

Arpad TODOR

**DECENTRALIZATION
AND STATE CAPACITY**
Pathways for State reform in
Post-communist societies

LUMEN, 2019

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Pathways for State reform in Post-communist
societies

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Iași, Țepeș Vodă, nr.2

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prlumen@gmail.com

www.edituralumen.ro

www.librariavirtuala.com

Redactor: Roxana Demetra STRATULAT

Design copertă: Roxana Demetra STRATULAT

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Descrierea CIP a Bibliotecii Naționale a României TODOR, ARPAD

**Decentralization and state capacity : pathways
for state reform in post communist societies / Todor**

Arpad. - Iași : Lumen, 2019

ISBN 978-973-166-546-7

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

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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.

Decentralization has been increasingly advocated by the World Bank and IMF to their client countries and by the EU to prospective members. As a result, of the 75 developing countries with a population of more than 5 million, 63 (or 85%) had adopted “some sort of decentralization program by the mid-1990s” (Dillinger 1994). This wave of decentralization has generated a burgeoning literature on the pathways and effects of decentralization. As the debate on decentralization is connected with the debate on the importance of the insulation of political decision-makers during periods of socially-costly structural reforms, the initial post-communist period is one of the most theoretically relevant periods due to the simultaneity of these reforms (Przeworski 1991).

As the concept of State capacity is an umbrella concept explaining how States accomplish their tasks related to economic, political, and social areas, the history of decentralization should be inextricably linked with the evolution of State capacity. However, as decentralization and State capacity are different conceptual facets of the same empirical reality, the State and the problem of endogeneity is present at the core of the research design. This problem cannot be totally eliminated but can be controlled by taking into consideration a longer period of time (1990-2004) and by adequately controlling and conceptualizing the influences of the

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dependent variable (State capacity) on the independent variable (decentralization). In Chapter three, a more in-depth theoretical analysis of the relationship among the two indicators will be developed.

1.1 Puzzle

The literature on comparative decentralization deals with as many countries as possible. Different types of decentralization appear to constitute three different sub-dimensions, namely those of fiscal, administrative, and political natures. However, usually in practice both decentralization and federalism literature treat decentralization as a one-dimensional process. When it happens, redistribution in terms of resources and decisional power and on all sub-dimensions occurs almost simultaneously. Conversely, in a cross-nation study from 2003, Aaron Schneider finds that political, administrative, and fiscal decentralization do not go together. In other words, different states have a different distribution along these dimensions. More devolution on one dimension does not lead to more devolution on the other two dimensions. For the post-communist countries, the correlation is even negative for political and fiscal decentralization (Appendix 1). Why is this finding even more relevant in the context of post-communist transitions? These

findings could offer a key to better understand how different configurations of decentralization can influence the evolution of State capacity in a totally different way, not only because these differentiations have not usually been taken into consideration, but also because of the nature of the sub-universe of the post-communist countries, a universe dominated by speed of reforms and simultaneity with other transformations.

1.2 Decentralization and the State

Broadly defined, decentralization represents a specific institutional arrangement concerning (1) the number of government tiers; (2) the number of units existent in each tier; (3) the distribution of responsibilities both within and between tiers; (4) the decisional power concerning the problems under each tier's authority; and (5) the distribution of resources, both in the extractive and the expenditure phases. Decentralization, as regards the State, is a messy concept too (Mann 1994). It refers not only to institutions but to the relationship between them, not only with regard to formal powers, but also with informal powers. It cannot be understood by looking solely at the legal framework. In the post-communist context, the essence of decentralization is represented by the redistribution of power and resources along the vertical (administrative) structure