

Todor ARPAD

DECENTRALIZATION AND STATE CAPACITY

Pathways for State reform in Post-communist societies

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societies

Arpad TODOR

Coord.: Professor: Bela Greskovits

Professor: Philippe C. Schmitter

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FOREWORD TO THE 2019 EDITION

Twelve years after the publication of the first edition of this book and Romania's accession to the European Union, the message transmitted by this book is more actual than ever. In the case of Romania, while it had experienced a significant economic growth, despite the setback during the 2007-2010 economic crisis, its regional inequality had accentuated further. The key to strengthen regional development and the overall state capacity depends on our understanding of the interaction between decentralization and State capacity evolution in the post-communist countries. By conceptualizing decentralization along three different dimensions, political, administrative and fiscal, the I have explained why, promoting an un-balanced decentralization leads to failure in building an adequate state capacity. Among the most important failures of the process of decentralization in Romania regards the lack of correlation between the political and fiscal decentralization, fact that limited the interest of local politicians to promote policies that would expand their revenue basis. Instead, by maintaining the allocation of investment funds based on political links, and adequate process of state capacity building has been significantly limited.

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ABSTRACT

This book investigates theoretically and empirically the relationship between decentralization and State capacity evolution in the post-communist countries. It analyzes to what extent did decentralization as it happened in the post-communist countries proved to be an institutional asset for the transition process. The material employs and improved conceptualization of the three dimension of decentralization, political, administrative and fiscal. The paper develops a theoretical argument for the superiority of employing the concept of State capacity as a measure of effective functioning of the State. The main characteristics of the decentralization history are presented. The influence of decentralization on the indicators of State Capacity is tested by OLS Regression estimates both for the initial level and for its evolution. The findings indicate that decentralization did have a differential effect of the evolution of State capacity. While political decentralization has a positive influence, fiscal decentralization had a negative influence. Administrative decentralization direct influence is not significant, but acts as a mediator for the positive effects of political decentralization. As political decentralization proved to be necessary for the

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overall effect of decentralization, the findings suggest a rethinking of the decentralization policies that focus on administrative and fiscal decentralization.

INTRODUCTION

The form and functions of the *polis* (what today has become the State) have represented a major focal point of political thinking from its very beginning. When, where, and how do human communities generate different types of state structures? And once generated, how should these structures be adjusted to better serve their purposes? While the present approach will not try to tackle these themes at a general level, it will attempt to answer several questions derived from these in one specific historical and spatial context - the post-communist world. This book will tackle only a sub-field of this area of interest, namely the distribution of resources and power alongside the vertical structures of the State, an aspect covered by the generic term of decentralization.

The scope of the present approach is twofold. First, it will try to analyze whether the post-communist transitions were very different from other transitions from autocratic rule (see Schneider and Schmitter 2003 for a debate on the subject) by attempting to adjust a theoretical apparatus developed for other uses and to apply it irrespective of the degree of democratization. Second, as the vision on what decentralization means and how it works influences how important funds are distributed

and how many programs of the international institutions are implemented, the findings may have an immense public policy stake. Especially under the influence of the main international institutions of the World Bank and the IMF, many developing countries are guided into adopting specific policies.

Three innovations are proposed in this book. First, it will provide an alternative theoretical lens to approach the relationship between the evolution of a State's agencies (decentralization) and functionality (State capacity). Second, the present material is the first approach to test the assumption of literature on decentralization and State capacity on a comparative sample containing most of the post-communist countries. Third, it tests the influence of decentralization on State capacity by taking into consideration both the static and dynamic nature of State capacity.

The enquiry from this book will develop alongside three main sub-questions: (1) What are the common patterns of decentralization in the post-communist world? (2) To what extent do the standard indicators used in literature on comparative decentralization manage to catch the real meaning of decentralization alongside its dimensions? (3) What was the influence of how decentralization happened on the evolution of State capacity in the post-communist states? These three sub-questions can be bound into one core question: to what extent did

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decentralization as it happened in the post-communist countries prove to be an institutional asset for the transition process?

Thus, having the task of tackling both the theoretical aspects of the concept under analysis and the problem of measuring them through relevant empirical indicators, the present approach will develop as follows. The first chapter will develop the puzzle at the root of this approach and undertake a comprehensive discussion on the meaning and measurement of decentralization and its effects. It will review both the standard comparative approaches on decentralization and the case study literature on the post-communist world. The second chapter will discuss the meaning and measurement of the State capacity concept and its peculiarities in the post-communist transition. This chapter develops an explanation for choosing the concept of State capacity as the proper method to describe the evolution of post-communist States. The chapter will review the literature on governance and reform, subsequently discussing the selection of the best indicators for measuring State capacity. Subsequently, based on the core theoretical proposition proposed and on the findings of the case studies, the hypothesis to be tested will be presented. In the third chapter, following the conceptualization of the universe to which this research refers and the methodology and data used to approach the

empirical universe, the main empirical findings and their implication on the hypothesis will be presented and discussed. In the Conclusions section the implication of the main findings on how both national governments and international institutions could better tune their actions aimed at enhancing the positive effects of decentralization will be discussed.

Chapter 1:

ON THE MEANING AND MEASUREMENT OF DECENTRALIZATION

Social scientists generally agree that the centralized over-hierarchical states running state-owned economies based on detailed planning represented a historic dead-end. Those societies organized strictly around rigid States failed. This failure forced a reappraisal of the distribution of responsibilities and resources among different tiers of government. One of the main aspects of the post-communist transitions is the structural transformation of the centralized communist States, a transformation teleologically oriented at creating more open and efficient systems. Thus, the history of post-communist countries is almost by definition a history of successes and failures toward the achievement of economic, political, and social transformation. Although an important part of the political transformation, the decentralization processes is not an end in itself but rather a mean to achieve economic growth, more democratic and efficient political systems, and to accelerate social modernization.

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The Author

