Globalization and the information revolution are profoundly influencing economic governance in both the industrial and the industrializing world. Globalization has lifted millions of people out of poverty, and the information revolution has brought about a degree of citizen empowerment and activism in state affairs that is unparalleled in history. They have also acted as catalysts for reshuffling government functions within and beyond nation-states (Castells 1998; Courchene 2001; Friedman 1999). Because of globalization, it is increasingly apparent that “nation-states are too small to tackle large things in life and too large to address small things” (Bell 1987). In other words, nation-states are gradually losing control of some of their customary areas of authority and regulation, including macroeconomic policy, corporate taxation, external trade, environment policy, telecommunications, and financial transactions. Globalization is also making small open economies vulnerable to the whims of large hedge funds and polarizing the distribution of income in favor of skilled
workers and regions with lower skills and access to information, thus widening income disparities within nations while improving the levels of incomes. Because of the information revolution, governments have less ability to control the flow of goods and services, ideas, and cultural products. The twin forces of globalization and the information revolution are also strengthening localization. They are empowering local governments and “beyond-government” service providers, such as neighborhood associations; nongovernmental, nonprofit, and for-profit organizations; self-help groups; and networks, to exercise a broader role in improving economic and social outcomes at the local level through greater connectivity to markets and resources elsewhere. Localization is leading to citizen empowerment in some areas while simultaneously strengthening local elites in others. Courchene (1993, 2001; see also chapter 1 of this volume) has termed the overall effect of these changes \textit{glocalization}, which implies the growing role of global regimes, local governments, beyond-government entities and the changing roles of national and state governments in an interconnected world.

This chapter analyzes the potentials and perils associated with the effect of these mega changes on governance structure in the 21st century. The chapter reflects on the governance implications of globalization and the information revolution and draws inferences for the divisions of power in multicentered governance. It highlights emerging challenges and local responses to those challenges. A discussion of policy options to deal with this regional economic divide within nations follows the analysis. The final section presents a new vision of multicentered governance in which governmental and intergovernmental institutions are restructured to reassert the role of citizens as governors.

\textbf{Governance Implications of Globalization and the Information Revolution}

Globalization represents the transformation of the world into a shared space through global links in economics, politics, technology, communications, and law.\textsuperscript{1} This global interconnectedness means that events in one part of the world can profoundly influence the rest of the world. Such new links introduce growing decoupling of production in manufacturing and services from location, thereby increasing the permeability of borders and diminishing the influence of national policy instruments. Increasing internationalization of production has decoupled firms from the resource endowments of any
single nation. Drucker (1986: 21) noted three fundamental decouplings of the global economy (see also Courchene 1995, 2001):

- The primary sector has become uncoupled from the industrial economy.
- In the industrial sector itself, production has become uncoupled from employment.
- Capital movements rather than trade in goods and services have become the engine and the driving force of the world economy.

As globalization marches on, it is introducing a mega change that exposes the fragility of existing systems of global governance. It is adversely affecting national welfare states that link incentives to national production. The sheer magnitude of this social and economic change gives governments and individuals difficulty in coping with its consequences, especially those nations and individuals who suffer a reversal of fortune as a result of this change. The following sections discuss the implications of this mega change for national governance.

**Reorientation of the Nation-State, Emergence of Supranational Regimes, and Strengthening of Localization**

Globalization of economic activity poses special challenges to constitutional assignment within nations. Strange (1996: 4) argues that “the impersonal forces of world markets . . . are now more powerful than the states to whom ultimate political authority over society and economy is supposed to belong. . . . [T]he declining authority of states is reflected in growing diffusion of authority to other institutions and associations, and to local and regional bodies.” More simply, nation-states are fast losing control of some of their traditional areas of authority and regulation, such as macroeconomic policy, external trade, competition policy, telecommunications, and financial transactions. National governments are experiencing diminished ability to regulate or control the flow of goods and services, ideas, and cultural products. For example, the East Asian financial crisis manifested behavior on the part of financial institutions and hedge funds that would have been subject to regulatory checks within nation-states. The loans made in the precrisis period by banking institutions in industrial countries to Indonesian financial institutions with insufficient collateral and the role of large hedge funds in destabilizing national currencies serve as striking examples of practices that would not have been permitted within a nation-state (see Whalley 1999).
Similarly, enhanced mobility of capital limits governments’ ability to tax capital incomes, especially given the fierce tax competition to attract foreign direct investment that exists in most developing countries. Taxation of capital income is also increasingly constrained by governments’ inability to trace cross-border transactions. For example, the government of Japan would have difficulty taxing the income of a stockbroker who trades U.K. securities on the Brussels stock exchange. Opportunities are also expanding for multinational corporations to indulge in transfer pricing to limit their tax liabilities. Although Internet commerce has exploded, bringing those activities within tax reach is a difficult task even for industrial countries. Thus, the ability of governments to finance public goods—especially those of a redistributive nature—may be impaired because governmental access to progressive income taxes (that is, corporate and personal income taxes) is reduced while access to general consumption taxes (valued added taxes, or VATs) is improved with economic liberalization and global integration. Possible erosion of the taxing capacity of governments through globalization and tax competition might be considered a welcome change by citizens of countries with a poor record of public sector performance in providing public services, as is the case in most developing countries.

Globalization implies that not much is “overseas” any longer and that “homeless” transnational corporations can circumvent traditional host- or home-country regulatory regimes. These difficulties are paving the way for the emergence of specialized institutions of global governance, such as the World Trade Organization and the Global Environmental Facility, with many more to follow—especially institutions to regulate information technology, satellite communications, and international financial transactions. For countries facing economic crises and seeking international assistance, even in areas of traditional economic policy, the power of international development finance institutions to influence local decision making is on the rise. Globalization is therefore gradually unbundling the relationship between sovereignty, territoriality, and state power (see Castells 1997; Ruggie 1993). This transformation implies that governance and authority will be diffused to multiple centers within and beyond nation-states. Thus, nation-states will be confederalizing in coming years and relinquishing responsibilities in those areas to supranational institutions.

The Information Revolution and Citizen Empowerment

With the information revolution, “the ability to collect, analyse, and transmit data, and to coordinate activities worldwide has increased massively, while
the costs of doing so have fallen dramatically” (Lipsey 1997: 76). Firms now have the ability to “slice up the value added chain” (Krugman 1995: 333) to gain international competitiveness. The information revolution empowers citizens to access, transmit, and transform information in ways that governments find themselves powerless to block, and in the process, it undermines authoritative controls. It also constrains the ability of governments to withhold information from their citizens. Globalization of information—satellite television, Internet, phone, and fax—serves also to enhance citizens’ awareness of their rights, obligations, options, and alternatives and strengthens demands both for devolution (power to the people) and localization of decision making. Consumer sovereignty and citizen empowerment through international coalitions on specific issues work as a counterweight to global capital. The influence of such coalitions is especially remarkable on environmental issues such as building large dams and discouraging the sealing industry (Courchene 2001).

Consumer Sovereignty and Democracy Deficit

In the emerging borderless world economy, the interests of residents as citizens are often at odds with their interests as consumers. Internationalization of production empowers them as consumers because performance standards are set by the market rather than by bureaucrats. However, it disenfranchises them as citizen-voters because their access to decision making is further curtailed as decision centers in both public and private sectors move beyond the nation-state, thereby creating a democracy deficit. For example, a citizen in a globalized economy has no direct input to vital decisions affecting his or her well-being. Such decisions are made at the headquarters of supranational agencies and regimes such as the International Monetary Fund, the World Bank, and the World Trade Organization or at transnational corporations such as Coca-Cola and McDonald’s. Similarly, as noted by Courchene (2001), the European Union Council of Ministers issues hundreds of directives binding on nation-states and their citizens. Friedman (1999: 161) writes, “When all politics is local, your vote matters. But when power shifts to . . . transnational spheres, there are no elections and there is no one to vote for.” In securing their interests as consumers in the world economy, individuals are, therefore, increasingly seeking localization and regionalization of public decision making to better safeguard their interests. To respond to these developments, Castells (1997: 303–5) has argued that national governments will shed some sovereignty to become part of global order or network of governance and that
“the central functions of the nation-state will become those of providing legitimacy for and ensuring the accountability of supranational and national governance mechanisms.”

**Internationalization of Cities and Regions**

With greater mobility of capital and loosening of the regulatory environment for foreign direct investment, local governments, as providers of infrastructure-related services, may be more appropriate channels for attracting such investment than are national governments. As borders become more porous, cities are expected to replace countries in transnational economic alliances in the same way that people across Europe are already discovering that national governments have diminishing relevance in their lives. People are increasingly more inclined to link their identities and allegiances to cities and regions. For example, the Alpine Diamond alliance, which links Lyon with Geneva and Turin, has become a symbol for one of Europe’s most ambitious efforts to break the confines of the nation-state and to shape a new political and economic destiny (Courchene 1995, 2001).

**Knowledge and International Competitiveness**

With mobility of capital and other inputs, skills rather than resource endowments increasingly determine international competitiveness. Skilled labor, especially in “symbolic-analytic” services, qualifies to be treated as capital rather than as labor. Courchene (1995) argues that for resources to remain important, they must embody knowledge or high-value-added techniques. These developments imply that even resource-rich economies must make a transformation to an economy based on human capital (the so-called knowledge based economy) and that social policy is no longer distinguishable from economic policy. However, education and training are typically a subnational government responsibility. Therefore, this responsibility needs to be realigned by giving the national government a greater role in skills enhancement. The new economic environment also polarizes the distribution of income in favor of skilled workers, thereby accentuating income inequalities and possibly wiping out the lower-middle-income classes. Because national governments may not have the means to deal with this social policy fallout, subnational governments working in tandem with national governments may have to devise strategies to deal with the emerging crises in social policy.
A Potential Source of Conflict within Nations

International trade agreements typically embody social and environmental policy provisions, but these policies are typically the responsibility of subnational governments. These agreements represent an emerging area of conflict among different levels of government as national decisions in foreign relations affect the balance of power within nations. To avoid these conflicts, these agreements must, to the extent that they embody social and local environmental policy provisions, be subject to ratification by subnational governments, as is currently the practice in Canada.

Reorienting the State as a Counterweight to Globalization

The progress of globalization has created a void in the regulatory environment and has weakened the ability of small open economies to deal with external shocks (Rodrik 1997a, 1997b). Such external shocks typically lead to major disruptive influences on social safety nets, income distribution, and the incidence of poverty, as witnessed recently in the East Asian crisis. This social and economic disruption leads to enhanced demand for public spending, especially for social protection and redistribution. Globalization also empowers skilled workers to command a greater premium. Courchene (1993, 2001) has argued that the premium on skilled workers will result in the wages of unskilled workers falling to a “global maximum” wage rate as such workers are replaced by cheaper workers elsewhere. Firms may resort to “social dumping” (that is, to reducing income security and social safety net benefits to retain international competitiveness). Rodrik’s (1998) empirical work involving countries of the Organisation for Economic Co-operation and Development provides some support for this view. Rodrik finds that economic liberalization is positively associated with public social security and welfare expenditures. With increased globalization, greater social security and welfare expenditures must be made by the public sector to maintain social cohesion (see Rodrik 1997a, 1997b). The widening gap between the incomes of skilled employees and those of unskilled workers has the potential to create bipolarized incomes and to make the lower-middle-income class disappear. Thus, Rodrik (1997a) has warned that the resulting social disintegration will ultimately erode the domestic consensus in favor of open markets to a point where one might see a global resurgence of protectionism. Some reversals on economic liberalization were observed in response to recent financial crises in several countries. Some governments of developing countries have attempted to dampen these shocks by
introducing capital controls (for example, Malaysia) or by attempting to strengthen social safety nets with international assistance (for example, Indonesia and Thailand). The role of supranational agencies in dealing with competition policy, regulating short-term capital movements, and overseeing the activities of hedge funds is currently under debate.

The information revolution may allow national governments to be more responsive to the needs of their citizens and to limit demands for decentralization. The information revolution is leading to a decrease in transaction costs and is therefore lowering the costs of correcting for information asymmetries and of writing and enforcing better contracts (see Eid 1996). Hart (1995) has argued that in such a world, organizational form is of lesser consequence and that therefore the need for decentralized institutions is diminished.

In conclusion, globalization by no means implies a demise of the nation-state; rather, globalization implies a reorientation of the nation-state to deal with the more complex governance structure of an interconnected world. Leaders in some countries might even visualize a more activist state role in smoothing the wheels of global capital markets to deal with social and economic policy fallouts, as experienced in East Asia.

Localization

A large and growing number of countries are reexamining the roles of various levels of government and their partnership with the private sector and civil society to create governments that work and serve their people. The overall thrust of these changes manifests a trend toward either devolution (empowering people) or localization (decentralization).

Localization of authority has proved to be a controversial proposition. It is perceived both (a) as a solution to problems such as a dysfunctional public sector, a lack of voice, and exit by people and (b) as a source of new problems, such as capture by local elites, aggravation of macroeconomic management caused by lack of fiscal discipline, and perverse fiscal behavior by subnational units. Conceptual difficulties arise in choosing the right balance of power among various orders of government, as discussed in Shah (1994) and Boadway, Roberts, and Shah (1994). Beyond these conceptual issues, a number of practical considerations bear on the quest for balance within a nation. They include the level of popular participation in general elections, feudal politics, civil service culture and incentives, governance and accountability structure, and capacities of local governments.
Emerging Jurisdictional Realignments: Glocalization

The debate on globalization and localization and the growing level of dissatisfaction with public sector performance are forcing a rethinking of assignment issues and forcing a jurisdictional realignment in many countries. Box 2.1 presents a newer federalism perspective on the assignment of responsibilities by taking into account the considerations noted previously. Functions such as regulation of financial transactions, international trade, the global environment, and international migration have gradually passed upward (centralized) beyond nation-states; some subnational functions, such as training, are coming under greater central government inputs (centralization); and local functions are being decentralized to local governments and “beyond-government” local entities through enhanced participation by the civil society and the private sector. In developing countries, rethinking these arrangements has led to gradual and piecemeal decentralization of responsibilities for local public services to lower levels in a small but growing number of countries. The development and strengthening of institutional arrangements for the success of decentralized policies have significantly lagged. Strengthening of local capacity to purchase or deliver local services has received only limited attention. Even strengthening of the central- and intermediate-level functions required for the success of this realignment has not always materialized. In fact, in some countries, decentralization is motivated largely by

**Box 2.1** Emerging Rearrangements of Government Assignments: Glocalization

*Beyond nation-states:* Regulation of financial transactions, corporate taxation, international trade, the global environment, telecommunications, international standards, international migration, surveillance of governance conditions, global security and risk management, transnational production, investment and technology transfer, combating of money laundering, corruption, pandemics, and terrorism.

*Centralization:* Social and environmental policy through international agreements, skills enhancement for international competitiveness, social safety nets, oversight, and technical assistance to subnational governments.

*Regionalization, localization, and privatization:* All regional and local functions.

a desire to shift the budget deficit and associated debt burdens to subnational governments.

**Emerging Governance Structure in the 21st Century**

Rearrangements taking place in the world today embody diverse features of supranationalization, centralization, provincialization, and localization. Nevertheless, the vision of a governance structure that is slowly taking hold indicates a shift from unitary constitutional structures in a majority of countries to federal or confederal constitutions. This shift implies that the world is gradually moving from a centralized structure to a globalized and localized (glocalized) one. In such a world, the role of the central government would change from that of a managerial authority to a leadership role in a multicentered government environment. The culture of governance is also slowly changing from a bureaucratic to a participatory mode of operation, from a command-and-control model to one of accountability for results, from being internally dependent to being competitive and innovative, from being closed and slow to being open and quick, and from being intolerant of risk to allowing freedom to fail or succeed. Past global financial crises have hampered this change, but with improved macro stability, the new vision of governance is gradually taking hold in the 21st century (see table 2.1). Nevertheless, in many developing countries, this vision may take a long time to materialize because of political and institutional difficulties.4

**Emerging Imperatives for Rethinking Fiscal Federalism**

Fiscal federalism is concerned with economic decision making in a federal system of government where public sector decisions are made at various government levels.5 Federal countries differ a great deal in their choices about the character of fiscal federalism—specifically, about how fiscal powers are allocated among various tiers and what the associated fiscal arrangements are. For example, Brazil, Canada, and Switzerland are highly decentralized federations, whereas Australia, Germany, Malaysia, and Spain are relatively centralized. Allocation of fiscal powers among federal members may also be asymmetric. For example, some members may be less equal (enjoy less autonomy because of special circumstances) than others, as in the case of Jammu and Kashmir in India and Chechnya in the Russian Federation. Alternatively, some members may be treated as more equal than others, as in the case of Sabah and Sarawak in Malaysia and Quebec in
TABLE 2.1 Governance Structure: 20th versus 21st Century

<table>
<thead>
<tr>
<th>20th century</th>
<th>21st century</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unitary</td>
<td>Federal or confederal</td>
</tr>
<tr>
<td>Centralized&lt;br&gt;Center that manages</td>
<td>Globalized and localized</td>
</tr>
<tr>
<td>Citizens as agents, subjects, clients, and consumers</td>
<td>Citizens as governors and principals</td>
</tr>
<tr>
<td>Bureaucratic&lt;br&gt;Command and control&lt;br&gt;Internally dependent</td>
<td>Participatory&lt;br&gt;Responsive and accountable&lt;br&gt;Competitive</td>
</tr>
<tr>
<td>Closed and slow&lt;br&gt;Intolerance of risk&lt;br&gt;Focus on government</td>
<td>Open and quick&lt;br&gt;Freedom to fail or succeed&lt;br&gt;Focus on governance with interactive direct democracy</td>
</tr>
<tr>
<td>Competitive edge for resource-based economies&lt;br&gt;Federalism as a tool for coming together or holding together</td>
<td>Competitive edge for human capital–based economies&lt;br&gt;Global collaborative federalism with a focus on network governance and reaching out</td>
</tr>
<tr>
<td>Residuuality principle, ultra vires, “Dillon’s rule”</td>
<td>Community governance principle, subsidiarity principle, home- or self-rule and shared rule</td>
</tr>
<tr>
<td>Limited but expanding role of global regimes with democracy deficits</td>
<td>Wider role of global regimes and networks with improved governance and accountability</td>
</tr>
<tr>
<td>Emerging federal prominence in shared rule</td>
<td>Leaner but caring federal government with an enhanced role in education, training, and social protection</td>
</tr>
<tr>
<td>Strong state (province) role</td>
<td>Ever-diminishing economic relevance of states (provinces) and tugs-of-war to retain relevance</td>
</tr>
<tr>
<td>Diminishing role of local government</td>
<td>Pivotal role of local government as the engine of economic growth, primary agent of citizens, gatekeeper of shared rule, facilitator of network governance; wider role of “beyond government” entities</td>
</tr>
<tr>
<td>Tax and expenditure centralization with conditional grants (with input conditionality) to finance subnational expenditures</td>
<td>Tax and expenditure decentralization with fiscal capacity equalization and output-based national minimum standards grants</td>
</tr>
</tbody>
</table>

Canada. Or a federal system may give members a choice to be unequal or more equal, such as the Canadian opting-in and opting-out alternatives, Spanish agreements with breakaway regions, and European Union treaty exceptions for Denmark and the United Kingdom. Further fiscal arrangements resulting from these choices are usually subject to periodic review and redefinition to adapt to changing circumstances within and beyond nations. In Canada, the law mandates such a periodic review (the sunset clause), whereas in other federal countries, changes may occur simply as a result of how courts interpret various constitutional provisions and laws (as in Australia and the United States) or through various government orders (as in the majority of federal countries). As noted earlier, in recent years, these choices have come under significant additional strain from the great changes arising from the information revolution and the emergence of a new borderless world economy. The following paragraphs highlight a few important common challenges resulting from division of fiscal powers and emerging local responses in federal countries.

Division of Fiscal Powers

The information revolution and globalization are posing special challenges to constitutional assignment within nations. The information revolution, by letting the sun shine on government operations, empowers citizens to demand greater accountability from their governments. Globalization and the information revolution represent a gradual shift to supranational regimes and local governance. In adapting to this world, various orders of governments in federal systems are feeling growing tension to reposition their roles to retain relevance.

One continuing source of tension among various orders of government is vertical fiscal gaps, or the mismatch between revenue means and expenditure needs at lower orders of government. Vertical fiscal gaps and revenue autonomy at subnational orders remain an area of concern in those federal countries where the centralization of taxing powers is greater than necessary to meet federal expenditures inclusive of federal spending power. Such centralization results in undue central influence and political control over subnational policies and may even undermine bottom-up accountability. This scenario is a concern at the state level in Australia, Germany, India, Mexico, Malaysia, Nigeria, Russia, Spain, and South Africa. In Nigeria, a special concern exists regarding the central assignment of resource revenues. In Germany, these concerns are prompting a wider review of the assignment problem and a rethinking of the division of powers among federal, Länder
A consensus is yet to be formed on a new vision of fiscal federalism in Germany.

The two emerging trends in the shifting balance of powers within nations are (a) a steady erosion in the economic relevance of the role of the states and provinces—the second (intermediate) tier—and (b) an enhanced but redefined role of local government in multiorder governance.

**Diminishing economic relevance of the intermediate order of government, or toward an hourglass model of federalism**

The federal governments in Brazil, Canada, Germany, India, Malaysia, Russia, and the United States have carved out a large role in areas of federal-state shared rule. In Brazil, entitlements and earmarked revenues are the restraining influences on budgetary flexibility at the state level. In South Africa, the national government has taken over the responsibility for social security financing. In the United States, the federal government is assuming an ever-widening role in policy-making areas of shared rule while devolving responsibilities for implementation to state and local governments. This shift frequently occurs through unfunded mandates or with inadequate financing. In both Canada and the United States, federal governments are partly financing their debts through reduced fiscal transfers to provinces or states.

Another dimension of emerging federal-state conflict is that in countries with dual federalism—as in Australia, Canada, and the United States, where local governments are the creatures of state governments—federal governments are attempting to build direct relationship with local governments and, in the process, are bypassing state governments. In Brazil, Canada, and the United States, state governments have increasingly diminished economic relevance in people’s lives, although their constitutional and political roles remain strong. This realignment makes vertical coordination more difficult and affects a state’s ability to deal with fiscal inequities within its boundaries. In India, the federal government retains a strong role in state affairs through appointment of federal officials to key state executive decision-making positions. Overall, the economic role of the intermediate order of government in federal systems is on the wane, except in Switzerland, where the cantons have a stronger constitutional role as well as stronger support from local residents. Cantons in Switzerland are similar to local governments in large federations such as Canada, India, and the United States. The political role of states, however, remains strong in all federal nations and is even on the rise in some, such as Germany and Pakistan. In Germany, the Länder have assumed a central role in implementing European Union directives and policies for regional
planning and development. In Pakistan, the newly elected government in 2008 ran on the platform of restoring greater powers and the autonomy for the provinces.

**New vision of local governance but growing resistance from state governments**

Globalization and the information revolution are strengthening localization and broadening the role of local governments through network governance at the local level. This realignment requires local governments to operate as purchasers of local services and facilitators of networks of government and beyond-government providers, gatekeepers, and overseers of state and national governments in areas of shared rule. Nevertheless, local governments are facing some resistance from their state governments in social policy areas. In Brazil, India, and Nigeria, local governments have constitutional status and, consequently, a greater ability to defend their roles. In Switzerland, direct democracy ensures a strong role for local governments, and in both Brazil and Switzerland, local governments have an expansive and autonomous role in local governance. In most other federal countries, local governments are the wards of the state; they are supplicants of federal and state governments that have little autonomy. Their ability to fend for themselves depends on the citizen empowerment engendered by the information revolution. Russia stands out; in recent years, centralization has proceeded without resistance from oblasts and local governments or from the people at large. In Canada, some of the provinces have centralized school finance. In South Africa, primary health care has been reallocated to the provincial order of government. In most countries, local governments lack fiscal autonomy and have limited or no access to dynamic productive tax bases, whereas demand for their services is growing fast. In Canada and the United States, existing local tax bases (especially property taxes) are overtaxed with no room to grow. In the United States, this problem is compounded by limits on raising local revenues and by unfunded mandates in environmental and social spending.

**Bridging the Fiscal Divide within Nations**

The fiscal divide within nations represents an important element of the economic divide within nations. Reasonably comparable levels of public services at reasonably comparable levels of taxation across the nation foster mobility of goods and factors of production (labor and capital) and help secure a common economic union.
Most mature federations, with the important exception of the United States, attempt to address regional fiscal disparities through a program of fiscal equalization. The United States has no federal program, but state education finance uses equalization principles. In Canada, such a program is enshrined in the Canadian constitution and is often referred to as “the glue that holds the federation together.” Most equalization programs are federally financed, except for those of Germany and Switzerland. In Germany, wealthy states make progressive contributions to the equalization pool, and poor states receive allocations from this pool. In Switzerland, the new equalization program effective in 2008 has a mixed pool of contributions from the federal government and wealthier cantons.

Institutional arrangements across federal countries to design, develop, and administer such programs are diverse. Brazil, India, Nigeria, Spain, and South Africa take into account a multitude of fiscal capacity and need factors in determining equitable state shares in a revenue-sharing program. Malaysia uses capitation grants. Russia uses a hybrid fiscal-capacity equalization program. Fiscal equalization programs in Canada and Germany equalize fiscal capacity to a specified standard. The Australian program is more comprehensive and equalizes both the fiscal capacity and the fiscal needs of Australian states, constrained by a total pool of revenues from the goods and services tax.

The equity and efficiency implications of existing equalization programs are a source of continuing debate in most federal countries. In Australia, the complexity introduced by expenditure needs compensation is an important source of discontent with the existing formula. In Canada, provincial ownership of natural resources is a major source of provincial fiscal disparities, and the treatment of natural resource revenues in the equalization program remains contentious. In Germany and Spain, the application of overly progressive equalization formulas results in a reversal of fortunes for some rich jurisdictions. Some rich Länder in Germany have in the past taken this matter to the Constitutional Court to limit their contributions to the equalization pool. In Brazil, India, Malaysia, Nigeria, Russia, and South Africa, equity and efficiency effects of existing programs generate much controversy and debate.

**Fiscal Prudence and Fiscal Discipline under “Fend-for-Yourself” Federalism**

Significant subnational autonomy combined with an opportunity for a federal bailout makes fiscal indiscipline at subnational levels a matter of concern in federal countries. In mature federations, fiscal policy coordination
to sustain fiscal discipline is exercised both through executive and legislative federalism and through formal and informal fiscal rules. In recent years, legislated fiscal rules have come to command greater attention. These rules take the form of budgetary balance controls, debt restrictions, tax or expenditure controls, and referendums for new taxing and spending initiatives. Most mature federations also specify “no bailout” provisions in setting up central banks. In the presence of an explicit or even implicit bailout guarantee and preferential loans from the banking sector, hard budget constraints at subnational levels could not be enforced. Recent experiences with fiscal adjustment programs suggest that although legislated fiscal rules are neither necessary nor sufficient for successful fiscal adjustment, they can help in forging sustained political commitment to achieve better fiscal outcomes, especially in countries with divisive political institutions or coalition regimes. For example, such rules can be helpful in sustaining political commitment to reform in countries with proportional representation (Brazil), in countries with multiparty coalition governments (India), or in countries with a separation of legislative and executive functions (Brazil and the United States). Fiscal rules in such countries can help restrain pork-barrel politics and thereby improve fiscal discipline, as has been demonstrated by the experiences in Brazil, India, Russia, and South Africa. Australia and Canada achieved the same results without legislated fiscal rules, whereas fiscal discipline continues to be a problem even though Germany has legislated fiscal rules. The Swiss experience is the most instructive in demonstrating sustained fiscal discipline. Two important instruments create incentives for cantons to maintain fiscal discipline. First, fiscal referendums allow citizens the opportunity to veto any government program. Second, some cantons have legislated the set-aside of a fraction of fiscal surpluses, which puts a brake on debt on rainy days.

Fragmentation of the Internal Common Market

Although preserving the internal common market is a primary goal of all federal systems as well as a critical determinant of their economic performance, removing impediments to such an economic union remains an unmet challenge in federal countries in the developing world. “Beggar-thy-neighbor” or “race-to-the-bottom” fiscal policies and barriers to goods and factor mobility have the potential to undermine the gains from decentralized decision making, as recent experience in Brazil, India, Mexico, and Spain indicates. In contrast, the Canadian and U.S. federal systems have successfully met this challenge by securing a common economic union.
Failure of the Fiscal System to Provide Incentives for Responsive and Accountable Governance

In most federal countries, especially in the developing world, intergovernmental transfers focus on dividing the pie without any regard to creating incentives for responsive and accountable service delivery. Revenue-sharing arrangements often discourage local tax efforts and introduce perverse fiscal incentives through gap-filling approaches. Conditional transfers in most federal countries focus on input controls and micromanagement, thereby undermining local autonomy. In a few countries, such as the United States, they serve as a tool for pork-barrel politics. The practice of basing output transfers on national minimum standards to create incentives for results-based accountability is virtually nonexistent.

Federalism and Regional Equity: Reflections on Alternate Approaches to Reducing Regional Disparities

Constituent units of a nation-state encompassing a large geographic area usually differ considerably in population size, resource base, economic and demographic composition of population, and topography. These differences contribute to divergent income levels and growth rates across subnational units. Most nations, federal and unitary alike, undertake policies to reduce regional disparities to ensure political and economic stability for the political union. In unitary countries, the national government is relatively unconstrained to pursue policies to induce convergence in regional incomes. In federal countries, constituent units can undertake actions to mitigate the effects of federal policies. The task of reducing regional disparities is a daunting one that has no assurance of success even in the long term. Despite active policies, these disparities persist in both federal and unitary countries alike. Experience shows that in some cases the very policies adopted to overcome such disparities ironically ensure the long-term deprivation of the disadvantaged regions.

As noted in earlier sections, globalization introduces further complexities in meeting this challenge. Under globalization, skill mix and knowledge capital rather than a country’s resource base determine its international competitiveness. Regions with less education and training and with a higher relative concentration of unskilled workers lose out to regions with skilled workers. Thus, globalization compounds the problems of regional convergence within nations.

This section discusses the responses to this challenge in federal systems. First, commonly pursued policies in support of regional development are
outlined and their downside risks are briefly highlighted. An elaboration of policies that create a level playing field and support market-led development follows. The main thrust of these policies is creating an enabling environment for free mobility, competition, and technological diffusion. Finally, the section draws policy implications of earlier discussions.

Paternalism and Regional Equity: Building Transfer Dependencies?

A paternalistic view of regional equity calls for an aggressive fiscal and regulatory stance by the central government to mitigate regional disparities by discouraging outmigration of labor and capital and protection of local industry against competition from the rest of the country. Examples of such policies include regional tax holidays and credits, regionally differentiated social benefits, protection for regional industries, central financing of regional expenditures, and direct central government expenditures. Overall, these policies emphasize creating protective barriers to nourish “infant” regions and to slow down, if not to impede, the natural adjustment mechanism. Unfortunately, such a policy environment may create an incentive structure that could undermine a region’s long-term growth potential.

This dysfunctional result is called transfer dependency (see Courchene 1995 and chapter 1 of this volume). Transfer dependency does not refer to the overwhelming dependence of constituent units on central government handouts of revenues without accountability—although such a situation may be a contributing factor. Instead, according to Courchene (see chapter 1), the term refers to a situation in which the central government’s regional policies create incentives for individuals and subnational governments to act inconsistently with their long-term interests absent such policies. Transfer dependency also creates incentives for residents to stay in the region because of the regionally differentiated income-transfer policies. For example, recipient states or provinces can provide public sector wages that are above their productivity levels. They can run persistent trade deficits with other states with little impact on internal wages and prices because typically the central government’s redistributive policies finance these deficits. As a result, these policies impede market adjustment responses; they lead to maintaining or even to worsening existing income and employment disparities. Transfer dependency is said to exist (a) when regional unemployment rates are observed to be persistently higher than the national average; (b) when wages in the depressed regions are higher than what labor productivity would indicate; and, in extreme cases, when (c) regional personal incomes are higher
than the gross domestic product. Thus, the overwhelming generosity of the regional policies works to the disadvantage of recipient states and undermines their long-term growth potential. Alternative policies that do not suffer from these downside risks focus instead on creating an internal common market so that poorer regions are able to integrate into the national economy.

Atlantic Canada, north and northeast Brazil, Balochistan province of Pakistan, and southern Italy suffer to a varying degree from the ill effects of such transfer dependency.

**Partnership Approach to Regional Equity: Securing an Economic Union**

Although most policies for regional convergence remain controversial, an area of emerging consensus is that free mobility of labor, capital, goods, and services and technological diffusion are the most important factors for regional convergence. For this reason, regional convergence has not worked well in China and Russia. In both countries, state policies have actively discouraged migration and technical diffusion. In mature federations, such as Australia, Canada, and the United States, securing an economic union remains high on the policy agenda and is pursued through a variety of instruments, as discussed in the following sections.

**Preservation of the internal common market**

Preservation of an internal common market remains an important area of concern to most nations undertaking decentralization. In their pursuit of labor and capital, subnational governments may indulge in beggar-thy-neighbor policies and in the process erect barriers to goods and factor mobility. Thus, decentralization of government regulatory functions creates a potential for disharmonious economic relations among subnational units. Accordingly, regulation of economic activity such as trade and investment is generally best left to the federal or central government. Nevertheless, central governments themselves might pursue policies detrimental to the internal common market. Therefore, as suggested by Boadway (1992), constitutional guarantees of free domestic flow of goods and services may be the best alternative to assigning regulatory responsibilities solely to the center.

The constitutions of mature federations typically have a free trade clause (as in Australia, Canada, and Switzerland); federal regulatory power over interstate commerce (as in Australia, Canada, Germany, Switzerland, and the United States); and individual mobility rights (as in most federations).
The U.S. constitution imposes two constraints on state powers (see Rafuse 1991: 3):

- The commerce clause (article I, section 8): “The Congress shall have power . . . To regulate commerce with foreign nations, and among the several states, and with the Indian tribes.”
- The due process clause (amendment XIV, section 1): “No state shall . . . deprive any person of life, liberty, or property, without due process of law.”

The Indonesian constitution contains a free trade and mobility clause. But in a large majority of developing countries, the internal common market is impeded both by subnational government policies that are supported by the center and by formal and informal impediments to labor and capital mobility. For example, in India, local governments rely on a tax on intermunicipal trade (octroi) as the predominant source of revenues. In China, mobility rights of individuals are severely constrained by the operation of the hukou system of household registration, which is used to determine eligibility for grain rations, employment, housing, and health care.

**Tax harmonization and coordination**

Tax competition among jurisdictions can be beneficial by encouraging cost-effectiveness and fiscal accountability in state governments. By itself, it can lead to a certain amount of tax harmonization. At the same time, decentralized tax policies can cause certain inefficiencies and inequities in a federation as well as lead to excessive administrative costs. Tax harmonization is intended to preserve the best features of tax decentralization while avoiding its disadvantages.

Inefficiencies from decentralized decision making can occur in various ways. For one, states may implement policies that discriminate in favor of their own residents and businesses relative to those of other states. They may engage in beggar-thy-neighbor policies intended to attract economic activity from other states. Inefficiency may also occur simply because distortions will arise from different tax structures chosen independently by state governments with no strategic objective in mind. Inefficiencies can also occur if state tax systems adopt different conventions for dealing with businesses (and residents) that operate in more than one jurisdiction at the same time. These policies can lead to double taxation of some forms of income and nontaxation of others. State tax systems may also introduce inequities as mobility of persons encourages them to abandon progressivity. Administration costs are also likely to be excessive in an uncoordinated tax
system (see Bhdway, Roberts, and Shah 1994). Thus, tax harmonization and coordination contribute to efficiency of the internal common market, reduce collection and compliance costs, and help achieve national standards of equity.

The European Union has placed a strong emphasis on tax coordination issues. Canada has used tax collection agreements, tax abatement, and tax base sharing to harmonize the tax system. The German federation emphasizes uniformity of tax bases by assigning tax legislation to the federal government. In developing countries, because of tax centralization, tax coordination issues are relevant only for larger federations such as Brazil and India. In Brazil, use of the (origin-based) ICMS (imposto sobre circulação de mercadorias e prestação de serviços, or tax on the circulation of goods and services) as a tool for attracting capital inflow from other regions has become an area of emerging conflict among states. Even though the Council of States sought to harmonize the ICMS base and rates, some of the tax concessions rejected by the council are evidently practiced by many states anyway. The states can also resort to tax base reductions or grant unindexed payment deferrals. For example, some northeastern states have offered 15 years’ ICMS tax deferral to industry. In an inflationary environment, such a measure can serve as an important inducement for attracting capital from elsewhere in the country (Shah 1991).

**Intergovernmental fiscal transfers**

Federal-state transfers in a federal system serve important objectives: alleviating structural imbalances, correcting for fiscal inefficiencies and inequities, providing compensation for benefit spillouts, and achieving fiscal harmonization. The most critical consideration is that the grant design be consistent with the grant’s objectives.6

In industrial countries, two types of transfers dominate: transfers to achieve national standards and equalization transfers to deal with regional equity. A third type of transfer that would be desirable would foster regional stabilization. Such a temporary transfer would be linked to the rate of change (rather than the level) of economic activity.

In developing countries, with a handful of exceptions, conditional transfers are of the pork-barrel variety, and equalization transfers with an explicit standard of equalization are not practiced. Instead, pass-the-buck transfers in the form of taxing through tax sharing and revenue sharing with multiple factors are used. With limited or no tax decentralization, pass-the-buck transfers in the developing world finance the majority of subnational expenditures. In the process, they build transfer dependencies and discourage
development of responsive and accountable governance (see Shah 1998a, 1998c). Ehdaie (1994) provides empirical support for this proposition. He concludes that simultaneous decentralization of the national government’s taxing and spending powers, by directly linking the costs and benefits of public provision, tends to reduce the size of the public sector. Expenditure decentralization accompanied by revenue sharing delinks responsibility and accountability and thereby fails to achieve this result.

In general, pass-the-buck transfers create incentives for subnational governments to make decisions that are contrary to their long-run economic interests in the absence of such transfers. Thus, they impede natural adjustment responses, leading to a vicious cycle of perpetual deprivation for less developed regions (see Courchene, chapter 1 in this volume, for further discussion).

Experience in industrial countries shows that successful decentralization cannot be achieved in the absence of a well-designed fiscal transfer program. The design of these transfers must be simple, transparent, and consistent with their objectives. Properly structured transfers can enhance competition for the supply of public services, accountability of the fiscal system, and fiscal coordination—just as general revenue sharing has the potential to undermine it. The Indonesian experience in striving to achieve minimum standards in access to education offers important insights into grant design. For example, Indonesia’s education grants have used simple and objectively quantifiable indicators in allocating funds, and the conditions of continued eligibility for these grants emphasized objective standards in accessing these services. This grant program helped Indonesia make great strides toward its education policy objectives in the 1990s.

Policy makers should not overlook the role of fiscal transfers in enhancing competition for the supply of public goods. For example, transfers for basic health and primary education could be made available to both the public and the not-for-profit private sectors on an equal basis, using as criteria factors such as the demographics of the population served, the school-age population, and student enrollments. These transfers would promote competition and innovation because both public and private institutions would compete for public funding. Chile permits Catholic schools access to public education financing. The Canadian provinces allow individual residents to choose between public and private schools as recipients of their property tax dollars. Such an option has introduced strong incentives for public and private schools to improve their performance and to be competitive. Such financing options are especially attractive for providing greater access to public services in rural areas (see Shah 2007).
**Fiscal equalization**

As noted earlier, regional inequity is an area of concern for decentralized fiscal systems, and most systems attempt to deal with it through the spending powers of the national government or through fraternal programs. Mature federations, such as Australia, Canada, and Germany, have formal equalization programs. This important feature of decentralization has only recently been recognized in a handful of developing countries—for example, Indonesia and Russia. Despite serious horizontal fiscal imbalances in a large number of developing countries, explicit equalization programs are untried in most, although equalization objectives are implicitly attempted in the general revenue-sharing mechanisms used in countries such as Brazil, Colombia, India, Mexico, Nigeria, and Pakistan. These mechanisms typically combine diverse and conflicting objectives in the same formula and fall significantly short on individual objectives. Because these formulas lack explicit equalization standards, they fail to address regional equity objectives satisfactorily.

**Facilitating local access to credit**

Local access to credit requires well-functioning financial markets and creditworthy local governments. Although these prerequisites are easily met in industrial countries, traditions of higher-level governments assisting local governments are well established in these countries. An interest subsidy for state and local borrowing is available in the United States because the interest income of such bonds is exempt from federal taxation. Such a subsidy has many distortionary effects: it favors richer jurisdictions and higher-income individuals; it discriminates against nondebt sources of finance, such as reserves and equity; it favors investments by local governments over investments by autonomous bodies; and it discourages private sector participation in the form of concessions and build-operate-transfer alternatives. Various U.S. states assist borrowing by small local governments through municipal bond banks (MBBs). MBBs are established as autonomous state agencies that issue tax-exempt securities to investors and apply the proceeds to purchase the collective bond issue of several local governments. By pooling a number of smaller issues and by using the superior credit rating of the state, MBBs reduce the cost of borrowing to smaller communities (see El Daher 1996).

In Canada, most provinces assist local governments with the engineering, financial, and economic analysis of projects. Local governments in Alberta, British Columbia, and Nova Scotia are assisted in their borrowing by provincial finance corporations that use the higher credit ratings of the province to lower costs of funds for local governments. Some provinces, notably Manitoba and Quebec, assist in preparing and marketing local debt.
Canadian provincial governments on occasion have also provided debt relief to their local governments. Autonomous agencies run on commercial principles assist local borrowing in Western Europe and Japan. In Denmark, local governments have collectively established a cooperative municipal bank. In the United Kingdom, the Public Works Loan Board channels central financing to local public works.

An important lesson arising from industrial countries’ experience is that municipal finance corporations operate well when they are run on commercial principles and compete for capital and borrowers. In such an environment, such agencies allow pooling of risk, better use of economies of scale, and application of knowledge of local governments and their financing potentials to provide access to commercial credit on more favorable terms (see McMillan 1995 and chapter 8 in this volume). In developing countries, undeveloped markets for long-term credit and weak municipal creditworthiness limit municipal access to credit. Nevertheless, the predominant central government policy emphasizes central controls; consequently, less attention has been paid to assistance for borrowing. In a few countries, such assistance is available through specialized institutions and central guarantees to jump-start municipal access to credit. Ecuador, Indonesia, Jordan, Morocco, the Philippines, and Tunisia have established municipal development banks, funds, or facilities for local borrowing. These institutions are quite fragile, unlikely to be sustainable, and open to political influences. Interest rate subsidies provided through these institutions impede emerging capital market alternatives. Colombia and the Czech Republic provide a rediscount facility to facilitate local access to commercial credit. Thailand has established a guarantee fund to assist local governments and the private sector in financing infrastructure investments (see Gouarne 1996).

In conclusion, because macroeconomic instability and lack of fiscal discipline and appropriate regulatory regimes have impeded the development of financial and capital markets, the menu of choices available to local governments for financing capital projects is quite limited, and available alternatives are not conducive to developing a sustainable institutional environment for such finance. In addition, revenue capacity at the local level is limited because of centralized taxation. A first transitional step in providing limited credit-market access to local governments may be to establish municipal finance corporations run on commercial principles and to encourage the development of municipal rating agencies to assist in such borrowing. Tax decentralization is also important to encourage private sector confidence in lending to local governments and in sharing the risks and rewards of such lending.
Social risk management through transfer payments and social insurance

Along with providing public goods and services, transfer payments to persons and businesses comprise most government expenditures (especially in industrial countries). Some of these transfers are for redistributive purposes in the ordinary sense, and some are for industrial policy or regional development purposes. Some are also for redistribution in the social insurance sense, such as unemployment insurance, health insurance, and public pensions. Several factors bear on the assignment of responsibility for transfers. In the case of transfers to business, many economists would argue that they should not be used in the first place. Given that such transfers are used, however, they are likely to be more distortionary if used at the provincial level than at the federal level because the objective of subsidies is typically to increase capital investments by firms, which are mobile across provinces. As for transfers to individuals, because most of them are for redistributive purposes, their assignment revolves around the extent to which the federal level of government assumes primary responsibility for equity. From an economic point of view, transfers are just negative direct taxes. One can argue that transfers should be controlled by the same level of government that controls direct taxes so that they can be integrated for equity purposes and harmonized across the nation for efficiency purposes. The case for integration at the central level is enhanced when one recognizes the several types of transfers that may exist to address different dimensions of equity or social insurance. Coordinating unemployment insurance with the income tax system or pensions with payments to the poor is advantageous. Decentralizing transfers to individuals to state or provincial levels will likely lead to inefficiencies in the internal common market, to fiscal inequities, and to interjurisdictional beggar-thy-neighbor policies.

Mitigating adverse consequences of globalization

Globalization of economic activity poses special challenges to fiscal federalism. As noted earlier, in the emerging borderless world economy, interests of residents as citizens are often at odds with their interests as consumers. In securing their interests as consumers in the world economy, individuals are increasingly seeking localization and regionalization of public decision making to better safeguard their interests. With greater mobility of capital and loosening of the regulatory environment for foreign direct investment, local governments as providers of infrastructure-related services may serve as more appropriate channels for attracting such investment than do national governments. As borders become more porous, cities are expected
to replace countries in transnational economic alliances (as people across Europe are already discovering that national governments have diminishing relevance in their lives). People are increasingly more inclined to link their identities and allegiances to cities and regions (see Courchene 1995 and chapter 1 in this volume for further discussion).

With mobility of capital and other inputs, skills rather than resource endowments will determine international competitiveness. This point also has implications for regional inequalities, because regions with lower skills may lag in economic development. Lester Thurow (1993: 5) has expressed this view succinctly: “If capital is borrowable, raw materials are buyable, and technology is copyable, what are you left with if you want to run a high-wage economy? Only skills, there isn’t anything else.” This situation calls for a greater role of national government in enhancing skills, overcoming problems with access to information and skills in lagging regions, and dealing with social policy fallouts.

Concluding Remarks on Policies for Regional Development

If one examines the country experiences with regional convergence, an obvious conclusion can be drawn that whereas the partnership approach has yielded some degree of success, the paternalistic approach has not worked. In this context, examples from the U.S. experience are quite instructive. For example, Blanchard and Katz (1992) find that states that experience an adverse shock in demand experience outmigration. The partnership approach to regional disparities undertaken in the United States is highlighted by Lester Thurow (1981) in reflecting on the New England case. Thurow argues that New England is prosperous today because it went through a painful transition from old dying industries to new growth industries. According to him, if Washington had protected New England’s old dying industries, the region might still be in a depressed and sick state.

Dealing with regional inequalities is a daunting task for development economists. There is no consensus about what works and what does not. Yet if one adopts a policy of doing no harm when the level of ignorance is so high, then a clear policy lesson emerges from a review of past experiences. A partnership approach that facilitates an economic union through (a) free mobility of factors by ensuring common minimum standards of public services and by dismantling barriers to trade and (b) wider information and technological access offers the best policy alternative in regional integration.
Conclusions: The New Vision of Multicentered Governance

During the past two decades, globalization and the information revolution have brought about profound changes in the governance structures within and across nations. A few trends discerned from this mega change in division of powers within nations are (a) the growing importance of global regimes in some traditional functions of central and federal governments, such as macroeconomic and trade policies and regulation; (b) a wider federal role in social and environmental policies, which are the traditional domain of provinces and states in federal countries; (c) the diminished economic relevance yet strong and growing political role of the intermediate order (provincial or state) government; (d) the growing importance of local government and “beyond-government” entities for improving economic and social outcomes for citizens; and (e) most important, the growing activism by citizens to reassert their role as governors and principals and to reign in global regimes and governments rather than be treated as subjects and consumers or clients.

The growing importance of global regimes has accentuated democracy deficits because the governance structures of these regimes are at present neither responsive nor accountable to citizens at large. Over the coming decades, citizen activism is expected to force these institutions to reform their governance structures to be more responsive to the citizens’ voice. Within nations, increasing pressures to realign governance structures are likely to encourage greater bottom-up accountability of government for integrity and service delivery and to reduce transaction costs for citizens in dealing with governments.

This trend will mean revamping current inwardly focused government structures and replacing them with structures that are amenable to direct citizen control. It implies an enhanced role of local governments to serve as the primary agent of its citizens. In this role, a local government would serve as (a) a purchaser of local services, (b) a facilitator of a network of government providers and entities beyond government, and (c) a gatekeeper and overseer of state and national governments in the shared rule (see Shah and F. Shah 2007; Shah and S. Shah 2006). This role represents a fundamental shift in the division of powers from higher to local governments and “beyond-government” entities and networks. It has important constitutional implications. Residual functions would reside with local governments. State governments would perform intermunicipal services and finance social services. The national government would deal with
redistributive, security, foreign relations, and interstate functions, such as harmonization and consensus on a common framework. Supranational regimes would deal with global public goods and would have transparent, responsive, and accountable democratic governance structures. Such rearrangements would reassert the power of citizens as governors and would foster competition and innovation for improving local economies and their connectedness with national and global markets. Globalization and the information revolution support such realignments for citizen empowerment, whereas existing political and economic institutions, as well as security and terrorism concerns, undermine such a paradigm shift. The world’s social and economic well-being critically depends on how soon the latter obstacles are overcome.

Notes

1. This section is inspired by Courchene (1993, 1995, 2001) and chapter 1 of this volume and draws heavily on his works and Shah (1998a, 1998c, 2002).
2. Reich (1991) identifies these services as problem-solving, problem-identifying, and strategic brokerage services.
3. See Shah (1998a) for motivations for such a change and Shah (2007c) for new visions of local governance.
4. See Shah (2007a) for a view on rearrangements in division of powers in decentralized fiscal systems.
5. This section is based on Shah (2006, 2007c).
6. See Shah (2007b) for principles of grant design and practices.

References


