

PROPOSAL: DECENTRALIZATION AND DIVERSITY

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This proposal is in two parts: the first part investigates the ways in which decentralization (and its specific design) affects the production of public goods. The second part considers the special issues that arise in diverse societies.

Part One: Decentralization and public goods

- 1) We consider two types of decentralization in this context. Vertical decentralization concerns the distribution and control over public resources between the central government and lower levels of government. Horizontal decentralization deals with the allocation of budgetary resources at the Center to the line ministries concerned with education, health and other human development oriented public goods, as well as to the extent of influence of the legislative branch at various levels under varying political configurations, such as one party autocracy versus multi-party democracy.
- 2) Research on vertical decentralization on the whole finds that it enhances the production of appropriate public goods, but this depends on the number of units and layers of government and on how many resources are devolved or raised locally. Research on horizontal, which is less abundant, focuses on the extent of democracy at various levels, e.g. whether heads of local legislative bodies are directly elected, indirectly elected or appointed; what their functions are relative to local governments; and the control over technical cadres by the Center.

We propose doing a literature review, both in economics and in political science, on the issues outlined above. While that review will help to guide our research, at this point we intend to address the following key questions:

- 1) How much decentralization of either type, and/or what combination of the two are best suited for the quantity and quality of the production of public goods?
- 2) How relevant is the control over technical service providers?

Part Two: Diversity and Decentralization

This part of the project will focus on the issue of decentralization in the context of diversity. While more work has been done on how decentralization affects the quantity and quality of public goods there has been less research on the impact of decentralization in diverse societies. Preliminary investigations suggest two ways in which diversity is relevant to the issue of decentralization:

First, decentralization generally increases power sharing among different groups - although the extent depends on the nature of the decentralization (how much decentralization there is/the number and nature of the lower level units) and the extent of power sharing at the Center; this power sharing in turn is likely to improve relationships among groups and reduce the likelihood of conflict;

Secondly, the nature and quantity of public goods at the local level is likely to be affected by diversity; more heterogeneous units are likely to produce less revenue and less public goods than more homogeneous units. It follows that the design of the units of local government (how heterogeneous they are) will affect the quantity of public goods. The extent of heterogeneity of local governments in turn depends partly on their size (larger ones being likely to be more heterogeneous) and on their specific geographic borders.

Taking off from the conclusions in part one about how decentralization generally affects public goods production, this part of the project will survey the literature on these two issues with a view to coming to conclusions about the appropriate design of decentralization.

In both parts we will draw particularly on the cases of Indonesia, Uganda and Kenya.