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1. Introduction: empirical relevance of my topic of research

Over the last twenty years or so some Western European states have witnessed what seems to be a widespread phenomenon: the emergence of an intermediate level of government between the centre and the municipal or communal level. New arrangements regarding to territorial distribution of power have taken the form of either an entirely new system of regional elected government exercising executive and sometimes legislative powers (UK, Spain, Italy, France, Belgium and Portugal) or a strengthened *county* level of local government (Norway, Sweden or Denmark) (Sharpe, 1993). The creation of a “meso” (intermediate) level of government took place together with a process of political and fiscal decentralization whose pace and depth have followed different patterns across countries. As far as fiscal relations is concerned, governments in countries traditionally highly centralized have undertaken reforms of its intergovernmental fiscal relations to a greater or lesser extent, depending upon the nature and the strength of the forces which lie behind the demands for increased decentralization (Bird, 2001). At the same time, even countries that have been decentralized are also changing their intergovernmental fiscal structures (for example, a federal state such as Canada).

Designing intergovernmental relations is an ongoing and probably never-ending process in any state. Institutional arrangements between central and subnational governments are based on an unstable equilibrium. Even though the process seems to be continuous it is not smooth, for it is associated with wider economic and social issues and susceptible to the

shifting moods and strategies of government and political parties. For example, the comparison between the evolution of fiscal and political decentralization in Italy and Spain is a good example of how changes in political and fiscal institutional arrangements do not follow a smooth, continuous and linear pattern¹.

2. Research Question

The introduction I have made above provides the empirical relevance of what is going to be the core of my research project: *why and when do governments undertake a process of decentralisation?. Why and when does a central government lose powers in favour of intermediate levels of government?. Specifically, why is it going to give subnational governments power over expenditures and over their own fiscal resources (tax powers)?*. Therefore the research question deals with causes of decentralisation processes, which constitute the dependent variable of the research. I would like to find out which are the most important explanatory factors that account for fiscal decentralisation.

The main purpose of my research is to make a contribution to the understanding of the processes that lead to the establishment or modification of institutional arrangements, specifically the assignment of expenditures and revenues and the size and design of

¹ The introduction of fiscal federalism by the new Italian constitution represents the most important advance towards federalism. Paradoxically, if we compare the new Italian territorial distribution of power with the Spanish one it turns out that in spite of having a considerably lower degree of political decentralisation, Italy has a more advanced form of federalism regarding fiscal decentralisation. Besides, the introduction of fiscal federalism has taken place in a country whose territorial cleavages are not similar to the cultural, linguistic or ethnic cleavages found in other countries such as Spain, Belgium, or Switzerland. Regional differences in Italy have not overlapped with the identification of sharp ethnic and/or linguistic differences so that Italy has only a pale imitation of the problem regarding strong demands for devolution that has shaped territorial distribution of power in Spain (Hine, 1996).

intergovernmental transfers. To some extent that purpose has something to do with Riker's approach to institutions (Riker, 1980), which he defined as medium-term *unstable* arrangements. Institutions are not in equilibrium since there always exist groups with incentives to change them. I would like to find out what explanatory variables lie behind an institutional change such as the establishment of new arrangements in territorial distribution of power.

3. An alternative approach to the existing theoretical background

The novelty of my approach lies in two aspects. As far as I know, literature about fiscal and political decentralization has treated institutional arrangements regarding territorial distribution of power as an independent variable. Analysis have focused on consequences or implications of fiscal decentralization for instance as regards to economic reform, macroeconomic policy or accommodation of ethnic groups (Triesman 2000; Triesman 1999; Wibbels and Rodden 2001; Forsyth 1987). The aim of my proposal is to transform fiscal decentralization in an endogenous variable, and try to explain why and when institutional arrangements change. In the second place, the work of those authors who have tried to summarise the explanatory variables of the emergence of regional governments during second half of XXth century show some flaws. Their analysis lacks of any systematisation of the causal mechanisms that lead governments to undertake decentralization. They normally introduce a wide range of contextual (social, economic and political) explanatory variables that seem isolated from actors - who play a very secondary role in their work - their preferences and strategies. Since those kinds of studies seem to have a limited role in establishing causal, my work partly aims at covering such

explanation gap by systematizing the array of contextual explanatory variables and its interaction with actors.

4. Significance of my topic of research

As I made explicit in the research question, my proposal specifically aims at concentrating on *fiscal decentralisation* and in order to justify such attention I present the following arguments. First of all, a striking study carried out by Jan-Erik Lane and Svante Ersson about unitary and federal states showed that, unlike neoinstitutional authors declare, the only dependent variable where federal institutions are significantly different from unitary states is fiscal decentralisation. So federalism basically means less spending power for central government and more powers to subnational governments over public expenditures. Therefore, fiscal decentralisation seems to be the most salient federal institution. Secondly, it is also necessary to take into account that even though regional autonomy might be recognised by a national constitution, in practise it has no sense in case regions lack of financial resources. What it means is money matters and how it is raised, distributed and spent will be crucial to enforce political autonomy.

Finally, I would like to stress the relevance of studying one of the most important institutional changes in the modern Western state. Important not simply in terms of the power that central state has lost in favour of subnational governments in some countries but it also poses critical questions about the nature of the concept of the unitary state and its distinction from federal states. Moreover, the modification of territorial distribution of power that some states have witnessed during last decades has transformed the character of

the nation-state. That seems to bring us almost a complete circle regarding the evolution of the nation-state since one of the motives of its emergence was precisely the monopoly of fiscal policies (Hobsbawm, 1990: chapter one), a process that is currently evolving in the opposite direction.

3. A first approach to explanatory variables of decentralization and actors.

Among those explanatory factors that part of the existing literature (Mény and Wright, 1985; Sharpe, 1993; Wright 1984; Forsyth, 1987; Elazar, 1991) point out to explain decentralization I have the most used as explanations for causes of decentralization.

First of all, the resurgence of ethnic **nationalism** seems to be at the core of regional demands for greater political and financial autonomy. Since the 60s and 70s problems of territory raised everywhere in Western Europe and were placed too firmly in the political agenda to be ignored completely. As Sharpe argues (p.7), *“it is the nationalism of “secondary” nations which in the past succumbed to, and were absorbed for various reasons by “primary” nations but which now seek some recognition of their national status usually short of separate nation-statehood”*². Secondly, territorial distribution of power is also related to the idea of democratic maturation. Decentralization was regarded as a way to improve **democracy** by bringing government closer to the people and increasing their participation in the policy-making process. In the third place, decentralization has been undertaken as a method of improving administrative **efficiency** and the machinery and efficacy of economic planning. This type of argumentation is to some extent related to

widespread dissatisfaction throughout the West with the strong, though perhaps largely unintended inclination of post-war Welfare States towards excessive centralization and bureaucratization.

The problem is that, as I already mentioned, the existing literature has not made any effort to systematise the array of factors that are used to explain why and specially when governments decide to lose powers in favour of subnational governments. In fact, many of the problems of studying causes of changes in fiscal and political arrangements between centre and periphery spring from the conflicting aims fed into the process of decentralization. At least in theory and at least partially in practice sometimes it's not possible to meet all explanatory factors (for instance efficiency, democracy and subsidiarity). Besides, theoretical arguments about properties of decentralisation itself have many limitations in explaining *why* and specially *when* do governments decide to undertake decentralization. For example, theoretical approaches to fiscal decentralisation have mainly come from the economic field and have focused on the normative aspects of decentralisation³. However, economic arguments have been hardly present or notably absent from the debate of centralization/decentralization of power in some countries which have undertaken a new territorial organisation of the State⁴. As De Vries points out, the attention that political parties at the European level have given to centralization and

² See also Hobsbawn (1990) and Castells (1997)

³ Economic theories about decentralisation have primarily come from two schools: the so-called Public Finance (Musgrave (1959) and Oates (1972)) and the Public Choice School (Brennan and Buchanan(1980)). For instance, Oates argues that intermediate or lower levels of government (regional and local) are more capable than central governments to meet citizen's preferences and demands over public goods and services. By the other hand, Public Choice theorists highlight fiscal decentralisation may enhance fiscal competition among different territorial units and in consequence, increase efficiency in the allocation of public goods and services.

decentralization issues “*reveals that decentralisation becomes an issue in these countries at different periods and as a cause of different arguments, which rather reflect the dominant values in the political culture than refer to inherent properties of decentralisation itself*”.

He shows theoretical arguments have been hardly convincing since in practice some of them, such as democratic character, legitimacy or efficiency, have been used to defend and promote both decentralisation and centralisation processes.

To sum up, what I have found in the literature about causes of decentralization processes is an array of explanatory factors that may help me to start thinking about the *why* but it is clearly limited to understand the *when*. Why theoretical arguments about democratic maturation or economic efficiency enter firmly in the political agenda of the government?.

I believe it's time to turn our attention from *factors* to *actors, preferences and strategies*. No doubt, decisions about decentralization have been susceptible to the shifting strategies of government and political parties⁵. The most important actors could be:

- central government
- state bureaucracy
- national political parties
- nationally organised economic actors
- regional political parties

⁴ For example, in Spain or South Africa, where transition from a centralised state to a federal structure took place at the same time than transition to democracy.

⁵ It is interesting to analyse shifting strategies of the Italian PCI and DC over time regarding fiscal and political decentralization since that's a good example of how decentralization becomes involved in wider political party strategies.

Those actors have sectional interests (preferences) and strategies regarding decentralization that may shift over time. As Gourevitch (Gourevitch 1980) has pointed out, in bipolar party systems when parties are in opposition they tend to support decentralization, when in power, it's likely they will try to maintain the tools centralization provides. Central government may also become involved in a conflict-avoidance decentralization strategy. For example, one of the most important political developments in western states in the post-war period is the huge increase in taxation. Reducing the "tax burden" over the electorate has become a core issue for central government electoral interests (Sharpe: 23). One of its strategies to cope with tax burden has been off-loading to the periphery. It means either transfer service responsibility to lower tiers of government (thus its costs) or diminish central contributions to the cost of locally produced services (decentralization of penury). Regional political parties might have different preferences regarding fiscal or political decentralization for example depending on the level of economic development of its territory (for example, in poor regions, elites might be afraid of fiscal decentralization since it may give rise to an unbalanced relationship between the principle of subsidiarity and interterritorial solidarity). It is also necessary to take into account that preferences and strategies interact with the resources at the disposal of regional political elites in bargaining with the centre.

These are only some examples to stress that actors, preferences and strategies might be crucial for the understanding of changes of institutional arrangements regarding territorial distribution of power. The kind of analysis I have in mind tries to fill the absence of causal mechanisms of former studies by taking into account the interaction between theoretical arguments in favour of decentralization and preferences and strategies of actors.

4. Dependent Variable

In order to evaluate the level of fiscal decentralization in each country I have to focus on two aspects: *decentralization of expenditures* (the size and design of intergovernmental transfers) and *decentralization of revenues* (the assignment to subnational governments of powers to establish their own taxes or extra charge over national taxes).

5. A step forward: research design

At present it's difficult for me to figure out the most adequate research design for my proposal (I thank comments on that). The problem I see is that of too much variability. I made above an impressive description of which causal factors and actors may play an important role in explaining changes in political and fiscal arrangements. However, those vary enormously from country to country and over time. What I have in mind is a comparative analysis among several countries but due to limitations for controlling variability maybe the best method will be to select two cases that speak directly to each other and establish the comparison controlling by differences (method of similarity) or by similarities (method of difference).

The selection of cases of study will be made among those countries which have recently undertaken political and fiscal decentralization (such as Belgium, Spain, Italy or UK). However, I still haven't decided whether to leave federal states apart from this analysis since, as already mentioned, some federal states such as Canada are also changing their intergovernmental fiscal structures.

Finally, additional problems are related with *timing*. As some authors argue: “*regional elites, covered by the legitimacy from direct election will claim for greater demands*” or “*regionalisation will surely feed regionalisation*”. It means consequences of decentralization processes in time “t” may become an explanatory factor of further changes in territorial distribution of power in time “t + 1”.

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