

The Architecture of Multiorder Governance for the Information Age

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Introduction

The globalization and the information revolution have had profound implications for the division of power within, across and beyond nation-states. Within nation states, the information revolution has empowered citizens to hold governments to account. This has led to demands for moving government decision making closer to people and having open, leaner, efficient and de-layered governance structures focused on peace, order, service delivery and good government. Across nation states, international competitiveness is now linked more closely to education, skills, knowledge base and information access rather than the resource base of a nation. Beyond nation states, supranational regimes are assuming an enhanced role in several of the traditional functions of central government in nation states such as international trade, global environment, telecommunications, international standards, surveillance of macro risks and governance conditions, global security and risk management, combating of money laundering, corruption, pandemics, and terrorism. The prosperity of nations rides on the ability of their governance systems to adapt to this changing world. What has been the performance record so far and what is the potential of alternative models of multi-order governance to cope with this new world economic and political order? Which model of governance is better suited to cope with this mega change and assure FAIR (Fair, Accountable, Incorruptible and Responsive) governance to its citizens? This paper attempts to address these questions.

The paper is organized as follows. Section 1 provides a brief overview of alternate models of multi-order governance. Section 2 presents a framework for an evaluation of these governance systems. Section 3 is concerned with a qualitative comparative evaluation of selected multi-order governance systems. Section 4 distils empirical evidence on governance outcomes associated with these models. Section 5 elaborates on a perspective on multi-order governance for the 21st Century. Section 6 offers concluding remarks.

1. Alternative Models of Multi-order Governance

A stylized grouping of fiscal constitutions on centralization/decentralization spectrum would show 'one republic' – a unitary fiscal constitution as the most centralized and the Montesquieu/Kincaid's confederate republic of city states as the most decentralized multi-order governance structure. Under the unitary form of constitution, a country has a single or multi-tiered government while effective control of all government functions rests with the central government. In a confederate republic of city states or "civic republics" (Kincaid, 1967), central government acts as the agent of the member units and may not have any independent taxing and spending powers unless specifically authorized by city states. Madison's vision of "compound " (federal) republic or various forms of federations would occupy an intermediate space on this spectrum and a compound republic of central and

local governments would be more decentralized than the compound federal republic. The following paragraphs briefly discuss these governance structures.

One Republic

A unitary form of constitution facilitates centralized decision making to further national unity. It places great premium on national security, law and order and uniformity and equal access to public services than it does on democratic rights, voice and exit options and diversity of preferences. Facing a threat of foreign invasion and internal conflict, this was a preferred system of governance under autocratic or dictatorial rule or single party dominated regimes. A large majority of countries in the world still retain unitary constitutions to ensure uniform and equal access while traditional concerns about foreign invasion and internal uprising have largely dissipated and autocratic rule has given way to entrenchment of democratic rights and freedom. Over time, these countries have also recognized the diversity of preferences at the local levels and virtues of decentralized public decision making. As a result, some unitary countries (e.g. Japan, South Korea, Denmark, Norway, Sweden, Finland, China, Poland) are more decentralized than most federal countries. A decentralized unitary constitution has an added virtue of constraining duplicate layers of legislative and executive organs and associated costs especially of intermediate tiers of government. Such tiers are either non-existent as in Japan, South Korea, Denmark, Norway, Sweden and Finland or have relatively minor significance as in China or Indonesia. A unitary government typically has a greater degree of centralization of taxing powers than expenditure responsibilities. Some exceptions to this rule are the Scandinavian countries where lower government orders are primarily self-financed.

Confederate republic of city-states

In a confederate republic, local governments are self financed and the confederate government is financed by contributions from member governments. Confederate republic comprising autonomous self-governing city-states or civic republics or Tiebout communities offering diverse choices on menu of local taxation and services and enjoying veto power over national government decision making, represents the most decentralized form of multi-order governance. Such a constitution places great premium on democratic choice, exercise of voice and exit options through voting by ballots or with your feet, diversity of preferences and virtues of home rule and community governance principles. Civic republics are seen as catalysts for collective action by harnessing good Samaritan values to improve economic and social outcomes. A small and open jurisdiction ensures that decision making is closer to the people and the median voter preferences matter. Since such small jurisdictions are vulnerable to hostile action, central government for the confederate republic, financed by contributions from member civic republics assumes national security and defense obligations. It also discharges other economic responsibilities authorized by member states such as having a common currency and a joint monetary authority. Switzerland had its origin as a confederate republic of city-states (cantons). Confederate republics however remain vulnerable to political instability arising from external aggression or internal conflict. The central government of a confederate republic would be hamstrung to take appropriate military and economic actions just in time in view of the internal political divisiveness. Protection of the poor and the disadvantaged groups and minorities is also not assured due to the autonomy of civic republics. Democratic choice is also not guaranteed as was witnessed in Singapore – a city-state. In the absence of a choice of small open economies with wide array of menu of public services and tax burdens

and costless mobility, efficiency in a Tiebout economy is also not assured. Equity, equality and redistribution goals are compromised under such a system at the alter of economic efficiency. Since most societies place some premium on altruistic goals, this governance model remains a theoretical construct and not practiced in reality anywhere in the world.

Confederate republic of states (provinces)

In a confederate republic of states and provinces, the central government serves as an agent of member states. Montesquieu had argued for such a model due to greater feasibility of forming such an association than among city-states. Such a republic would be less decentralized than the confederate republic of city-states and therefore offers fewer benefits of a Tiebout economy. It is also prone to instability arising from external aggression or internal conflict. The USA had its origin as a confederate republic of states in 1776. The European Union until recently had a confederate character. Montesquieu's confederate republic, however, did not gain much popularity in practice and various nations looked for alternative political and fiscal constitutions that would marry efficiency and equity objectives while preserving democratic choice. An important alternative vision of multi-order governance - "compound federal republic" comprising a compact between states and an independent central government was conceptualized by Madison and Hamilton for the future governance system for the United States of America and subsequently redefined and replicated in a large number of countries (see Inman and Rubinfeld, 1997). To date about 28 countries have adopted various forms of "federal" governance (Boadway and Shah, 2009). Several more are interested in a path towards a compound federal republic.

Compound Federal Republic - federation of states and provinces

Madison and Hamilton viewed the compound republic as a federation of states taking into account the political context of the USA at that juncture in its history. This view gained common currency elsewhere. In principle, a federal form of government has a multiorder governance structure, with all orders of government having some independent as well as shared decision-making responsibilities. This opens up the possibility of having a compound republic that comprises a federation of civic republics as discussed in the next section. Shared rule and territorial finance remain contentious issues in most federations. Federalism in recent past has been seen either a "coming together" or a "holding together" of constituent geographic units to take advantage of greatness and smallness of nations. Traditionally it represented a "foedus" (treaty or compact or alliance) among states (provinces) " each of which recognized the legitimacy of an overarching central government to make decisions on some matters once exclusively the responsibility of individual member states" as done in the USA (Inman, 2007:530). "Coming together" has been the guiding framework for mature federations such as the United States, Canada, and more recently the European Union. The alternative "holding together" view of federalism, also called the "new federalism" represents an attempt to decentralize responsibilities from federal government to the states or provinces with a view to overcome regional discontent with central policies and forestall secessionist tendencies. This view is the driving force behind the current interest in principles of fiscal federalism in unitary countries and relatively newer federations such as Brazil, India and Pakistan and emerging federations such as Iraq, Nepal, Spain, Sri Lanka and South Africa. In Pakistan this was the primary motivation for a unanimous consent to a recent (2010) passage of the 18th Amendment to the Pakistan's constitution to empower provinces.

Federal countries broadly conform to one of two models: dual federalism or cooperative federalism. A third model, the so-called, 'competitive federalism'. (see Breton, 1995 and

Weingast,2006) where all governments have overlapping responsibilities and compete vertically and horizontally to establish their clientele of services, is simply a theoretical construct and not practiced anywhere. Under dual federalism, federalism compact is between federal and provincial governments and they have separate and distinct responsibilities and local governments are typically creatures of the provinces as in Canada, USA, India and Pakistan. Under cooperative federalism, central and provincial roles can assume one of three forms: interdependent spheres as in Germany and South Africa, marble cake with overlapping responsibilities as in Belgium or independent spheres as in Brazil. In all these models with the sole exception of independent spheres model, provinces have a strong constitutional role and local governments remain creatures of provinces and states.

The dual federalism model empowers provinces and states. This is considered a welcome move as it moves decision making somewhat closer to people and it also has the advantage of dealing with ethnic and linguistic conflicts if provinces are numerous and are small enough in geographic area and represent population with relatively homogeneous characteristics and similar tastes and preferences for a menu of taxes and public services (as Cantons in Switzerland). If provinces are properly delineated as economic regions then they could also enhance efficiency of the internal common market by exploiting economies of scale and scope. They also have the potential to deal with inter-local spillovers and intra-regional inequities. Provincial governments can also be responsive to citizen preferences if provincial government is not captured by feudal, industrial and military elites. The absence of well developed communication and transportation system and a lack of urbanization also makes provinces almost a necessity for countries that span a large geographic area. The dual federalism model empowering states or provinces, nevertheless, has significant shortcomings.

Tragedy of Commons Associated with Common Pool Resources. Under dual federalism, both the centre and the provinces compete to claim a larger share of the fixed national pie. This accentuates universalism and pork barrel politics leading to a tragedy of commons where all federating units outcompete each other in profligate spending and giveaways in taxes and subsidies. This tug of war over resources and the resulting swings in the balance of powers within nations is a perpetual feature of dual federalism model.

A Leviathan model of governance. Empowering provinces leads to a potential for greater duplication of government structures and processes at central and provincial levels leading to increased costs for the exchequer and higher transactions costs for citizens. This may also lead to overgrazing by politicians and bureaucrats (Triesman, 2007). As a result the growth in the size of government becomes unrelated to quality and quantity of service delivery. Opportunism and pork barrel politics leads to governments acting as employment creation agencies detracting them from their primary role in financing public services and providing a supportive enabling environment for private sector led growth.

Agency problems with incomplete contracts. In most large countries, empowering states and provinces does not necessarily imply that the decision making moves closer to people. States do not correspond to Tiebout communities or Kincaid's civic republics. Provinces and states are often larger in geographic size and population than smaller countries. Governments of New York, California, Ontario, Sao Paulo, Pakistan provinces of Punjab, Sindh , Baluchistan, and Indian states of Bihar and Gujarat have jurisdictions exceeding the size of many countries. Having decision making far removed from people implies that provincial governments have incomplete contracts with their citizens and could not be held

to account by people at large. In countries where politics is dominated by feudal, military and industrial elites such as Pakistan, this leads to complete alienation of governments from their people. This lack of accountability in governance is further accentuated by a constraining of voice and exit options under provincial empowerment due to large areas and interstate barriers to mobility.

Weaker and Fragmented Local Governance. The dual federalism approach is focused on internalizing benefits and costs of service provision to the same jurisdiction and treats local government as a subordinate tier under multi-order governance and outlines principles for defining the roles and responsibilities of various orders of government (see Boadway and Shah 2009 for such a framework for the design of fiscal constitutions). Hence, one sees that in most federations, as in Canada and the United States, local governments are creatures of state (intermediate order) governments (*dual federalism*). In a few isolated instances, as in Brazil, they are equal partners with higher-level governments (*cooperative federalism*), and in an exceptional case, Switzerland, they are the main source of sovereignty and have greater constitutional significance than the federal government. Thus, depending on the constitutional and legal status of local governments, intermediate order governments in federal countries assume varying degrees of oversight of the provision of local public services. In general, this perspective constrains the role of local governments as their expansive role comes at the expense of the powers of the intermediate order of government. As globalization and information revolution leads to diminished economic relevance of the intermediate order of governments, these conflicts are accentuated and intermediate order governments have a tendency to play a more intrusive role at the local level to stay politically relevant. In Canada, Pakistan and Russia, provincial governments have recently moved to constrain local government powers. These fiscal federalism perspectives serve as a response to market failures and heterogeneous preferences with little recognition of government failures or the role of entities beyond government. Empowered states and provinces under dual federalism create incentives for weaker and numerous local governments. The exigencies of provincial politics dictate that local governments are given straightjacket mandates with little resources and are kept under tight provincial reigns as in done in India and Pakistan. The empowered provincial governments typically encourage local fragmentation in the interest of higher degree of intrusive controls. In India, there are 254, 119 local governments responsible for a pittance of (5%) of national expenditures. Most of these expenditure go towards financing the salaries and allowances of civil servants and 3 million elected officials with little left to deliver public services. In contrast, in China where provincial role is restrained and local (county) governments are empowered, there are only 43,965 local governments but they account for 66% percent of national expenditures (see Qiao and Shah, 2006, Shah, 2014).

Stifling local innovations. Provinces and states often impose one size fit all straightjacket mandates that constrain local choices and flexibility and stifle any innovative approaches. In Pakistan, provincial ordinances in 2000 required all local governments small or large, to have 16 departments and fixed number of positions. In the United States, outdated state laws that are rooted in unjustified distrust of local decision making have stifled successful cities to develop and implement any coherent vision of their future and serve their residents better (see Frug and Barron, 2008).

Constraining Good Governance and Strangling Metropolitan Growth. Empowered provinces typically block rationalization of local government functions especially when the local government empowerment implies chipping away at their own powers. A classic example in

this regard is the powers assigned to metropolitan areas under dual federalism. Fiscal federalism literature suggests that large metropolitan areas should have autonomous two tier regional governments with powers equivalent to that of a province and with direct interface with the centre. For this reason, Shanghai and Beijing, Bangkok and Seoul local governments are treated by China, Thailand and South Korea respectively as provinces. In contrast, in India and Pakistan, where states and provinces are relatively more powerful, metropolitan areas with large populations and significant economic bases such as Mumbai, New Delhi, Karachi and Lahore among others are treated at par with smaller local governments with limited autonomy. Such treatment deprives residents of the benefits of home rule and constrains their efforts in local economic development.

Fragmentation of Internal Common Market. Empowered provinces also have the potential to create internal barriers to trade and factor mobility through domicile (residence) requirements and by creating protective regulatory and trade barriers across provincial borders. Mature federations like the USA have circumvented these problems through interstate commerce clause in the constitution. These barriers, however, are formalized in the political and bureaucratic system of India and Pakistan resulting in fragmented common economic union.

Increased Threat of Succession. Empowering provinces represents a potential threat to the political union especially in countries with ethnic, linguistic and religious divides and having smaller number of provincial jurisdictions with one or more dominant provinces such as Pakistan. Fiscal federalism literature shows that as a rule of thumb all dual federalism models with less than 10 provincial jurisdictions are likely to face internal conflicts and potential political instability.

Diminished economic relevance of intermediate order of government (provinces and states) under glocalised governance. Finally, and most importantly, globalization and information revolution are working to make the economic role of provinces largely redundant. Globalization empowers supranational regimes and local governments at the expense of national and provincial governments. Globalization also implies that international competitiveness of a nation is decoupled from its resource base but directly linked with its knowledge base. This suggests a greater role of national government in financing education and training. National government also assumes greater importance in social risk management due to vagaries of global system and social dumping by corporations to stay internationally competitive. National government also assumes a greater role in securing a common economic union. Provincial economic role on the other hand is on the wane as the information revolution makes national coordination and oversight over local governments and horizontal coordination at the local level through inter-local partnerships feasible as done in Finland. In view of the above pressures, states and provincial governments are under growing tension to reposition their roles to retain economic relevance. The political role of states and provinces, however, remains strong in all nations and even on the rise in some nations as in Germany, Canada, Pakistan and India. In Germany, the Lander has assumed a central role in implementing European Union directives and in policy making for regional planning and development. In Canada, Alberta and Ontario provinces have recently re-centralized secondary and post-secondary education. In India, states have effectively blocked implementation of the 73rd and 74th amendments to the Constitution empowering local governments. In Pakistan provinces have recently moved to scale back the fiscal and administrative autonomy of local governments. In conclusion while economic and the information age considerations warrant a leaner role for provinces and an expansive role

for local governments, most federal countries are unlikely to adapt a smooth transition of such role reversals.

The governance implications of dual federalism or a compound republic of states and the center are quite obvious. Various orders of government suffer from agency problems associated with incomplete contracts and undefined property rights, as the assignment of taxing, spending, and regulatory powers remains contested and subject to wild swings—especially in areas of shared rule. Intergovernmental bargaining leads to high transaction costs for citizens. Universalism and pork-barrel politics result in a tragedy of commons, as various orders of government compete to claim a higher share of common pool resources. Under this system of governance, citizens are treated as agents rather than as principals. Given the weaknesses of Montesquieu’s “confederate republic” and Madison-Hamilton’s “compound republic” – a hybrid of the two – a “compound republic” comprising a federal compact between Montesquieu-Kincaid civic republics and an independent central government, is worth exploring. This is discussed in a latter section.

Compound Republic as a federation of states (provinces) and civic republics (local governments) - cooperative federalism

As discussed earlier, this is a hybrid model where federal, state and local governments are considered independent and/or interdependent spheres of the federation. They have exclusive responsibilities and autonomy in certain functions and have interdependencies in shared functions. This system represents a half way house on decentralization spectrum from dual federalism to a federation of civic republics. The governance model accommodates greater local autonomy than under dual federalism but retains an important role for the intermediate tiers of government. Brazil, Germany and the Republic of South Africa constitutions bear affinity to this model. This model suffers from most of the limitations outlined under the dual federalism model.

Compound Republic as a federation of civic republics (local governments)

A compound republic as a federation of civic republics (local governments) but having an overarching central government directly accountable to citizens at large for its autonomous functions and to civic republics for contracted functions offers the advantages of Tiebout communities in democratic choice and accountability as well as assuring efficiency and equity in a federal economy. Member states in a compound republic are self-financed and accountable to local residents. The compound republic as a federation of civic republics is conceptually the closest to ideals of a “federal” system as advocated by Kincaid and Oates. In practice in the USA, as discussed in the previous section, a compound republic of independent civic republics was not feasible due to path dependency. Such a compact was only feasible among states given the institutional context of the USA in the aftermath of its civil war. Switzerland is the only federal country conforming to this view of federalism. Swiss cantons comes closer to the original concept of civic republics. The Swiss cantons initially struck a compact to create a confederate republic but moved overtime to strengthen the overarching responsibilities of a federal government directly accountable to Swiss citizens and eliminated the veto powers of individual cantons and replaced it with a supermajority of cantons and majority of citizens through public referenda. What is unique about Switzerland among federal countries is the relatively higher degree of commitment to the principles of citizen sovereignty, home rule and community governance principles than in other federations. Ironically a few decentralized unitary (one republic) countries e.g. Scandinavian countries embody some important features of this model.

2. A New Institutional Economics Framework For An Evaluation of Multiorder Governance

The previous sections noted alternate institutional arrangements for multi-order governance. While there is a large body of literature on multiorder governance, mostly in political science, economics and public administration, evaluation of these arrangements are almost always eclectic lacking a formal framework for at least a qualitatively objective evaluation. This section attempts to fill this void by borrowing ideas and concepts from a relatively new discipline of neo-institutional economics (see North, 1990). According to the NIE framework applied to multiorder governance issues by Shah and Shah (2006, 2007), various orders of governments (as agents) are created to perform collective action and serve the interests of the citizens as principals. The jurisdictional design should ensure that these agents serve the public interest in ensuring FAIR (Fair, Accountable, Incorruptible and Responsive) governance while minimizing transaction costs for the principals. Various aspects of FAIR governance are spelled out below.

Fair governance. For peace, order and good government, fair governance requires that institutions of governance (IGs) mediate conflicting interests, have focus on consensus building and inclusiveness and ensure a sense of participation by all and protection of the poor, minorities and disadvantaged members of the society.

Accountable Governance. Accountable governance requires that citizens can hold the government to account for all its actions. This implies that IGs promote letting the sunshine in on government operations and work to strengthen voice and exit options for principals. IGs should further strengthen the role of countervailing formal and informal institutions of accountability.

Incorruptible governance. Incorruptible governance requires that governmental authority is carried out following due process of integrity, with fiscal prudence and with concern for providing the best value for money with a view to earning trust of the people.

Responsive Governance. The fundamental task of governing is to promote and pursue collective interest while respecting formal (rule of law) and informal norms. This is done by government creating an enabling environment to do the right things – that it promotes and delivers services consistent with citizens' preferences. Further, the government carries out only the tasks that it is authorized to do i.e. it follows the compact authorized by citizens at large.

The existing institutional framework therefore, does not permit such optimization because the principals have bounded rationality; that is, they make the best choices on the basis of the information at hand but are ill informed about government operations. Enlarging the sphere of their knowledge entails high transaction costs, which citizens are not willing to incur. Those costs include participation and monitoring costs, legislative costs, executive decision-making costs, agency costs or costs incurred to induce compliance by agents with the compact, and uncertainty costs associated with unstable political regimes (Horn, 1997; Shah, 2005). Agents (officials of various orders of government) are better informed about government operations than are principals, but they have an incentive to withhold information and to indulge in opportunistic behaviors or “self-interest seeking with guile”

(Williamson, 1985: 7). Thus, the principals have only incomplete contracts with their agents whereas accountability requires complete contracts. But such complete contracts are infeasible in view of the constitutional ambiguity in shared rule under multi-order governance. In view of incomplete contracts and lack of access to information by the principals, governments may not act in public interest as they could not be held to account by the principals. Under the NIE framework both the principals and their agents act rationally in their own self-interest. The access to information is costly and not uniformly available to all. Under such circumstances, the agent may not secure the interests of their principals and the principals may not be able to restrain opportunistic behaviors of their agents due to agency problems associated with incomplete contracts compounded by the “bounded rationality” of principals and high transactions costs associated in overcoming this handicap.

Such an environment fosters commitment problems because the agents may not follow the compact. The situation is further complicated by three factors—weak or extant countervailing institutions, path dependency, and the interdependency of various actions. Countervailing institutions such as the judiciary, police, parliament, and citizen activist groups are usually weak and unable to restrain rent seeking by politicians and bureaucrats. Historical and cultural factors and mental models by which people see little benefits to, and high costs of, activism prevent corrective action. Further, empowering legislatures and local councils to take action on behalf of citizens often leads to loss of agency between voters and legislatures because members of the legislative may interfere in executive decision-making or get co-opted in such operations while shirking their legislative duties. The NIE framework stresses the need to use various elements of transaction costs in designing jurisdictions for various services and in evaluating choices between competing governance mechanisms.

Institutional arrangements for administering the compact also entail a number of transactions costs for principals and their agents. For principals various types of arrangements impose differential participation and monitoring costs (PMC). There are also costs associated with legislative (LC) and executive decision-making (EDMC). These costs are the time and effort needed to strike a legislative compromise or an executive decision. They are higher when stakes for individual parties are high and when there are strong conflicts of interest and when there is some uncertainty as to the future revenue streams available to donor and recipient governments – a frequently recurring situation in negotiations on fiscal transfers under federal systems. All institutional arrangements entail costs incurred by principals to induce compliance by their administrative agents with the compact, the so-called agency costs (AC). Agency costs arise as the administrative agents to implement the compact on behalf of the principals may not share the objectives pursued by the principals. They may undertake decisions to serve narrow self-interest of bureaucratic power or personal enrichment and because of the high transactions costs, civil society or the legislature may not be able to exercise effective oversight on these decisions. In view of the difficulty of monitoring and taking corrective action ex-post, legislatures typically try to influence the appointment of executives so that they share the same goal and would not undermine the enacted legislation. In addition, they rely much more on civil society monitoring and respond to “fire alarms” raised by unhappy constituents (Horn, 1997, p.21). But such response to fire alarms may be constrained if the executive agency is given a significant degree of autonomy. Finally, there are also risks and uncertainty costs (UC) associated with unstable regimes. Risks and uncertainty in citizen-government and intergovernmental relations, arises because both the potential benefits and costs of a given

compact may not be fully known at the time a deal is struck and because any deal may be undone by a new coalition and constellation of interests.

The analytical framework described above argues for instituting administrative arrangements and governance structures that (a) have a clear division of powers among various orders of government so that there could be more complete contracts of citizens with each order of government; (b) facilitate greater access to information by citizens, interested sectors of civil society (including the media and academics) and legislators that would enable them to better hold those agents involved in public decision-making to account; (c) minimize transaction costs associated with participation, monitoring and decision making, agency costs (costs incurred by principals and other agents to ensure that agents involved in public decision-making act faithfully to serve their mandates) and reduce uncertainty costs; and (d) create an incentive structure for both the legislative and administrative agents to comply with their compact with the principals.

This is a rather complex task because of interdependencies associated with various actions. For example, as pointed out by Horn (1997, p.24), attempt to reduce agency loss between citizens and legislatures through restraining the influence of legislatures on the executive may potentially increase agency losses between legislatures and government executives. There are further difficulties in ensuring durability of legislation, which can be undermined through lack of effective enforcement even if the legislation remains unchanged.

The above framework is used as point of reference for a comparative evaluation of alternative systems of multi-order governance in the following section.

3. Models of Multi-order Governance: An Impressionistic Comparative Evaluation

Four selected stylized models of governance are evaluated using the NIE framework presented in the previous section. These include one republic (centralized), one republic decentralized, federation of states and federation of local governments. These four models are evaluated using sub-components of the evaluation framework presented in the previous section.

(a) Transactions Costs: Overall objective of any governmental system must be to reduce transactions costs for principals (citizens) so that they can hold their agents (various orders of government) to account. This requires government decision making closer to the people and people empowerment through a rights based approach to public services, people having veto rights through referenda on executive decision making and having access to due judicial process to undo government wrongs. People empowerment is typically weaker under both unitary and federal type of governance. Only the federation of civic republic by design empowers people and minimizes transactions costs for principals. A decentralized unitary system also lowers costs by moving decision-making closer to people. Under dual federalism due to large size of states and provinces and weaker local governments, decision-making is relatively far removed from people. Therefore, citizen participation and monitoring and oversight costs are typically higher in unitary and dual federalism systems but lower in decentralized unitary systems and federation of civic republics. Legislative oversight costs are more related to the power of the legislature and various governance systems a priori do not have any distinct advantage over others. Under a parliamentary form of government with single party majority rule, legislative oversight of the government is typically weaker. Agency costs are relatively higher in centralized unitary and dual

federalism systems than in decentralized unitary and federation of civic republics as under the former systems there is a greater ambiguity on the role of government and the division of powers among various orders. Uncertainty costs are typically higher under dual federalism systems due to a greater complexity of governmental systems and the role of various agents. Executive decision-making costs are also typically higher under dual federalism as the system requires a much larger size of government with duplicity of roles of various orders. Intergovernmental coordination costs are the highest under dual federalism due to ambiguity in respective roles and complex power dynamics and negotiations over conflicting claims on resources and roles. To overcome coordination failures, dual federalism systems requires a complex web of institutional arrangements for executive and legislative coordination – the so-called institutions of “executive federalism” or “federalism behind closed doors” (Shah, 2014). Overall, conceptually one would expect that transactions costs for principals would be relatively higher under centralized unitary and dual federalism system, somewhat lower under decentralized unitary governance and lowest under a federation of civic republics (see Table 1).

Table 1. An Impressionistic Evaluation of Multiorder Governance Models

Criterion	One republic (centralized)	One republic (decentralized)	Federation of provinces	Federation of civic republics
	Unitary	Unitary	Dual Federalism	Federation of local governments
Number of countries (2014)	146	24	25*	1
(a) Transactions Costs				
Citizen participation	High	Low	Medium	Low
Citizen monitoring and oversight	High	Low	High	Low
Legislative oversight	Medium	Medium	Medium	Medium
Agency costs	High	Low	High	Low
Uncertainty costs	Low	Low	High	Low
Executive decision making costs	Low	Low	High	Low.
Intergovernmental coordination	Low	Medium	High	Low
OVERALL COSTS	HIGH	LOW/MEDIUM	HIGH	LOW
(b) Potential payoffs in securing F.A.I.R Governance				
Fair governance	Positive	Highly positive	Positive	Highly positive
Vertical fiscal equity	Uncertain	Positive	Uncertain	Positive
Horizontal fiscal equity	Uncertain	Positive	Positive	Positive
Protection of disadvantaged groups	Positive	Positive	Positive	Positive
Fulfillment of citizen expectations re social justice, due process	Uncertain	Positive	Uncertain	Positive
Ensuring free mobility of factors and goods	Positive	Positive	Uncertain	Positive
Dealing with regional and linguistic conflicts	Positive	Positive	Uncertain	Positive
Promoting national unity	positive	Positive	Uncertain	Positive

Accountable Governance	NO	May be?	NO	May be?
Effective civil society oversight	No	May be	No	Yes
Effective legislative oversight	No	Yes	May be	Yes
Roll backs of decisions and intergovernmental agreements possible	Yes	Yes	Yes	Yes
Effective restraints to special interest groups	Uncertain	Uncertain	No	Uncertain
Access to judicial process to turn back decisions	Yes	Yes	Yes	YES
Preventing overgrazing	?	Yes	No	YES
Overcoming tragedy of commons associated with common pool resources	No	Yes	No	YES
Restraining the leviathan	May be	Yes	No	YES
Incorruptible Governance	Uncertain	Yes	Uncertain	Yes
Open, and transparent management	No	Yes	May be	Yes
Prudent fiscal management	May be	May be	May be	May be
Working better and costing less	May be	Yes	May be	Yes
Ensuring integrity	?	Yes	May be	Yes
Earning trust	?	Yes	May be	Yes
Managing risks	Yes	May be	May be	May be
Improving integrity of service delivery	?	Yes	May be	Yes
Reducing coordination failures	Yes	May be	No	Yes
Responsive Governance	Uncertain	Positive	Positive	Positive
Direct possibly interactive democracy	No	Yes	No	Yes
Aligning public services with citizen preferences	No	Yes	May be	Yes
Avoiding “joint decision trap”	No	Yes	No	Yes
Improving service delivery	May be	Yes	May be	Yes
Improving economic and social outcomes	May be	Yes	May be	Yes
Securing economic and social union	Yes	May be	Yes	Yes
(c) Enabling environment, people empowerment and for better public service delivery and growth				
Local Public Services	No	Yes	May be	Yes
Local economic development	No	Yes	May be	Yes
Poverty alleviation	May be	Yes	Yes/May be	Yes
International competitiveness	No	Yes	May be	Yes
Growth	May be	Yes	May be	Yes
People empowerment	No	May be	May be	Yes
Government closeness to the people	No	Yes	No	Yes

Adapting to a changing world	No	Yes	No	Yes
Overall governance outcomes	Uncertain	Better	Fair to good	Best

- includes Brazil and South Africa that have 3 interdependent or independent spheres
- Source: Author's perspectives

(b) *Fair Governance*: Various models of governance are analyzed for their built in incentives to ensure fair distribution of resources across various orders (vertical fiscal equity) and for equity across jurisdictions at the same level (horizontal fiscal equity). Both the centralized unitary system and the dual federalism have uncertain implications for vertical equity but decentralized unitary system and the federation of civic republics due to local government empowerment are expected to do better on vertical equity. Regarding horizontal equity, unitary governance system has no assurance for dealing with this issue whereas all other governance systems are likely to have positive incentives for addressing this issue. Various models of governance are indistinguishable for their emphasis in dealing with protection of disadvantaged groups. Citizen's expectations regarding social justice are likely to receive greater attention under decentralized unitary and federation of civic republics. Effective barriers to free mobility of goods and services are more likely to exist under dual federalism unless there is a constitutional guarantee against such a behavior as under the US Constitution. The dual federalism model also has greater handicaps in dealing with regional and ethnic conflicts and protection of within province minorities due to constrained power of the federal government to intervene in regional issues. The communal riots in the Indian state of Gujarat in 2002 where the ruling majority failed to protect minorities, represents a vivid illustration of these failures. Similarly the promotion of national unity under this system assumes a formidable task due to polarizing positions of federating provinces. The Canadian federation represents an important illustration where provincial identities are stronger than national identities. In contrast, Switzerland, a federation of civic republics and Denmark, a decentralized unitary government, has had greater success in forging national unity.

(c) *Accountable Governance*: Effective civil society oversight is significantly curtailed under centralized unitary and dual federalism systems. The former system due to centralization is simply not conducive to civil society engagement and under the latter system civil society oversight is costly and subject to interest group capture. The USA presents an important illustration of this point where majority of congressman and senators upon separation take up lobbyist positions on the K-Street in Washington DC to lobby former colleagues on federal legislation. The weak accountability to electorate is also evidenced by the fact that on average a senator once elected serves 6 terms (36 years) and a congressman 12 terms (24 years). However, all models of governance are prone to special interest group influences as interest group finance plays a critical role in electoral outcomes. In all models local council capture by local business interests remains strong. This is because electoral finance is critical to re-election and business connections come handy to finance election campaigns. This, however, is an inherent feature of a Westminster style democratic political system run by professional politicians rather than related to a model of multi-order governance. Effective legislative oversight is difficult under all models as empowering

councils may lead to legislative capture of the executive or undue interference in administration. However, decentralized unitary governments and a federation of civic republic has the potential to do better as they are vested with policy making and oversight for most public services. Further the decision makers are closer to people. This superiority is however not assured if democratic governance is lacking in the presence of feudal and industrial oligarch's influences. Under all models of governance, roll back of intergovernmental agreements is possible if council ratification of such agreement is required. Effective restraints to special interests are difficult under all models and this represents even a greater challenge under dual federalism as special interests may be given special protection in the name of protecting regional interests. Various models are indistinguishable with regard to access to judicial process to turn back executive decisions or intergovernmental agreements. Prevention of overgrazing by politicians and bureaucrats is possible under decentralized unitary and a federation of civic republic models. Dual federalism is especially prone to overgrazing due to an expansive shared rule with little coordination or accountability e.g. the existence of multiple police forces commanded by different orders of government (see Triesman, 2006). Centralized unitary governance and dual federalism are also highly prone to conflicting claims on a fixed share of common pool resources and each order of government going on spending big to demonstrate higher expenditure needs. As a corollary, Leviathan tendencies of the government are difficult to be restrained under these two models. While there is no guarantee that this will also not happen under decentralized unitary and federation of civic republics, both systems restrain such tendencies by (a) eliminating the role of intermediate governments; and (b) minimizing the role of higher level transfers and greater self-finance at the local levels. Overall, the latter models are expected to do better on accountable governance.

(d) *Incorruptible Governance*: Here we compare alternate models for their relevance to various features that contribute to incorruptible governance. On open and transparent government, centralized unitary countries are expected to do worse as these lacks any incentives for transparency. Open and transparent government is also more difficult to achieve under dual federalism as a large majority of expenditures are done and federal and provincial levels which are distant from the electorate. It is possible to achieve prudent fiscal management under all systems in the presence of societal conservatism and market discipline. Similarly alternative models are indistinguishable in terms of incentives for cost efficiency although these incentives may be effective under decentralized unitary and the federation of civic republics due to greater local oversight. Ensuring integrity requires open access by citizens and citizens' empowerment to hold the government to account. The decentralized unitary and the federation of civic republic models offer better environment to attain these goals. Earning people's trust and improving integrity of public services delivery requires improved access to information on public sector financing and spending and service delivery performance. This is easier done when public sector decision making is closer to the people as under decentralized unitary and the federation of civic republics. Managing risks and reducing coordination failures are possible when there are fewer layers of governments and respective roles of various orders in shared responsibilities is clearly delineated. Again this is more feasible under the models that place a greater premium on local government roles.

(e) *Responsive Governance*: Responsive governance requires that the governance environment fosters a climate in which various orders of government strive to provide services consistent with people preferences and improve economic and social outcomes for

their residents. To achieve this, the governance system must place a strong emphasis on citizen empowerment e.g. having constitutional provision on direct democracy as in Switzerland. Centralized unitary systems are more focused on command and control and unlikely to have such provisions. Dual federalism models do better but typically fail on direct democracy provisions. Also they are prone to inaction in response to urgent needs due to “joint decision trap” created by overlapping yet lack of clarity in share rule. For improving service delivery and improving economic and social outcomes for residents governance system with strong local governance are expected to do better. For securing economic and social union, decentralized unitary system is the only one lacking significant incentives and mechanisms to ensure achievement of this objective. Overall the attainment of responsive governance is difficult under centralized unitary system but feasible under alternate models.

Enabling environment for people empowerment and better service delivery and economic growth

In this section, we examine the potential of various models in creating and preserving an environment for people empowerment, better public services delivery and economic growth. Division of powers in all federal system is murky and subservient to political dynamics at any point in time. This implies various orders of government have incomplete contracts and citizens face significant ambiguity in holding any order of government to account for failure. Further they lack the relevant information to hold government agents to account and governments have the incentives to withhold information to empower themselves and shirk accountability.

For better public service delivery, local governments need freedom to innovate and forge partnerships within and beyond public sector and to be able to play a catalyst role in bringing about these innovative arrangements. Local governments under centralized unitary system typically are not granted such freedom. Under dual federalism such freedom may be available but is often constrained due to a limited role of local governments authorized by provincial/state legislation under the Dillon rule or under residuality and ultra vires principles. Local governments typically enjoy home rule under decentralized unitary systems and under the federation of civic republics and therefore are poised to play a more pro-active role in exploring alternatives for better service delivery and local economic development. Such an environment enhances local government role in carving newer areas of international competitiveness and growth. The enabling environment for people empowerment is also weaker under centralized unitary system. The federation of civic republics by the virtue of their constitution offers the best hope for people empowerment. Adapting to a changing world is most difficult under centralized unitary regimes as local government and people empowerment imply diminished central controls. It is also difficult under dual federalism due to an inertia and rigidity of existing legal-constitutional and institutional frameworks. Both the decentralized unitary system and a federation of civic republics offer greater potential to adapt to changing circumstances as decision making is closer to the people and local councils are empowered to respond to emerging concerns.

Overall Governance Outcomes

An impressionistic review of the institutional design features of alternative models of governance suggests that the potential for achieving the best governance outcomes is under the federation of civic republics, followed by decentralized unitary governments, dual federalism and centralized unitary governance models respectively. Under the former two models, local governments play a pre-eminent role in service delivery whereas under the two latter models, states and the center assume paramount importance in service delivery. This impressionist review, however, needs substantiation from the historical record. While a rigorous examination of this question is beyond the scope of this paper, in the next section, we distill evidence from the existing empirical literature to provide a starting point for such analysis.

4. A Comparative Evaluation of Alternative Governance Models: Empirical Evidence

In this section, we will evaluate alternate models of governance (a) aspects of governance quality and outcomes; (b) government closeness to its people; and (c) relationships with level and growth of per capita GDP, debt, human development index, incidence of corruption and internal conflicts.

(a) Overall governance quality and outcomes under alternate models of governance

Table 2. Governance Outcome Indicators for Alternative Orders of Multiorder Governance Based Upon World Value Survey – Wave 1 (1994-98) & Wave 3 (2005-2008)						
Governance Model	Sample size	Fair Gov.	Accountable Governance	Incorruptible Governance	Responsive Governance	Overall CCGI (max=1.0)
<i>Centralized unitary :</i>						
1994-1998	28	0.27	0.61	0.38	0.46	0.45
2005-2008	20	0.55	0.51	0.29	0.56	0.51
<i>Decentralized unitary:</i>						
1994-1998	11	0.20	0.67	0.46	0.62	0.55
2005-2008	18	0.59	0.53	0.37	0.65	0.59
<i>Dual federalism:</i>						
1994-1998	13	0.25	0.55	0.37	0.52	0.48
2005-2008	11	0.60	0.50	0.37	0.62	0.56
<i>Federation of civic republics:</i>						
1994-1998	1	0.27	0.58	0.57	0.68	0.59
2005-2008	1	0.74	0.52	0.50	0.74	0.67

Notes: CCGI – citizen-centric governance indicators

Source: Basic data from Ivanyna and Shah (2011)

An empirical examination of comparative evaluation of alternative models requires a worldwide survey using a uniform questionnaire based upon the framework presented in

Table 1. As such survey data is not available, we must resort to available worldwide surveys that ask some of the relevant questions. One of the most comprehensive such survey is the World Value Survey conducted periodically. Ivanyna and Shah (2011) have utilized this survey to rank countries on various sub aspects of FAIR governance and overall citizen-centric governance. We have utilized their rankings to develop aggregate rankings for alternative models of governance. It is interesting to note that the empirical results presented in Table 2 are fully consistent with the qualitative conclusions reached earlier. Dual federalism represents an improvement over centralized unitary systems but decentralized unitary system and federation of civic republics do better on most aspects of governance processes and outcomes.

(b) A comparative evaluation of alternative models for government closeness to its people

Ivanyna and Shah ((2014) provide worldwide ranking of countries on political, fiscal and administrative dimensions of decentralization and localization. These sub-indexes are aggregated and adjusted for heterogeneity to develop overall ranking of countries on the closeness of their governments to their people. We utilized their government closeness indexes and develop an aggregate index based upon the models of governance. Once again, the results support conclusions reached in earlier sections on the superiority of federation of civic republics and decentralized unitary models in bringing government decision making closer to its people

Table 3. How close is your government to its people?		
Governance Model	Sample size	Government closeness index (median values)
Centralized unitary	92	0.1
Decentralized unitary	42	3.35
Dual federalism	19	2.06
Federation of civic republics	1	32

Source: Basic data from Ivanyna and Shah (2014)

(c) Alternative governance models and their relationships with level and growth of per capita GDP, debt, human development index, incidence of corruption and internal conflicts

Shah (2010) has examined the relationships between governance models with strong state governments (dual federalism) and those with strong local governments (decentralized unitary governance and federation of civic republics) and those with fair to weak local governments and weak state governments (centralized unitary governments). Using data on 11 good governance and growth indicators for the period 1999-2008 for a sample of 116 countries, Shah finds that governance models with strong local governments perform better on GDP per capita, human development index, debt restraints, and curtailing corruption and internal conflicts and having greater durability of political system (political stability). The centralized unitary model does better on per capita GDP growth. The dual federalism model performs worse than decentralized unitary systems on most indicators mentioned above . Shah (2010) also presents econometric analysis to accompany the above simple quantitative analysis. The results reconfirm qualitative and quantitative conclusions reached earlier. Strong local governments have positive association with economic performance and quality of governance indicators in 9 out of 12 performance indicators though not all of the relationships are statistically significant. Having strong state

governments (dual federalism) help only in 1 out of 12 cases. Shah concludes that “strong local governments accompanied by leaner provincial/state governments are needed to improve economic and social outcomes for citizens” (p.350) – providing empirical support for the main theme of this paper.

In closing this section, it may be noted that available empirical evidence favors models with strong emphasis on local governance for social and economic advancement. These conclusions, however, require further critical examination based upon future availability of better set of data and more rigorous econometric analysis.

5. Searching for a holy grail of multi-order governance or adapting multi-order governance to a changing world?

While there simply cannot be any holy grail of multi-order governance due to historical, cultural, political, ethnic, linguistic, religious and socio-economic traits and values that differentiate each society, a comparative perspective presented above helps in identifying features of multi-order governance that may be helpful in getting ahead in a “glocalized (globalized and localized) world” facilitated by the information revolution. A few features that characterize relatively more successful models of governance include: citizens are treated as principals/governors and have lower transactions costs for principals to hold the government to account, decision making closer to people, leaner and efficient governance structures and results based management and entrusting local governments the lead role in service delivery, intergovernmental coordination at the local level and local economic development. These features have the following implications for the division of powers and fiscal governance (see Table 4).

The structure of government

National government: National government assumes an enhanced role in social and economic union. This means a stronger role in preserving internal common market, financing social services and ensuring national minimum standards for merit services.

Intermediate orders of government (states, and provinces). The information revolution has diminished economic relevance of these governments. For example, in Finland – a country with no provincial (intermediate order) governments - inter-municipal functions are performed through voluntary partnerships among local governments. Therefore, one must aim at leaner and more efficient intermediate order governments that are focused on playing a coordinating role for central-local and inter-local services, facilitating inter-municipal partnership agreements for regional services. In addition the provinces may deliver services on demand for rural municipalities and for municipalities that lack technical capacity. To play such a role more effectively, the structure of governance at the provincial level requires rethinking. Currently in most countries, there is a directly elected chief executive (governor) and a directly elected provincial legislature. Such a structure, by design, stifles good local governance as provincial executive and legislature enhance own powers by shackling local governments as has been the experience in the USA, Canada, Pakistan and Russia, These tendencies can be restrained and a sharper focus on coordination could be achieved by replacing directly elected legislature by a Council of Local Government Elected Mayors just as the upper houses of national legislatures, the Bundesrat in Germany and the Council of the Provinces in the Republic of South Africa are constituted by the heads of provincial/lander governments. A hybrid Council of Mayors

could be another option where 2/3rd membership is by mayors and one third by councilors elected at large at province-wide level. The provincial council determines policies on inter-local functions, and also provides oversight on provincial executive that implements these mandates. Such a framework minimizes costs of intergovernmental coordination while

Table 4. Trends in Multi-order Governance Structure: 20th versus 21st Century

<i>20th century</i>	<i>21st century</i>
Unitary or federal	Decentralized unitary or compound federal republic of local governments
Centralized or provincialized	Globalized and localized
Center that manages or coerces	Center that leads
Citizens as agents, subjects, clients and consumers	Citizens as governors and principals
Focus on government	Focus on governance with interactive direct democracy
Focus on division of the fiscal pie	Focus on responsive, responsible, fair and accountable governance
Competitive edge for resource based economies	Competitive edge for human capital based economies
Federalism as a tool for coming together or holding together	Global collaborative federalism with a focus on network governance and reaching out
Residuality principle, ultra vires, "Dillon's rule"	Community governance principle, subsidiarity principle, home- or self-rule and shared rule
Limited but expanding role of global regimes with democracy deficits	Wider role of global regimes and networks with improved governance and accountability
Emerging federal prominence in shared rule	Leaner but caring federal government with an enhanced role in education, training, and social protection
Strong state (province) role	Ever-diminishing economic relevance of states (provinces) and tugs-of-war to retain relevance
Diminishing role of local government	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
Tax and expenditure centralization with revenue sharing and input based conditional grants to finance sub-national expenditures	Tax and expenditure decentralization with fiscal capacity equalization and output-based national minimum standards grants for merit services

Sources: Adapted from Boadway and Shah (2009)

reducing transactions costs for citizens to hold government to account. It will further significantly reduce the legislative and administration costs of the intermediate tiers. Overall, as a rule of thumb, good governance requires that the intermediate tiers may not command more than 20% of national resources.

Role of local governments. Conceptual analysis and empirical evidence presented earlier suggests that unshackling local governments from central and provincial controls and granting them home rule have huge payoffs in economic growth and development and strengthening international competitiveness of nations. Such a reform direction further restrains leviathan tendencies of governments. Local governments must have significant taxing, spending and regulatory autonomy (In China, they command 66% of national resources. – see Shah (2014) but 33% -66% could be a reasonable goal?) and they must

have the ability to hire, fire, and set terms of reference for employees without having to defer to higher levels of government. Only then local governments can innovate in management by forging alternative service delivery arrangements through competitive provision, contracting and outsourcing or reaching inter-municipal agreements wherever deemed appropriate as done in Finland (see Moisio, Loikkanen, and Oluasvirta (2010)). They can also facilitate a broader network of local governance and harness the energies of the whole community to foster better social outcomes. Accountability to local residence is an important factor contributing to the success of local governance. This accountability is strengthened through democratic choice, participation, transparency, performance budgeting, citizens' charter of rights, and various legal and financing provisions that support wider voice, choice and exit options to residents. The experiences of China, Japan, South Korea, Poland, Indonesia, Vietnam and Nordic countries is especially instructive in this matter. These experiences suggest that local governments should have a predominant role in direct service delivery. Municipal services delivered by these governments should be primarily self-financed whereas social services should be primarily financed by the center using output-based national minimum standards grants that use service population as a criterion for distribution to local governments. Local governments should have complete flexibility in the design and delivery of program but must demonstrate that they meet minimum standards of service delivery expected with such financing. Citizen voice and exit options will help compliance in meeting expected standards.

In conclusion, a synthesis of the conceptual literature suggests that the modern role of a local government is to deal with market failures as well as government failures. This role requires a local government to operate as a purchaser of local services, a facilitator of networks of government providers and entities beyond government, and a gatekeeper and overseer of province/state and national governments in areas of shared rule. Local government also needs to play a mediator's role among various entities and networks to foster greater synergy and harness the untapped energies of the broader community for improving the quality of life of residents. Globalization and the information revolution are reinforcing those conceptual perspectives on a catalytic role for local governments. This view is also grounded in the history of industrial nations especially Nordic countries and ancient civilizations in China, India and Pakistan. Local government was the primary form of government until wars and conquest led to the transfer of local government responsibilities to central and provincial/regional governments. This trend continued unabated until globalization and the information revolution highlighted the weaknesses of centralized rule for improving the quality of life and social outcomes. The new vision of local governance presented here argues for a leadership role by local governments in a multi-centered, multi-order, or multi-level system. This view is critical to creating and sustaining citizen-centered governance, in which citizens are the ultimate sovereigns and various orders of governments serve as agents in the supply of public governance. This view is also relevant for carving and sustaining a competitive edge in international economic relations as demonstrated by the recent experience of China and South Korea. Empowering local governments and strengthening their role in local economic development ushered China in an era of sustained economic growth and lifting billions out of the poverty trap (see Box 1).



Box 1. China is shining on the world economic stage - thanks to its unshackling of its local governments

China is an economic powerhouse poised to assume world economic leadership in the coming decades. It had a sustained record of economic growth (average annual growth rate in real per capita GDP of 10% over the past three decades resulting in nearly tripling of per capita income from 1978 to 2010) and prosperity. Its record in alleviating poverty is unparalleled in the economic history of the world – reducing poverty headcount rate from 31% in 1978 to less than 2% in 2008. These facts are well known. But what is less well known is that this came about because Deng Shao Peng in 1979 unshackled local governments and unleashed their innovative spirits and energies in pursuit of economic growth and local economic development. China has one of the most empowered local governments serving their residents from cradle to grave. Local Government commanded 89% share of public sector employment and 66% share of consolidated public expenditures and raised 39.3% of revenues in 2011. Other than defense, debt and foreign affairs that are the exclusive domain of the Centre, all other functions including education, health, and social insurance are the responsibility of local governments. There is no uniform model and all local governments pursue their own unique approach to service delivery and local economic development. Contracting out service delivery to autonomous service units is practiced widely. Provincial role is largely limited to agriculture and providing coordination and oversight of local governments on behalf of the centre. Thus China while having a centralized unitary constitution bears affinity to a decentralized unitary government or an hourglass model of federalism. There is strict government accountability to citizens at local levels through directly elected people’s congress at each level. In addition, the Communist Party oversight committees at each level monitor citizen satisfaction as well as dissatisfaction (number of protests). Higher-level oversight of local governments is based on objective results based criteria that incorporates: (a) local economic development performance; (b) citizen satisfaction and (c) in some provinces local service delivery performance. Local government success is rewarded by greater local autonomy and sustained failure is punished by reduced autonomy and intrusive oversight and controls by higher order governments.

Source: Qiao and Shah, 2006; and Shah, 2014

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6. Concluding Remarks: Adapting to a Changing World

In the past several decades, a silent revolution has swept the globe. Hugely complex factors such as political transition in Eastern Europe, the end of colonialism, the globalization and the information revolution, assertion of basic rights of citizens by courts, divisive politics and citizens' dissatisfaction with governance and their quest for responsive and accountable governance have been some of the contributing in gathering this storm. The main thrust of this revolution has been to move decision making closer to the people to establish fair, accountable, incorruptible and responsive (F.A.I.R) governance. The revolution has achieved only modest success in governmental transformation across the globe due to inhibiting factors such as path dependency accentuated by powerful, military and bureaucratic elites. Scholarly literature also failed to guide this revolution by providing adequate impassionate analysis and guidance on the working of alternate models of multi-order governance and associated outcomes. This paper takes a first step in initiating a dialogue on this issue by drawing implications of alternate models for achieving desired governance outcomes and adapting to a glocalised world as well as providing an examination of their historical record of performance. The two models (decentralized unitary and federation of civic republics) identified to have greater potential for FAIR governance outcomes, emphasize an enhanced and leadership role for local governments in improving economic and social outcomes for local residents and a diminished role of intermediate orders (states and provinces) in multi-order governance. This leadership role requires local governments to assume a catalyst's role in directing and coordinating governmental (including central government) and non-governmental agencies and networks to local economic development. Local governments would be in a position to play this role if their responsibilities are determined by home rule and community governance principles and they have adequate access to revenues from own sources or they can piggyback on central tax bases. In addition to strengthen their accountability to local residents not only finance should follow function but also intergovernmental finance should be structured so as to strengthen local autonomy while enhancing results based accountability. Thus there is a need to move away from manna from heaven transfers (general revenue sharing schemes) to output-based (performance oriented) grants that respect local autonomy while creating incentives for service delivery performance accountability (see Shah, 2010). There is also need for reform of the budgetary institutions so that a common framework of fiscal responsibility, integrity, fiscal discipline and fiscal sustainability binds all orders of government. There should also be a framework to ensure that local government performance is measured and monitored for compliance with the principles of responsive and fair, responsible and accountable governance. Intermediate order governments have limited economic relevance in this framework but can usefully play a coordinating role for inter-local services. Our survey of the literature suggests that local governance even in most industrial countries does not fully correspond to the governance principles enunciated here or even to the needs of economic success in this information age. There are only few exceptions and these are found mostly in Nordic countries and in East Asia (China, South Korea and Japan). Other countries would be well advised to follow the lead of these countries in adapting multi-order governance especially local governance to the needs of the 21st century.

The paper concludes that both the centralized unitary and dual federalism models of multi-order governance are outmoded for the challenges of the glocalised world in the 21st century and efforts must be to reshape these institutions so that these "governments by the government, of the government and for the government" institutions are brought back under citizens' control to serve public interest and become conduit for FAIR governance.

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