research strategies. The evaluative nature of the concept intensifies the debate. People attempting to draw implications from the research, such as policymakers, cannot help but be confused.

Take the example of careful researchers studying West Bengal state in India. One researcher applauds decentralised administration that allowed local administrations to target post-flood reconstruction and relief through local administered Food for Work programmes (Charvak 2000: 12–4). A second researcher highlights the role of a centralised, Leftist political structure that directed decisions towards progressive outcomes even as it penetrated society through decentralised administration (Webster 1992). Both researchers were careful in their use of the decentralisation concept, but their studies talk past each other in terms of the ways in which they interpret the case.

The example in the previous paragraph reminds us to be careful in the emphasis placed on different dimensions of decentralisation. Both the cheerleaders and the detractors could find evidence for their arguments in the West Bengal case. Cheerleaders could argue that the autonomy enjoyed by local units makes West Bengal a case of decentralisation. Detractors could argue that West Bengal is actually a case of centralisation in which a centralised political party shapes what gets done, even in local jurisdictions. Is it possible for both to be right?

This project suggests that some of the conceptual and causal tangle can be undone by distinguishing among the multiple dimensions of decentralisation. If there are multiple dimensions, then decentralisation along one dimension could be related to one set of causes and effects, and decentralisation along another dimension could relate to a different or opposite set of causes and effects. Alternatively, decentralisation along one dimension could interact or combine with decentralisation along another dimension to relate to a set of causes and effects. Researchers who do not explicitly look at each dimension or who haphazardly aggregate dimensions will mis-measure the type and degree of decentralisation in a case and will draw

²² For a meta-theoretical review, see Crook and Sverrison (2001).

²³ For a statement of the benefits of decentralisation, see Campbell (1997).

²⁴ For a statement of the drawbacks of decentralisation, see Prud'homme (1995).

incorrect inferences about the relationship between decentralisation and other phenomena. To disentangle these relationships it is necessary to conceptualise and measure the dimensions separately and calculate their interactions. Only then can we identify examples of more or less decentralisation and begin to undertake causal analysis.

5 Conceptual frameworks for the decentralisation concept

One way to understand the core meanings of decentralisation is in terms of the uses to which the concept has been put.²⁵ Some of the most successful conceptualisations and categorisations in the literature have concentrated on decentralisation in terms of decentralisation *to*. They define and distinguish dimensions of decentralisation in terms of who receives the power and resources that are being decentralised. Thus, democratic devolution identifies the category of cases in which decentralisation occurs to elected local authorities (Crook and Manor 1998). Privatisation defines the category of cases in which decentralisation occurs to organisations outside the government sector (Rondinelli *et al.* 1989). The non-governmental sector has been further disaggregated into private sector organisations that are for-profit versus non-governmental, voluntary associations (Leonard 1982). Each of these distinctions, and others, has been useful for understanding causes and effects of decentralising *to* one kind of unit or another. What is the impact of decentralising to an elected local government or to a private sector, for-profit organisation? Conceptualisations that apply these categories offer a useful beginning, but do not answer a more fundamental question. Where does decentralisation come from, and is it an improvement on centralisation?

In the following paragraphs, care will be taken to conceptualise and define the dimensions in ways that produce categories useful for these more basic questions. Therefore, we are concerned with decentralisation *from*. Each dimension is conceptualised in terms of the degree to which power and resources are taken away from central governments. Such a conceptualisation is clearly directed to studying the causal impact of shifting power and resources away from the central government. This will allow us to measure and evaluate decentralisation as compared to centralisation. Unlike prior conceptualisations, here the recipients of decentralisation are left ambiguous. Rather than be concerned with the many varieties of decentralisation *to*, the current conceptualisation focuses on the one thing they all share: all forms of decentralisation, regardless of the recipient, involve shifting power and resources away from the central government.

This approach builds on applications of the decentralisation concept in theories of fiscal federalism, public administration, and political science. Briefly, fiscal federalism theories view decentralisation in terms of the welfare effects of giving resources to one level of government or another. Fiscal decentralisation indicates a greater proportion of fiscal impact at levels other than the central government (Oates

²⁵ Leonard suggests that researchers choose a conceptual framework only after deciding the causal relationships they intend to test. 'The variety of forms of decentralisation threatens to become unmanageable if we try to be comprehensive. To impose a limit one must specify the purpose for which the typology is being created and elaborate only those dimensions that are useful to it' (Leonard 1982: 28–9).

1972: 17).²⁶ Administrative arguments focus on the administrative effects of granting local jurisdictions autonomy from central control. This autonomy refers to general policymaking authority and personnel control, as well as control over what is done with public finances (Rondinelli, Nellis and Cheema 1984).²⁷ Finally, political arguments focus on the effects of conducting political activities such as participation, organisation, elections, and representation at the local level as opposed to the national level. Decentralised political systems are those in which political actors and issues are significant at the local level and at least partially independent from those at the national level (Fox and Aranda 1996). These conceptualisations can be understood within the broader theoretical frameworks to which they are to be directed.

5.1 Fiscal federalism

Fiscal federalism theories dealing with decentralisation focus on maximising social welfare, which is portrayed as a combination of economic stability, allocative efficiency, and distributive equity. The precise combination and importance attached to each goal will depend on the context, but the challenge of decentralisation is essentially to locate resources at the level of government that optimises social welfare (Musgrave 1958: 132–3, 175–8).

Definition 1: Systems that are fiscally decentralised locate a greater proportion of fiscal resources at a level other than the centre.

In stabilisation policy, governments pump money into the economy (or withdraw it) to influence the overall level of economic activity. Generally, governments can be expected to seek a stable, but relatively high, level of activity. Fiscal decentralisation of stabilisation suggests that non-central entities spend or absorb a greater proportion of the resources that influence the amount of economic activity. This activity is reflected in macroeconomic aggregates, such as employment, inflation, and growth.²⁸

In allocation policy, governments choose to direct resources towards one activity or another, for example, shifting resources from agriculture to industry or from one region to another. Generally, governments strive for the use of resources that generates the greatest amount of wealth and services for a given amount of spending and taxing, i.e. provides allocation efficiency. Fiscal decentralisation of allocation suggests that non-central units spend or extract a greater proportion of the resources that influence allocative efficiency.²⁹

In distribution policy, governments choose to channel wealth, which is the return to economic activity, to a particular group, region, or set of individuals. It is difficult to determine the optimal

²⁶ Theories of fiscal federalism begin from the assumption that fiscal interventions are necessary in the very specific cases in which government intervention improves on market operation. For example, normal market operations can produce instability (as in cases of financial panic), can misallocate resources (as in cases of monopoly or oligopoly), and can poorly distribute resources. For more detail, Stiglitz and Heertje (1989: 9–89) provides an excellent discussion.

²⁷ Thus, a system can be fiscally decentralised without administrative decentralisation if the use of local funds is set at the central level.

²⁸ Shah (1999) argues that fiscal decentralisation may not prejudice stabilisation, though most observers suggest that it will (DeMello 2000).

²⁹ It is in allocation policy that most observers argue that decentralised systems hold an advantage (Tanzi 1995).

distribution of wealth, but most fiscal federal theories focus on moving towards a more equal distribution of wealth. Fiscal decentralisation of distribution suggests that non-central entities spend or raise a larger proportion of resources that influence who gets what.³⁰

Essentially, what distinguishes among these dimensions is the concept of fiscal impact. Which level of government exerts the greatest influence over fiscal outcomes such as stabilisation, allocation, and distribution? If resources have been ceded to sub-national units, then sub-national units are, to one degree or another, influencing these outcomes. One of the chief ways in which fiscal impact is perceived is in terms of collateral for credit. Governments that handle large amounts of resources, whether those revenues are tied to expenditures or not, are able to draw on credit resources. Intentionally, this conceptualisation has focused on fiscal impact and ignored the autonomous control that local units possess in exercising that capacity. Autonomy is the focus of the next dimension, administrative decentralisation, which draws on theories of public administration.

5.2 Public administration

Public administration theories dealing with decentralisation broadly focus on achieving modern bureaucracies, which are perceived as efficient, effective, and rational (Weber 1968 esp. 926–39 and 956–89). There is significant debate about whether these goals operate in tandem or if there are trade-offs, and the combination will probably depend on individual cases. The specific challenge of decentralisation, however, is to locate administrative authority at the level of government that will optimise efficiency, effectiveness, and rationality.

Definition 2: Systems that are administratively decentralised locate a greater proportion of administrative autonomy at a level other than the centre.

In terms of administrative efficiency, governments seek to match policy packages of taxes and services to the preferences of citizens within a budget constraint. For example, some citizens prefer a package of high taxes and high services, while others prefer low taxes and low services. More administratively decentralised systems grant non-central entities greater autonomy in deciding what policy package to offer.

In terms of effectiveness, governments seek to attain the goals of their programmes. For example, governments seeking to improve literacy can use multiple strategies, from pre-school preparation to adult literacy campaigns. More administratively decentralised systems grant non-central entities greater autonomy in deciding how they are to attain goals.

In terms of administrative rationality, governments seek to obey the norms of ration-legal authority, in which personnel are professional, oriented by rules and make decisions according to rational norms. This differs from systems operating according to patrimonial or charismatic forms of authority. More

³⁰ There are some who argue that decentralised systems will generate a more just distribution of wealth (Galasso 1999; Pauly 1973), but they are in the minority (Bardhan and Mookherjee 2000).

administratively decentralised systems grant non-central entities greater autonomy in setting the orientations of their administrations.

The amount of administrative decentralisation varies continuously across systems, from systems in which the centre grants little autonomy to those in which the centre grants large amounts. Previous literature has categorised administrative decentralisation in categorical terms, most commonly labelled deconcentration, delegation, and devolution (see Rondinelli 1990).³¹ The current approach to decentralisation sees these categories as nothing more than break-points along a continuum of administrative autonomy. Deconcentration involves the least amount of autonomy, delegation slightly more, and devolution the most. The following paragraphs discuss the categories found in the literature and make the case for treating them as a continuum of administrative autonomy.

Deconcentration refers to a central government that disperses responsibility for a policy to its field offices. This transfer changes the spatial and geographical distribution of authority, but does not significantly change the autonomy of the entity that receives the authority. Under deconcentration arrangements, the central government retains authority over the field office, and exercises that authority through the hierarchical channels of the central government bureaucracy. Deconcentration allows only moderately more autonomy than centralised systems.

By contrast, delegation transfers policy responsibility to local governments or semi-autonomous organisations who are not controlled by the central government but remain accountable to it.³² The main difference between deconcentration and delegation is that the central government must exercise its control through the contractual relation that enforces accountability on the part of local government. This represents a slightly higher level of administrative autonomy for local entities than under deconcentration.

Finally, under devolution, the central government allows quasi-autonomous local units of government to exercise power and control over the policy responsibility being transferred.³³ Compared to the other two types of administrative decentralisation, devolution provides the greatest degree of

³¹ It should be noted that some applications of the categories differentiate a syndrome of characteristics. These applications mark the distinctions across categories in terms of a host of factors, and not simply in terms of different levels of autonomy. Also, some form of privatisation is often included as another category (Rondinelli 1990).

³² Both delegation and deconcentration open the potential for a principal-agent problem, created by the self-interested behaviour of the entity that receives the decentralised power and resources. Of course, in the case of deconcentration, the agent may be easier to control, as it is simply the field office of a central government hierarchy. Delegation introduces increased possibility of divergence between interests of the central government principal and the local government/semi-autonomous agent.

³³ Arguments about democratic decentralisation tend to include accountability to the local population as part of its argument. 'Whilst increased participation had a positive impact on the performance of decentralized institutions, adequate resources for councils were also essential, and – as we shall see – the social and political contexts within which decentralization was undertaken also influenced outcomes. But the most critical determinant was the existence of a combination of all these factors with effective mechanisms of institutional and popular accountability. It is those mechanisms which provided – and are likely to provide more generally – the crucial link between enhanced participation and enhanced institutional performance' (Crook and Manor 1998: 21).

autonomy to the local unit. The local unit is only accountable to the central government in so far as the central government can impose its will by threatening to withhold resources or responsibility that the local unit needs.

The concept that discriminates among these categories of administrative decentralisation is the relationship between the central government and the entity that receives power and resources. Deconcentration involves a bureaucratic, hierarchical relationship; delegation involves a contractual relationship; and devolution involves an arm's length relationship.³⁴ The differences in kind among these relationships, between hierarchy, contract, or arm's length, are a syndrome of factors. The best way to summarise that syndrome is in paying attention to the degree of autonomy granted by the central government. Such a simplification perhaps misses some of the conceptual richness of the different relationships, but is sufficient for measuring the continuum of administrative autonomy.³⁵

The devolution category deserves further attention because it is often defined as decentralisation to democratically elected local bodies. Such a definition includes patterns of representation in the administrative dimension. This shifts focus, however, and introduces aspects not associated with administrative autonomy. Representation deserves attention in its own right, however, and belongs appropriately to the next dimension, political decentralisation.

5.3 Political decentralisation

Political science theories dealing with decentralisation focus on mobilisation, organisation, articulation, participation, contestation, and aggregation of interests. All political systems must perform these functions, and the way in which this occurs will depend on individual contexts. The specific challenge of decentralisation, however, is to resolve these political processes at the level of government that allows the greatest degree of institutionalisation.

Definition 3: Systems that are politically decentralised institutionalise a greater proportion of political functions at a level other than the centre.³⁶

The best way to summarise political functions might be in terms of representation, which refers to the way political institutions 'map the multiplicity of citizen interests onto policy decisions' (Litvack *et al.* 2000: 6). To have an impact on policy, interests in society must be mobilised, organised, and articulated

³⁴ It should be noted that all three types of administrative decentralisation can be analysed using economic theories of principal-agent, moral hazard, and adverse selection techniques. Under all arrangements besides centralisation, central governments have imperfect information about non-central units and the capacity or effort they will dedicate to assigned tasks. In terms of achieving administrative goals, this imperfect information is what makes central governments nervous about ceding autonomy – they do not know for sure what the outcome will be.

³⁵ Simplifying the syndrome of characteristics into the single dimension of autonomy becomes more complicated when we consider other aspects of decentralisation at the same time. For example, the level of autonomy becomes unclear when we compare a local government with significant resources (fiscal decentralisation) and deconcentrated authority (administrative centralisation) to a local authority with few resources (fiscal centralisation) but devolved authority (administrative decentralisation). Correct measurement of autonomy requires taking into account the interrelationship of the dimensions.

³⁶ Linz and Stepan (2000) examine the impact of political decentralisation in federal systems.

through institutions that carry interests to the state (Berger 1983). Some systems of representation operate through civil society institutions, such as non-governmental organisations, social movements, or interest organisations. Other systems of representation, such as political parties, aim to bring interests directly into positions of official political power through elections. Finally, some systems of representation bring interests into direct negotiation with the state bureaucracy, as in corporatist bargaining.³⁷ All systems of representation are bounded by institutions of the state itself, which set the rules for representation and thus shape what issues get politicised and how. Under politically decentralised systems citizens define interests and form identities on the basis of local concerns, and organisations such as parties and social movements operate locally and compete over local issues and in local elections.

5.4 Interrelations among the dimensions

The preceding discussion of theoretical approaches to decentralisation provides clear dimensions for analysis: fiscal decentralisation, administrative decentralisation, and political decentralisation. What is not clear, but still pertinent, is the degree to which these dimensions are interrelated. This interrelationship contributes to conceptual confusion, as decentralisation along one dimension may influence or cross-over into decentralisation along another dimension. There are also measurement effects of ignoring the interrelationship, as measures will overestimate or underestimate the amount of decentralisation in a case if they do not account for their interrelationship.

First, we can consider the range of possible ways that dimensions could interact. One possible pattern is that increasing decentralisation on one dimension leads to an increase in decentralisation in another dimension. A second pattern is that increasing decentralisation on one dimension leads to a decrease in decentralisation on another dimension. With three dimensions, there are six different combinations.³⁸

Without getting too caught up in speculation, it makes sense to describe how a few of these interactions might operate. For example, fiscal decentralisation might generate greater administrative decentralisation. This would occur if local units used increased resources for a power grab and asserted administrative autonomy from the centre.³⁹ Alternatively, fiscal decentralisation might lead to less administrative decentralisation. This would occur if central governments systematically tried to counteract

³⁷ For an analysis of different systems of economic interest aggregation, see Schmitter (1971; 1974; 1977).

³⁸ Three times two gives the number of relationships. For example, changes in fiscal decentralisation can be either positively or negatively related to changes in administrative decentralisation and/or political decentralisation, and changes in administrative decentralisation can be either positively or negatively related to political decentralisation. Additional possibilities will not be examined here. The interaction could be more complex; in which decentralisation along two dimensions augments or offsets decentralisation along the third. Alternatively, decentralisation along one dimension might augment decentralisation along another, but this relationship might not work in reverse. These possibilities are more difficult to test statistically and have therefore been left out of the current exercise. More detailed comparative case study might be capable of drawing out some of the subtlety.

³⁹ In Brazil, decentralised fiscal resources meant that local governments were de facto implementing tasks that were constitutionally attributed to the central level (Afonso 1996).

any release of resources with an increase in bureaucratic or regulatory controls.⁴⁰ Similar scenarios could be described for the relationships between each dimension.

6 Hypotheses linking decentralisation to public finance

The current analysis highlights a diverse economic and political literature about the determinants of fiscal policy.⁴¹ In particular, there are competing views about the impact of decentralisation. For some, decentralised regimes imply smaller governments, while for others decentralisation implies larger ones. In part, these different hypotheses arise from conceptual differences about what fiscal policy represents. Is it a reflection of the relative power of different groups in protecting their interests; is it an indicator of state administrative capacity; and/or is it a reflection of the legitimacy of the state and citizen willingness to pay for public purposes? These conceptual differences are borne out in the different hypotheses that surround fiscal, administrative, and political decentralisation. In testing these hypotheses empirically, the analysis here will separate the different types of decentralisation, and as a result, allow empirical examination of these different approaches to public finance. In particular, the analysis focuses on the way decentralisation affects the ability of government and those without wealth to tap into the resources of those who hold wealth and the willingness and capacity to redistribute.⁴²

6.1 Fiscal federalism approaches to public finance

There are a number of ways in which fiscal decentralisation could affect public finance, and many of the most important hypotheses have emerged from theories of fiscal federalism. The main insights from fiscal federalism follow from notions of competition among jurisdictions. In fiscally decentralised settings, any attempt to redistribute wealth in one jurisdiction will result in the migration of its wealthy citizens to another jurisdiction (Tiebout 1956). Brennan and Buchanan (1980) follow this approach and argue that fiscal decentralisation heightens the competition among jurisdictions to retain their tax base. Such competition forces restraint on political elites, even if they would like to maximise revenues or engage in pro-poor expenditures.⁴³

If decentralisation heightens competition among jurisdictions, then jurisdictions will be tempted to attach their revenue streams to those tax handles that will produce the least negative response, which may

⁴⁰ In West Bengal, decentralised administrative autonomy gave local governments control over tax bases that they then used to increase their share of resources (D. Bandyopadhyay, personal communication).

⁴¹ For an excellent review of the literature, see Campbell (1993).

⁴² 'Decentralization of policy-making authority has generally mobilized socially heterogeneous forces (e.g. regionally specific cultural groups), undercut progressive and egalitarian political forces at the national level (e.g. trade union movements, cross-class coalitions) and favoured local economic and political elites. In addition, institutional structures that decentralize policy-making responsibility tend to undercut the formation of coherent national policy strategies by groups and parties; the organization of parties and groups tends to be concentrated at regional and local levels and politics tends to focus on narrow distributional issues within regional and local jurisdictions' (Swank 2002: 46–8).

⁴³ Weingast argues a similar point (1995). Levi (1988) and Bates and Lien (1985) build on the notion of a revenue-maximising political elite, and state as "Leviathan." See Oates (1985) for an empirical test of this proposition that finds the opposite: decentralisation does not lead to smaller government.

not be the most lucrative.⁴⁴ One implication is that jurisdictions will be forced to target those sources of wealth that are least easy to move, such as immovable property and perhaps labour. Mobile capital, by contrast, will be least likely to be targeted. Services will also be targeted towards holders of mobile capital, who will receive subsidies to invest, even if it means lower pro-poor expenditures. Critics have labelled this tendency to avoid redistribution a ‘race-to-the-bottom’ (Musgrave 1958, 1997; Inman and Rubinfeld 1997).

In addition to the race-to-the-bottom problem, fiscal federalists argue that decentralisation lowers capacity to tax or target pro-poor expenditures across regions because jurisdictions are “stingy”. In short, rich regions are unlikely to shift resources to poor regions or address needs in poor regions (Buchanan and Wagner 1977; Oates 1972; Prud’homme 1995).

Centralisation implies the opposite effects. Centralisation lowers competition among jurisdictions and reduces the possibility of migration by the wealthy to escape policies in a sub-national unit. This allows greater overall levels of taxation and also taxation of goods with higher elasticities of demand and more mobile wealth. It also lowers pressure to subsidise mobile capital and allows greater pro-poor expenditures. Further, central governments can use fiscal transfers to equalise resources across regions or to address specific regional needs.

Of course, if the decentralisation-competition argument does not hold, then these propositions are invalid. In the context of increased liberalisation and globalisation, some argue that national governments are just as likely to race-to-the-bottom as a result of competition with other nations. The causal connection may not be between decentralisation and competition, but between capital mobility and competition (Swank 1992; Wallerstein 1997).

Also, even when they are not constrained by international capital, central governments may be equally as stingy as regional governments. Central governments are only likely to shift wealth across regions if poor regions can exert pressure at the central level.

Finally, sub-national governments themselves might not be as stingy as previously assumed. Rich regions may view it as beneficial to pass resources to poor regions. For example, sub-national governments from rich regions may wish to end the spill-over effects of poverty in neighbouring regions, such as migration or environmental degradation. In addition, some might argue that wealthy citizens will favour redistributing resources at the local level because they feel more empathy for poor neighbours than they do for the poor in distant regions (Pauly 1973).

6.2 Administrative approaches to public finance

Administrative approaches direct their attention to the ways in which decentralisation influences administrative performance. Administrative decentralisation gives local units autonomy, which entails flexibility to experiment and innovate. Further, decentralisation allows them to imitate successful examples

⁴⁴ The growth of the informal sector in developing countries is one reflection of the shift away from those activities that government can tax (Tendler 2002).

from other regions. In effect, this replicates the benefits of competition highlighted by fiscal federal theories, this time with an emphasis on competition for efficiency. The implications for tax capacity and pro-poor expenditure, however, are ambiguous.

For some, competition forces jurisdictions to provide more services for lower cost (Rondinelli *et al.* 1984; Tendler 1997; Wildavsky 1984; Buchanan and Tullock 1962; Dye 1966; Toqueville 1969).⁴⁵ These governments will waste fewer resources on administrative bureaucracy. If they desire, these governments can simply collect lower taxes (Shah 1999). Alternatively, more pro-poor services could be provided at the same cost. As a result, efficiency helps the poor if it frees resources for services they would not otherwise receive (Litvack *et al.* 2000: 8).

A slightly different perspective looks at the impact of competition for administrative effectiveness. By keeping bureaucracy small and limited to local jurisdictions, decentralisation counters the tendency of large organisations to become rigid and unresponsive.⁴⁶ Limited geographical scope improves information flows and allows the state to monitor citizens more effectively, both in terms of their demands and their wealth. In addition, local units may be more agile when changes have to be made, making it easier for them to tap into elusive tax bases (Dye 1966; Toqueville 1969; Shah and Huther 1998; Fisman and Gatti 2000). At the very least, this enhances the capacity to collect taxes, and will lead to less *evasion* and avoidance. It is likely to be of particular benefit to the poor in circumstances in which centralisation had contributed to non-transparent and inflexible policies that systematically excluded the demands of the poor.

The beneficial effects of administrative decentralisation only hold if local administrations are capable. This kind of capacity requires resources and professionalism which are unlikely to exist in uniform quantities across a territory, and are often concentrated in higher status and higher paying central bureaucracies. Further, administration may operate with economies of scale and be more efficient in single national units (Prud'homme 1995: 201–3). In addition, decentralisation disconnects local welfare from national welfare in ways that encourage lower levels to shirk difficult tasks and push these tasks to their neighbours or to the national level. The difficulty of taxation, in administrative and political terms may be high, and local jurisdictions may prefer to depend on transfers from above (Petrei 1998; Shah 1991; Hommes 1995).

If these problems exist, they may undercut any advantages from the impact of decentralisation on administrative efficiency and accountability (Bird and Vaillancourt 1998). In fact, decentralisation may simply increase the number of governments attempting to extract wealth. Rather than competing by cutting taxes, they may compete to collect them, leading to an overall increase in taxation, with no connected improvement in services (Oates 1985).

⁴⁵ Many models of administrative competition rest on the model of a “market” in which jurisdictions compete to keep their citizens, who use voice and exit to discipline local government. Tiebout (1956) applied this model for individual citizens; Oates and Schwab (1991) do the same for firms.

⁴⁶ Michels (1966) described this process of bureaucratic rigidification as the “iron law of oligarchy”.

6.3 Political approaches to public finance

The current project highlights the fact that both decentralisation and public finance are eminently political phenomena, with a central role being played by systems of representation.⁴⁷ Systems of representation are the institutions that link citizens to the state and map their interests into state policies. Under decentralised systems of representation, citizens direct their demands through local organisations and institutions, and representatives orient their appeals to local constituencies. The current project suggests that a local orientation to politics will manifest itself in public finance. Two issues arise here: first, who gets represented, and second, how does that representation translate into public finance decisions?

Decentralisation allows different interests to attain representation across a territory and thus provides representation to a more diverse array of interests than would otherwise occur. Centralised systems of representation are likely to exclude the interests of minorities unless affirmative mechanisms are in place for ensuring minority representation.⁴⁸

This possibility only matters in the current analysis if decentralisation influences representation and policymaking with respect to groups interested in doing different things with taxation and expenditures. Advocates of decentralised representation suggest that decentralisation will allow a taxation structure that raises more revenues and allows them to be directed to more pro-poor activities. First, in traditionally centralised, exclusionary regimes, decentralisation frees national governments from capture by narrow interests (Morris and Lowder 1992: 4–7). Second, by creating smaller and more numerous institutions of representation, decentralisation increases opportunities for participation, multiplying the sites at which poor people participate and multiplying the interests that gain access to the public purse (Narayan, Chambers, Shah and Petesch, 2000; Crook and Manor 1998).⁴⁹ Third, some argue that people with similar preferences and levels of income tend to be concentrated geographically, thus decentralisation creates some jurisdictions in which the median voter prefers more tax capacity and more pro-poor expenditures (Gandmont 1978). Fourth, there are those who argue that decentralisation provides multiple training grounds for democracy, altering the culture of a polity, incorporating previously excluded groups, and raising citizen consciousness of the need for public action (Toqueville 1969).

By contrast, there are those who argue that decentralised systems privilege the interests of those with a preference for lower public action, including lower taxes and less pro-poor expenditures. In decentralised cases, national representative institutions are often simply the sum of locally oriented ones, and no mechanism links national institutions directly to citizens (Grodzins 1960). If only regional or local

⁴⁷ ‘After all, there are few policy areas in which the redistributive interests of different social classes come into sharper conflict than tax policy’ (Steinmo 1988: 404).

⁴⁸ See Grodzins (1960: 974–8) for the US case. Also commenting on the US, Congressman Barney Frank observed, ‘99.9 per cent of Congress clearly prefer that the issue be decided at that level of government which will decide the issue the way they like’ (Rosen 1997: 484).

⁴⁹ There are some who argue that participation is only possible on a small scale, and therefore at the local level (Pateman 1970: 109; Dahl 1970: 132; and Mansbridge 1980: 293; Olson 1965: 33–6).

issues get politicised, those interests that favour higher taxes and more pro-poor expenditure may find it difficult to focus attention on problems that are supra-regional (such as redistribution) and that require higher taxation.⁵⁰

Decentralisation may more directly privilege holders of wealth. They use their wealth to purchase influence in government or to threaten government revenues by slowing economic production.⁵¹ Political decentralisation does not change the tools available to the rich, nor does it change their effectiveness; decentralisation simply forces them to apply their political leverage to lower levels of government. The key is that decentralisation implies deconcentrating government, while capital remains concentrated.⁵² These weapons of the wealthy are likely to be equally, if not more, effective at local as well as central levels of government.⁵³

In contrast, political decentralisation weakens the influence of groups that do not hold wealth. The poor are not without economic leverage of their own, but the impact of their wealth depends on levels of centralisation. By definition, the poor do not hold enough wealth to purchase much influence, though they at least purchase some influence when they aggregate their wealth in a single organisation at the national level (McConnell 1970). Likewise, their threats to slow economic production are only credible if they are united across companies and across jurisdictions where withholding their labour cannot be easily side-stepped by shifting production.⁵⁴ In some contexts, peak level unions pool material resources and coordinate national strikes to pressure for pro-poor policy (Wallerstein 1997; Swenson 1991).⁵⁵

The most important effect of decentralisation may be its detrimental impact on the ability of the poor to concentrate politically. Organisation is the main weapon of the poor, as it allows them to utilise the one resource they have in abundant quantities, their numbers. Organisation is no easy task, however; it requires leadership, discipline and mobilisation, and these resources are often in short supply. Decentralisation spreads these scarce organisational resources, and forces the poor to organise in multiple

⁵⁰ A similar application has been made to the case of environmental interests. Environmental activists seek protection from pollution, which necessarily involves externalities and spill-overs from one jurisdiction to another. If environmentalists win many local struggles but have no representation at the national level, spill-overs from a single polluter in a single jurisdiction can overturn the impact of environmental victories in many local jurisdictions (Ames 1995; Ames and Keck 1998). For an application to the issue of representing the poor, see von Braun and Grote (2000); Crook and Sverissson (2001); and Swank (2002).

⁵¹ Some argue, in fact, that the market automatically organises the interests of the rich. See Block (1977); Lindblom (1977).

⁵² Some argue that decentralisation increases the strength of capital with respect to the state, as local governments must compete against each other, as well as against foreign competitors. Others argue that in the current context, national governments are equally as weak. The debate on the “structural dependence of the state” has aroused significant research, see Swank (1992: 32–54); Quinn and Shapiro (1991: 851–74); Williams and Collins (1997: 208–44), though none of it suggests that national governments are *less* able to discipline capital than local governments.

⁵³ Some might even argue that the effectiveness of weapons of the rich is even higher at the local level. Coordination and collective action problems that exist at the national level may be absent at the local level, where structures of production and class interest are more homogenous.

⁵⁴ Wallerstein shows that centralised and cohesive labour unions are more effective in promoting wage gains and redistributing wealth than decentralised ones (1997).

⁵⁵ Of course, while the economic impact of the poor may be greater at the national level than at the local level, the economic tools available to the poor are still probably less politically significant than those available to the rich.

jurisdictions for multiple contests. Further, organisational resources that exist in one jurisdiction are not easily transferred or leveraged to another.⁵⁶ The key for the poor is an institutional structure that can overcome resource and collective action constraints to press demands (Hicks and Swank 1992). Political decentralisation forces the poor to organise in multiple jurisdictions for multiple contests, electoral and otherwise, and spreads thin their organisational resources (Garrett 1995: 657–87). Though the poor may find the leaders to discipline and mobilise them in some cities or regions, they are unlikely to be able to replicate this success in all jurisdictions.

The preceding discussion has focused mostly on the way in which political decentralisation shifts the balance of power between different interest groups. There is an additional political dynamic that deserves attention, however, and that is the degree to which decentralisation influences the links between state and society. For some, public finance decisions are an indicator of government accountability and governance more generally (Moore 2001). Citizens are willing to hand over their wealth if and only if they believe they can hold government accountable. Simply increasing the sites of contact by decentralising may enhance the ability of citizens to monitor and hold government accountable.⁵⁷ The result, it is argued, is greater willingness to contribute and more collective action to combat problems like poverty.

Of course, monitoring and accountability may be less forthcoming at the local level than at the national level.⁵⁸ Legislatures, judiciaries, civil society organisations, and the press act as monitoring mechanisms to deliver information to citizens, but these institutions may actually be inhibited at the local level by their smaller scale (not to mention the fact that they are usually much more recent at the local level than their national counterparts). In addition, small scale and distance from central authority allows clientelism and private power to survive in local contexts (Bardhan and Mookherjee 2000: 2–7).⁵⁹

The preceding paragraphs presented a series of relationships between decentralisation and public finance. How then do we proceed in testing these arguments? The sections below describe the use of cross-national statistical data to obtain measures of the three dimensions of decentralisation, tax capacity, and pro-poor expenditure.

7 Measuring fiscal decentralisation

Fiscal federalism theories dealing with decentralisation focus on the location of resources. These theories highlight social welfare, which is portrayed as a combination of economic stability, allocative efficiency, and distributive equity. The precise combination and importance attached to each goal will depend on the

⁵⁶ Olson (1965) emphasises the difficulty of overcoming collective action constraints. To do so once, in a single, national organisation is difficult, to do so many times in multiple jurisdictions is even harder.

⁵⁷ Crook and Manor (1998: Chapter 6) conclude that accountability is the crucial variable that influences the performance of democratic decentralisation.

⁵⁸ Hausmann and Stein (1995) discuss these potential problems in the context of agency and collective action problems. Agency problems occur any time a principal attempts to contract an agent to carry out a task in which monitoring effort and judging ability involves some transaction cost. Collective action problems arise any time members of a group have incentives to free-ride on the efforts of others within the group.

⁵⁹ O'Donnell (1993) describes these local, authoritarian patches in Latin America as “brown areas” within new democracies.

context, but the challenge is to locate resources at the level of government that optimises these fiscal categories of social welfare (Musgrave 1958: 132–3, 175–8).

Expenditures and revenues form the two main components of fiscal activity.⁶⁰ These two elements are central to any system of public finance, and they summarise the total amount of money that governments put into or take out of an economy as well as where governments put the money and where they take it from. The current study hypothesises that the best indicator for the level of fiscal centralisation or decentralisation is the share of sub-national expenditures and revenues.

The choice of focusing on fiscal instruments rather than regulatory or financial policies is partly methodological and partly substantive. Governments influence the amount of wealth in society and its distribution through various instruments. Regulatory instruments are built into the formal and informal institutions that govern civil society and private sector behaviour; thus, they are extremely complex and context specific. Financial instruments are similarly difficult to measure with statistics, and their impact on distribution is not so direct as fiscal policy. Fiscal policy offers the most accessible window into levels of fiscal decentralisation, and regulatory or financial mechanisms will have to be taken up in closer country studies.

Despite being easier to measure, fiscal instruments still present some methodological difficulties. Though the IMF attempts to standardise its definition of local versus national resources, it is extremely difficult to attain accurate measurement using self-reported national statistics.⁶¹ What is measured as a local expenditure or revenue in one context may be scored as a national government resource in another.

Nevertheless, there are several advantages to a focus on revenues and expenditures. First, revenues and expenditures offer the best measures available without detailed study of each and every country. Second, errors are not likely to be correlated with other variables of interest thus they introduce no bias into estimation. Finally, by using both expenditures and revenues, we tap into the main attributes implied by the concept of fiscal decentralisation. The key attribute that defines fiscal decentralisation is the fiscal impact of sub-national governments relative to the overall impact of government. Expenditures focus on the amount of government activity that sub-national governments undertake, and revenues focus on the quantity of resources that pass through them.

Expenditures are all cash outlays made by a given level of government. They can be examined as a whole, over time, in terms of revenues, as a percentage of GDP, in distinct subsections, in subsections as a percentage of some other variable, in constant values, in current values, or as done here, as a percentage

⁶⁰ Others have focused on different aspects of fiscal decentralisation. Some choose to focus on the relationship between expenditures and allocated revenues (“vertical imbalance”) to get a sense for the fiscal pressure that is being put on lower (or upper) levels of government. Some pay attention to the nature of inter-governmental transfers to understand the impact on lower government behaviour (Nice 1987; Ahmad 1997). The current application is focused on the authority relations between levels of government, in which the nature of resource transfers is an indicator of administrative decentralisation.

⁶¹ See *Government Finance Statistics Handbook* (2000) for a description of the statistical details. Also, see Byskov (2001) for a discussion of the reliability and validity of the data.

of all government outlays. Each treatment cuts a slightly different perspective on spending policy, but sub-national expenditures as a percentage of total expenditures is the most appropriate to gauge fiscal decentralisation.⁶² A larger proportion of the expenditures spent by lower level governments indicates decentralised fiscal impact.

The revenue side of fiscal decentralisation is composed of all cash inflows to sub-national governments, including taxes, loans, and grants. As in the case of expenditures, these can be examined in a number of ways and with respect to other variables, and each treatment offers a different view of revenue policy. Similar to the choice for expenditures, the indicator chosen is sub-national revenue as a percentage of total government revenue, which focuses on the fiscal revenues passing through sub-national governments as opposed to those revenues that remain at the centre.⁶³ A larger proportion of revenues passing through sub-national governments indicates decentralised fiscal impact.

8 Measuring administrative decentralisation

As discussed above, the concept that discriminates among degrees of administrative decentralisation is the autonomy granted by the central government to other levels of government. Despite interesting differences in kind (deconcentration, delegation, and devolution), the current measurement seeks a continuous measurement of the one dimension that underlies administrative decentralisation: autonomy.

One way to measure levels of local administrative autonomy is in the control exercised over local revenue. The percentage of local revenues from taxes provides an indicator of subnational autonomous control over resources. Taxes are different from the total amount of resources, which is more a measure of wealth than a measure of control. As mentioned before, sub-national revenues are a combination of taxes, transfers, grants and loans. Taxes offer the greatest degree of autonomy, grants and loans offer somewhat less, and discretionary transfers probably offer the least. Transfers, even supposedly automatic ones, can be withheld, and grants and loans generally arrive with conditions or with expenditures earmarked.⁶⁴

⁶² There are some drawbacks to expenditures as a percentage of total expenditures, as they miss those expenditures that do not appear as cash outlays, such as credit guarantees, nor does this measurement distinguish among expenditures mandated by the central government as opposed to those that are decided wholly locally. Still, sub-national expenditures as a percentage of total expenditure focuses on the fiscal power exercised by lower governments as opposed to that exercised by central governments. Altering the indicators did not adjust the results of factor analysis. For example, measuring sub-national expenditures and revenues as a percentage of GDP also load heavily on a single dimension, though these indicators relate more to the impact of local governments on the economy.

⁶³ There are some drawbacks to this specification, which does not distinguish for example between revenues over which lower levels of government have total control, such as block grants, and revenues that are tied to central government priorities, such as ear-marked transfers. This distinction will be taken into account below, however, in measuring the degree of administrative autonomy exercised by sub-national governments.

⁶⁴ The kind of revenue is at best only a rough indicator of the amount of administrative control. Grants and loans can arrive either with conditions or without them. Though unconditional loans or grants (block grants) suggest local control, the fact that the centre can withhold them implies some limitation of local autonomy. Own-taxes are probably the most controllable form of local revenue, though even in these revenues, the centre can exert some authority by earmarking tax streams to certain expenditures.

A second measure of subnational autonomy is the percentage of total grants and revenues not accounted for by transfers. This could conceivably include taxes, loans, fees, sales of assets, or informal contributions. There are some drawbacks to excluding all transfers, which does not distinguish between transfers over which lower levels of government have total control, such as block grants, and transfers that are tied to central government priorities, such as ear-marked transfers, or transfers that require certain behaviours by subnational governments, such as matching or some other condition. Still, the treatment of all revenues aside from transfers gives an indication of the degree to which subnational governments autonomously raise their own funds, through taxes, loans, fees, or sales of assets.

9 Measuring political decentralisation

Political science theories dealing with decentralisation focus on the location of mobilisation, organisation, articulation, participation, contestation, and aggregation of interests. All political systems must resolve the challenges of institutionalising these processes, and the way in which this occurs will depend on individual contexts. The challenge of decentralisation is to resolve these political functions at the level of government that allows the greatest degree of institutionalisation. The key political function measured here involves representation.

In elections, the electorate votes; the votes are aggregated; and candidates take power. Elections at the local level indicate that some portion of representative activity is being undertaken at the local level and parties must organise for local contests. Candidates must compete and make appeals in local jurisdictions, and citizens participate at the local level. Citizens may organise and participate through non-electoral channels, but these are harder to characterise, and probably do not have as direct an impact on representation. Of course, simply holding elections does not automatically mean that national forces do not overwhelm local ones, but local elections at least increase the likelihood that some political functions will be decentralised.⁶⁵ The existence of elections at the municipal level or the state/provincial level is hypothesised here as an indicator of political decentralisation.

Though there are other political functions, the electoral components offer the most valid indicators of political decentralisation as they tap into fundamental aspects of political authority. Elections address the issue of representation, which is the way interests gain possession of legislative and executive power. Table 9.1 displays the concepts, measures and sources used for the different dimensions of decentralisation.

⁶⁵ Literature on federalism has paid particular attention to the way decentralisation interacts with partisan politics and elections (Grodzins 1960).

Table 9.1 Decentralisation indicators and dimensions

Dimension	Indicator	Source
Fiscal decentralisation	1. Sub-national expenditures as percent of total expenditures.	Decentralisation statistics. World Bank website.
Fiscal decentralisation	2. Sub-national revenues as percent of total revenues.	Decentralisation statistics. World Bank website.
Administrative decentralisation	3. Taxation as a percentage of sub-national revenues.	IMF government finance statistics.
Administrative decentralisation	4. Non-transfer income as a percentage of sub-national revenues.	IMF government finance statistics.
Political decentralisation	5. Municipal elections	Database on political institutions. Library of Congress country facts. CIA world factbook.
Political decentralisation	6. State elections	Database on political institutions. Library of Congress country facts. CIA world factbook.

10 Using the indicators to obtain accurate aggregate measures

For the concept of decentralisation, factor analysis generates more accurate scores of the three dimensions than other techniques. Measuring decentralisation dimensions is complicated by the fact that core attributes are difficult to measure, and any metric for one dimension is likely to simultaneously pick up elements of the others. In part, this is because there are causal relationships among the dimensions (political decentralisation may contribute to fiscal decentralisation etc.) but also because any quantitative measure is likely to be somewhat imprecise. No single indicator can capture the decentralisation concept fully, and no simple combination of indicators, such as an average or sum, could capture the multidimensionality of the concept. To avoid the mistakes that might arise from other methods, factor analytic techniques both confirmed that there were three dimensions to the decentralisation concept (fiscal, administrative, and political) and quantified the amount that each case had decentralised along each dimension.⁶⁶ The scores for the cases and the factor analysis are included in Appendix B. To make the scores more intelligible, they were normalised to a zero-one scale, and can be read in terms of decentralisation units. Thus, the United States scored .80 fiscal decentralisation units, .56 administrative decentralisation units, and .84 political decentralisation units.

11 Tax capacity: taxation as a percentage of GDP

Many of the fiscal, administrative, and political hypotheses relate decentralisation to the fiscal size and administrative capacity of government. To measure these outputs, overall tax levels as a percentage of GDP reflect the size of government with respect to overall economic activity. Governments that possess

⁶⁶ For a more thorough discussion of factor analytic techniques, see Kim and Mueller (1978); Long (1983); and Bollen (1989). For an application, see Brady (1990).

the capacity to extract resources and whose leaders make the decision to extract will score high on taxation as a percentage of GDP. Other denominators, such as total expenditures or tax as a percentage of total revenues, would also measure aspects of the size and capacity of government, but would bring in other conceptual interpretations, such as the efficiency of government administration. Here, the analysis is most concerned with the concepts of fiscal size and administrative capacity.

In measuring tax capacity, the study was careful to measure all of the taxes collected. Many datasets include only central government tax revenues, missing those taxes collected by local and regional governments. Data from the *Government Finance Statistics* was used to add central, regional, and local taxes when considering total tax capacity.⁶⁷

The relationship between total taxes and total economic activity, measured as taxation as a percentage of GDP, focuses on the willingness and ability of governments to tap into private wealth for public action. This directs attention to those decentralisation hypotheses that degrees of decentralisation affect the administrative capacity of government, change the incentives facing fiscal actors, alter the accountability of government, and shift the relative power of interests. The average amount of tax capacity is 30.10 per cent of GDP, with a standard deviation of 10.54, a minimum of 8.04, and a maximum of 50.88.

12 Pro-poor expenditures

One way that the impact of decentralisation can be measured is in terms of the policy steps taken by government. Policy steps can be expenditure policies, revenue policies, and regulatory policies, and each kind of policy can be pro-poor or anti-poor. In general, policies that offer services used by the poor, redistribute wealth, or improve the treatment of poor within society are pro-poor.

Here, the project uses the proportion of expenditures directed towards social policy as an indicator of pro-poor policies. Social policy expenditures are a particularly good measure of pro-poor policy effort as they incite vehement distributive conflict and require an active effort on the part of government to transfer resources. In addition, social policies come together as a meaningful configuration of government actions that other studies have examined to understand the nature of state-society relations in terms of a social contract between citizens and government.⁶⁸

To measure pro-poor policy, data is taken from the IMF Government Finance Statistics. The data from multiple levels of government categorise expenditures according to expenditures on health, education, social security and welfare, and housing and community amenities. The total social policy effort is the sum of social spending at all levels of government divided by the total amount of resources spent.⁶⁹

⁶⁷ See, for example, World Bank, *World Development Indicators*, table 5.5.

⁶⁸ Many of these studies have focused almost exclusively on developed countries. Examples include Esping-Anderson (1990); Cameron (1978).

⁶⁹ The findings were robust to using other denominators, such as total revenues or current revenues. Also, the findings were robust to using the individual spending items alone as the numerator. For an examination of the impact of decentralisation on taxation, see Schneider (2002b).

Among the 68 countries for which decentralisation data was available, 64 had data from all levels of government on the amount spent on social policy. The mean percentage spent on social policy was 51 with a standard deviation of 16.

13 Research design

The current project asks whether government has greater capacity to act progressively under centralised or decentralised systems. More specifically, the study attempts to trace the causal mechanism between decentralisation and tax capacity and decentralisation and pro-poor expenditure levels by looking at different kinds of decentralisation. In particular, are differences in the progressive capacity of government due to patterns of fiscal, administrative or political decentralisation?

The broader literature on the determinants of public finance offers a large number of hypotheses in addition to decentralisation. An effort was made to include a number of these rival explanations while maintaining the principal focus, which was to test the marginal impact of decentralisation on taxation and expenditure policy.

The first rival hypothesis focused on the level of development. Though it is an imprecise concept, the level of development reflects in one way or another (a) the amount of resources available to extract, (b) the organisation of social interests, and (c) the resources available for government administration. Each of these variables could potentially influence tax capacity and pro-poor expenditure effort. To control for the impact of development, the model includes the log of GDP per capita in 1995 US\$.⁷⁰

A second rival hypothesis involved globalisation. Globalisation certainly puts pressure on public finance. For some, this pressure militates for a decrease in taxation as countries must shrink the size of government and lower labour costs. For others, globalisation forces the state to increase pro-poor expenditure to compensate or insure those dislocated by international competition.⁷¹ To control for levels of globalisation, the model included an indicator of trade openness. Trade openness was measured as the total value of imports and exports as a percentage of GDP.⁷²

A third rival hypothesis involves the major claimants on government. The proportion of resources that are required for government are likely to depend on the demographic and political weight of key dependants. One group that clearly depends on and benefits from government policy is the elderly. To control for the weight of state dependants, the analysis includes a measure of the proportion of the population aged 65 and over.

⁷⁰ Calculating the log transformation of GDP per capita resolves the problem of the abnormal distribution of cases, with most cases clustered at high incomes or low incomes, and few in the middle.

⁷¹ For examples of those who argue that globalisation weakens state capacity to promote pro-poor social policy, see Huber and Stephens (1992) and Evans (1997). For examples of those who argue that globalisation actually has the opposite impact, see Rodrik and Fernandez (1991) or Rodrik (1996).

⁷² Data from the *2000 Human Development Report*.

Finally, the model also acknowledges the possibility that the dimensions of decentralisation interact. Fiscal decentralisation may combine with administrative decentralisation and/or political decentralisation to create changes in tax capacity and pro-poor policy beyond the impact of any single dimension alone.⁷³

The analysis incorporates the theoretical possibility that many of the hypotheses depend on a regime variable that intervenes between decentralisation and public finance outputs. Especially those hypotheses revolving around political decentralisation would be likely to operate most powerfully in democratic political systems, in which citizens have more freedom to organise and governments are perhaps more likely to answer to citizens. To control for this potential confounding variable, the final application removes countries that are not democratic from the sample. Democracies were defined as those countries that the Polity IV dataset scored more democratic than authoritarian.⁷⁴

The analysis was conducted in a series of models that test the different permutations of variables. All models include the control for level of development, as it is likely to have the biggest single impact on tax capacity and pro-poor expenditure. The first model examines the impact of factor scores on dimensions of decentralisation. The second model examines the impact of the decentralisation dimensions after including all the control variables and the interaction term. The third model applies the full analysis to democratic countries alone. A fourth model chooses an indicator for each dimension of decentralisation rather than use the factor scores. Though worse measures, the indicators alone offer more explicit implications for those uncomfortable with the factor analysis terminology. The dependent variable in Table 13.1 is tax capacity, measured as 100 times the total amount of taxation divided by GDP.⁷⁵ The dependent variable in Table 13.2 is pro-poor expenditure effort, measured as 100 times the total amount of health, education, housing, and social security divided by total expenditures. Both tax capacity and pro-poor effort were calculated from the combined finances of national and sub-national units.

13.1 Results

The results of regression analysis demonstrate that dimensions of decentralisation have independent effects on tax capacity and pro-poor expenditure. Notably, the impact of political decentralisation was consistently negative, leading to both lower tax capacity and lower pro-poor expenditure effort. Administrative decentralisation had a positive impact on pro-poor expenditure, and fiscal decentralisation did not appear statistically significant in any analysis. The results for the two dependent variables will be considered in turn.⁷⁶

⁷³ Data from the 2002 World Bank, *World Development Indicators*.

⁷⁴ The Polity IV dataset scored countries on a continuous scale from democratic to authoritarian in terms of regulation, competitiveness, and openness of executive recruitment, constraints on executives, institutions of participation, and extent of non-elite participation. For more detail, see www.bsos.umd.edu/cidcm/inscr/polity/#data

⁷⁵ The equation for tax capacity was $Y_k = \sum_j a_j F_{jk} + a(F_{jk} * F_{jk}) + \sum_j b D_k + u_k$, in which 'Y' is tax capacity, 'F' is the factor score, and 'D' are control variables. The subscript 'k' indicates the case, and the subscript 'j' indicates the factor.

⁷⁶ For a prior version of the analysis of pro-poor expenditure, see Schneider (2002b).

Table 13.1 displays the results from the different models for tax capacity. If we compare across models, the statistical significance, the approximate size, and the direction of impact of the coefficients stay relatively constant. The coefficient for administrative decentralisation does change signs across the models, but it is not significantly different from zero in any model. As might be expected, the explanatory power of the models increases when we add variables to the models, but all of the models provide a reasonably good fit with an adjusted R² above .53.

In each model, political decentralisation was negatively related to tax capacity and was statistically significant. For example, model three suggests that democratic countries that were .1 unit lower on the scale of political decentralisation were .98 lower in taxation as a percent of GDP.

Models that included the control variables did not change the significance, the approximate size, or the direction of impact of the primary hypotheses. The interaction term was not significant in any model, nor was the impact of globalisation. Analysing democratic countries alone did not change most of the results about the impact of different kinds of decentralisation. The weight of state dependants and the level of development were significant in all models, and had the predicted impact of increasing tax capacity. For example, democratic countries with an average per capita income collected 30.10 per cent of GDP in taxes while countries with \$100 higher in per capita income collected 32.65 per cent.⁷⁷ Also, countries with 1 per cent more of the population over 65 collected 1.41 percentage points more of GDP in taxes.

The final model repeats the analysis using a single indicator for each dimension of decentralisation. The coefficients are consistent with those using the factor analysis. For example, there were no significant impacts of fiscal and administrative decentralisation but political decentralisation had a negative impact. Countries in which local legislatures were elected collected a proportion of GDP that was 4.31 lower than those in which there were no local legislative elections.⁷⁸

The results of the second regression analysis reaffirm that dimensions of decentralisation have independent, and at times, opposite effects, this time when tested for their impact on pro-poor expenditures. Again, the impact of political decentralisation was negative – consistently in the direction of less pro-poor expenditure effort. Unlike the model for tax capacity, administrative decentralisation had positive effects. Once again, however, fiscal decentralisation did not appear statistically significant in any model.

Table 13.2 displays the results from the different models for pro-poor policy outputs. If we compare across the models, one can see that the size of the coefficients changes slightly, but the statistical

⁷⁷ The development variable, income per capita, was transformed using a logarithmic transformation, thus its coefficient can be interpreted as the impact of a percent change in income per capita.

⁷⁸ The impact of trade openness was significant and slightly positive in this final model. For every percentage increase in imports and exports as a percentage of GDP, there was a small increase in tax capacity (.0038).

significance and direction of impact was robust to the different model specifications. The R² statistic was reasonably good (.32 in the simplest model); and, as one might expect, it rose when more of the control variables were included.

Table 13.1 Decentralisation and tax capacity

	Model 1: decentralisati on dimensions	Model 2: decentralisati on dimensions and controls	Model 3: decentralisati on dimensions and controls, democratic regimes		Model 4: single indicators
Constant	-15.63* (8.34)	-.953 (8.72)	-5.81 (12.02)	Constant	-8.72 (5.70)
Fiscal decentralisatio n units	-6.75 (5.46)	11.88 (14.49)	.749 (19.59)	Sub-national revenues as a percentage of total	-9.97E-02 (.064)
Administrative decentralisatio n units	4.20 (7.10)	8.11 (13.91)	-2.73 (18.69)	Sub-national tax as percentage of revenues	1.45E-02 (.042)
Political decentralisatio n units	-15.53*** (6.37)	-12.38*** (4.31)	-9.76* (4.99)	Municipal elections	-4.31*** (1.24)
Interaction among decentralisatio n terms		-30.71 (29.69)	-4.75 (42.43)		
Development (log GDP per capita)	6.15*** (.87)	2.38*** (.75)	2.55*** (.84)	Development (log GDP per capita)	3.07*** (.72)
State claimants (senior citizens)		1.63*** (.24)	1.49*** (.26)	State claimants (senior citizens)	1.40*** (.22)
Globalisation (trade openness)		3.68E-02 (.023)	3.23E-02 (.025)	Globalisation (trade openness)	3.75E-02* (.021)
Adjusted R- squared	.53	.82	.77	Adjusted R- squared	.83
Cases	42	42	37	Cases	42

*indicates statistically significant at .10 level, ** at .05 level, and *** at .01. Standard errors in parentheses.

In each specification, political decentralisation was negatively related to pro-poor expenditure and was statistically significant. For example, in democratic countries, an increase from .1 to .2 in political decentralisation led to a drop of .21 in the proportion of total expenditures spent on pro-poor expenditures. Administrative decentralisation, by contrast, had a positive relationship to social policy for democratic countries; an increase from .1 to .2 in administrative decentralisation was correlated with an

increase of .27 in the proportion of total expenditures spent on social policy. Fiscal decentralisation was not statistically significant.

The control variables behaved as expected though they were not always significant. The interaction term was not significant in any model, nor was the impact of globalisation. The weight of state dependants and the level of development were significant in all models, and had the predicted impact of increasing pro-poor expenditures. For example, democratic countries with per capita \$100 above the average spent 3 per cent more on pro-poor expenditures.⁷⁹ Also, countries with 1 per cent more of the population over 65 spent 1.47 percentage points more of GDP on pro-poor expenditures.

Table 13.2 Pro-poor expenditure effort

	Model 1: decentralisati on dimensions	Model 2: decentralisati on dimensions and controls	Model 3: decentralisati on dimensions and controls in democratic regimes		Model 4: single indicators
Constant	-.11 (.10)	9.88E-02 (.13)	4.00 (.14)	Constant	2.30E-02 (.11)
Fiscal decentralisation	-1.69E-02 (.067)	6.77E-02 (.19)	8.37 (.20)	Sub-national revenues as percentage of total	6.86E-04 (.004)
Administrative decentralisation	.27 (.070)***	.26 (.13)**	.25 (.14)*	Sub-national tax as percentage of revenues	3.23E-03*** (.001)
Political decentralisation	-.16 (.061)**	-.14 (.060)**	-.17 (.067)**	Municipal elections	-5.47E-02** (.023)
Log of GDP per capita	6.79E-02 (.011)***	3.39E-02 (.015)**	3.12E-02 (.015)*	Log GDP per capita	3.79E-02** (.014)
Age – proportion over 65		1.41E-02 (.005)***	1.47E-02 (.005)***	Age – proportion over 65	1.30E-02*** (.005)
Trade openness		3.90E-04 (.00)	4.44E-04 (.00)	Trade openness	3.77E-04 (.000)
Decentralisation interaction		-.22 (.38)	-.21 (.41)		-.32 (.46)
R ²	.41	.46	.45	Adjusted R-squared	.48
N	61	59	49	Cases	59

*indicates statistically significant at .10 level, ** at .05 level, and *** at .01. Standard errors in parentheses.

⁷⁹ The development variable, income per capita, was transformed using a logarithmic transformation, thus its coefficient can be interpreted as the impact of a percent change in income per capita.

The final model repeats the analysis using a single indicator for each dimension of decentralisation. The coefficients are consistent with those using the factor analysis. For example, there was no significant impact of decentralised fiscal resources, but higher levels of administrative decentralisation and lower levels of political decentralisation were associated with more pro-poor expenditure. Countries with sub-national units that collected 10 per cent more of their revenue in taxes spent .32 per cent more on pro-poor expenditures. Countries in which local legislatures were elected spent .055 less on pro-poor expenditure than those in which there were no local legislative elections.

A graphical representation in Figure 13.1 brings together the measurement model from the factor analysis with the linear regression results from this section. The figure uses conventions common in linear-structural relations analysis (Hayduk 1987). Squares indicate that variables were observable, and ovals, like the decentralisation dimensions, show that concepts had to be derived from other indicators. The left side of the figure shows a measurement model in which the three abstract dimensions of decentralisation in ovals at the centre are connected by arrows to the six measurable variables in squares to the left. Above the decentralisation ovals are squares representing the control variables in the regression analysis. Arrows connect the control variables and the decentralisation ovals to the dependent variable on the right, tax capacity and pro-poor expenditure outputs. The arrows indicate the causal relationship between each explanatory variable and the outcome.

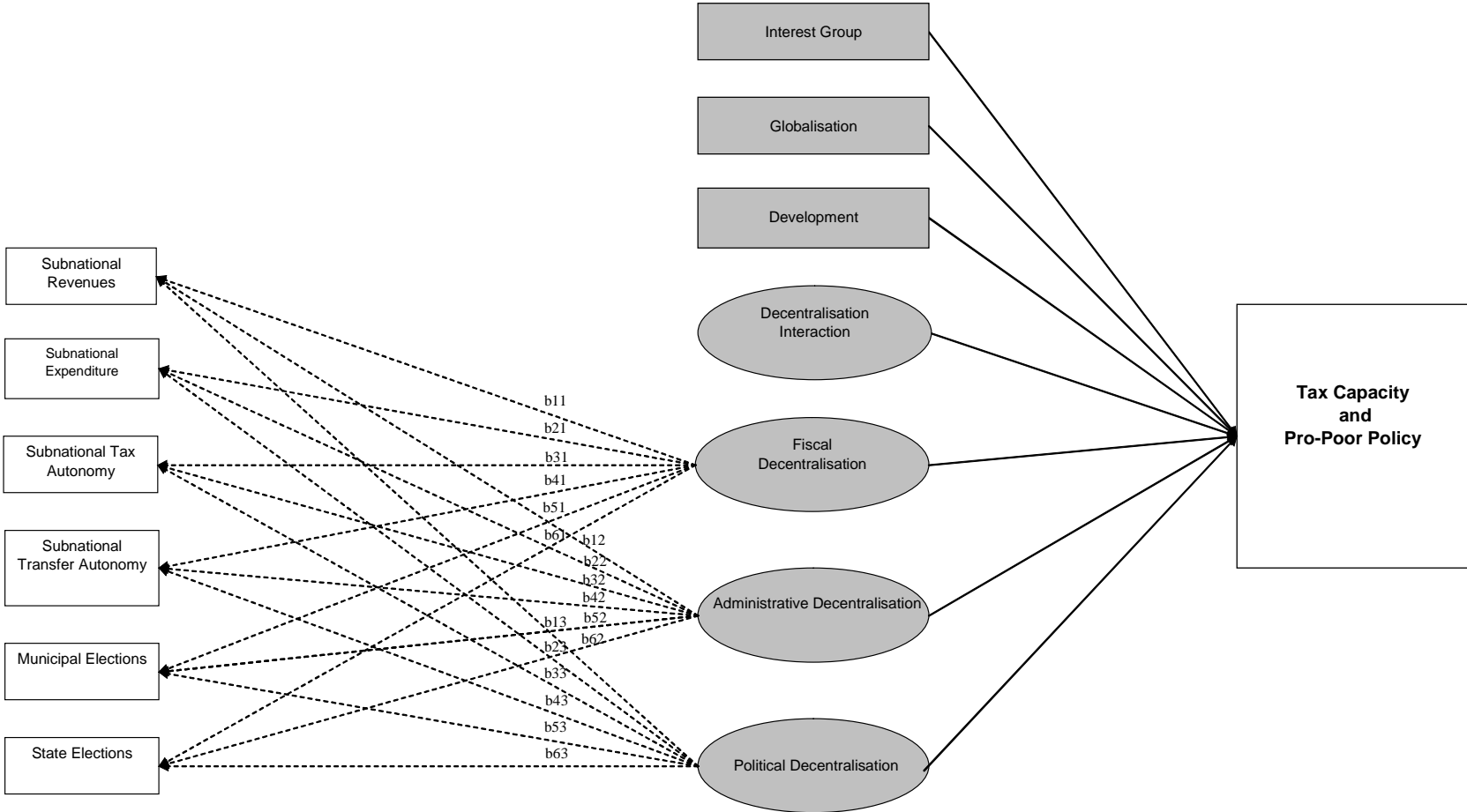
13.2 Implications

The main concern of this exercise was to understand the impact of decentralisation on public finance. Unlike other potential influences, decentralisation offers a unique opportunity to policymakers and policy advisors who could conceivably take steps to precise a system of intergovernmental relations to improve tax capacity and pro-poor expenditure. Other determinants, such as level of development and aged percentage of the population, had a positive impact on tax capacity and pro-poor expenditure, but these are hardly instruments of policy.

The dimensions of decentralisation, however, are attributes that governments can potentially alter with less difficulty. Though the dimensions may be fundamentally related, they did not combine in a systematic way to influence tax capacity. This suggests that centralisation along one dimension might be combined with decentralisation along another dimension to fine-tune the conditions for expanding tax capacity.

The regressions confirmed a negative impact of political decentralisation and, at least for pro-poor expenditures, a positive impact of administrative dimension. The negative relationship between political decentralisation and tax capacity suggests that decentralisation lowers the political resources available to those who favour greater public sector action and strengthens the political influence of those who do not. The negative relationship between political decentralisation and pro-poor expenditures suggests that the organisational and material resources that allow the poor to advance their demands are less powerful at the sub-national level than at the national level.

Figure 13.1 Linear-structural model of pro-poor outputs



The positive relationship between administrative decentralisation and pro-poor expenditures suggests that competition, information, and innovation resulting from decentralisation may have efficiency benefits that increase pro-poor spending. One interpretation is that by being able to do more with less, efficient administrations free up resources that are used for pro-poor expenditures. Another interpretation is that sub-national jurisdictions compete to retain their citizens by providing services, including those services directed to the poor. The two results together suggest that that administrative decentralisation and political centralisation led to the outcomes policy advisors might like. This is especially the case as there were interaction effects among the dimensions.

One policy step that might be taken would be to encourage governments to strengthen the institutions that centralise political functions, especially those institutions that might represent the poor. To centralise politics, advisors could encourage organisation in national political parties, unions, and interest groups. Of course, national organisations cannot be created overnight, but institutional changes may encourage national collective action. For example, governments can create arenas in which associations gather and take binding decisions, as was the practice in peak level bargaining in corporatist systems. To encourage similar centralisation in political parties, governments could adjust electoral institutions to favour issues and contests with national scope. Timing national and local elections at the same time and linking national and local nomination and financing procedures might have such an effect. The point is not that local political competition is bad. Rather, the point is that national issues of redistribution and poverty have to be fought and advanced at all levels of government. These issues are not likely to be brought to the table, however, unless there are national level organisations that allow poor people to organise, articulate their interests, and gain representation.

A second policy step that might be taken would be to grant administrative autonomy to local units. Immediate efforts that might advance this autonomy would be giving sub-national units greater control over their resources, for example through the use of block grants rather than ear-marked or conditional grants, and granting local units access to professional staff from central bureaucracies. To promote competition among sub-national units, central governments could loosen national mandates and allow greater experimentation, innovation, and specialisation. Those behaviours that produce efficiencies can be rewarded and best practices can be exported, for example through administrative exchanges across sub-national units. Of course, all of these mechanisms of administrative efficiency will work only if information, monitoring, and oversight are in place at the local level. This means that local ombudsmen, press, and political actors should be encouraged to challenge administration and hold it accountable. Accounts tribunals or other oversight bodies at the sub-national level can play an important role.

The distinction to be understood here is (a) the values that decide how much public action should be undertaken versus (b) the efficiency with which government takes action. Other things equal, political centralisation allows poor people and those who favour public action to overcome obstacles to collective action and influence the values that direct government. It is not that these actors cannot do the same at the local level, indeed, they often do; it is simply that centralised political systems allow those who favour public action to shape the values of government more than decentralised systems.

Other things equal, administrative decentralisation allows efficient implementation of political values. It is not that central governments are not efficient; they are often the repositories of the best and the brightest from government bureaucracy. On the other hand, centralised bureaucracies may not be able to encourage the innovation and competition that promote efficiency in sub-national units.

In sum, administratively decentralised systems achieve more efficient public policies than administratively centralised systems. At the same time, in comparison with politically decentralised systems, politically centralised systems direct policies with values that favour more public action and more pro-poor action. Taken together, then, administratively decentralised and politically centralised systems offer the greatest amount of progressive public action.

Appendix A Factor analysis for decentralisation ⁸⁰

The model proposed here conceptualises decentralisation as three distinct but interrelated dimensions that can be measured using the six indicators described above. Factor analytic techniques applied to the indicators can calculate the unique and interrelated characteristics of the different dimensions of decentralisation and test whether the model is accurate. This technique of proposing and testing a measurement model using factor analysis is known as confirmatory factor analysis, and it rests on the intuition that underlying concepts, such as the dimensions of decentralisation, are difficult to measure, but they are manifest in empirically observed indicators.⁸¹

The specific hypotheses to be tested are (a) decentralisation consists of three abstract dimensions; and (b) each of the six indicators is closely related to one of the three dimensions. To test the first hypothesis, confirmatory factor analysis separates the unique characteristics of each indicator from the characteristics shared with other indicators. If the most statistically accurate grouping of shared characteristics divides the indicators into three clusters, the analysis confirms that there are three underlying dimensions, as opposed to two or four (or some other number).⁸²

Next, factor analysis uses the correlations among the variables to measure their relationship to underlying dimensions. The shared characteristics can be divided into the portion explained by each dimension, given as a factor coefficient for each dimension. If the model is correct, the largest factor coefficients should relate indicators to the dimension they are hypothesised to measure. For example, the largest factor coefficient on sub-national percentage of expenditures should be the coefficient related to the fiscal decentralisation dimension. These steps confirm the measurement model. They also produce improved and more precise measures of the concepts.

This is possible because the analysis generates factor coefficients relating each indicator to all the dimensions. Partly, this is because the measures are imprecise, and they will pick up some of the relationships to other dimensions. In addition, the coefficients reflect the fact that the dimensions are related. For example, politically decentralised systems might find local political weight used to allocate more resources to lower levels of government. As a result, part of the sub-national revenues indicator should not be attributed to fiscal decentralisation but reflects characteristics derived from the political decentralisation dimension.

⁸⁰ A more extended version of this factor analytic exercise can be found in Schneider (2002b).

⁸¹ For a more thorough discussion of factor analytic techniques, see Kim and Mueller (1978); Long (1983); or Bollen (1989). For an application, see Brady (1990).

⁸² Confirmatory factor analysis tests the marginal increase in variance explained by adding another dimension against the variance explained by randomly organising the data. The statistic used to show the relative amount of variance explained by the dimensions is called the eigenvalue, and eigenvalues below one suggest that there is little marginal increase from adding more dimensions (Kim and Mueller 1978: 32–37). An additional method of confirming the number of dimensions is graphical, in which the eigenvalues of each added dimension are graphed, called a scree plot. When the graph begins to flatten, i.e. adding dimensions is explaining little more of the data, then there is little marginal benefit to adding dimensions. It is possible to use exploratory factor analysis to discover how many dimensions exist, and simply add dimensions until the eigenvalue drops below one or the scree plot flattens. Here there are strong hypotheses that three dimensions should exist, so confirmatory factor analysis is used.

Factor analysis uses this information to improve measurement in ways that simple aggregation or indexes cannot. Factor analysis separates the relationship to each dimension and calculates its size in the factor coefficients. This allows us to use only the information from each indicator that is relevant to a single dimension and ultimately obtain better measures of the dimensions.

A second output of the analysis is an accurate measurement of each dimension in each case. The factor coefficient measures the intensity of the relationship between each variable and each dimension and can be multiplied by each case score on each variable. The sum of the coefficients multiplied by the case scores gives a factor score for each case on each dimension. In other words, we can produce a measure of fiscal decentralisation, administrative decentralisation, and political decentralisation in each case. In fact, this measure is superior to other methods of measurement that do not take as many indicators into account and/or that do not attempt to separate the unique and shared characteristics of each indicator.⁸³

A1 Cases and data

The current project applied confirmatory factor analysis to decentralisation data collected from 68 countries in 1996. The data included fiscal indicators from IMF Government Finance Statistics, obtained from the World Bank website on decentralisation, and filled in missing values with data from the 2001 IMF hardcopy publication where available. Other data were collected in the Database of Political Indicators collected by researchers at the World Bank and the Government of Switzerland. Missing political data was obtained from country constitutions, Library of Congress Country Facts, and the CIA Factbook.⁸⁴

In cases in which there was no fiscal data available from 1996 but data from other years in the 1990s were available, linear trends obtained through regression analysis of available data filled the 1996 data. As most fiscal indicators are variables that change incrementally over time, if at all (expenditures, revenues, etc.) this practice was not likely to change the results. The findings were robust to using data from a single year data alone (1995, 1996, 1997), but pooling the data into a single year increased the number of cases available.

Special care was also taken with relation to indicators that were related to variables that might confound the analysis, such as the type of regime. This was particularly the case for the political decentralisation indicators that focused on elections and electoral rules. Some non-democracies held elections and data was therefore available on the political decentralisation indicators. Nevertheless, some might argue that the representation that occurs in non-democracies, however decentralised, is substantively different than that occurring in democracies. A local election in which the national

⁸³ The equation for each observed variable is given by: $X_i = \sum_j b_{ij}F_j + d_iU_i$
The observed variable is 'X'; 'F' is a common factor shared by two or more variables; and 'U' is a factor unique to a given variable. The correlation between the observed variable and the shared factor is 'b', and 'd' is the correlation between the unique factor and the observed variable. The subscript i indicates the observed variable and the subscript j indicates the common factor.

⁸⁴ Websites listed in the bibliography.

government is authoritarian or in which only one party competes can hardly be called competitive, and probably does a poor job of decentralising political functions.⁸⁵ To address this issue, the analysis was conducted after removing non-democracies. No significant changes in results occurred.⁸⁶

A2 Factor analysis

Confirmatory factor analysis was used to test the hypothesis that three dimensions of decentralisation (fiscal, administrative, and political) that underlay measurable indicators. The six indicators were: (1) sub-national expenditures as a percentage of expenditures; (2) sub-national revenues as a percentage of total revenue items; (3) the relative importance of tax as a percentage of sub-national revenues; (4) the relative importance of transfers as a percentage of sub-national revenues; (5) the existence of municipal elections; and (7) the existence of state or provincial elections. The hypothesis was that the first two indicators mostly measured fiscal decentralisation; the third and fourth indicators measured administrative decentralisation; and the last three indicators measured political decentralisation.⁸⁷

The number of cases with data available on all indicators was 68. Among these cases, the mean percentage of expenditures as a percentage of total expenditures was 22.27 and the mean percentage of revenues was 17.24. The mean percentage of sub-national revenues from taxes was 44.65 and the mean percentage from transfers was 34.60. Twelve of the cases had no municipal elections, and 26 had no state elections.

Principle factor analysis of the data confirmed the assertion that three dimensions most appropriately organised the data. The eigenvalue for the third dimension was .92 with a cumulative per cent of variance explained of 88.29 (see Table A1).⁸⁸

Table A1 Eigenvalues

Component	Initial Eigenvalue	Cumulative % of variance explained
1	2.50	41.63
2	1.89	73.10
3	.92	88.29
4	.49	96.47
5	.18	99.42
6	3.45E-02	100

⁸⁵ On the other hand, local elections and representative processes can be a key factor in politically decentralising an authoritarian regime. For example, in Brazil, local elections forced military leaders to consider local and regional pressures, even though the national executive was controlled through undemocratic means. See Hagopian (1996).

⁸⁶ The results were robust to excluding non-democracies. Using an indicator of democracy from the Polity IV database, eleven non-democratic cases were excluded from the analysis. Confirmatory factor analysis results on the democratic cases alone produced few differences from the analysis of all cases together. Three dimensions underlay the data, and factor coefficients and factor scores changed only slightly.

⁸⁷ The importance of transfers was reversed to keep the signs positive.

⁸⁸ The scree plot did not show a significant change in the amount of variance explained by each dimension. Each added dimension appeared to explain about as much as the next, though the eigenvalues did drop far below one after the third dimension.

Table A2 Fiscal, administrative, and political decentralisation

Dimension	Observed variable	Coefficient	Factor coefficient
Fiscal decentralisation	Sub-national expenditure percent	b ₁₁	.971
Fiscal decentralisation	Sub-national revenue percent	b ₂₁	.930
Administrative decentralisation	Sub-national tax percent	b ₃₁	.251
Administrative decentralisation	Sub-national transfer percent	b ₄₁	2.629E-02
Political decentralisation	Municipal elections	b ₅₁	-4.282E-02
Political decentralisation	State elections	b ₆₁	.412
Fiscal decentralisation	Sub-national expenditure percent	b ₁₂	3.867E-02
Fiscal decentralisation	Sub-national revenue percent	b ₂₂	.315
Administrative decentralisation	Sub-national tax percent	b ₃₂	.917
Administrative decentralisation	Sub-national transfer percent	b ₄₂	.931
Political decentralisation	Municipal elections	b ₅₂	-2.818E-02
Political decentralisation	State elections	b ₆₂	-.172
Fiscal decentralisation	Sub-national expenditure Percent	b ₁₃	.144
Fiscal decentralisation	Sub-national revenue percent	b ₂₃	6.375E-02
Administrative decentralisation	Sub-national tax percent	b ₃₃	-2.766E-02
Administrative decentralisation	Sub-national transfer percent	b ₄₃	-.140
Political decentralisation	Municipal elections	b ₅₃	.930
Political decentralisation	State elections	b ₆₃	.712

Next, the covariances among the variables were used to measure the relationship between variables and underlying dimensions.⁸⁹ As expected, sub-national expenditures as a percentage of total expenditures and sub-national revenues as a percentage of total revenues were highly correlated with each other and with what was labelled the “fiscal decentralisation” dimension. The factor coefficient of sub-national expenditures as a percentage of total revenues was .971 and the coefficient of sub-national revenues as a percentage of total revenues was .930.

⁸⁹ The solution was rotated to obtain orthogonal factors using a varimax rotation technique.

Also as expected, the relative importance of tax and transfer revenues as a percentage of sub-national revenues were most highly correlated with each other and with what was labelled the “administrative decentralisation” dimension. The factor coefficient of tax revenues as a percentage of local revenues was .917 and the coefficient of non-transfer income as a percentage of local revenues was .931.

Finally, municipal elections and state elections were most closely related to each other and to the third dimension, which has been labelled “political decentralisation”. The factor coefficient of municipal elections was .930, and the factor coefficient of state elections was .712 (see Table A2).

Factor analysis also allows us to determine the degree to which the dimensions are related to one another. Given the nature of the decentralisation concept, in which one kind of decentralisation is expected to influence other kinds, correlation among the dimensions was expected. Nevertheless, the factor analysis showed that the correlation between the dimensions was relatively small and statistically insignificant. Between fiscal decentralisation and administrative decentralisation, the correlation coefficient was -.13. Between administrative decentralisation and political decentralisation the correlation coefficient was .11, and between fiscal decentralisation and political decentralisation, the correlation coefficient was 0. None of the coefficients were statistically significant. Though this result was somewhat surprising, it supported the assumption that the dimensions could be analysed as though they were orthogonal.

Finally, the factor coefficients for each variable were used to obtain a score for each case along each dimension. For each case, the factor scores are the sum of the products of the factor coefficients and the indicator scores. To make them easier to interpret, the factor scores were normalised to a zero to one scale, and can be read in terms of decentralisation units. Thus, Albania has a score of .35 fiscal decentralisation units, 0 administrative decentralisation units, and .42 political decentralisation units. Appendix B displays the factor score on each dimension for the different countries in the study. The average amount of fiscal decentralisation, on a zero to one scale, was .42. The average amount of administrative decentralisation was .54, and the average amount of political decentralisation was .54.⁹⁰ These factor scores were used as the measures for fiscal, administrative, and political decentralisation in the causal analysis of pro-poor policy. The scores for each country are listed in Appendix B for those who would like to reproduce this analysis or examine other hypotheses.

We can test the face validity of these measures by comparing these scores with what we know from more qualitative research on decentralisation. For example, the data from 1996 gave Argentina high scores on all three dimensions of decentralisation (.70, .80, .90). Qualitative information offers details not picked up in the factor analysis, but the overall picture of 1996 Argentina is an extremely decentralised federation. For example, though not indicated in the factor analysis, Argentine sub-national fiscal capacity was greatly enhanced by the ability to borrow. Restrictions on borrowing were largely administrative and could be decided with the agreement of local legislatures. Many local jurisdictions also had the luxury of taking

⁹⁰ The factor scores are not completely straightforward to interpret, but they do provide an interval measure of the dimensions. The difference between a country that scores .1 and another that scores .2 is the same magnitude as the difference between countries that score .6 and .7. On the other hand, zero indicates that a country was simply the least decentralised among the sample; zero does not mean that local jurisdictions had no resources, autonomy, or political functions.

loans from their own banks. On the other hand, international loans required central government approval and all loans were restricted to investment or to restructuring.⁹¹ Administratively, sub-national units enjoyed a great deal of autonomy in terms of what policies they pursued. Central government had little ability to withhold finances from sub-national units as most transfers were an automatic percentage of domestic taxes, encoded by law, and distributed according to a predetermined formula or amount. For example, a portion of VAT and property tax were distributed to the provinces and municipalities according to the number of beneficiaries in the jurisdiction. Some of the transfers, though not all, were tied to specific expenditures, such as 50 per cent of asset tax being earmarked for education. Still, provinces and local jurisdictions enjoyed significant autonomy with respect to the amount, structure, execution, and supervision of various social services, including housing and education (except university). The public health system was controlled by the central government though hospitals were largely controlled by provinces. Politically, nomination and financing of candidates occurred at each level of government, and parties had internal factions that reflected bases of politicians in different provinces. On the other hand, a relatively dominant president and party leader added a degree of political centralisation not reflected in the factor analysis. Overall, the qualitative information on Argentina confirms what the factor analysis uncovered.

Were there any countries that seem to score oddly on the factor analysis? Netherlands Antilles appears odd, as it scored very high on fiscal decentralisation, very high on administrative decentralisation, and the lowest on political decentralisation (.93, .93, 0). It is possible for a country to decentralise fiscally and administratively while retaining political functions at the centre; still, it demands a closer examination. One explanation could be the small size of the Netherlands Antilles; decentralised political functions may simply not register in the indicators used. Indeed, the country is a strange one to characterise. It is a federation of five islands that are part of the Dutch Kingdom but autonomous in their internal affairs. The Dutch government manages defence and foreign affairs and the queen of the Netherlands remains the chief of state. She appoints a governor general who is the chief executive, and a parliament with 22 members selects a prime minister who carries out executive responsibilities. Each island has its own legislature, though the central government can overrule any council decision that it deems against the public interest. The odd scoring produced in the factor analysis may be attributable to the fact that the indicators used for political decentralisation did not detect the nuance presented by the individual island legislatures. The fiscal and administrative indicators, by contrast, did detect the autonomy of the islands. Fortunately, excluding Netherlands Antilles from the sample did not significantly change the ratio order of the other countries.⁹²

⁹¹ <http://www1.worldbank.org/publicsector/decentralization/dataondecen.htm> accessed June, 2002.

⁹² The only countries that moved position were Tajikistan, Trinidad and Tobago, and Mauritius, and even they only swapped places with a neighbour on the scales of the different dimension.

Appendix B Factor scores from confirmatory factor analysis – countries and decentralisation dimensions

Country	Fiscal decentralisation	Administrative decentralisation	Political decentralisation
Albania	0.38	0	0.44
Argentina	0.7	0.8	0.9
Australia	0.75	0.42	0.57
Austria	0.6	0.59	0.62
Azerbaijan	0.53	0.61	0.05
Belarus	0.57	0.63	0.04
Belgium	0.3	0.41	0.67
Bolivia	0.44	0.46	0.58
Botswana	0.19	0.17	0.5
Brazil	0.64	0.55	0.88
Bulgaria	0.25	0.66	0.98
Canada	0.96	0.67	0.82
Chile	0.15	0.92	0.44
Croatia	0.32	0.75	0.26
Czech Rep.	0.43	0.52	0.49
Denmark	0.71	0.53	0.87
Dom. Rep.	0	0.67	0.68
Estonia	0.35	0.75	0.37
Fiji	0.14	0.77	0.14
Finland	0.61	0.62	0.29
France	0.29	0.63	0.8
FRG/German	0.66	0.64	0.88
Georgia	0.49	0.66	0.06
Guatemala	0.35	0.02	0.01
Hungary	0.34	0.38	0.59
Iceland	0.38	0.81	0.8
India	0.77	0.49	0.42
Indonesia	0.27	0.27	0.33
Ireland	0.4	0.12	0.87
Israel	0.31	0.45	0.5
Italy	0.36	0.3	0.91
Kazakhstan	0.51	0.83	0.51
Kenya	0.15	0.68	0.12
Kyrgyzstan	0.51	0.54	0.19
Latvia	0.43	0.75	0.35
Lithuania	0.48	0.74	0.51
Luxembourg	0.3	0.51	0.35
Malaysia	0.42	0.39	0.19

Mauritius	0.1	0.41	0.65
Mexico	0.46	0.65	0.93
Moldova	0.58	0.76	0.32
Mongolia	0.6	0.5	0.45
Neth. Antil	0.93	0.93	0
Netherland	0.45	0.2	0.44
Nicaragua	0.09	0.94	0.71
Norway	0.48	0.56	0.75
Panama	0.01	1	0.91
Paraguay	0.06	0.81	0.43
Peru	0.38	0.13	0.45
Philippine	0.16	0.48	0.97
Poland	0.38	0.52	0.49
Portugal	0.23	0.55	0.36
PRC	1	0.5	0.36
Romania	0.19	0.69	0.67
Russia	0.67	0.83	0.91
S. Africa	0.55	0.1	0.85
Senegal	0.35	0.54	0.24
Slovakia	0.16	0.76	1
Slovenia	0.22	0.75	0.4
Spain	0.5	0.35	0.89
Sweden	0.58	0.83	0.5
Switzerlan	0.8	0.61	0.85
Tajikistan	0.59	0.61	0.47
Thailand	0.12	0.72	0.68
Trinidad-T	0.18	0.04	0.59
UK	0.37	0.2	0.89
USA	0.8	0.56	0.84
Zimbabwe	0.32	0.49	0.06

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