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January 2008

Online at <https://mpra.ub.uni-muenchen.de/6734/>  
MPRA Paper No. 6734, posted 14 Jan 2008 18:45 UTC

**EMERGING DIMENSIONS OF DECENTRALIZATION DEBATE  
IN THE AGE OF GLOCALIZATION**

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*Forthcoming in:*

***Decentralized Local Governance: Global Perspectives***

**Edited by Dr. Sudha Menon**  
**ICFAI UNIVERSITY PRESS**

# EMERGING DIMENSIONS OF DECENTRALIZATION DEBATE IN THE AGE OF GLOCALIZATION

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*In 21<sup>st</sup> Century the development landscape worldwide is constantly being shaped and reshaped by the simultaneous processes of globalization and localization (collectively called Glocalization). In this scenario the subnational political units are emerging as the principle actors in the global economy. With this the location or site of governance is changing. Thus the need is to situate the debate on decentralization in context of glocalization. This chapter is an attempt to understand 'why' and 'how' of decentralization—the questions that have perplexed the policy makers and academicians in the age of glocalization. It has been argued that 'how decentralization is designed' depends on 'why decentralization is being carried out': Drive determines the design. The chapter reflects upon various dimensions related to the design of decentralization and shows that out of the competing approaches none forms an 'ideal type solution'. Solution, it is argued, is to be found not in antipodes but in an 'optimal mix of policies implemented with optimal pace'. Each country however must find its own 'optimality' given its tradition, geography, economy, income level, social structure and political choices.*

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## **Introduction:**

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Glocalization seems to be a problematic term. But this is the term that best captures the essence of the emerging worldwide phenomenon where globalization and localization are simultaneously transforming the development landscape. The term has its roots in the Japanese term *dochakuka* which first appeared in the late 1980s in articles by Japanese economists in the Harvard Business Review. The term originally meant adapting farming technique to one's own local condition. The idea was later adopted to refer to global-localization. According to the dictionary meaning, the term 'glocal' and the process noun 'glocalization' are "formed by telescoping global and local to make a blend" (The Oxford Dictionary of New Words, 1991:134). Roland Robertson conceptualized glocalization as "the universalization of particularization and the particularization of universalism" (Robertson, 1992:100). Khondker (1994) expressed it as a process combining the twin processes of macro-localization and micro-globalization. Giddens (2000) however conceptualizes the relationship between the global and the local a little differently. Globalization he argues provokes revival of local cultural identities (Giddens, 2000:31). Thus in his view 'local' is the provider of the response to the forces that are 'global'. For Ritzer (2004) globalization is glocalization plus globalization. Globalization refers to growth imperatives forcing the "organizations and nations to expand globally and to impose themselves on the local" (2004:xiii). While the term globalization, is bereft of any conceptual underpinnings or theoretical construct, it does reinforce the fact that "Globalization" and "localization" (the growing economic and political power of subnational entities) have become the most important trends of the new century. Earlier in 1990 the U.S Agency for International Development had identified such trends as "the establishment of open markets and the movement toward more accountable and democratic governance." (USAID, 1990 p1). However, the WB report (1999) adds that this is happening at the cost of the nation state. Thus the global economy has unleashed economic and political factors strengthening both global and local pressures at the expense of the traditional nation state. Does such a trend indicate a movement towards beginning of the end of the nation states and rise of regional economies?

Kahler and Lake (2003) and Michael J Hiscox (2003) argue that globalization- defined narrowly as "economic integration in international system" has created pressures for relocation of decision making authority away from the state. Thus there is a change in location or site of governance. States are either

delegating more responsibility over decision making “upwards” to supranational institutions or devolving decision making powers “downwards” to subnational political units. This kind of analysis suggests that as a consequence of globalization, national economic sovereignty is weakening while local economies, what Ohamae (1995) calls “citistates” are becoming the principle actors in the global economy.

In fact central governments around the world are decentralizing fiscal, political and administrative responsibilities to lower level governments and to the private sector. A large number of developing and transitional countries have embarked on some form of decentralization programmes. This trend is coupled with a growing interest in the “role of civil society and the private sector as partners to the governments in seeking new ways of service delivery” (UNO, 1996 P.7). With this it becomes essential to situate the debate on decentralization in context of glocalization. Till mid 1980s the major debate was: To decentralize or not? Today this is no longer relevant. The question at the center of decentralization debate today is: How to decentralize?

I show in this chapter that there is no simple and straightforward answer to this question. There are competing notions of decentralization and competing approaches for designing decentralization. In fact various types of decentralization viz. political, administrative, fiscal, and market decentralization can be designed in various forms and combinations. This chapter is an attempt to understand this intricate question that has perplexed the policy makers and academicians ever since the emergence of the strategic trend towards glocalization. Thus in the age of Glocalization the issue of decentralization has emerged as one of the central themes of international policy debates. Before going on to the various dimensions of decentralization debate, I highlight in section I the emerging dynamics of decentralization in the age of glocalization. Section two shows that there are contrasting views on – ‘why to decentralize’ which influence policymakers views on ‘how to decentralize’? Section III then takes up the debate on designing decentralization. Section IV asks: How much to decentralize? While section V questions the speed with which decentralization should be carried out. Final section draws some concluding observations.

## **I. The Dynamics of Decentralization in the Age of Glocalization**

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The debate on decentralization since 1990s can be seen as a final stage of the dialectical movement of the development paradigm (Sharma, 2005a:2). Till mid 1980s there was a trend in favour of more economic role for the state (this paradigm gave rise to the extreme forms of centralization). The centralized decision making was seen as a way to ‘rationalize scarce resources and to depoliticize the masses’ while decentralization was viewed as likely to heighten cleavages; political, radical, ethnic, and religious. The second phase emerged in late 1980s and early 1990s accompanying an obsession with curtailing the economic role of the state and reducing the size of the public sector, as these were seen as major causes for financial crisis in the developing countries. The public sector far from being regarded as engine of development came to be perceived as an obstacle to it. There was a fascination with the private sector. (Privatization is seen as extreme form of decentralization). By mid 1990s, however, a renewed appreciation of the public sector’s development role began to emerge. Economic development literature has over the past decade re-discovered the importance of public sector that is sub-national in focus.

It may be noted that decentralization debate in the age of glocalization is not static. Decentralization is no longer put against centralization. The debate, far from focusing on the straw men of centralization vs decentralization, focuses on the complimentary role of the two. Final aim is not to decentralize just for sake of it but to ensure good governance. The context of glocalization has pronounced the dilemma

of balancing the contrasting forces of centralization and decentralization (see Sharma, 2005b: 175-76). Decentralization is no longer an alternative to centralization. Both are needed. The complementary roles of national and subnational actors should be determined by analyzing the most effective ways and means of achieving a desired objective. It just does not make much sense to hope for any sort of bottom-line presumption in favour of “more centralization” or “more decentralization.”

Research shows that glocalization is generating tendencies in both directions (centralization and decentralization) with the aim of providing good governance and a stable, secure and just government. It has been argued that centralizing *tendencies* are likely to be more salient in countries like the United States where intrastate authority was initially more decentralized, while decentralizing *tendencies* are likely to be more salient in states that were initially more centralized like China and India. Glocalization is creating incentives for sub national governments to play a more active role in attracting foreign investment, promoting trade, providing infrastructure and enhancing human capital yet on the other hand, it is promoting various forms of centralization by increasing the importance of macroeconomic policy levers, especially monetary policy and central banks.

International integration of markets is facilitating decentralization by reducing the economic costs of smallness (Alesina & Spolaore 1997, Bolton & Roland 1997). Technological changes and global integration of factor markets have changed the size of government needed to manage economic systems. Now an increasing number of public services can be efficiently provided by decentralized and often private organizations (World Bank 1995). Further, as argued by Schneidr (2003), free trade, international treaties and loan conditions have led central governments to choose or be forced to abdicate their traditional roles and leave critical functions to non-central government entities if they were to be performed at all. Synder (1999) for instance shows how Mexican state governments stepped in to provide regulatory frameworks where the central government abdicated its role in coffee production.

On the other hand international integration of markets has also increased demands for a) fiscal stabilization covering the entire country and b) insurance for regions adversely affected by asymmetric economic shocks. Both fiscal stabilization and inter-regional risk-sharing require a pooling of economic resources at the center (see Garrett and Rodden, 2003).

This implies that glocalization is generating tendencies towards supranational governance and centralization on one hand and for localization and decentralization on the other. The challenge is to design ‘optimal decentralization’. The right degree of decentralization, in words of Wildasin (1996) depends on what it is we are considering decentralizing and on the particular economic, historical, political and other circumstances within which decentralization is contemplated. In fact success of decentralization depends on its design (Sharma, 2005 c). While an appropriately structured decentralization improves the efficiency and responsiveness of the public sector and accommodates potentially explosive political forces, inappropriately designed decentralization threatens economic and political stability and disrupts the delivery of the public services. Here is important to note that the notion of appropriateness is relative and context specific. What is appropriate in one context may be inappropriate in another. How decentralization is designed depends on what are the goals that are sought to be accomplished? And why policy makers think decentralization is desirable? This debate is the subject matter of next section.

## **II. Why Decentralize?**

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How decentralization is designed depends on the goals that policy makers seek to achieve. These goals can differ from country to country. Within a multilevel governance structure, national and subnational political officials may seek decentralization for different purposes. Politics, broadly speaking, is a process of determining “who will get what, when and how”. In context of decentralization, the Central-Subcentral political bargaining over decentralization rules will determine whose version of decentralization would be implemented. Differences in objectives or rationale behind decentralization can be understood as follows:

### **(a) Perspectives on Desirability of Decentralization**

The debate here is why governments should decentralize: (a) To bring the government closer to the people *or* (b) To split sovereignty between various levels of the government. Understanding these two contrasting perspectives is important to understand various approaches to decentralize. In former perspective, the government is seen as benevolent (a Benthamite view) and decentralization is desirable because it brings it closer to the people. In latter perspective, the government is seen as malevolent and decentralization serves by disarming it. The contrast in these two perspectives on virtues of decentralization is at the root of much of the confusion. Roots of these two decentralization perspectives can be traced in the political thoughts of Rousseau and Montesquieu respectively. While Rousseau emphasized on virtues of bringing the government closer to the people, Montesquieu emphasized on virtues of limiting huge central government.

Both Rousseau and Montesquieu favoured small governments but for different reasons. In a large country, according to Rousseau: “The rulers, overburdened with business, see nothing for themselves; clerks govern the state” (Rousseau 1762, pp.49-50). In his Considerations on the Government of Poland, he offers the remedy by instructing the Poles to perfect and extend the authority of their provincial parliaments, or dietines, in order to avoid the dangers of large state size (Rousseau 1772, p.183). Thus he emphasized the importance of local representative bodies. Montesquieu on the other hand emphasized on virtues of preventing direct popular rule or majoritarian system for larger republics. Hamilton quoted Montesquieu at length to support the argument that splitting sovereignty between sub-unit and center would also protect individuals’ rights against abuse by authorities at either level (Federalist 9). It may be noted that the idea of decentralization as a theory of government where multiple veto points check the accrual of power in any single source was articulated during English Revolution. The activists including William Blackstone, Lord Bolingbroke, Major Cartwright, Edward Coke, William Godwin, Charles Grey, John Hardy, James Harrington, John Locke, John Milton, Robert Molesworth, Joseph Priestley, Algernon Sidney, and John Trenchard — collectively referred to as the Old Whig, Country, Commonwealth, or Dissenting traditions — formulated various facets of the decentralised model. [Brewer (1976), Foord (1964), Gunn (1969), Robbins (1959/1968)] William Blackstone’s theory of the mixed constitution with all parts in balance (which was derived from Aristotle) inspired the theory of the separation of powers, as articulated initially by Montesquieu and later by Madison.

The two different perspectives on nature of government (benevolent vs malevolent) have produced in USA two opposing groups who differ in their value judgments on the issue of decentralization: Conservatives and Libertarians. Conservatives, stress the benefits of state and local autonomy, and devolution of power as the primary objective of decentralization. Libertarians by contrast believe that decentralization is meant to be a structural constraint on government. It disarms huge central government with monopolistic powers. The central purpose of decentralization in their view is to limit

the power of government at all levels. Thus both the conservative (state sovereignty) and the libertarian (individual liberty) camps support decentralization but for entirely different reasons. Thus they are bound to differ in their prescriptions of decentralization instruments or tools.

In fiscal federalism literature these two perspectives have crystallized in form of two theories: (a) Musgrave's theory of Public finance and (b) Buchanan's theory of Public Choice. Former models the government as a benevolent maximizer of social welfare while latter models the government as a self aggrandizing Leviathan. The difference in perspective directly leads to difference in their respective advocacies of the *instruments* to be used to work out fiscal decentralization. Former favours the instrument of intergovernmental transfers (revenue sharing) while latter favours tax separation (independent local taxation).

It can be argued that a country where people by overwhelming majority express their concern regarding national issues and demand national goods and services the design of decentralization will exhibit characteristics such as cooperation (centrally enforced) between levels of government, revenue sharing, and accountability of the local governments towards higher levels of government. This will be a top down approach. If however people are more concerned about local issues and demand local goods and services then the design of decentralization will exhibit characteristics such as dualism, tax separation, and accountability of the local governments towards local constituents. This will be a bottom up approach.

### **(b) Endogenous and Exogenous Imperatives:**

The move towards decentralization may be induced by some exogenous or endogenous systemic forces. Endogenous factors such as economic failures, emergence of educated urban middle classes and decline of traditional patron client relationships and exogenous factors such as absence of war and emergence of global networks can weaken the justifications for and desirability of authoritarian central government. This can on one hand tempt the deprived groups in a community to demand political power and on the other induce the central governments to accommodate this demand by paving way for democratic decentralization instead of combating this demand with force. In Indonesia, for instance, the historic fall of the Soeharto Regime (1966-1998) in May 1998 in the wake of the Asian economic crisis of 1997-98 altered the political framework and set the stage for demand for more revenue authority to SNGs. Local elites are now fully intent on taking direct control over local resources. Similarly, In Russia, the bargaining powers of officials at the two levels altered after 'August 1998 meltdown' (the term used for financial and economic paralysis at the centre and consequent devaluation of Rouble on 17th August 1998). The implementation of IMF policies further weakened the internal support for the federation and discredited notions of 'market democracy'. Governors, lacking confidence in central authority now exert greater independence from federal control and demand more revenue authority.

Economic failure is one important factor for decline in the state's credibility. Central governments have often failed to provide effective public services. Decentralization is then designed to escape from the traps of ineffective and inefficient governance, macroeconomic instability and inadequate economic growth. In East Asian countries decentralization is being designed to improve delivery of local services to large populations. Throughout post communist Central and Eastern Europe, decentralization is being designed to adjust to the process of transition from socialist system to market economy and democracy.

In Latin America one of the important considerations for designing decentralization is to respond effectively to the political pressure from the people for democratization. This pressure is part of the historic “third wave of democracy” (Huntington, 1991) that began in the mid-1970s triggered a subsequent and equally profound wave of decentralization in the 1980s and 1990s.

In some countries decentralization has been adopted as a path to national unity. In countries like Bosnia and Herzegovina, and Ethiopia, the aim behind designing decentralization is to meet the challenge of ethnic tensions. Decentralization in such countries is primarily aimed at keeping the centrifugal forces at bay by forging asymmetrical federations. In Mozambique and Uganda, decentralization has been the outcome of long civil wars and has allowed for greater participation of all former warring factions in the governance of the country. The aim of decentralization in such cases is to ease the frustration of the local aspirants of political power thereby curbing separatism by devolving more decision making powers to the sub central levels. In this sense decentralization is adopted as a strategy to maintain political stability, to provide an institutional mechanism for bringing opposition groups into a formal, ritualized bargaining process.

Decentralization is sometimes designed merely to receive loans from international agencies. The design of decentralization in such cases can not be expected to aim at bringing about long term systemic reforms. Roy Bahl (1999) for instance observes, “When funding is brought as carrot, government officials are stimulated by them to take a harder look at the decentralization issue. However, unless the government itself is enthusiastic, the harder look will not lead to meaningful policy reform and in fact will be quickly forgotten when the money is gone. Often implementation stage is never reached”. (p27).

### **III. How to Decentralize?**

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Decentralization is a mixture of administrative, fiscal and political functions and relationships. In design of decentralization all three must be included. Administrative decentralization occurs when agents in higher levels of government move to lower levels. Fiscal decentralization occurs when higher levels of government cede influence over budgets and financial decisions to lower levels. Democratic decentralization, occurs when resources, powers, and tasks are shifted to lower-level authorities who are independent and democratic.

Quite frequently the question is raised as to how different forms of decentralization should be sequenced and synchronized. Whether political decentralization should precede or follow fiscal decentralization? (Sharma, 2005 c: 40-41). There are scholarly works justifying both sides of the argument. Boex (2001) asserts, “An important precondition of fiscal decentralization is political decentralization.” (p,3). He argues that fiscal decentralization implicitly assumes that subnational governments have a certain degree of fiscal discretion and are accountable to their regional constituents. Nothing but political decentralization provides local governments with real decision making power. Wildasin (1995) also believes that political decentralization should come prior to fiscal decentralization. He argues that enhancing the responsiveness of local institutions, either by democratizing them or by making them more competitive is a task that warrants explicit consideration in the developing country context. On the other side of the spectrum lies the argument that bringing political decentralization prior to fiscal decentralization is like putting the cart before the horse. Bardhan and Mookherjee (2000) argue that local accountability is best ensured by devolving fiscal authority. Political decentralization in absence of fiscal decentralization will lead to local capture. Political decentralization may therefore simply transfer power from national to local elites. Thus the argument here is that institutional foundations for *fiscal federalism, such as revenue-sharing arrangements and expenditure rules, should be in place before political decentralization and political liberalization begins.*

Olivier Blanchard and Andrei Shleifer's (2000) analysis suggest that federalism in Russia has failed precisely because political decentralization was put in place without adequate fiscal decentralization.

From above it is clear that the issue of proper sequencing is an important issue but the one that has remained unresolved. The problem here seems to be with the question that researchers are raising. Instead of asking fiscal first or political first, the question should be 'in what proportion'? How much political decentralization should be combined with what degree of fiscal decentralization? Thus the challenge of designing decentralization has been linked to a soufflé where all ingredients must be present in the right amounts and prepared in the right way to achieve success (Parker, 1995). The 'right mix of the policy instruments' however, must be determined while taking into account specific circumstances of the country concerned. It is not possible to propose a 'decentralization model' that would fit all the countries. To quote Prud'Homme(2001), " They (policy makers) are like a composer writing a symphony for a number of instruments; the quality of the symphony will depend upon the melody written for each instrument and also upon the combination of the many melodic lines."

It may be pointed out that in working out the right mix of various decentralization instruments one of the most contentious issue is 'how subnational governments should be financed: by revenue sharing or independent local taxation?' On the basis of 'decentralization instrument' there are two strands in the literature that argue for two different approaches. One gives more weightage to devolution of tax authority as an instrument of decentralization and hold it crucial for subnational autonomy, the other gives more weight to intergovernmental transfers. It is generally upheld that subnational governments can be said to be fiscal sovereigns only if they depend on *independent subnational taxation*. Azfar et.al. (1999) in contrast give less importance to the devolution of tax power. In view of the authors, "The most sensible form of decentralization primarily devolve expenditures rather than taxes (using transparent and formula driven fiscal transfers) because devolution of power to tax can create vertical externalities in terms of tax rates that are too high."

Two views on instruments for financing of decentralized units: (a) devolving revenue raising powers and (b) funding through intergovernmental transfers, echo two different perspectives. Former proposal has its roots in the concept of 'dual federalism' and the public choice perspective (Leviathan model) while the latter has its roots in the concept of 'cooperative federalism' and the public finance perspective (Benevolent social planner model). Though both views deserve due consideration, the solution however is not to be found in the antipodes. In my own view the case for either policy instrument (own source revenues or intergovernmental transfers) cannot be overemphasized. Though both serve to supplement subnational funds, none of them can perform the vicarious function to compensate the lack of the other. Thus, one can not be seen as superior to the other. Matching revenue-raising powers to spending responsibilities is a commendable objective. It allows SNGs to tailor the supply of public goods to local citizens' preferences and willingness to pay, and hence to be held accountable. But it cannot be stretched too far. From an ideal point of view, a case for perfect matching of revenue authority and expenditure responsibilities at the two levels can be made. But in an imperfect world with spatial inequalities, majority voting procedures, and various constraints on SNGs on raising own revenues due to open nature of their economies and tax base mobility, transfers turn out to be the important policy instruments for moving closer to, if not fully achieving Breton's (1965) perfect mapping or Olson's (1969) fiscal equivalence.

#### IV. How Much to Decentralize?

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Excessive decentralization, one that incapacitates the central government is a recipe for failure of democratic governance. Alexis de Tocqueville lived for several months in Switzerland in 1836 to study the impact of 'excessive' decentralization on quality of governance. After an in-depth study he observed, "I have developed such an utter disdain for the federal constitution of Switzerland, that I would unequivocally term it a league and not a federation. A government of that nature is certainly the weakest, the most impotent, the clumsiest and the least capable of leading its people anywhere except to anarchy that one could imagine. I am also struck by the lack of any *vie politique* in its population. The Kingdom of England is a hundred times more republican than this republic." (Tocqueville 1952, Oeuvres Complètes, Vol. XV, 1, p. 70-71).

Recent empirical evidence supports this view. Brazil is an example of an unbalanced federal system where states and municipalities have won. They dominate the union and compete among themselves in a disorganized and predatory fashion. Excessive decentralization has destabilized public sector and economy as a whole in Argentina while it has considerably lowered the quality of public services as in Latin America and Russia. It has hampered the government's ability to respond to economic shocks in Philippines. What is more serious is that if 'decentralization' aspect is stretched to its extreme it can even encourage and incite separatist tendencies as is happening in Italy. Wallace E. Oates (1999), have stated that in Italy the movement toward decentralization has gone so far as to encompass a serious proposal for the separation of the nation into two independent countries (p1120).

The view here is simply that the center must not lose control. The nature of control however in the age of glocalization will be different from the kind of control exercised by the central governments in developing countries till mid 1980s. The emerging governance literature explores the kind of 'sophisticated control' that is being considered more relevant than ever in context of glocalization. This *new role of the center* is based on changing paradigms of governance structure (as shown in Table 1).

**Table 1 : Governance Structure—20<sup>th</sup> Versus 21<sup>st</sup> century**

| 20 <sup>th</sup> Century  | 21 <sup>st</sup> Century                 |
|---------------------------|--|
| ▪ Unitary                 | ▪ Federal/Confederal                     |
| ▪ Centralized             | ▪ Globalized and Localized               |
| ▪ Center manages          | ▪ Center leads                           |
| ▪ Bureaucratic            | ▪ Participatory                          |
| ▪ Command and Control     | ▪ Responsive and accountable to citizens |
| ▪ Input controls          | ▪ Results matter                         |
| ▪ Top down accountability | ▪ Bottom up accountability               |
| ▪ Internally dependent    | ▪ Competitive                            |
| ▪ Closed and slow         | ▪ Open and Quick                         |
| ▪ Intolerance of risk     | ▪ Freedom to fail/succeed                |

Source : (Shah, 2004, p 4)

Center's new role will not be identical to the older one where central government played a strong-control and commanding role. As governments restructure, role of centre should be that of "stewardship". Peter Block argues that principles of stewardship bring a new understanding of accountability to each act of governance. (Block 1993, p. 27). In this concept, which is quite popular in literature of management and organization in United States, trust, service and accountability are emphasized. I believe this concept has some novelty yet it underplays the significance of retaining an

aura of control. Trust should be created without losing control and service should be rendered without attenuation of authority'. In new role, the power and control are used not for coercive purposes but for creative purposes. The central government, being responsive in real sense of the term, stops using traditional control methods without loosing the *ability* to control; it just changes the *modus operandi* so as to make it more sophisticated. In new role, the central government uses its power not to pull the strings but to enable the regional governments to exercise the newly devolved responsibilities, powers and authorities. In this process, national level institutions are *strengthened* to provide support to the regional levels rather than to make them subservient to the center.

In fact the changed global economic and political conditions are compelling central governments to look forward to more involvement of regional levels (some authors now prefer to use the word *engagement*) in development of national economic development strategies and thus are attempting to build local capacity. In emerging borderless world economy a newer federalism perspective will be called for, because in the times to come the functions such as "regulation of financial transactions, international trade, global environment and international migration, corporate taxation, stabilization, international conflict resolution, surveillance of governance conditions, transnational production, investment and technology transfer suppression of money laundering, drug smuggling and terrorism will gradually pass upwards i.e. beyond nation states". Central level of government will perform tasks such as "oversight and technical assistance to subnational governments, macroeconomic coordination, social safety nets, skill enhancement for international competitiveness, social and environmental policy through international agreements" (Shah, 2004). The task ahead to ensure this is to strengthen national level institutions. A real test of the strength of the institution is the ability to successfully meld two goals: central authority and sub-central engagement and empowerment to ensure good democratic governance.

New literature on political economy of fiscal federalism however, goes far beyond the earlier issues. Now the case is for the center to assume sophisticated styles of remaining 'in charge' (stewardship/leadership) and constructing such support structures, processes and national institutions which create enabling environment (in which subnational autonomy is tolerated and treasured), build local capacity and provide appropriate incentives for the subantional governments to behave responsibly while allowing center to perform its new role in changed political and economic conditions. The best design for decentralization, in the last analysis however, will vary according to circumstances and situations.

## **V. How Fast to Decentralize?**

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Another aspect related to policy design is the concern regarding the pace of the decentralization process. There are arguments favoring "incremental decentralization" as well as "big bang decentralization". Those who support slow, incremental or partial decentralization draw attention toward probable downside risks of decentralization. Most significant among all is the concern with decline in service delivery on account of 'capture by local elites' and low technical capabilities of local government. It is feared that (a) the possibility is always there that the locally elected officials will spend the money in their own interest rather than interest of their constituents and (b) what is gained in better information (as the argument goes in favour of decentralization) may be lost in lower technical competence/capacity and in lack of economies of scale. In addition to this the suggestion to keep the pace slow also come on the basis of deeply entrenched historical basis that centralization legacy creates to the disadvantage of ongoing process of decentralization. Thus Prud'Homme advices, "A century of centralization cannot (and should not) be overruled overnight.... (Decentralization) will remain on agenda for many years" (Prud'Homme, 2001). Concerns with the risks associated with decentralization have in fact prompted some Latin American and Caribbean countries to favour slow, incremental and

piecemeal decentralization. Programs geared to strengthening subnational government technical capacity have been implemented in every country in the region. Incremental approach has also taken the form of micro monitored earmarking (for instance, in Mexican approach to sector decentralization). Econometric results reported in a World Bank Report [Burki et al. 1999] suggest that fast decentralization normally leads to higher overall public expenditures and serious problems in macroeconomic management.

On the other hand arguments such as bureaucratic resistance and interests and attitudes of powerful stakeholders (which could be seen as the outcome of centralization legacy) have been used to argue for exactly opposite approach to decentralization i.e. the big bang approach. The proponents of big bang approach draw attention towards the constraints imposed by anti decentralization coalitions which, it is expressed, can only be overcome if a political breakthrough is made by large scale decentralization rather than by moderate decentralization. It is feared that policy reform of any sort will be confronted by vested interests such as central bureaucrats and local governments aiming to protect their privileges, which could install such a reform or call for a major setback (Rodrik 1996). Alternatively, different political groups that are affected by different policy reforms may form a coalition to halt these reforms altogether (Wei, 1997). Taking such concerns as justifications, Motohiro Sato (2002) suggests, "In reality therefore, economic reform plan must be accompanied by proper tactics to overcome political oppositions from stakeholders within and outside of a central government". The author shows that how (against intuition) large scale decentralization may turn out to be more successful in forming a political majority of pro decentralization and thus overcoming the political constraint. It is pointed out that a small scale reform will always remain constrained by a coalition of rent seeker governments and thus a theoretical model is provided to prove the case for "big push" or "big bang" approach for decentralization.

Keeping in view the above arguments the bottom line statement one can arrive at is the assertion that pace (along with design, sequencing and proper mix) should be "optimal" because each approach has its own costs and benefits. Optimal pace is more than highly cautious approach of gradualism which fails to replace even the most inefficient institutions. It is on the other hand less enthusiastic than the shock therapy designed to replace the old institutions all at once. Thus it aims at getting the best of both worlds. The optimality however, must be ascertained on case by case basis in accordance with the specificities and peculiarities of the country in question. Wei and Lian (1998) study the economics and political economy of optimal scale of reforms. The authors argue that if agents in the economy are heterogeneous in terms of their subjective discount rates, the politically-determined reform speed may be lower in a democracy than in an economy with a benevolent dictator. Prud'Homme(2001) observes that each country must find its own model that best fits its specific social, economic, political, cultural, historical and geographical conditions. Lessons in theory and study of international experience can be useful for defining such a model for a particular country.

## **VI. Conclusion:**

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The chapter has made an attempt to situate the debate on decentralization in context of glocalization. The context of glocalization has pronounced the dilemma of balancing the contrasting forces of centralization and decentralization. Research shows that glocalization is generating tendencies in both directions (centralization and decentralization) with the aim of providing good governance and a stable, secure and just government. The new context has raised new questions regarding drive, design, degree and pace of decentralization. It has been argued that there can be different motivations behind choosing decentralization policies. In fact there are contrasting value judgments on -'why to decentralize'. These worldviews influence policymakers' views on 'how to decentralize'? How

decentralization is designed and the pace with which the policies are implemented depend on the goals that policy makers seek to achieve. However, certain broad guidelines can be outlined to ensure that decentralized institutions do not provide perverse incentives. In fact the changed global and local world economy calls for a newer perspective on decentralization. Elsewhere I have identified at least seven components of designing decentralization that are crucial for its success (Sharma, 2005c: 39). These are:

1. Finance should follow function: Revenue raising authority must be linked, at the margin to the service provision responsibilities.
2. Informed public opinion: There should be local access to right information to enable the local community to develop meaningful public opinion and decide priorities.
3. Mechanisms for making local priorities known must be put in place.
4. Credible incentives for people to participate: Writers on institutional economics have long observed that people's willingness to participate varies according to their perception of how much impact such participation will have (Hirschman, 1970; North, 1990; Ostrom et al. 1993).
5. Adherence to local priorities: There should be compelling incentives for politicians to be responsive and accountable.
6. Appropriate incentives for sub national governments to maintain fiscal responsibility: It is argued that destabilization effects of decentralization arose mainly from inappropriate incentives than any problem inherent in decentralization (Spahn 1997) including soft budget constraints.
7. Instruments of decentralization should be designed to support political objectives: The instruments of decentralization at the disposal of a policy maker are:
  - (i) Legal institutional framework.
  - (ii) Structure of service delivery responsibilities.
  - (iii) Allocation of various taxes among different levels of the government.
  - (iv) Intergovernmental transfers.
  - (v) Central government controls and constraints upon sub national borrowing
  - (vi) Local government election rules.

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