

LOCAL GOVERNMENTS IN A GLOBAL CONTEXT

Peerasit Kamnuansilpa
Bonnie Pacala Brereton, Editors



College of Local Administration
Khon Kaen University
Khon Kaen, THAILAND

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Preface

Local government both as a professional endeavor and an academic field of study has often and in many places been relegated to a relatively low status. In the political sphere, it is considered the poor neglected stepchild of national government. In Thai academic circles, the field is regarded as an arcane discipline, for those who are only interested in learning about people who have gained little respect from society. This view is more prevalent in some countries than others even though local governance by locally elected officials is widely acknowledged to be the foundation of democracy.

Thailand, unfortunately, is one of the countries where local government units are not given the serious consideration they deserve. One reason for this lack of enthusiasm is that they lack the glamour, fame, and funds of national entities and personalities. Another is the fact that local governance by locally elected officials is a relatively new phenomenon, bestowed on the populace through legislation rather than through an organic movement by the people. The current forms and structures date back to fifteen years ago, when the people's constitution of 1997 devoted a full chapter to local administration. This paved way to decentralized management in a rocky road obstructed by much inertia and friction.

To hasten and propel the decentralization measures growing out of this constitution, Khon Kaen University's College of Local Administration (COLA) was established in 2007. Its mission is threefold: 1) to train local administrative personnel in the basic analytic and management skills required by their positions; 2) to conduct research to provide answers to critical question concerning local governance; and 3) to advance the knowledge in the field of public affairs management through graduate studies up to the doctoral level. COLA as an organization and its founding dean envision that its graduates will be agents of change with a consciousness of civic responsibility.

COLA's ability to carry through on its mission and achieve its goal of excellence in the field of public and local governance is, based in part, on collaborative agreements with the University of Missouri and the University of Hawaii, two highly regarded institutions in the United States. Their faculty members are directly involved in teaching and joint research projects here and many of them are the main contributors to this book. We are committed to learning as much as we can from them as well as from experts at other universities from countries around the world, where local government has been valued as a profession, an academic discipline, and a field of research.

The papers that appear in this volume, presented at the Third International Conference on Local Government in 2012, represent the cutting edge of research from countries in North America, Australia, and Asia. They complement each other and form a more complete fabric of local government. To the authors we express our heartfelt thanks for their contributions to advance management and development at the local level. Through their work, they demonstrate their dedication to strive for a more respectable status of local governments around the world for the well being of people who have yet to be considered the mainstream of society. To achieve this goal, more has to be done. In the foreseeable future we want to document and integrate the research and experiences of countries in Africa, South America, and Central America.

As co-editors, we would like to acknowledge the learning and knowledge we have gained from the personal contact and the scholastic work of the contributors to this book. For the readers of this book, we hope that it will stimulate you and provoke your desire to learn more about the little things we know about local governments around the globe. For the time being, let us recognize the people who work for those who live in local areas, with little or no recognition from those at the center of political power, although paradoxically they too are a part of local government.

Peerasit Kamnuansilpa
Bonnie Pacala Brereton

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Chapter 1

Contextual Overview

Peerasit Kamnuansilpa

Abstract

Local governments in democratic societies face challenges as they strive to provide services to its citizens but these units of government rarely have sufficient resources to deliver those services. Whether in an “advanced” or emerging democratic society, the leaders of local governments have to work with each other, private groups and a variety of non-governmental organizations in order to harvest sufficient resources to generate service delivery. As locally elected and appointed officials enhance their leadership and management skills, the quality of life will improve for society in general. Governance theory and practice continues to evolve and this set of readings demonstrates that theory and practice is a value laden and culturally entrenched process. The contributions in this text represent the wisdom and experiences of a variety of elected officials, scholars, public administrators and practitioners from a variety of democratic societies around the world. As such they highlight techniques, experiences, processes and models of democracy that are both attractive and feasible and which point to a hope for a brighter future.

Genesis of Local Government

There is no clear historical evidence of when and how local government was first formed in the world; but the scholars argue that local government is a social invention of a modern state. Local government first came into existence through a creation of central government of modern state (in most cases headed by a monarch) as a ruling form of political organization and thus its power arms. In modern day democracies, local government exists as a form of public administration organization created at the lowest tier of political system. Through constitutional arrangements, local governments generally act within delegated power from the central government. There are various interpretations of how these arrangements and processes came about but it is not the focus of this chapter to expand the already detailed discussions on the historical

development of local government at any particular geographic setting in the world. However, a brief mentioning of the making of local government is provided.

When the nation states emerged rapidly and widely spread in Western Europe after the 13th century as indicated by Gayl Ness in Chapter 2, there was no evidence of the existence of local government around the world. At that time, which coincided with the medieval period, Europe demonstrated that a nation state was an effective form of government that extracted and mobilized resources from its territorial controlled areas and its people. For a period of nearly a half millennium, western civilization and the hegemonic power of western nation states demonstrated and propagated a strong and centrally controlled form of political organization, (local government) ruled and led by the monarchy over its subjects.

Throughout most periods of our history and in most parts of the world, centralized monarchy was the major form of government that exerted its power within its national boundary. This form of government was more likely to be an invention of an ancient Babylon and culture of the central-southern Mesopotamia (present day Iraq). According to the Ancient Encyclopedia History (Gill, 2003) King Sargon of Akkad (the first king of Agade Dynasty) was recorded as the first powerful king who had reigned in Mesopotamia from 2334 to 2279 B.C. Some historians say that he ruled the whole world; but according to others he and his sons conquered cities only from the Mediterranean to the Persian Gulf. Therefore, it would be more exact to call him and his sons the rulers of the Mesopotamia (Joshua, 2009). After the Mesopotamia kingdom, the monarchy was emulated in other parts of the world as the most effective form of untested political organization. This form of political organization diffused from Asia and thrived in Europe from ca. the 13th century. Regardless of size of the nation states, Europe saw accession to the throne with absolute centralized administrative power as a legitimacy to rule the country and the subjects.

In Thailand, as in many parts of the world, the administrative power of the monarchy extended over the boundary of the territory for extended periods of time. Not until the country underwent a process of modernization and administrative structural reform initiated by King Chulalongkorn (King Rama V), was a western styled government bureaucracy introduced an administrative structure, comprising of different ministries such as defense, finance, home land or interior, foreign affairs, commerce, agriculture, education and public health.

If we ask specifically when local government came into existence in Thailand, historians tell us that local government came into formation when King Chulalongkorn organized the *Sukbaphiban* or “sanitary district.” With this innovation he set up the sanitary committee as a governing body. In 1898, this “experiment”

became Thailand's first form of local government. This innovation occurred in Tha Chalom, Samutsakorn Province (UN ESCAP, 1997). Thirty five years later in 1933 King Prajaitipok (King RamaVII) expressed the view that Thai People in local areas required local administration in order to learn more about self governing. This royal vision was considered to be the starting point for the development and movement for local government in the country (Chayabutr, 1996).

The political and administrative structure of Thailand saw a major change in 1932, when absolute monarchy was abolished by coup d'état led jointly by a group of military and civilian leaders. A European style parliamentary system was installed, and the Public Administration Act was promulgated shortly after that coup. The act laid down the foundation of the country's administrative structure in 3 levels: central administration, provincial administration, and local administration. It should be noted here that "level" was the choice of word, instead of the word "type." This is clearly an indication that although local administration or local government has been recognized since the later part of the last century, its administrative placement at the lowest echelon in the political structure of Thailand makes it easier to subject it to control and to ensure subservience to provincial administration. Constitutional arrangements authorize an appointed governor who serves as central administration's representative as well as the interests of the Prime Minister and Ministers of different ministries that constitute the Cabinet.

Local government in Thailand has gained a more recognizable status as a type of political entity and administrative unit in the 1997 and in 2007 constitutions, both of which devote a chapter on local administration. In both constitutions, decentralized management is an integral part of the functions and responsibilities delegated from the central government. A recent study aims to ascertain people's views of local administration organization (LAO) and the progress of decentralization, conducted in the northeast of Thailand found some positive results. Most people generally report that after the decentralization and administrative reform came into effect, these artifacts of citizenship are not only able to bring citizen needs and problems to the attention of a LAO, but these needs and problems can be solved more quickly. In addition, since the work of LAO is closer to people than the works of the central and provincial administration they can monitor the management of LAO more closely. Thus LAO facilitates transparency and increases citizen trust in local government. Another positive view of people on LAO is that it promotes and garners more citizen participation in both overall management and budget administration (Laochankham and Kamnuansilpa, 2011). LAO is, therefore, seen as highly beneficial for the local population, particularly, in the following three areas: developing the physical infrastructure, developing quality of life, and instilling a democratic mind set

in the population. All of which are acknowledged to be the foundation for socio-economic development in Thailand (Raungwicha, et al, 2012).

What Really Makes Local Government Works

Although we do not really know when the first local government in the world was established, it is still of interest to ask what is so important about local government; and what are the salient feature of local government. Like the first question we have raised, we may not be able to find a definitive answer, but rather we may find ourselves enmeshed in many more questions. But for the time being, let us entertain ourselves with these specific questions.

First of all, it is important that we agree that if we look from both spatial (global) and temporal (historical) aspects we find that human freedom has been an important value that we uphold and cherish as an intangible asset that we all long to possess, sometimes with even with life and death. In modern day, the important of freedom is measured in terms of Human Freedom Index (see United Nations Development Program, 1991). Moreover since, freedom is an intangible asset, it has economic ramifications. Amartya Sen (1999), a Nobel Prize laureate, has taken this concept of human freedom further and contrasts it with “welfarism.” To him it is important that people have choices to exercise. Social welfare or entitlement policies and programs may help promote human wellbeing; but because of their usual transitory nature and its limited role in promoting people’s freedom to control their own destiny, the results of the welfare scheme cannot be heralded. In the final analysis the goal of any development program is the promotion and expansion of valuable capabilities and the realization of freedom and human rights.

The New Governance literature promotes private sector practices which places emphasis on autonomy for management. In such a context a manager practices relative freedom and that characteristic exemplifies a value that is embedded in the leadership behavior of a manager. Since autonomy is defined as a degree or a level of freedom or discretion, made by an employee over his or her job, it is a responsibility of the manager to promote freedom or discretion of every employee in the firm to do a right thing for the benefits of all and for the interest of the employees. The line of reasoning and assumption in this theoretical thinking is that human in nature wants to do good deed for himself and for other people in the society. Therefore human freedom is regulated by conscience. It is not in our interest to argue against or support this line of reasoning and the assumption behind it; rather we want to use this as a context to come up with a salient feature of local government in democratic societies.

When we examine local government in democratic societies around the world, we find that decentralization is an integral part and a key factor for success. This statement is not hyperbole, although at first blush it may sound to be an overstatement. Partly because, the term itself embraces a variety of concepts, types and management styles, which must be clearly defined and carefully analyzed, before putting the concepts into practice. This is an important point raised in Chapter 3 by James Scott. In addition, we observe that there is a disparity of success of local governments both within a country and among different countries at all level of developments, which suggests that decentralization is not a panacea for all socio-economic ailments of people living in jurisdiction of a local government; and in fact it may have potential disadvantage (World Bank, 1997).

While we say that decentralization is not a “silver bullet,” it is not incorrect to say that some degree of decentralization is vital to democracy and citizen participation in local government. No effective local government in the world operates without a high degree of autonomy granted through the devolved missions and delegated responsibility from the central government. The reverse of this may, however, not necessary be true. In other words, decentralization is theoretically necessary for effective and responsive local government; but it alone does not ensure success for administration of local government.

In order to enhance the level of understanding of the complex and perplexing concept of decentralization, one must first understand that there are at least three aspects of decentralization: political, administrative, and fiscal. In all three aspects, decentralization entails freedom of humans to control their own destiny by doing the right thing and guided by the conscience of social responsibility.

All three aspects of decentralization are interrelated; and to be effective they cannot or should not be dissected from the entire picture. We first begin by observing and commenting on political decentralization; that is whether our citizens at the local level have the freedom to elect their own representatives that make public decision on the citizens’ behalf. In order for this to be effective, political rights and freedom of the citizens cannot and should not end right after an election day. Political decentralization assumes that that decision must be made in consultation and with participation of informed people. Political decentralization also assumes that bringing people and stakeholders of diverse interests in society to make decisions related to the interest of their community produces more effective and efficient outcomes in comparison to unilateral decision making by the elected politicians. In many respects, this involvement of people is an echoing of participative democracy, vis-à-vis representative democracy. In many parts of the world and in many areas under the jurisdiction of local

government, as in Thailand, democracy winds up at the end of an election day. The result is that, in that instance, political freedom of people has yet to be maximized.

The next aspect of decentralization is administrative, which has to do with who has the authority and responsibility to make decision regarding when, how and by whom the services of the local government will be provided. If the decision is made by and under the authority of central government, then that would be an indication of an absence or a weak form of administrative decentralization. Generally, there are three major forms of administrative decentralization: deconcentration, delegation, and devolution, each of which has a different characteristic and all form a continuum of decentralized management.

Deconcentration is considered to be the weakest form of decentralization. It is often practiced by redistributing decision making authority regarding financial and management responsibilities among different levels of the representative of central government located in a local area.

Delegation, in comparison, is a more extensive form of administrative decentralization than deconcentration. It is practiced by transferring responsibility for decision making and administration of public services to local government, but the central government still wholly or at least partially control the local government. In delegation, local governments, usually, have some high degrees of discretion in decision making, for example in formulating strategic management plans, or charging users for the service fees.

Devolution is another type of administrative decentralization. What happens is that central government devolves functions to local governments, and grants the local governments, that have clear boundaries over which they perform the public functions, a legal entity or an autonomous status.

From the administrative decentralization as delineated above, it is imperative that when we put the concept of decentralization into practice, we must spell out what kind of decentralization that is under operation and being observed. Without being specific, decentralization is merely an administrative concept that all local governments need to put into practice, but the exact way of so doing is illusive.

Political and administrative are only two parts of the full theoretical concept of decentralization. We shall move to the third dimension of decentralization: fiscal. Of all three dimensions of decentralization, local governments around the world find themselves in an awkward and some time paralyzing position. As analyzed by James Scott, in Chapter 3 of this book, local governments have limited capacity to achieve

all required functions. It is logical to say that, therefore, local governments have to produce public services that are consumed mainly by their own local residents. They must adapt the public services they produce to suit the local preferences.

In Thailand, we found that the largest proportion of the budgets of local governments came from the grants allocated from the central government. On average local government's revenues constitutes only approximately 10 percent of the total budget of local governments (THAIPUBLICA, 2011). It is, therefore, difficult to imagine how local governments in Thailand can be fiscally decentralized, when they have to be dependent on budgetary appropriation from the central government.

Since all three aspects of decentralization are interwoven, it is challenging to imagine how local governments in Thailand can move forward and stabilize a management engine that has only two wheels, i.e., administrative and political decentralization. When local government administrators have to travel on a rocky road, it only requires a little imagination to see the analogy to the structural problems of horizontal and vertical fiscal inequality as discussed in Chapter 6 by Direk Patamasiriwat. The challenge of successful navigation by local government in Thailand is more acutely brought to bear when we contextualize the journey through low economic development territory. In part this problem can be solved by a new imaginative economic development policy of central government that promotes investments by the local people and for local people.

Thus, decentralization is both an integral part of and a means to achieve effective decentralized management. As a tool, decentralization has been prescribed as a means for increasing the quantity, quality and efficiency of public services by Barton Wechsler in Chapter 4. This prescription involves an improvement of local management capacity, and warrants further discussion in the next section.

How Can We Make Our Local Government Works Better?

This question is not an easy question to answer. Barton Wechsler lists a host of management improvement strategies that can be applied to public organization such as local administration organization in Thailand. But because of the differences in organization cultures, political structures, community power structures, organization structures, and differences in human capital, any strategy must be implemented with caution.

Also, it is unclear what and how these different factors are amenable to change. On the surface, it appears and is logical that, as in any change management that the

world leaders have successfully made, they all had begun with changing people. Normally, development is achieved by providing information (I) through education (E) for and communicating (C) with people. In many instances, human resource improvement strategies are centered on the concept of IEC. Universities or higher learning institution can play an important role as a partner of some local government organizations in improving local government capacity. In many countries, including Thailand, a formal education program such as Master of Public Administration and non degree training programs, both on the job and outside of the working place, have been a common tool for improving management capability of local government.

While improving human capital is a must, if we want to propel and move the local government forward, more has to be done. We must have policies that are not only relevant but responsive to the needs of people. Scholars and practitioners know that policy is an output or product of political system; but political sphere has overarching effects on human life. Therefore, policy of local government must be astutely crafted. Charles Sampson offers a bit of insight with his theoretically based contribution, “Policy Coalition Theory” in Chapter 5. He details how governance theory and management concepts overlap and how that overlap opens a window of instruction for the administrators of not just local governments but of national government as well. His advice is that any policy formulated by the local government must not generate long term disequilibrium; suggesting that elected officials and administrators work through inevitable disruptions and form coalitions with partners with similar needs.

Economic Decentralization: An Unrecognized Form of Decentralization

Comprehensive decentralization goes beyond transparency in accounting techniques to include economic or market decentralization. In most economically advanced countries, central government requires local governments to observe the principle of free marketing economy. This is done customarily through practices of privatization and by shifting the responsibility of many, though not all, service delivery responsibility from the public to the private sector. Through contracting out, this practice is guided by economic liberalization and market development policies. Such policies allow certain functions that have been traditionally administered by the local government to be carried out by business, community groups, cooperative, private voluntary associations, and other non-government organizations

In recent years deregulation and privatization have become attractive alternatives to government of many developing countries around the world. Many

local governments are now practicing privatization by contracting out service provision or even administration of certain functions (World Bank, 1997). In Thailand, many local governments have contracted out the services of garbage collection and disposal, and the task of street sweeping to a public firm. This practice is, strictly speaking, more like an outsourcing of services that normally had been delivered by local government itself. This practice of outsourcing, although does not fully demonstrate the practice of economic decentralization, it entails a competition of free market price system, in which a company responds to a request for a proposal to offer the services (or product) at the highest cost-effectiveness. This indirectly creates the potential for competition between local governments to provide services at the lowest cost.

In classical economic theory developed by Adam Smith (1776), competition is the core economic development strategy. According to him the “invisible hand” from competition will always maximize the benefits for society. Judith Stallmann, however, has warned us in a chapter of this book that when the principle of competition is adopted among local governments, it may produce spillovers effect on other local government, thus on people as well. This is because there is nothing free in the market system. The benefits of some generate costs for others.

One perplexing example of competition that creates undesirable spillover effect, which has not yet happened in Thailand and in many developing countries, is the competition in lowering tax reduction rates as has already happened in the U.S. In this case, competition produces more losers than winners, or a loose-loose situation. Certainly this situation has some bearing on the aspect of fiscal decentralization. Definitely, local government must have an adequate level of revenues to function properly. The implication here is that rather than playing a zero sum game, local government should compete in the market through innovative economic development at the local level.

University and Local Government Partnership

We have asked ourselves how we can make local government functions better. The gist of the answer lies on improving management capability of local government. We have introduced another aspect of decentralization, called economic decentralization. In so doing, we urge caution for local governments in developing countries before they become players in the global economic system.

If they decide to go forward as a player, the force and power of globalization will dictate and regulate the rules as established by the free marketing system. The developing countries will encounter fierce competition for the goods they want to secure and for the services they want to sell. Costs and prices that are affordable or acceptable to the proposed buyers may not necessarily be in the best interest of the latest group of local governments seeking affiliation in the global markets. Consequently, improving the management capacity of local government, will prove to be helpful in making the rising democracies to function more effectively; but there is a question of whether improved management will be enough. This section looks at this issue further.

Within the framework of technical support from the network of public universities to local governments, education and training have been provided, and have contributed significantly, to help improve the managerial efficiency of elected officials and local government staff. This already has been done in many countries around the world. In this book, it recommends that we move one step forward; that is changing the roles of our public universities from merely serving as educators or technical assistants to partners of local governments. This means that public universities that have built the rapport and have established their status as a friend of local government will standby and be ready to work, upon request, and in tandem with local government for economic and fiscal impact assessment of some events that may undermine the economic development and growth at the local level. This has been extremely successful in the cases of local governments in the state of Wisconsin, U.S.A., as documented by Steven Deller in Chapter 8 of this book. It is recommended by Professor Deller that the university should not make the local government dependent upon a university. Rather than university acting as a consultant, the university must help the local government to develop its own management strategies, based on the best available information and the economic technique of fiscal impact analysis.

In Canada, where there is no an equivalent concept of “land-grant universities,” that have special responsibilities for developing practical education for the elected politicians and staff of local governments, the demand for the Master Degree in Public Administration (MPA) in local government is growing, at least at the University of Western Ontario. One of the most interesting findings of Andrew Sancton is that local governments in Canada behave as though the university is a key to local economic growth. The successful record of the University of Waterloo in Waterloo, Ontario in promoting local economic growth provides a context.

Another good example of how universities and local government in Australia work together to form an alliance to produce viable results and respond to the needs

of local communities can be found in Chapter 10 written by Melissa Gibbs. In this chapter Professor Gibbs describes how the Australian Centre for Local Government (ACLEG), a consortium, led by the University of Technology in Sydney, plays an important role in promoting and establishing an independent interface between all levels of governments: federal, state, territorial, and local government. As such, there is a strong collaboration within and among different types of governments, and with ACLEG. The partnership of these organizations allows them to work together in various aspects such as social, cultural, policy formulation and implementation, and academic research.

Establishing Strategic Partnership among Local Governments

The idea of university and local government partnership can be used to create a healthy relationship among the local governments. Because of synergistic properties of partnership, academic authority in the field of local government in Thailand recommends that local governments form an alliance of strategic partnership (College of Local Government Development, 2007; Prachatai, 2012). Kamnuansilpa and Supawatanakorn (2008) widen the horizontals of network of partnership to include private organizations. All these recommendations were embraced without objection from all stakeholders: academic, administrative, and political. Net-working, of course is not a novelty. It has gained acceptance, because it is part of the core values of New Public Management (NPM). Several scholars, e.g., Barzelay (2001), McLaughlin, Osborne and Ferlie (2002) and Kettl (2005) embrace its ethos. NPM facilitates the power of theory in explaining social phenomenon and generalizability and can be heralded as a concept with highly emergent value.

The formation of an alliance or partnership can be intra-city, intra-country or inter-country. The present discussion indicates an in-country strategic partnership. But because of the generalizability of the benefits of strategic partnership, the city of Kobe in Japan establishes a network of medium size cities in Asia. These nine cities (in alphabetical order) are: Chennai, India; Chittagong, Bangladesh; Danang, Vietnam; Faisalabad, Pakistan; Khon Kaen, Thailand; Kuantan, Malaysia; Olongapo, the Philippines; Surabaya, Indonesia and Weihai, China. The exchange of information and experience proves to be an important ingredient in the success of the network of activities. The chapter (11) by Hirofumi Ando documents and identifies the key success factors that enable all cities to effectively work together in the fields of population, environment and development.

Interestingly enough, one of the contributors of this book had an opportunity to participate in a strategic planning meeting of this network, both in Thailand and in Japan. From the meetings it was clear that a university from each of these nine cities had formed as a strategic partner with the city. Such action demonstrates that, in many parts of the world, the NPM theory has already been tested by creating a network of city managers and university researchers. This statement, however, is not intended to attest to the success of (or ineptitude) of NPM. While there are outcomes which argue both in favor of and against NPM, i.e., Hague (1996) Peters and Pierre (1998) and Sarker (1988) this book has no intention of furthering a new critique of the theory. Suffice to say that certain elements of the theory can be applied to increase management efficiency of local governments around the globe. All parties should capitalize on the strength and the experiences acquired by both academicians and practitioners who study and work in local government.

In chapter 12, Richard Pratt offers the viewpoint of an advocate who favors balancing and refining knowledge invented by academicians who successfully work with practitioners. Interestingly, Professor Pratt's chapter emphasizes the importance of improving and enhancing learning environments that provide education about local governance and administration. What is keenly and really innovative is the approach he uses to put local governance into a global perspective, not just in a global context. He does it by reviewing the situations in and the roles of public institutions and by describing how the weakness was rectified, particularly in the new period of reform. The professor gives good reasons why and how, in a global context, we need to effectively utilize the limited international resources for learning for the ultimate goal of improving local governance. It is our opinion that this will be beneficial to all enterprises. Finally, we can see in his chapter, like in some others, universities serve as a focal or a node of interactions with local governments and particularly the practitioners.

Local Government: Our Hope of the Future

The contributions of the authors in this edited work express wisdom about challenges facing local governments. Local governments reside where the people reside; their functions and their synergism impress the observer to face the stark challenge of their reality: many function and few resources. This awkward paradigm brings to view the question: Is it realistic to have any hope for local government to transcend their reality?

To begin an answer we must consider the roles and functions of local government. After observing local activities around the globe, it appears that there are only two missions that do not fall into the purview of local government: national security and international relations. National security includes territorial defense and macro-economic policy regulation. This responsibility is not in any way that a local government can be more properly and more effectively functional than the central government. As to the mission of international relations, it is a matter of protocol and representation. It is not a question of who is more capable of doing it; rather it is how we do the job that is more important. Local governments have already demonstrated that they too have roles and functions in international relations, within a context of building a consortium of best practices. It is not too difficult therefore to imagine that when the world as a whole becomes a common community for all, the demarcation line that distinguishes the local community from the international community will grow less and less visible. With that future scenario as a backdrop, the feeling of territorial insecurity and sovereignty become subservient to human well being, which are mostly measured in terms socio-economic indicators.

Throughout the history of development and from a national perspective, it has been noted that countries that invested more in human capital not only have produced but have enjoyed the higher level of socio-economic development. Local governments around the world should learn from this historical lesson with a goal of promotion of human well being in their own jurisdiction area. It is this spirit of learning and acquiring new knowledge and management skill and willingness to experiment with new social innovation that sets local government apart from its superiors in the governance hegemony.

Local governments in some countries have fewer constraints than local governments in other countries. Variations in societies and cultures will lengthen the time when the constraints have been removed from local governments become city-states. But the case is clear: Local capabilities continue to grow. Larry Berman and Elizabeth Jones's chapter describes how the power, imagination and will of local (state) governments are making higher education more widely available to all. This example (of state programs like HOPE) illustrates my vision that local government will enable people to have hope for a better future.

Concluding View

Local governments in democratic societies face challenges as they strive to provide services to its citizens but rarely have sufficient resources to deliver them. As Professor

Sampson notes “The peril of this circumstance of statutory impotence coupled with a paucity of resources” keeps local governments in a subservient position. Whether in an “advanced” or emerging democratic society, the leaders of local governments have to work with private groups and a variety of non-governmental organizations in order to harvest sufficient resources to generate service delivery. Much of the research on local government, i.e., Stone (1989) reveals that private interests come with narrow agendas thereby leaving elected officials to find means to subsist and suffice but rarely to satisfy the universe of its constituents. This is the lesson learned from NPG.

Within democratic societies, citizens, their governments and elected officials, the bureaucracy, non-governmental organizations, and legitimate stakeholders are recognized as indispensable to the normative administrative arrangements for governing. As leadership and management skills continue to advance, the quality of life will improve for citizens who are perched at the top of the hegemony. However, governance theory is an evolving, value laden, and culturally entrenched process and like life itself the tenants are not so black and white.

It follows then that in the dawn of the 21st century, models of democracy that are both attractive and feasible are rare and have limited utility, but there is hope that the evolution will in the final reel bring true democracy closer to reality.

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Chapter 2

Thailand's Decentralization: Global Forces and Local Conditions

Gayl D. Ness

Abstract

In this paper, Thailand's decentralization is seen as part of a global process. It begins with the early formation of nation states as a new form of political organization in Western Europe dating from the 13th century. This implied the continuing centralization of power under an increasingly bureaucratic government. Western imperialism spread the state to the rest of the world from the 17th-18th centuries. Today the United Nations brings together over 200 nation states, professing sovereignty. From the 18th century democratic processes began the decentralization of power and the rise of "the consent of the governed" as the major legitimizing basis form of government. The conflict of World War II pitted that democratic basis against the Axis argument for a racial legitimizing force. The success of the Allies in that war made "democracy" the only legitimate basis for government, seen today in the names of even totalitarian systems. Alongside the political decentralization of "democracy" has come a new interest in administrative decentralization, which aims both to strengthen democracy and increase government efficiency and effectiveness. Asia and Thailand have followed these centralizing and decentralizing processes, with the latter emerging in the past two decades as a major aim. The paper reviews some studies of Thailand's decentralization and asks WHAT is to be done. Then it proposes another question – HOW should we decide what is to be done? – and proposes a method to allow local administrators and leaders to identify WHAT is to be done.

Background: The Long View, From Ruler and Subject and Administrator and Citizen

The 2007 Thai Constitution devotes a chapter (XIV) with 10 sections (281-290) to local administration. This sets out a vision of political and administrative

decentralization in which the government seeks to devolve power, responsibility and authority to local administration. The greater role is in overall governance. This aim, as I see it, is two-fold: political and organizational. First, the political aim is to give *voice* to the people; to allow them to have a say in government policies and programs. In effect it is to transform the people from *subjects* to *citizens*. It is also to transform government officers from *officials* to *civil servants*. The second aim of decentralization is to improve the efficiency and effectiveness of public or social services. There is much to say about both these aims.

Decentralization is an integral part of global historical social movements over the past half millennium and more as empires dissolved into smaller, more powerful, nation states (McNeill, 1963; Strayer, 1970; Tilly, 1984, 2004, 2009). First we have seen the increasing centralization of power as the unprecedented rise of nation states has emerged and come to form the basic political units of modern society. This process began in Western Europe after the 13th century and now dominates the world political structure. The rise of nation states in medieval Europe demonstrated the power of this form of organization to mobilize resources and extend control over larger and larger land areas and numbers of peoples. It was those powerful nation states that formed the basis of the growing Western hegemony over the world from the 16th to the 20th centuries (Ness and Stahl, 1977). Western hegemony placed the stamp of the nation state on the rest of the world. Colonial systems built the organizational infrastructure of the state everywhere, and even non-colonized polities, such as Thailand and Ethiopia, followed that lead. The final breakup of the Western colonial system after World War II and the emergence of the United Nations as a global representative of more than 200 “sovereign nation states” completed a process that began more than half a millennium ago.

In Thailand, the 19th and early 20th centuries saw the similar development of a centralized monarchy gradually extending its power to the current Thai national boundaries. The Thai experience is not unique; all of Southeast Asia has gone through the same general process. Kingdoms, or state-like political systems, are seen in Southeast Asia¹ over the past near two millennia. The power and sway of these political centers rose and fell over this time. Each rise extended the power of the center to a larger area, only to fall as the center weakened. But each rise extended central power further than the last and each fall reduced that power less than in the previous fall (Lieberman, 2003). Until the 19th century, these ancient kingdoms saw a strong political center, with power and control diminishing as distance from the center increased. Moreover, these political systems were concerned with a relatively narrow set of concerns, especially defense, order and taxation, and to varying extents, agricultural production, irrigation and trade. Western incursions brought new forms

and new aims to these governing systems. Political and administrative structures were built that extended the power of the center to the borders of the new states, and greatly increased the areas in which government took responsibility.

In Thailand, this involved building a distinctive administrative structure around the monarchy and extending the sway of that structure to the state boundaries. In the process a modern state bureaucracy was born (Wyatt, 2003; Riggs, 1966). That bureaucracy developed a series of technically specialized arms not only more capable of providing security and collecting taxes but also taking responsibility for the physical infrastructure, transportation, health, education, finances, agriculture and all the specialized problems of the modern state. Until recently that process has essentially been centripetal, drawing to the center increasing capacities to reach, monitor, control and even assist all individuals and communities within the boundaries of the state. That process has been so powerful in Thailand that it has given rise to a distinctive term in Thai politics, “the bureaucratic polity” (Riggs, 1966). The transition from the absolute to constitutional monarchy in 1932 only emphasized the power of the administrative structure to centralize authority and responsibility to itself. The state bureaucracy replaced the King as the claimant of absolute power.

In the past half century we have begun to see a series of more centrifugal movements. In many parts of the world and especially in Asia, government decentralization has become the watchword, the fad, and the clarion call for political and administrative reform. This represents a radical change in public policy thinking of a relatively recent origin. It should be recalled that the rise of independent states in Asia following the imperial breakup after World War II was accompanied by a call for strong state planning and supervision to promote the economic development that all wanted. At that time the Soviet model of state five-year economic plans was highly popular, given powerful and in part extreme impetus by Asia’s two giants: India and China. This emphasis on centralization emerged naturally since most of the leaders of the Asian independence movements were educated in the West in the 1920s and 30s. They witnessed the collapse of the capitalist market system, and the rise of the Soviet command system. At the time that appeared to be the model for the future. That the Soviet system was associated with the defeat of fascism only increased its attraction. The Asian leaders of national independence movements believed that this new state planning system would provide the way for the economic development that they wished for their poor countries. It is also important to remember that state planning was associated with a distinctive “import substitution industrialization” strategy that was being promoted by the World Bank in its earlier, and somewhat more naïve, days.

Import substitution industrialization quickly gave way to the much more effective export promotion as early as the 1960s, with Japan, Taiwan, South Korea, Hong Kong, Singapore and Malaysia² showing the way. Highly centralized government and state planning gave way later, and more grudgingly, as first China in the 1970s and then India in the 1990s turned from command economic systems and state control back to the free market as the more certain route to development. The great economic successes that have come with this return to the market have given considerable support to movements to decentralize power. In addition, the broader democratization movement has produced political pressures for decentralization. Political and social mobilizations have forced central governments to listen more carefully to the voices from below.

As the World Bank (2005) points out, there have also been broad structural changes adding to the pressure for decentralization. Economic development, urbanization and the growth of an educated middle class have forced governments to search for more effective ways to provide the services, incentives and support needed for modern economic development. These same structural changes have provided governments with greater opportunities to recruit more active and capable lower level units to take part in the provision of services. A major paradox is here being experienced, articulated by Rensis Likert more than half a century ago: *the way to gain more power is to give it away*. Effective delegation of power mobilizes the talents of many individuals to focus efforts on a common goal. Decentralization, in this view, greatly increases organizational effectiveness. Allowing local leaders to adjust national policies to distinctive local conditions makes those policies far more effective than if they are to be applied in only one way in all places. Moreover, encouraging local leaders and administrators to work out effective solutions to their problems increases the experimentation with programs and enhances the number of effective solutions to be found.³ Decentralization enhances efficiency.

Technical advances in communications, especially electronic computers and cell phones have only added to both the pressures and opportunities for decentralization. They have broken the government monopoly of communications and given masses of people the opportunity to present their views, both supporting and opposing governments. In effect the new technology has fully democratized communications. We have seen examples in Thailand in the opposition to General Sujindra Kraprayoon's assumption of the position of Prime Minister in 1992. He was essentially forced to step down by a large scale popular opposition mobilized essentially by modern cell phones. We have seen a similar illustration in the fall of President Mubarak in Egypt, and the widespread *Arab Spring*.

The current democratization movement is only a logical extension of a dramatic transformation in political philosophy that began more than two centuries ago. The 18th century saw an extensive development of political philosophy, which can be summarized by Eric Stokes's (1959) trenchant phrase, *the change from the divine right of king to the divine right of the masses*. This was given formal recognition in the United States in 1776, when it was announced that the only legitimate government is that which has *the consent of the governed*. The 19th century saw the extension of the franchise and the transformation from absolute to constitutional monarchy throughout Europe.

This broad process was given a highly charged acceleration in the ideological changes that brought an end to the Western Colonial Empire after World War II. It is important to recall that that war was in part a struggle between two diametrically opposed political philosophies. The Nazis proposed a racial basis for governmental legitimacy. It was the *racial superiority* of the Arians that gave them the right to rule. Against this, the Allies proposed that the only legitimate government was that based on *the consent of the governed* or democratic rule. The governed are not *subjects* to be taxed, worked and sent to war for the greater glory of king and government. They are *citizens* whom the government was designed to serve. At the top this implied that administrators were not *officials* to be obeyed, but *civil servants*, charged with serving the interests of the *citizens*. That the Allies, not the Axis powers, won the war meant that "democratic" governments would be the rule. Indeed even highly totalitarian governments today claim to be "Peoples' Democracies." We need only recall President Sukarno's *guided democracy* in Indonesia, and the establishment of the *Democratic Peoples' Republics in North Korea* and *Laos* to illustrate the popularity of the term.⁴

Asia Decentralizes

In 2005 the World Bank published a review of decentralization in Asia, titled *East Asia Decentralizes: Making Local Government Work*. The review covered six countries: Cambodia, China, Indonesia, the Philippines, Thailand and Vietnam. Using the proportion of subnational expenditure as a share of total public spending to measure decentralization, the Bank found an interesting anomaly. The most centralized political systems, China and Vietnam, were the most decentralized administratively, with local expenditures accounting for 69 percent and 49 percent respectively of all public spending. Indonesia and the Philippines were moderate with 32 percent and 26 percent respectively. Cambodia showed a low 17 percent, and Thailand was the lowest at a mere 10 percent.⁵

As noted above, the Bank argues that decentralization is being driven by economic development and urbanization. But the data for these six suggest something else is at work. If we rank the six countries on economic development and urbanization, there is clearly no relationship between the level of wealth, or rate of urbanization and decentralization. The rate of development is somewhat U-shaped with decentralization. The level of urbanization is an inverted U! The two measures of health, or health service delivery impacts are clearly unrelated to the level of decentralization.

Next, the Bank's report asks why local government matters, and provides three well thought out arguments. First, economic development has been impressive in most of East and Southeast Asia, and the continuation of that growth will largely depend on how successful local governments are. Second, it is largely in the areas of social service delivery (health, education, water and sanitation) that local governments have become most active. If local government is not effective, there will be a serious decline in the level of services that support human resource development. This would inevitably decrease the quality of life for many and also obstruct further economic development. Third, local government can be highly susceptible to corruption, which both saps public support and works against the economic development that is needed.

Finally, the Bank's report provides some analysis of the impacts of the moves to local government, though this is an unsatisfactory part of the review. First the Bank points out that spending on health and education increased with decentralization in China, Vietnam, Indonesia and the Philippines. But the Bank's authors neglected to ask about Thailand, where health and education expenditures have also increased since 1998, when data are available. Thus it is unclear whether decentralization is really the major causative factor. The authors also point out that declines in infant and under-five mortality increased or held level with decentralization in China, the Philippines and Indonesia. That is true, but those mortality declines in highly centralized Thailand have been considerably greater in speed and magnitude for a longer period of time.⁶

It is apparent, then, that Thailand is an unusual case in this assessment of local government and decentralization. Despite having the lowest by far measure of local government expenditure, Thailand has produced an exceptionally effective social service sector, apparently in a highly centralized bureaucracy. In fertility control (Knodel, 1987), HIV/AIDS treatment (Knodel, 2010) and TB control (Singha Dong, 2004), Thailand has produced an exceptionally effective service delivery system that extends excellent health care to the poorest regions of the country and to the country's poorest as well as richest citizens. This can be called a highly successful centrally directed service delivery system. It is unclear the extent to which such successes depend

on the devolution of authority and the rise of local government. They do, however, depend on some kind of local participation, which we consider below.

Thailand Decentralizes

As we noted at the outset, the 2007 Constitution of Thailand dedicates a chapter of ten sections to local government in Thailand. These give to local units the authority to form elected councils, and give those councils authority to act for the citizens through creating local ordinances and assuming control of social services. The acts redirect a number of government functions from central to local responsibility. They also provide rights of redress for ineffective leadership. There are also a series of nine laws from the Municipal Act of 1953 through the 2009 amendments, to three acts for Provincial, Municipal and Tambon Administrative Organizations.

As might be expected, there has been a substantial number of studies of this move to decentralization. We shall limit our attention to only a few representative studies. The United Nations Development Program conducted a large scale study of capacity building in support of decentralization in 2009, providing as well an executive summary with extensive recommendations for improving the decentralization process (UNDP, 2009A, 2009B). The Japan International Cooperation Agency has produced two very useful studies of the decentralization process. Nagai (2001) reviews decentralization processes in Indonesia, the Philippines and Thailand. He also reviews local government in Thailand (Nagai 2008).

Before turning to these studies, we can mention four other sources that have been most useful. Dr. Achakorn Wongpreedee (2007) published a useful article showing that decentralization had in effect increased the power of some MPs due to their increased powers of mobilizing a larger voting bloc. Weerasak et. al. (2008) examined network performance and accountability. They showed how local management capacity varies and affects the capacity to build local networks. Dufhues et al. (2011) note that one major stated reason for decentralization is to increase popular participation and bring greater upward pressure on governments for honest and effective service. They note, however, that decentralization in Thailand has not necessarily produced greater popular participation. In some respects decentralization become a tool for greater central control. Finally, we must note an excellent study of Thailand's health system (Hawkins et. al., 2009) that helps us understand how Thailand's health system has achieved such remarkable success, in part by mobilizing local communities and families to assist in patient care and service delivery. Finally Nelson (1998) provides a rich view from the provincial level of how the central government

controls local administration, leaving little power or initiative to the local elected leaders and councils. This is especially important to identify the powerful resistance of the central government to any form of decentralization.

Nagai's studies have provided some of the first field studies to seek out views of the administrators who were in the middle of the decentralization process. In a chapter on central local government in Thailand, he and his colleagues carried out an extensive survey of local administrators. They sent questionnaires to all 7,800 Local Administration Organizations (LAOs) in Thailand. These were sent to the clerk who served the provincial, municipal and township units. They received 2,677 replies in return, 387 from urban and 2,154 from rural areas (with 136 unindicated). They asked about both vertical and horizontal relations and found continuing vertical relations and only weak horizontal relations, indicating continuing central control. They also found budgets were insufficient for their tasks and that local units needed much assistance in infrastructure development and tax collection. They reported considerable popular desire for environmental, sanitary and public health problems, and found they could indeed help find solutions to these issues in a majority of cases.

Asking Questions: The COLA Approach

Khon Kaen University's College of Local Administration (COLA) was established five years ago to provide comprehensive training specially directed to local administration. It has now trained some 10,000 local administrators, who are in positions at all local levels throughout the country. The college maintains contact with its graduates and considers them a source of information. Moreover, it sees those administrators everywhere as the front line workers of the decentralization process. They are the ones who know how the process is moving and why. They know where the weaknesses and strengths lie, where the encouragement and resistance come from. Thus COLA recently undertook a study of local administrators in four provinces (COLA, 2012).

COLA's institutional aims and experience led the project to go to the local administrators for information about the process of decentralization. It wished to know especially how the relations between elected and administrative personnel work. How do administrators and elected leaders manage their vertical relations; is the center helpful or overbearing? Are budgets sufficient and is there sufficient flexibility to allow local leaders to decide how best to use resources? These are the questions that led to this research project. Here we can give a brief summary of some of the findings. Following that we will go on to ask specific questions about three substantive areas –

health, education and economic development, and make some recommendations on how to proceed.

COLA Research. A Useful Resource: Positive Orientation and Good Will

The research provides views of both elected officials and government administrators. Overall they are roughly in mid-range of age and are quite well educated. That should give some greater confidence in their replies. That is, we can assume that, like most educated Thai elected and administrative people, they know well that the country is deeply involved with the process of decentralization. They had no difficulty understanding our questions and they were on the whole happy to be asked their views and tried to provide thoughtful responses. Here we can try to summarize what they have told us, especially in the political and the organizational systems they inhabit.

The Political System

There are only two interactions with what we can call the political system: relations with senators and relations with members of parliament. The two political interactions (vertical relations) are quite different. Senators play almost no role here and that is quite understandable. They are lofty, have only one term in office and are not deeply involved in the daily process of local government and its problems and dynamics. Members of Parliament, on the other hand, are much more active in the communication process. Here there are important differences in the provinces studied, however. There are more activities in Chon Buri than in the other provinces. The reasons for this difference and their implications for decentralization are not fully clear. This raises important questions for the near future. In other respects, we found that the elected officials are more in touch with MPs than are the administrators, but the administrators are not by any means cut off from these political leaders. That is, there is active communication with Members of Parliament, which should provide important assets in the process of decentralization. The Parliament can be said to be fairly attuned to how the process of decentralization is moving, which should place it in a good position to provide the necessary legal framework to make the process effective.

The Organizational System

Here we have reference to the complex set of five levels of local governing units and the elected and administrative personnel that staff these levels. At the top is the

Provincial Administrative Office, then three levels of cities – municipal, town and tambon – and a rural level, the Tambon Administrative Office. In this analysis we did not disaggregate the five levels; all are treated in this set of descriptions.

We begin with the relation between the elected and administrative heads of all levels: mayor and clerk. We asked about their relations: do they understand and support each other's work. The responses appear to be more normative than objective. This is not difficult to understand, given the avoidance of open conflict in Thai culture. Responses were overwhelmingly positive: virtually everyone said the mayors and clerks know and support one another. One should not take this at face value. The same is to be said for a general question about how much all administrators and elected officials know and support one another's work. All is sweet and light, it appears.

We then turned to views of the elected officials – their competence and the quality of their leadership. All of these are reported to be relatively high, but there is difference between the provinces. Songkhla reports the lowest scores, which should not be surprising given the tensions in the South.

Local and provincial coordination were the next topics, and here again we get high scores, with Chon Buri highest, and again Songkhla lowest. There was no real difference between elected and administrative officials here.

We asked about local autonomy or central intervention. On both the scores again were quite high. Khon Kaen and again Chon Buri come out highest and Songkhla lowest.

There were three questions on what we have called democratic values. Do local governments *listen* to the people, do they *encourage* them to request communal benefits, and are there standard *processes* for the expression of popular will. Here, Khon Kaen and Chon Buri are consistently and significantly higher than Chiang Mai. Elected official and administrators tend to feel the same except for listening, where the elected officials give higher scores. Chon Buri is an especially interesting case in that it has a strong provincial government, controlled by a single strong party. Popular support is given to a local government that provides good services and benefits in return for votes.⁷

The budget is always a critical issue and we were particularly interested in the proportion of budget that comes from local revenue. Quite a number of respondents report little or no local revenues, though overall, the provinces differ, with Khon Kaen and Chon Buri reporting about 35 percent and Chiang Mai and Songkhla reporting just over 20 percent.

We also asked what if any local ordinances have been passed and were somewhat surprised to find so few reported. The great majority of respondents reported no local ordinances. It appears that in all 24 governance units (five levels in four provinces, with two units of the lowest, tambon, level) only 38 ordinances have been passed. These are overwhelmingly at the lower levels, and half of all reported are in Khon Kaen province.

Finally we could examine some interactions among some of the questions. The two measures of financial autonomy (financial independence and freedom from central interference) were closely related, giving some validity to the questions and offering a possible measure of decentralization. But there is no real relationship between the perceived autonomy and the proportion of the budget from local revenues. There is, however, a strong relationship between perceived financial autonomy and perceived democratic values.

Overall we have what we can consider a quite positive view of the local governance process among Thai local elected officials and local administrators. They appear to have a positive view of the way government works, of their autonomy and of the overall system's capacity to listen to the public. This is probably a highly useful resource – the positive orientation and good will among local leaders, both elected and administrative. This can be said to be good news for the central government. It does not have below it an angry discontented set of local leaders. They appear to trust government and whatever they see to be the process of decentralization now taking place. This should encourage the central government to move ahead more steadily devolving both authority and resources to the local leaders.

What is to be done?

Given these favorable conditions, we can now ask more broadly, what is to be done? Is there a model of effective decentralization that will give Thailand what the country appears to wish in its decentralization process? Are there specific policies and programs that will promote the kind of decentralization the nation wants? To address this issue, we turn to three specific areas: health, education, and promoting economic development. Our basic point in all three is to raise questions not only of what is to be done, but how best to structure the decentralization process to produce the desired results.

Health

We saw above that Thailand has developed an admirable national health system. In three major areas – fertility control, HIV/AIDs and tuberculosis – it is able to provide excellent care to the most remote areas and to the poor as well as to the more affluent. Indeed, Thailand's modern urban private and public medical clinics have become substantial tourist attractions in the new and growing field of medical tourism. Private hospitals in Bangkok can provide some of the finest world-class medical care accompanied by the highest class of personal care and accommodations, topped by superb Thai cuisine. At the lower levels, there are both national and local clinics serving the rural population. How is decentralization to affect these diverse local levels? What authority, responsibility and resources are to be given to what units to improve health? Devolving authority to local units may be dysfunctional if it places decision making in positions that lack the technical skills to make the most effective decisions. This is an issue that troubles the Ministry of Public Health, as well it should. It is also an issue that should trouble all units of local government. Here the aim is not decentralization per se, but promoting the health of the nation. How can that be done most effectively and most efficiently?

Education: Problems of Exit and Status

There is considerable dissatisfaction with the nation's education system, especially with that in the rural areas. But here, finding effective solutions is especially difficult. It is hampered by two distinctive conditions: *exit* and *status*. By exit, we refer to the common Thai village practice of sending children to the towns to receive the better education offered there. Village children are sent to live with relatives or co-village families in the towns to escape the weaknesses of village schools. In an earlier study (Kamnuansilpa et. al., 2000), it was found that Khon Kaen primary and secondary schools had enrollments three of four times what they should have had, given the expected age-sex structure of the city. It is well understood that village children exit the village for better education in the towns.

The problem is that **exit** precludes the **voice** that village people might have in demanding better schools

Exit is a typical strategy when people are dissatisfied with local conditions, whatever they might be. It is also, however, a strategy that obstructs changes to improve

the system (Hirschman, 1970). As parents send their children away from village schools, they effectively weaken or block any voice they might have to improve those schools. This process of exit rather than voice is seen in a wide variety of conditions. Cuban dissidents leave and reduce upward pressure on the regime (Pedraza, 2007). This is actually true of many other Latin American political systems, where dissidents can exit to a nearby country and still enjoy language and leadership conditions in neighboring countries. Japanese dissidents have not had that opportunity, and thus have kept up pressures from below (Dore, 2002). Today the Philippines' major export is educated men and women; about 10 percent of the population works abroad, which greatly weakens political pressure from below in a system of exceptionally weak and ineffective governing institutions.

The next is the related problem of *status*. Thailand's culture grants high status to teachers and strongly discourages questioning that status. Thus it is difficult to conceive of village people questioning the behavior of local teachers, or criticizing them for not teaching their children well. In effect for villagers, exit – sending their children away for school - is preferable to questioning the teachers' performance. That raises a critical question of the kind of decentralization that would have any real impact on village schools. It is hardly possible to conceive of the kind of system the US has, where, for good and ill, state, country and town locally-elected school boards have the power to hire and fire teachers and even to make critical decisions about curricula. What should Thailand do?

Promoting Economic Development

Finally, what kind of decentralization would help promote local economic development in Thailand? The Thai economy is very much a product of global forces over which the country has little or no control. The collapse of 1997, for example, resulted from pressure on German and Korean banks to grow and gain a greater portion of the booming Thai real estate market. This led to easy lending without demanding sufficient collateral. These global forces fueled a real estate bubble, whose bursting cost Thailand dearly. To be sure, there are national conditions and policies that help shape the impact of global forces, and here Thailand has for the most part had policies – monetary, fiscal, business control – that have encouraged positive global forces from which the country has benefited considerably. But that set of policies has largely been directed outward, to attract foreign investment to build a modern industrial system. What can be done to encourage and assist the thousands of local Thai entrepreneurs who could play a larger role in the country's economic development? Foreign investment is largely aimed at bringing factories, jobs and businesses to the large central urban system.

This can be very useful and successful, and certainly Thailand has had its share of successes. There is, however, a danger, as seen in Ireland, and more recently with some firms in Thailand. A major attraction for foreign investors is low labor costs. But when foreign investors bring economic development, the standard of living rises and with that labor costs rise. This makes foreign investors look to other countries for even lower labor costs. Moreover, enticing foreign investors often means neglecting one's own local entrepreneurs. Thailand certainly has no shortage of local entrepreneurial talents, which can be used to promote local economic development.

The key to developing an additional, *not alternative*, strategy here lies in the new concept of *Economic Gardening*, developed in a small Colorado US community in the 1980s (SMBA 2010). Here the idea is to grow local entrepreneurs, who will be attached to the local community. Local communities can develop specific programs to assist local entrepreneurs turn their ideas into effective export businesses. When these are successful, local standards of living rise, but a local firm tends to remain where it is, rooted in the community.

In these three areas, as in all aspects of decentralization, the question of what is to be done may be the wrong question. All local conditions can be highly complex and distinctive. Thus it may be better to ask HOW rather than WHAT. In addition to asking WHAT is to be done, we should also ask HOW can we best decide what is to be done. Here we have a specific model to propose.

HOW to decide WHAT is to be done: The AUICK Model

In 1989, the City of Kobe and the United Nations Population Fund (UNFPA) signed an agreement to create the Asian Urban Information Center of Kobe (AUICK). The aim was to work directly with urban administrators in Asia to find ways to address the problems associated with Asia's rapidly growing urban centers. In the past eight years, AUICK has developed a specific strategy for designing effective programs to raise the quality of life in its nine Associated Cities.⁸

The strategy involves a **workshop** and an **action plan**. Two AUICK workshops a year were attended by senior administrators for each of AUICK's nine associated cities. Each workshop focused on one specific issue, in AUICK's case one that is related to the UN's Millennium Development Goals (MDGs): Universal primary education, reproductive health, HIV/AIDS, poverty reduction, etc. In each case, the participants brought along a description of their city on this issue, to share with other participants. A number of presentations also showed how Kobe had addressed those

problems and worked out effective solutions. Then each participant prepared an action plan to take back to their own cities for implementation. In effect, the workshops challenge local administrators to identify a problem that they knew they could successfully address at home. Similar to the overall COLA strategy, this listens to local administrators and asks them how to address local conditions in way they know will bring some success.

This strategy has been remarkably successful both in the cities and the countries affected. Some 80 action plans have been produced and virtually all have been implemented in their cities, in all cases helping improve the quality of life and the effectiveness of urban administration. In two cases, in Surabaya and Danang, projects have been so successful that they have been adopted as national programs. Let me just list a few to illustrate what has been done.

Danang health officials recognized that their HIV/AIDS program was working well in some respects, but was leaving a large gap. It has effective health education programs in schools and work places. But as any modern city, it has a large new immigrant population, that is somewhat rootless, unconnected to any workplace, school or community. For these floating migrants, Danang opened store front peer counseling clinics to provide information and services. It was very successful, especially in providing services to a new and disconnected migrant population. The program was made a national program.

Surabaya developed a Silver College, on the model of one developed in Kobe Japan, to provide training and education to senior citizens. This provides for a population found to be growing dramatically in all countries that have effectively solved their problems of rapid population growth by promoting family planning and closing the democratic transition. The program in Surabaya has now been made province wide.

Khon Kaen recognized that although it had, as all Thailand, virtually universal primary education, it still had some gaps. It recognized that some very poor children are in danger of dropping out of school because of the poverty of their parents. The city created a small foundation and alerted all teachers to identify very poor children likely to drop out of school. It was able to offer the parents financial support to keep the children in school. This will effectively break the cycle of poverty producing more poverty in the next generation. This is easily a program that could be upgraded to a national level program working through local non-profit foundations. This idea has been adopted in Faisalabad, Pakistan and Kuantan, Malaysia.

This strategy of **workshops** and **action plans** can easily be adapted to Thailand's decentralizing conditions, and COLA is in an excellent position to develop the necessary specific steps. For example, COLA could convene workshops for TAOs, municipalities and provincial governments to address specific problems, such as education, health and promoting development. Administrators and elected officials from, for example, ten TAOs (or ten municipalities or ten PAOs), could gather to discuss ways to improve rural education and local leaders would be challenged to develop action plans for their own areas and then return to put those plans into practice. The same can be done for health and economic development.

At first, three workshops could be directed at the three levels (provincial, municipality and TAO) with participants from 5 to 10 provinces (perhaps two provinces in each major region); those 5-10 would then hold their own workshops for units in their own province, using local universities to help plan and direct the workshop. This radiating process could move to cover all or most of the country. Working with national ministries (such as Public Health, Education, Transportation, Interior, etc.), COLA could identify specific issues to be addressed in addition to the three discussed here. The point of all this would be to go to local administrators and elected officials, who know their areas and their problems. Rather than telling local people what to do, it would be asking them what to do. This is a strategy for mobilizing the talents and the energy of local people to build the kind of society Thailand and the Thais wish to build.

This strategy has another advantage. It addresses both the political and organizational dimensions of the decentralization process noted above. It goes to local leaders to ask them what is to be done, thus giving voice to the people. But it also mobilizes the energy and talents of local leaders to adapt national policies to local conditions, thus increasing the efficiency and effectiveness of local government.

Endnotes

- ¹ The Philippines is the only real exception to that statement.
- ² Malaysia early followed the World Bank with weak efforts at important substitution industrialization, but its real success came with its transformation of the rubber industry that was a triumph of export promotion industrialization (Ness, 1968).
- ³ Khon Kaen has been one of nine participating cities in the Asian Urban Information Center of Kobe (AUICK) workshops in which this process is extensively documented. Workshops over the past half-decade have generated scores of effective programs to deal with city problems; in many cases those programs have been adopted as national level programs (Tams, 2010). See the final section below.
- ⁴ It can also be noted that the Thai military has supported a distinctive *Thai democracy*, without the “dysfunctional trappings such as elections and parliament.” (Ricklefs et al., 2020: 374).
- ⁵ The proportion has now risen to over 25 percent. See below.
- ⁶ Comparable Thai data are from The World Bank, World Development Indicators on line 8/8/2010.
- ⁷ Courtesy of personal communication from Dr. Peerasit Kamnuansilp from his field work in Chon Buri.
- ⁸ These are, west to east, Faisalabad, Pakistan; Chennai, India; Chittagong, Bangladesh; Kuantan, Malaysia; Khon Kaen, Thailand; Danang, Vietnam; Surabaya, Indonesia; Olongapo, the Philippines; and We Hai, China.

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Chapter 3

Decentralization – In Theory and Practice

James K. Scott

Abstract

This paper compares representative disciplinary and theoretical traditions on decentralization, placing them in historical (and political) context. It is designed to address the following key questions: 1) what specific problems are they designed to address?; 2) what philosophical and methodological assumptions are made?; 3) how are they applied in practice?; and 4) what can we learn from this investigation? It is organized in four sections. First, it defines key terms and reports on the research approach I devised. Second, it provides a brief critical survey of theoretical traditions applied to problems associated with decentralization. Third, it examines how changes in local government practice compare and interact with decentralization theory and research. Finally, the paper discusses implications of this analysis, and proposes new projects for both theory and practice.

Following Shah and Shah (2006), I devised a simplified classification of literature into three ideal types of research, each represented by key influential scholarly accounts. An exhaustive or comprehensive review of all pertinent research is beyond the scope of this paper. My objective was to review lines of research that have influenced the practice of decentralization, and that represent different disciplinary perspectives.¹ The three lines of research on decentralization included are: fiscal federalism, public choice theory, and New Public Management.

I then constructed a brief questionnaire to investigate these lines of research, recorded observations and analyzed the data. Based on this analysis, I present general observations about lines of theory and relate them to trends in the practice of decentralization.

Unraveling Decentralization

Over the past fifty years, we have observed a rapid and extensive worldwide trend toward decentralization of government.² Decentralization is defined here as “the transfer of authority and responsibility for public functions from the central government to intermediate and local governments or quasi-independent government organizations and/or the private sector...” (World Bank Group, n.d.). This is a highly charged and complex process with multiple dimensions – fiscal, administrative and political.

The bulk of attention and activity on decentralization is now focused in developing nation-states. This is accelerated and complicated by economic globalization. Central governments throughout the world struggle with current fiscal conditions. They experience pressure to push responsibilities (and costs) of public services to sub-national government units (SNGs). In a globalized economy, SNGs also feel more pressure to assume more local economic development responsibilities, which requires new and greater local government capability and reach. This, in turn, affects intergovernmental relations and central government economic development strategies and resource commitments.

Decentralization policy has also been facilitated and shaped by extensive and multiple lines of research, offering theories, methods and findings to guide policy decisions and implementation. However, research on decentralization is – until now – dominated by institutions situated in or funded by Western developed economies (cf., Triesman, 2007). Researchers draw on theories originally developed in different times, addressing different problems than those faced in developing nations. Decentralization is complex and very difficult to design or to study. It has several dimensions (e.g., fiscal, institutional, political decentralization). Its extent and forms vary across countries, and its implementation takes time. The problem of understanding decentralization is compounded by the tendency for disciplines to compartmentalize or isolate certain aspects of decentralization. Economists focus on fiscal or economic development, political scientists focus on intergovernmental relations and public participation, and public administration scholars often focus on organizational or operational aspects of public service delivery (Smoke, 2003) and its implications for public ethics and performance. Therefore, these lines of research produce conflicting or inconclusive findings on such issues as the optimal scale and responsibilities of SNGs, the costs and benefits of spillovers, the effects of decentralization on corruption,³ and comparison of the efficiencies and effectiveness of different systems of decentralized government.

How can we untangle these findings? How can we most effectively apply this work to decentralization in emerging states? What can nations do to best adapt their fiscal systems to fit changing patterns in global economic activity? This paper compares representative disciplinary and theoretical traditions on decentralization, placing them in historical (and political) context. It is designed to address the following key questions: 1) what specific problems are they designed to address?; 2) what philosophical and methodological assumptions are made?; 3) how are they applied in practice?; and 4) what can we learn from this investigation? The paper is organized in four sections. First, it defines key terms and reports on the research approach I devised. Second, it provides a brief critical survey of theoretical traditions applied to problems associated with decentralization. Third, it examines how changes in local government practice compare and interact with decentralization theory and research. Finally, the paper discusses implications of this analysis, and proposes new projects for both theory and practice.

Data and Method

My research on these questions draws on an innovative approach by Latour and Strum (1986) to classify and untangle lines of scholarly research on a very different topic – the origins of human society. In this work, Latour and Strum sought to compare a very disparate range of scholars' accounts of how humans acquired the capacity for sophisticated social life which clearly sets us apart from other species. For this investigation, they included representative scholars on the subject, ranging from classical western philosophers, such as Hobbes and Rousseau, to contemporary scientists, such as E.O. Wilson. Each of the selected scholars proposed a very different explanation of how this human capacity developed; and each suggested powerful implications for addressing some of the most basic contemporary human challenges.

To make these accounts more accessible to a broader audience, and to make them comparable, Latour and Strum devised a questionnaire to pose to each account; and they drew responses to these questions directly from the accounts. Some of the scholars included in the analysis developed much more scientific (i.e., falsifiable) arguments than others. However, for purposes of their study, Latour and Strum made no distinction between these explanations. They treated the responses to their questions as observations, and analyzed them to compare and contrast the theories of the origins of human social life.

Obviously, this study focuses on a much less profound and mysterious topic. However, the complexity of issues, the multidisciplinary investigations, and the scale

of current efforts and investments in advancing the theory and practice of decentralization (Triesman, 2007) suggested the opportunity to devise a similar research approach.

I began with a general review of recent theory and research on the decentralization of government. Following Shah and Shah (2006), I devised a simplified classification of literature into three ideal types of research, each represented by key influential scholarly accounts. An exhaustive or comprehensive review of all pertinent research is beyond the scope of this paper. My objective was to review lines of research that have influenced the practice of decentralization, and that represent different disciplinary perspectives.⁴ The three lines of research on decentralization included are: fiscal federalism, public choice theory, and New Public Management.

I then constructed a brief questionnaire to investigate these lines of research, recorded observations and analyzed the data. Based on this analysis, I present general observations about lines of theory and relate them to trends in the practice of decentralization.

Survey Questions

In brief, I organized my investigation around the following survey questions:

1. What is the presenting problem the authors seek to understand or solve?
2. What is the unit of analysis in their work – or where is the focus of their investigations?
3. What key assumptions do they make?
4. What methods are chiefly employed in pursuing this research?
5. What are the key findings and/or prescriptions made?
6. What are the limitations of this work?

I present observations on these questions for each type of decentralization theory and practice included in the study in the following section, as summarized below in Table 1.

A Survey of Decentralization Research

The modern western history of decentralization research could be traced to the close of the nineteenth century. American cities were growing rapidly - particularly through industrial change and waves of immigration. In the process, political systems gained

more control of local government, fed by patronage, cronyism, racial and ethnic repression and various kinds of corruption.

Wilson (1887) responded to this environment by proposing a set of principles that should inform appropriate (local) public administration. These principles became quite important through the Progressive Era reform movement, and were applied at all levels of government, informing the philosophy and practice of the civil service system. One of Wilson's key proposals was to separate politics and administration. He argued that policy decisions should be made by the People and their elected officials. Professional administrators should implement these decisions, with great care for due process, equal access and the rule of law.

Fiscal Federalism

For decades in the US, experts in local public administration focused on establishing – and enforcing – systems of professional ethics, clear, consistent procedures, and public accountability and oversight. However, in time, scholars began to question sharp distinctions between politics and public administration (Cf., Simon, 1956). Others argued that Wilson's principles did not lend themselves to scientific inquiry (Cf., Ostrom and Ostrom, 1971). Massive industrial change and urban migration contributed to increased practical and scholarly interest in intergovernmental relations and fiscal conditions. This context gave rise to research now called fiscal federalism. Fiscal federalism is the study of the distribution of fiscal power between various layers of government in a given autonomous jurisdiction, which can be either a unitary state or a federal state (Garello, 2003). In the tradition of welfare economics, this research builds on a general normative framework to assign functions to different levels of government, as well as appropriate fiscal instruments for carrying out these functions.

Under this approach, central governments have three main functions: macroeconomic stabilization, national defense and security, and assistance to the poor (Oates, 2006). Local governments have limited capacity to achieve these functions. SNGs should produce public services that are consumed mainly by their own residents. SNGs can adapt public services to fit local preferences. When residents (and employers) have input (voice) and the prerogative to depart in search of a preferred mix of public services (exit), SNGs have strong incentives to keep good residents.

Fiscal federalism scholars see government units as providers of public goods and services. Governments are key cogs in a functionalist world. Governments are assumed to anticipate, avoid and address various social problems. Governments help create the social, natural and built environments most desired by its citizens.

In fiscal federalism, government is most successful when units have the responsibility (and authority) to produce the goods and services as close to the people as possible. Local people know local needs and desires best, and the people hold public servants accountable. Local government units compete to attract and retain residents. They raise revenues needed, and people have both voice (or input) on provision of services, and exit, if they feel they can find better value from public services

Fiscal federalism suggests that decentralization will improve local governance and local economic development (Triesman, 1999). Competition between governments yields better public services than those of a monopolistic central government, and encourages a diversity of communities, as they seek optimal size and desired qualities in residents (Cf., Tiebout, 1956). Further, decentralization creates laboratories for the design and delivery of public goods and services (Oates, 2006).

Method

Fiscal federalism typically measures decentralization as the percentage of total public servicing by sub-national governments. The best source for cross-country analysis of fiscal flows is the International Monetary Fund's *Government Finance Statistics* (GFS), which provides data with consistent definitions across countries and years. The purpose of the GFS is to provide data for monitoring, analyzing and evaluating the performance of the general government sectors, in a framework which is applicable across countries with different legal and institutional structures, but not particularly focused on decentralization issues (World Bank Group, n.d.). Fiscal federalism researchers analyze these data using econometrics to probe relationships between fiscal decentralization and conditions such as economic performance, tax capacity, human rights, levels of corruption, etc.

Findings and Prescriptions

The volume of work in this tradition is most impressive, and scholars generally agree on prescriptions or recommendations. Despite significant differences among nations in histories, institutional, economic and political conditions, scholars conclude that decentralization will lead to improved local public services and increased citizen involvement. A recent review of literature by Hankla (2008) illustrates the kinds of policy recommendations made. For example, he argues that SNGs should be assigned authentic, meaningful responsibilities in systems of government, and they should have

sufficient fiscal authority and administrative capacity to meet those responsibilities. Further, central governments should allocate revenues to SNGs in a way that guards against excessive regional resource disparities,⁵ and assure that local government officials are democratically elected by their constituents. Competition between SNGs is generally regarded as a positive force that enhances the value of local public services and leads to innovation.

Limitations

However, research in fiscal federalism has important limitations. First, its focus on fiscal aspects of decentralization may obscure or exclude critical institutional and political dimensions from examination. Second, despite careful attention, data and measurement issues hamper its monitoring and assessment of fiscal decentralization across countries. Defining the level of decentralization as the percentage of public expenditures made at SN level tells us nothing about comparing the level of local autonomy or the degree of accountability between countries (Smoke, 2003). Garello (2003) argues: Now, the potential danger of such an approach should be obvious: one can easily classify as decentralized a fiscal system in which, for practical matters, most of the power remains in the hands of the central authority (because, for instance, although the budgets of local jurisdictions are relatively important, they have little discretion in fixing tax rates, tax bases, or deciding what can be done with tax money). Consequently, the degree of fiscal decentralization being poorly assessed, conclusions drawn regarding the merits of tax competition are likely to be of an equally poor quality. These studies rarely if ever enter the details of the distribution of fiscal power among the various levels of government (p. 422). Perhaps for these reasons, results on the relationship between fiscal decentralization and such conditions as corruption, human rights, poverty and economic development are inconsistent and inconclusive (Triesman, 2007).

Theoretically, fiscal federalism relies heavily on the power of competition between SNGs to improve the quality of public services. For example, Tiebout (1956) assumes that such competition will help communities learn about (otherwise unknown) citizen preferences. He also argues that competition will promote efficient sorting of citizens to preferred communities, help communities establish optimal size, and enhance SNG accountability.

Triesman (1999) conducted a careful review of literature, and finds insufficient empirical evidence to support these claims. In a sharp critique of Tiebout, Triesman (2007) lists and finds logical faults with eleven (rather heroic) assumptions central to

this work, and asks three important questions not fully answered within fiscal federalism. They are: 1) will competition really occur between SNGs? 2) If so, will it have beneficial effects? and 3) could similar regional competition occur under a centralized system of government? These questions deserve more careful consideration.

Some critics also argue that fiscal federalism theory offers no systematic constraints to the potential growth of government. Since it assumes that government is a necessary and benevolent producer of public goods and services, it offers limited insight into the potential for SNGs to overproduce – or to overcharge citizens for their services. This criticism gave rise to the development of the next line of research discussed below.

Public Choice Theory

Public Choice theorists (Buchanan, 1965; Ostrom and Ostrom, 1971) were much more skeptical of the role of public agencies. This work grew out of the post-WWII era, when many governments were expending up to 1/3 or even 1/2 of their GDP in an effort to rebuild economies (Buchanan, 2003). These theorists were generally concerned about the lack of controls on government to constrain spending they saw as unsustainable. They also saw that government, if unchecked, could thwart the interests of individual citizens in the name of serving majority needs.

Buchanan and others working on Public Choice were attracted to the political philosophy of Thomas Jefferson – the principal author of the US Declaration of Independence.⁶ They assume that society is best when based on individual freedoms. Public choice theorists explain social phenomena from a set of assumptions about individuals' aims and their information about their situation. They were highly critical of progressive management. They thought that (unchecked) majority rule (found in progressive administrative thought) would disadvantage minorities – and would also accumulate tasks and resources, become bloated and inflexible and ineffectual. They believed that the public sector, unaccountable to markets, would have a number of deficiencies.

Ostrom and Ostrom (1971) wrote an apology for government decentralization. They argued that hierarchical organizations (such as the classical public sector system) result in employees that seek their own interests. If the employee wants to be promoted, she highlights good news and hides bad news. That distorts information, and makes bureaucracies inefficient, and ineffectual. They can't respond to dynamic demands for public goods and services.

The Ostroms also argue that bureaucratic (and monopolistic) provision of public services encourages the producers to pass on their costs (excessively) to consumers. They suggest that the power to tax be limited. They call for constitutional safeguards to protect the freedoms of individuals. They also argue that what some have called “duplication of effort, inefficiency and waste” that results from the overlap of jurisdictions, they see as opportunity for public administration to be organized in relation to a diverse range of collectivities and interests. Once that assumption is made, they argue it suggests there need no longer be one idealized set of principles for all government units (such as suggested by Wilson, 1987).

For public choice theorists, the greatest common goal is to enable individuals to retain maximal personal freedoms. Rather than seeing government units primarily as producers of public goods and services, public choice theorists regarded government units as ultimately concerned with protecting (and advancing) its interests and perpetuation. If unchecked, they concluded that government units would ultimately serve elites, at the expense of the freedoms and wealth of individuals. Governments, for them, are not often part of the solution. They are part of the problem.

Method

For this reason, public choice theorists focus not on SNGs as the unit of analysis, but on the plausible interests and choices of individual citizens. They systematize the logic of individual action under different conditions, represented in formal mathematical models. These formal models are then used to test key assumptions of this and alternative theories of decentralization.

Findings and Prescriptions

Although public choice theorists might vigorously disagree (Cf., Buchanan, 2003), the philosophical and political assumptions included in this approach essentially drive its research conclusions and policy recommendations. They argue that all governments (central and sub-national) should have limited resources. They should have constitutionally limited power to tax. Public services should be delivered by small, competing, polycentric government agencies. SNGs should have limited purposes. When needed, these units should obtain much of their resources directly through user service fees.

Limitations

Public Choice theory offers a very important critique to fiscal federalism. However, it seriously constrains the capacity of government, and does not adequately address its impact on the quality of public services under their prescriptions. It also does not adequately address the potential for inefficient spillover effects due to the polycentric system it prescribes. Ultimately, this approach will likely lead to the under-production of public goods. Local governments will lack the resources to pursue bold economic development strategies. (However, public choice theorists would not be alarmed, because they don't expect government units to be very effective in these efforts).

Obviously, under this perspective, it will probably be difficult to attract, prepare and retain excellent professional talent for government work assignments.

New Public Management

New Public Management (NPM) is also quite skeptical of government. It may be thought of as an extension of public choice theorists – but actually, it draws on several different theoretical and philosophical sources. The practice of New Public Management grew out of protracted periods of fiscal crisis in the 1970s and 1980s – particularly in the US, UK and Anglo-Saxon countries, and often at the SNG level.

The goal of NPM was to improve public service quality by 'depoliticizing' public management. Innovative practitioners needed to find ways around fiscal constraints and inflexibility of government structures. If left to its own devices, government would be stodgy, unresponsive, inefficient and incapable of innovation.

Practitioners looked to the private sector for new approaches to management. They emphasize (1) disaggregation of government units, (2) competition between public agencies and between public and private entities to provide efficient and effective public services, and (3) establishment of (individual and organizational) incentives on specific performance measures. The latter was a departure – because government workers previously had been evaluated not on results but mainly on their adherence to process and equity in provision of public services.

Apart from economic efficiencies, NPM generally views change in the provision of public services as useful. It regards change as leverage to make government more responsive and results-oriented.

Method

NPM research has drawn from a variety of theories. It offered no real systematic logic. Methodologically, NPM has not generated statistical analyses of decentralization or even comprehensive analyses of its effects (Pollitt, 1995). It builds case studies of innovative projects that often focus on public-private partnerships (PPP).

Limitations

Recent criticism of NPM suggests that decentralization in this approach have not been very effective or sustainable. Tragic events such as those surrounding 9/11 in the US suggest the limitations of disaggregation, fragmentation of government agencies, and privatization of airport security (Moynihan and Roberts, 2002). O'Toole and Meier (2004) found that the use of outsourcing (or contracting) by local governments in Texas led to declines in the quality of services delivered. Further, studies show that financial reporting on NPM is often difficult for public officials to interpret and evaluate. In theory, NPM aims to enhance fiscal efficiency and administrative accountability. However, in practice, it often reduces accountability and frustrates public officials' fiscal oversight (Cf., Dunleavy, et al., 2005; Zafra-Gomez, et al., 2001).⁷

More fundamentally, NPM scholarship has not generated a systematic logic that can be fully tested or generalized. A "Post-NPM" literature is developing that suggests NPM projects in the UK, US, Spain, Italy and other countries have been revised or curtailed (Zafra-Gomez, et al., 2001). These revisions have required re-aggregation and reintegration of government agencies, such as rail transportation systems and other community services in the UK (Dunleavy, et al., 2005).

Summary Observations

Results from this broad survey of decentralization research are briefly summarized in Table 1. However, the summary does not adequately represent observations about the complexity and global importance of the practical efforts to enhance the performance and capacity of SNGs. In this section, I attempt to summarize my literature review, especially in the context of practical conditions.

Table 1: Summary of Representative Theories of Decentralization

	Fiscal Federalism	Public Choice	New Public Management
Key Authors	Tiebout (1956) Oates (2006)	Buchanan (1965; 2003) Brennan and Buchanan (1980) Ostrom and Ostrom (1971)	Osborne and Gaebler (1992); Gregory (2009)
Presenting Problem	Assess which functions are best decentralized, factoring for local competencies and fiscal instruments.	Control the size of government and its appetite for taxes.	Market-oriented management of the public sector will lead to better outcomes and greater cost-efficiency in delivery of local public service.
Focus of Analysis	Sub-National Govt Unit	(Idealized) Individual user of public services	Individual projects in NPM
Methods	Logical framework and econometric studies ⁸	Institutional economics and formal modeling	Case studies
Findings and Prescriptions	Decentralization improves the quality of public services, because SNGs know more about citizen preferences, and because they are more accountable to citizens. Competition between SNGs leads to innovation, differentiation and sorting. Central government must assure equitable resource distribution	If unchecked, government will grow, at the expense of individual freedom and citizen wealth. Decentralization (and competition between SNGs) keeps taxes down and limits the power of the public sector. Government should be polycentric	Change makes government flexible, and more responsive. Emulate private sector management. Disaggregate public agencies. Increase competition (between public agencies and between public and private providers). Incentivize performance
Limitations	Focus on fiscal Data comparability Inconsistent (or inconclusive) findings on key topics No theoretical check on government growth	Main theoretical assumptions drives conclusions. Competition between polycentric SNGs will lead to undersupply of public services. Very limited interest in spillover effects.	No systematic theory. Very limited capacity for generalization. Research shows NPM projects impede public accountability and fiscal oversight

(Drawn from Shah and Shah, 2006)

In every country, the fiscal, administrative and political responsibilities currently assigned to local governments are a function of national histories, geographic location, ethnic compositions, cultural identities, and the relative strength and stability of political parties (Cf., Triesman, 2007, Sachs, 2012). External (and internal) conflicts also typically inform and constrain the authority of local governments and the effects of decentralization (Cf., ICG, 2012). Globalization places more responsibility on local governments to take a strong role in regional economic development.

Theories of decentralization are generally rooted in the experience of (Western) industrial nations. They are further compartmentalized by discipline – and even subfield. Individual studies often focus on a rather narrow aspect of decentralization. Lines of research also originated in addressing public problems that have changed or resolved. Practitioners (and all involved) are therefore well served by continuously assessing the historical and philosophical roots of research traditions before applying prescriptions in practice.

It is important to note that SNG practice – not scholarly discourse – remains the main source of innovation to address specific public problems in decentralization. Paul Smoke (2003) warns against following three myths about decentralization: 1) that it is a panacea (or a tragedy); 2) that it requires certain prerequisite conditions; and 3) that success depends on the political will of key public officials. Despite complexities and difficulties, the global trend towards decentralization continues. To the extent that scholarly research is disconnected from ongoing practice, findings may propagate these myths.

This broad survey revealed three common characteristics in the lines of research that warrant closer examination.

First, each of the theories reviewed relies heavily on the power of competition to make SNGs more effective, more flexible, more accountable and more efficient. This requires a legal system where the rule of law (including contract, tort and property laws) is well established and enforced. However, sometimes tax competition is not healthy within and between government agencies. It may lead to the underproduction of public goods. It may also lead to inefficient spillover effects within regions – and may discourage the collaboration and scale needed for regions to compete in a global economy (Cf., Garelo, 2003). Triesman (1999) argues that we lack empirical evidence to anticipate whether SNGs will compete or collude under different decentralization theories. He further argues that competition does not always lead to beneficial effects. For example, it is possible that SNGs can push the effects of negative externalities of industry (such as environmental pollution) on to other SNGs in the region without

assuming appropriate responsibilities. Of greater concern, Triesman (2007) argues that inter-regional competition could also be affected in a centralized system of government.

Second, each of the theories generally assumes that (almost any) change in policy regimes will improve SNG performance. Such change has a chiefly symbolic significance – to show citizens (and public servants) that government can respond to contemporary thinking (Meyer and Scott, as cited by Dunleavy, et al., 2005). For public choice and NPM theorists, change keeps public agencies from investing too much attention to their own perpetuation. It draws attention from process to outcomes. However, change adds institutional complexity, which can reduce citizen access, competence and involvement in public service delivery (Dunleavy et al., 2005). It can also impede public accountability and financial oversight (Zafra-Gomez, et al., 2001).

Third, the research reviewed did not examine how technology change may affect decentralization and public service delivery. Digitalization and the central role of the Internet in how people work, communicate, shop, play and participate in public affairs throughout the world fundamentally changes how SNGs interact with local constituents – including residents, businesses and public interest groups. People will expect easy access to information in multiple channels from SNGs. They will also expect what is now called “Zero Touch Transactions” to arrange for services needed; and they will expect to interact directly with elected and professional public officials. In other words, digital technologies are changing all of the “front office” functions that must be performed by SNGs. In addition, local governments will want to expand their use of digital technologies to enhance productivity in “back office” functions, such as human resources, procurement, financial management, and knowledge management.

Optimal use of digital technologies requires scale and scope. SNGs will need to invest in hardware, software, and technical expertise. They will need to assure usability for all citizens, as well as privacy, security, etc. The need for these capabilities in the future may affect intergovernmental relations. More research is needed that factors digital governance into decentralization design. Practically, central governments may need to enable and encourage new forms of SNG networking and collaboration.

Possible Future Directions in Research

In this research, I have come to appreciate the complexities and challenges associated with designing, implementing, measuring and assessing the decentralization process – particularly across countries and political histories. Those developing states that have

emerged from a colonial past most likely began with a much more centralized public administration. Despite these challenges, decentralization will continue.

In this project, I also recognize that decentralization research projects – particularly within fiscal federalism – are strongly supported by several international institutions (Triesman, 2007), and that these projects will continue as well.

Cross-country analysis will be enhanced by more in-depth research on the fiscal, administrative and political histories of decentralization in specific countries. Interdisciplinary teams, involving economists, public administration scholars, political scientists and regional culture specialists should work together to build more systematic perspectives.

As suggested above, more attention should be devoted to the *future* of decentralization. Globalization and digitalization will change the demand for different public services, and will change the way they need to be delivered. These changes may lead us to reconsider the roles and responsibilities of central and subnational governments. They will also change the skills and experiences needed by SNG professionals. Research teams that monitor emerging trends and develop alternative futures of decentralization will be useful.

All of this research will be enhanced with increased and sustained dialogue between interested scholars and those who practice decentralization at various levels of government.

Endnotes

- ¹ Even within disciplines decentralization research follows multiple approaches. For example, some have applied tools from new institutional economics (e.g., Williamson, 1975) game theory (e.g., Triesman, 1999) network governance (e.g., Rhodes, 1997).
- ² For sample studies of regional and global trends in decentralization, see Azfar, et. Al., 2001; Bardhan, 2002; Prud'homme, 1995; Christensen, et al., 2012; Guess, 2005; Ledivina, 2005; Patmasiriwat, 2010; White, 2011; Zafra-Gomez, et al., 2001; and Smoke, 2003.
- ³ See, for example, Ivanyna, 2010; deGraaf, et al., 2010; and Triesman, 2007.
- ⁴ Even within disciplines decentralization research follows multiple approaches. For example, some have applied tools from new institutional economics (e.g., Williamson, 1975) game theory (e.g., Triesman, 1999) network governance (e.g., Rhodes, 1997).
- ⁵ There is a large and substantial literature within fiscal federalism on how central governments (Cf., Shah, 2005).
- ⁶ This paragraph draws heavily on Gruening, 2001.
- ⁷ However, recent local government trends in the US show that privatization of public services is increasing – in response to severe fiscal constraints (Kenny and summers, 2012).
- ⁸ The quantitative analysis of actual economic phenomena based on the concurrent development of theory and observation, related by appropriate methods of inference.

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Chapter 4

Developing Local Government Capacity

Barton Wechsler

Abstract

For more than 25 years, decentralization has been an increasingly important strategy for improving governance in the developing world. As a consequence, local government and local government administration have come to play larger roles in a growing number of countries. While there is an extensive academic literature on the promise and peril of decentralization and the demands it places on local government, there has been much less attention given to strategies for developing local government capacity and improving the performance of local administration. This paper examines a principal driver of local government performance and suggests multiple approaches for developing local government capacity.

Local Capacity Building in Decentralization Context

For more than 25 years, decentralization has been an increasingly important tool for improving governance in the developing world (Rondinelli, Nellis, and Cheema, 1983; Manor, 1999). Decentralization has been described as a means for increasing the quantity, quality, and efficiency of public services, extending democratic governance to local levels, and increasing citizen participation in and “ownership” of government institutions (Prud’homme, 1995; Rondinelli, 2008). Despite suggestions that it is not without its dangers (Prud’homme, 1995), decentralization has become an increasingly fashionable strategy for delegating and deconcentrating governmental authority, especially in developing and democratizing countries.

As a consequence of this trend, autonomous local government and local government administration have come to play larger roles in a growing number of countries. While there is an extensive academic literature on the promise and peril of decentralization and the demands it places on local government, there has been much less attention given to approaches that might prove useful for developing local

government capacity and improving the performance of local administration after decentralization takes place. In this paper, the researcher develops a perspective on developing local government capacity, informed by a growing academic literature on managerial competencies and methods of helping individuals to develop them. The research also draws from his own experience with professional education for graduate students in public administration and in-service training and development for local government managers in the U.S. While this perspective draws heavily on the U.S. experience, the argument is that at least some of these lessons in human capital development are sufficiently generic to be applicable in other, and potentially far different, contexts.

While this paper focuses on strategies for building human capital in local governments and improving the capacity of local government managers, I acknowledge that there is a variety of other drivers that contribute to local government capacity and performance. These include the political culture and the civic values of both citizens and public officials, the institutional arrangements that establish and maintain the administrative state, and the structures, policies, and procedures within which local government agencies and their operations are embedded. Many of the concerns associated with the results of decentralization and the increased demands on local government may be attributed to these more macro-level factors. Corruption, for example, is as much a function of culture and institutions as the immoral behavior of individuals. And, even the most competent managers will have their performance affected negatively by poorly designed organizational structures, policies, and procedures. While each of these drivers requires the attention of those seeking to improve the capacity of local government, an in-depth examination of them is beyond the scope of this paper and there are good reasons to emphasize the human capital strategies that have been shown to help in the building of local government capacity.

Competency-Based Public Management

There is an extensive literature devoted to challenge the improvement of both government capacity and performance. Much of this literature acknowledges the distinctive features of the public sector that makes it more difficult to achieve high-performing government organizations, including external political influence, legal constraints and oversight, ambiguous and multiple goals, and lack of markets to evaluate the demand and value of public goods and services (Rainey, 2009: 83-85). Nonetheless, there is general consensus around two related notions: (1) managerial competence is critical in achieving positive performance outcomes in public

organizations and (2) while there are managerial competencies sufficiently generic to be relevant regardless of sector (Boyatzis, 2008; Boyatzis and Saatcioglu, 2008; Rubin and Dierdorff, 2009), successful public sector management requires distinctive competencies as well.

The idea that managerial performance (and, therefore, organizational capacity and performance) requires specific competencies may be traced to David McClelland (1973). In the ensuing forty years, the competency approach has been widely adopted as a key component of human resource development theory and practice, and fundamental to understanding the capacity of individuals and organizations to perform successfully (Boyatzis, 2008). While there are some variations within the scholarly community, competencies are generally regarded as the “specific behaviors and characteristics of a person that result in effective or superior performance” (Mansfield, 1999:25). Thus, the specific behaviors and characteristics that lead to effective performance in organizations comprise the necessary competencies for managers. The relationship between competencies and effective performance has been explored at length in the literature (Bhatta, 2001; Garavan and McGuire, 2001; Mintzberg, 2009), resulting in countless lists of competencies necessary and/or sufficient to generate effective performance. Table 1 provides an example of one such generic framework (Rubin and Dierdorff, 2009). While empirically derived from surveys of private sector managers, most public sector managers would recognize the roles, functions, and tasks captured in this listing.

Table 1 Management Elements and Competencies Enlacement Strategies

Managing Decision Making Process	Getting Information; Judging the Quality of Things, Services, or People
Managing Human Capital	Coaching and Developing Others; Resolving Conflicts; Negotiating with Others; Developing and Building Teams
Managing Strategy and Innovation	Thinking Creatively; Developing Objectives and Strategies; Provide Consultation and Advice to Others
Managing the Task Environment	Communicating with Persons Outside the Organization; Establishing and Maintaining Interpersonal Relationships; Selling or Influencing Others
Managing Administrative Control	Establishing Information to Determine Compliance; Documenting or Recording Information; Performing Administrative Activities
Managing Information and Technology	Inspecting Equipment, Structures, or Material; Controlling Machines or Processes; Interacting with Computers

Source: Rubin, R. S., and E. C. Dierdorff. 2009. How relevant is the MBA? Assessing the alignment of required curricula and required managerial competencies. *Academy of Management Learning & Education*, 8(2), 208-224.

While the generic frameworks include many of the competencies that are necessary for effective managerial performance in the public sector, there are competencies specific to the public sector that are omitted from these generic lists. For example, the National Association of Schools of Public Affairs and Administration (NASPAA) has identified a commitment to public service values as the key element distinguishing skilled and competent public officials. And, there has been extensive discussion of the nature of and basis for public service motivation as a distinctive element of public management (Perry, 1996 and 1997; Houston, 2000). In addition to a public service commitment, NASPAA (2009) expects graduates of the MPA programs in its member institutions to have the ability to:

1. lead and manage in public governance
2. participate in and contribute to the policy process
3. analyze, synthesize, think critically, solve problems and make decisions
4. articulate and apply a public service perspective
5. communicate and interact productively with a diverse and changing workforce and citizenry.

Other professional associations and government entities delineate similar expected competencies that combine generic management competencies and distinctive public service expectations, requirements, and responsibilities.

Developing Individual Capacity for Local Government

Because of the diversity of culture, political regimes, governmental institutions, organizational structures, and individual experiences, the specific competencies desired or needed in jurisdictions are likely to vary. However, each jurisdiction will face the common task of developing the individual human capital necessary for effective local government performance. One of the key issues in approaching this task is determining who is responsible for defining, developing, and assessing individual competencies. Responsibility may be claimed by a variety of actors, including colleges and universities, management training institutes, and government organizations. Often, with many actors claiming responsibility and not working closely with each other, in fact, no one is truly responsible. This conundrum is best resolved by a strategic approach to human resource development in local government that represents a partnership of all the relevant actors. This strategic approach assumes that individual-level capacity in local government requires lifelong learning, beginning with

university-level education, continuous on-the-job training, and periodic infusions of advanced training and development. In order to be fully effective, individual development plans are essential with implementation of each person's plan seen as a shared responsibility.

University-Level Education

If we are to take seriously the devolution of authority to local government managers, then local government management must be understood as based in professional expertise. The global standard of professional education for public service has been and is likely to remain graduate training in public administration. In the U.S. and elsewhere, the degree most commonly associated with professional education for public service is the two-year Master of Public Administration, although other degree names are used to describe similar programs. These degree programs provide both neophytes (pre-service) and experienced professionals (in-service) with fundamental managerial competencies and critical public service values. When taken seriously as professional education, combining a level of rigor and relevance similar to professional education for law or medicine, these programs prepare local government managers both for their first jobs and for life-time careers in public service.

As anyone with access to the Internet can easily determine, there are extraordinarily large differences among programs and curricula. I would argue that no one curriculum is best suited for developing local government capacity. In fact, the very notion of local capacity suggests local solutions. However, across these diverse local settings, common elements should include fundamental competency-based instruction. Equally critical is a common orientation to public service values and their importance in effective administration and governance. Programs must give careful attention to assessment, measuring value-added, and adjusting the curriculum to optimize learning outcomes. In implementing a cycle of curriculum design and delivery, outcome assessment, and continuous improvement, partners from local government can play a key role, providing information about the competencies they see employees needing and feedback on the outcomes achieved by the educational programs.

Continuous On-the-Job Training

While the foundational training provided by university-based graduate education is necessary for developing local government capacity, it is not by itself sufficient to

achieve on-going, long-term capacity. Graduates of these programs, whether in pre- or in-service status, require opportunities for continuous job-related training and development. This training and development is best when it complements graduate education, reinforcing key competencies, providing employees opportunities to use and improve their knowledge and skills, and connecting individual skill sets to the local context. Individual development plans may be used to assess current levels of knowledge and skills, determine gaps for both current and future assignments, and develop strategies for development.

Many local governments provide job-related training, much of it which is essential to the accomplishment of specific work. Some of these trainings are quite good. Judging from experience with local governments in the U.S. and observation of international training programs, however, most trainings are valued most for providing entertainment and time away from task duties. A more effective approach starts with needs identified in individual development plans, linking learning with doing, and providing opportunities for developing managers to reflect on their experience and learn from each other.

There are many numbers of ways to provide experiential learning in the local government context, including both formal and informal mentoring and cross-training. An example of a comprehensive approach to integrated development involves the assignment of high-potential managers to an extended (one or more years) fellowship program that combines continuing work in their current role (usually half-time), cross-training assignments that engage the fellow in all aspects of the organization, workshops and short courses tailored to the needs and managerial approach of the organization, and peer learning. Peer learning within and between cohorts is encouraged and supported after the fellowship is completed. Even within large organizations, these fellowship cohorts can come to represent a critical mass of management capacity and a network of assets for current and future managers.

Advanced Training and Development

Still another element in a comprehensive program of individual capacity building is advanced training and development, often provided in a university-based setting or by a government-sponsored training institute. For example, the Certified Public Manager Program is offered to local (and state government) managers by a large number of American universities. There is a national consortium that accredits programs and the programs in each state are the result of partnership between each university and the government. In addition, many universities offer non-credit continuing education

programs designed for local government managers. The best of these programs have considerable prestige and may confer special status on participants. Beyond adding knowledge and skill, participation in these programs signals that the individual is regarded as having high potential for advancement in the organization. By exercising care in the choice of programs and linking their choices to the overall goals of capacity building, local governments can provide advanced training that meet local needs.

Strategic Coordination

While university-based education, on-the-job training, and advanced continuing education are individually valuable approaches to capacity building in local government, the greatest gains will be achieved through comprehensive integration of approaches. As noted previously, this requires multiple actors to take strategic responsibility for individually-focused training and development. A useful starting point is agreement among stakeholders on the key competencies that are needed by successful managers at various career stages. Next, the partners can identify different strategies for developing and reinforcing each competency and the respective roles that each partner will play in the implementation of the overall strategy. Finally, they can put in place the advising and mentoring systems that will assist managers in the development of individual development plans. Putting these elements in place ensures strategic coordination at both the individual and system levels and allows maximum development of local government capacity.

Looking to the Future

For many local governments, especially those in the newly decentralizing and less developed countries, the comprehensive capacity-building approach described in this paper may seem infeasible given current realities. Local government is not well established within the political culture, local government managers are not highly regarded, and resources for investment in individuals are limited if not nonexistent. Nonetheless, there is no more readily available driver for local government improvement. Other drivers of capacity building (political culture and civic values, the institutional arrangements of the administrative state, and organizational structures, policies, and procedures) are far less amenable to change. Even small increments of these strategies for individual capacity building have the potential to leverage much greater improvement in the future.

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Chapter 5

Values, Coalition Modification, and Regime Replacement in Local Governance

Charles L. Sampson

Abstract

How are effective coalitions of stakeholders formed, modified, and changed internally in order to implement local government policy in democratic societies? Each of the three concepts: punctuated equilibrium, advocacy coalition frameworks, and urban regime theory contribute to an understanding of how coalitions of stakeholders, inside and outside of government, form to implement effective policy. Each of these three concepts is recognized to have its own problems. This paper posits that the three can be united such that the strengths of each make up for the weaknesses in others, and together they form a more unified, consistent, and comprehensive theory of policy coalition formation, development, and transformation for local governments.

Introducing Policy Coalition Theory: A New Tool for Local Governments

A search of the literature on governance reveals at least three chronologically based paradigms.¹ Each paradigm relates to challenges governments encounter regarding service delivery, but these paradigms do not address the experiences local officials experience at “street level.” First is the Public Administration paradigm which has its roots in political science and public policy. The Public Administration paradigm focuses on government but does not pay sufficient attention to the contributions of non-governmental organizations and citizen stakeholders. It is clear to even the less informed observer that within the Public Administration paradigm the resource allocation mechanism functions at the discretion of the government, and the guiding value is a public service ethos (Gerth and Mills, 1970; Osborne and Gaebler, 1992; Barzelay, 1992, 2001; Behn, 1998, 2001). As the 20th century came to its end, scholars began to embrace a second paradigm, New Public Management (NPM). The theoretical roots of this paradigm emanate from rational choice and management

studies; the emphasis shifts to management of organizational resources and performance benchmarking; the resource allocation mechanism is the market which is tethered to the business like ethos, and its value is manifest by the importance of competition among erstwhile public service vendors. As would be expected scholars began to examine the underbelly of NPM and as the decades drifted into the past (Lynn, 2001) an epiphany gave shape to a third paradigm: New Public Governance (NPG). NPG is akin to institutionalism and network theory; the state (government) is declared impotent as a resource allocator; non-governmental organizations and citizen stakeholders achieve legitimacy as participants; negotiation and social capital become valuable skills. There is a focus on the environment and the values which these varied participants brought to the table.

Each paradigm variously embraces four universal core concepts: legitimacy, efficiency, democracy, and accountability; such concepts are inseparable from normative prescriptions for holistic, democratic governance. Unfortunately, despite refinements of governance theory there remains a within-group problem, namely, within the organization for public sector governance is the reality of hierarchy: local governments reside in the cellar.

Local governments in democratic societies face challenges as they strive to provide services to its citizens but rarely have sufficient resources to deliver them. They are universally situated at the bottom of the governance hierarchy; often referred to as sub-national units, towns, townships, municipalities, minor civil divisions, *amphoes*, *tambons*, or *muu bans*, etc. The peril of this circumstance of statutory impotence coupled with a paucity of resources keeps them in a subservient position. In some “advanced” societies, e.g., the United States of America, these units are not even mentioned in their constitutions. However, in many of the emerging democratic societies these units are constitutionally recognized. Whether in an “advanced” or emerging democratic society, the leaders of local governments have to work with private groups and a variety of non-governmental organizations in order to harvest sufficient resources to generate service delivery. Much of the research on local government, i.e., Stone (1989) reveals that private interests come with narrow agendas thereby leaving elected officials to find means to subsist and suffice but rarely to satisfy the universe of its constituents.

Nevertheless, within these societies’ citizens, their governments and elected officials, the bureaucracy, non-governmental organizations, and legitimate stakeholders are recognized as indispensable to the normative administrative arrangements for governing. This declaration is a value laden, self evident irony because, within such a society, it is the citizens who are perched at the top of the hegemony. Moreover, such a declaration is appropriate for any democratic society from the advanced to those that

have more recently emerged. It is essential for those of us who study governance to recognize that, in all democratic societies, endogenous culture contributes to societal norms and values (Hiller, 2008). Consequently each salient factor has to be taken into consideration as I seek the most effective governance theory. Therefore, the veracity of my claim should be borne out in governance paradigms such as NPG. However, governance theory is an evolving, value laden, and culturally entrenched process and like life itself the tenants are not so black and white. Thus, NPG is not penultimate.

It follows then that in the dawn of the 21st century, models of democracy that are both attractive and feasible are rare and have limited utility as predictors that lead to efficient delivery of local services whether in the more mature or the rising democracies. The most frequently cited models in the literature which explain local political outcomes do not associate these outcomes as responses to institutional or administrative arrangements. Nor can we find reliable correlations with instrumental strategies or artful municipal or state interaction or the political skills of elected officials.

What is necessary to facilitate greater utility from the NPG paradigm is to compare, contrast and integrate some of the most promising related theories, concepts or discourses from a wider area of the social sciences. The researcher argues that a new theory – policy coalition theory (PCT) – brings into focus the strengths of New Public Governance as well as the dangling threads of competing theories, concepts and discourses. The research will review and analyze them and introduce PCT.

In the last three decades of the 20th century, three different concepts dealing with the formation, maintenance and transition of coalitions of private and public actors emerged into active discussion among policy analysts and social scientists: punctuated equilibrium (PE), advocacy coalition framework (ACF), and urban regime theory (URT). Each concept seeks to explain the formation and transformation of informal coalitions of public and private actors in the formulation and implementation of public policy. Viewed in isolation, each concept exhibits distinct weaknesses. However, when taken together, each can help to lessen the weaknesses of the other two and strengthen a theoretical framework explaining the formation, maintenance, modification, and transformation of coalitions of actors which form and implement urban governmental policy and regulate urban governance. This is the function of policy coalition theory (PCT).

Punctuated Equilibrium (PE) in Policy and Local Governance

The concept of punctuated equilibrium (PE) applied to matters of governance assumes that governmental policy progresses incrementally. Consider, for an example, the annual increases in social security contributions. Another governance matter with greater visibility is the policy responses to the voting controversy stemming from the 2000 Bush - Gore presidential election. After the state court ruled in Florida, Congress subsequently enacted the Help America Vote Act. The state and Congressional actions following the Bush - Gore contest demonstrates that governmental policy transitions are not necessarily smooth and continuous, nor consistently choppy, disjointed and revolutionary. PE addresses the observation that future policy transformations are less influenced by the actors involved, the subject matter, the pace of previous transformations in the same municipality, or the amount of time between policy transformations than they are by focusing events, policy images and the struggle between dominant and competing interests.

The concept of punctuated equilibrium was introduced by life scientists Eldredge and Gould (1972). They made three general conclusions from their theory. First, life forms exist in evolutionary stasis for most of their existence. Second, evolutionary change takes place in rapid disjointed episodes triggered by stimuli independent of the species' activity. Third, episodic change drives and determines the options available during periods of equilibrium. Each of these lessons from the discipline of life science is applied to the discipline of social science.

When this concept is applied to local governance matters I follow the work of Baumgartner and Jones (1993) as they grapple with the question: What accounts for dramatic and lasting change in a policy arena?. Their work attempted to determine the appropriateness of non-incremental conceptualizations of the public policy process, presenting punctuated equilibrium as a context for explaining the dynamics and changes in the American political system. From the midpoint of the last century until the final decades much of the conventional wisdom supported the notion that instrumentalism, pluralism, and political expedience drove policy outcomes (Hayes, 2001). This is a common understanding, since by design the Constitution fragments power. Moreover, the diversity among U.S. citizens creates opportunities for different and opposing points of view. This conceptualization emphasizes multiple centers of power, i.e., non-governmental organizations, nonprofits, political parties, and competing interests, pro- versus anti-immigration forces, etc., (Dahl and Lindbloom, 1976). Charles E. Lindbloom (1959, 1979) describes it as "muddling through" and contends that it is done primarily for political expedience. Thus, instrumentalism couches the notion that most new public policies continue past government activities

with minor modifications. However, dramatic change does occur from time to time within policy arenas.

The drive and determination necessary to implement public policy is provided by those who set the public agenda. The policy agenda is set when the attention of elected officials and the public is drawn to a specific policy arena. Discussion within the arena elevates the policy making and creates a place on the agenda. Public indifference to specific problems gives way to heightened concern as elected officials focus on them (Baumgartner and Jones, 1993). As officials focus on the issues a dialogue with the citizenry evolves. This discursive process is crucial to understanding the ethos of policy subsystems. Consequently, it is not surprising if access to the agenda is followed by dramatic changes in policy outputs. Indeed, this is precisely why policy entrepreneurs fight so doggedly either to push their issue toward the public agenda or to ensure that it does not arrive there.

The concept of punctuated equilibrium advances a number of fundamental ideas to consider when studying public policy outcomes. These ideas are: 1) policy arenas, 2) dominant interests, 3) policy images, 4) institutional structures, 5) deliberative venues, and 6) focusing events (Baumgartner and Jones, 1993).

Policy arenas are groups of stakeholders with varying abilities to influence or control resources that can alter the character of policy outcomes. The idea of a policy arena has become a core model through which analysts claim to explain the relationship between government and private interest groups (Smith, 1994). This idea facilitates stability and simplicity in otherwise complex policy making processes. It cuts across conventional divisions of power and levels of government and facilitates manageable decision processes for public officials.

Dominant interests are those groups in the policy arena that, through their command and use of politically relevant resources, establish supremacy within a policy arena. Members of the dominant interest group share core values, policy biases, political ideas, and policy images. Baumgartner and Jones (1993) explain that related policy ideas are connected to core political values which are communicated through image and rhetoric. Local governmental frameworks in Thailand are built around core values, political ideas and policy images. In 1999, the Thai prime minister set in motion a project in which every *tambon* was to select a local product for development and sale. The project is authorized to promote the product, as well as assist in modernizing the production. Arguably, common culture and values facilitated frameworks for coordination which promote provincial and local authorities control over their management plans. In Thai democracy one finds a constitution which embodies such actions. The Enhancement and Conservation of National

Environmental Quality Act of 1992 allows local authorities to formulate their own environmental management plans and provides more opportunities for local people to participate in the planning process. Common understandings facilitate the entrenchment of dominant interests. In the USA, the flexibility built into the Constitution allows minor civil divisions and general multi-purpose municipal governments to enact local service delivery arrangements, provided state (provincial) oversight is not opposed to such arrangements.

Baumgartner and Jones (1993) also identify institutional structures as venues where processes are engaged (both public processes and private processes), which mobilize resources (both public and private) to address a perceived problem. Deliberation venues are places, such as courts, legislative bodies, and administrative law courts, which facilitate or hinder the implementation of specific policy outcomes.

Focusing events are situations that destabilize equilibrium within policy arenas and draw the attention of elected officials and the public to a policy arena, and thereby elevate policy making in that arena to a more prominent place on the public agenda.

Advocacy Coalition Frameworks (ACF) in Policy and Local Governance

The concept of advocacy coalition frameworks addresses the observation that public policy is developed in identifiable stages, which seem to follow in a predictable order. The concept of advocacy coalition frameworks (ACF) replaces policy cycle conceptions of policy change, in which the policy process is disaggregated into distinct stages (Brewer and de Leon, 1983). The policy cycle concept is tethered to some relevant sequential ideas. Length of time is critical. A proper evaluation of any policy requires at least ten years. Next is the unit of analysis. The best unit of analysis for any policy is the interaction of actors from different institutions who seek to influence governmental decisions in a policy area (Sabatier, 1991). These interactions involve actors from all levels of government and the private sector. Next in the chronology is the importance of belief systems. Policy can be understood in the light of belief systems, or “sets of value priorities and causal assumptions about how to realize them” (Jenkins-Smith and Sabatier, 1994). The belief systems of the dominant coalition determine the direction in which an advocacy coalition seeks to move governmental programs. The extent to which they are successful depends upon the availability of resources including money, expertise, number of supporters, and legal authority.

The original notion of ACF argues that the majority of policy changes take place within advocacy coalitions, because changes in dominant belief systems seldom occur and external changes that allow for redistribution of power favors one belief system over another. This concept highlights the shifting matrix of values and interests that bind public and private policy actors together and induce compliance or noncompliance with stated coalition goals and policies. Furthermore, advocacy coalition frameworks suggest which actors and interests will prove mutually reinforcing and which will be mutually exclusive in the formation and implementation of policy and governance. Flora and colleagues (2004) conceptualize the ACF as a coalition of actors from a variety of market, state, and civil institutions at all levels who share a set of basic beliefs. This is consistent with observations of practice in Thailand and the USA, i.e., policy goals; causal models, e. g., which attempt to explain how the world works; and normative values, e.g., how the world should work; and who seek to manipulate the rules, budgets, and personnel of institutions in order to achieve these goals over time. These researchers assert that policy formation extends beyond a linear process beginning with problem identification, through agenda setting, adoption, implementation, and policy evaluation (input, throughput, output and feedback) to an observed cyclical and interactive process of decision-making.

The emergence of ruling (dominant) political coalitions is dependent upon both the presence and the perception of shared circumstance (Dawson, 1994). Political coalition requires individuals to perceive that their fates are linked, first to others in their own social group and, second, between their group and another. The establishment of a dominant coalition depends upon the linking a coalition's causal understanding of the current political circumstances and the causal perceptions of the electorate.

Dominant coalitions are identified by four central elements: 1) similarity of shared circumstances; 2) perception of shared interests; 3) the strategic political circumstances in the immediate environment; and 4) the history, size, and relative power of an array of available political candidates (Rodrigues and Segura, 2003). I argue that based upon the observation that the majority of policy changes take place within advocacy coalitions, changes in dominant belief systems seldom occur; and external changes, which tend to foster redistribution of power, favors one belief system over another. Consequently, by analyzing different socio-political contexts in municipalities, one can determine how local values drive expenditure decisions and policy outputs in a local political arena.

Advocacy coalition frameworks can complement punctuated equilibrium theory to highlight subtle changes in equilibrium between focusing events. For instance, broad support for all measures necessary to maintain white supremacy in the face of black claims to equal treatment was demonstrably less prevalent after World War II than after World War I. After World War I black soldiers returned to a country where lynching was common, where the KKK could muster thousands of members in white robes to march down Pennsylvania Avenue in Washington, DC, and where the KKK could elect and control the government of a Midwestern state (Indiana). Violence was a preferred measure for maintaining white hegemony in the South.

After World War II, general acceptance of racial supremacy characterized by the absolute right of whites to rule over blacks required extreme violence for its maintenance in the USA. Hitler's death camps during the war experience brought into question the supposed racial-based competency differences. Following WWII, many white soldiers returned home with experiences that challenged traditional racial bias.

The utility of ACF has been challenged by some scholars. Cairney (1997) declares that ACF is not a causal model and it lacks force in driving the policy processes from one stage to another. This scholar further observes that it does not specify the "linkages drives and influences" that form the essential core of theoretical models. This, he argues, is a poor foundation for empirical testing. He attempts to strengthen his view by positing that ACF is descriptively inaccurate because the linear process of agenda setting is often deviated from in practice. He adds to his list of flaws that it suffers from a built in legalistic top-down focus. The ACF should be studied from several angles. Unfortunately, researchers tend to focus on one stage thereby weakening coherence across stages. As structured, ACF invites inappropriate emphasis on the policy cycle as the temporal unit of analysis. Critical understanding involves multiple cycles initiated by actors at different levels of government. Arguably, the most compelling consideration is the importance of policy analysis as a tool for policy oriented learning. The latter is not accounted for in ACF.

Even so, the concept of advocacy coalition frameworks advances a number of valuable ideas to consider when studying public policy outcomes. Among these ideas are: belief systems, policy subsystems, staged policy development, and policy cycles. Belief systems, as applied to public policy analysis, are ideas about operational and normative theory in public administration, i.e., both how the world works and how the world should work, which unify different groups of stakeholders in their efforts to frame public policy. Policy subsystems are groups of actors from a variety of market, state, and civil institutions at all levels who share a set of basic beliefs and who seek to manipulate the rules, budgets, and personnel of institutions in order to achieve these

goals over time. Staged policy development incorporates both the observation that public policies are developed using progressive processes, and the observation that the types of policy (depending upon conformance with the belief systems of the dominant coalition) may shorten or lengthen the process necessary for policy development. Policy cycles are the proper unit for policy analysis. The structure of ACF does not take into account the full and relevant context of the stages of policy development.

Urban Regime Theory (URT) in Policy and Urban Governance

The concept of urban regime theory (URT) addresses the observation that governmental entities do not control adequate resources to implement effective public policies, and that inclusion of other stakeholders is necessary to accomplish effective policy implementation. URT came to prominence with the publication of Clarence Stone's (1989) study of Atlanta, (which observed cooperation between elected local officials and growth-minded individuals and groups) although earlier work by Fainstein and Fainstein (1983) and Elkin (1987) has also been influential. As the topic garnered attention and sustained attraction as a tool and theory, subsequent discourses and elaborations generated variations on the theme vis-à-vis definition and application. At least two definitions were frequently found in the literature: local regimes as informal arrangements and local regimes as frameworks of incentives. Both definitions are built around the capacity for governance. Moreover, both incorporate the principal tenets of regime theory, i.e., local government is not strong enough to access the required resources to implement effective policy; therefore, it is essential to establish a coalition of government and private sector brokers to implement policy. These conditions mandate cooperation among stakeholders with access to resources. Even so, this is one of the most difficult tasks of an urban regime since there is a variety of a belief regarding issues such as uncontrolled growth and controlled growth or downtown development versus suburban development. Urban regime theory strongly asserts that resource supply and manipulation is the province of the private sector.

Regime theory starts from the premise that achieving cooperation in a fragmented and uncertain world is problematic. The essence of the regime approach to power is not to identify an elite partnership of governmental and non-governmental actors but to explore conditions for such a partnership to be created and maintained.

Stone defines urban regime as the informal arrangements by which public bodies and private interests function together in order to be able to make and carry out governing decisions. Notably, these governing decisions are not a matter of running or controlling affairs, but have to do with managing conflict and making

adaptive responses to social change. The informal arrangements through which decisions are made differ from community to community, but they are driven by two needs: (1) institutional scope (that is the need to encompass a wide enough scope of institutions to mobilize the resources required to make and implement governing decisions) and (2) cooperation (that is, the need to promote, induce, or incentivize enough cooperation and coordination for the diverse participants to reach decisions and sustain the action in support of those decisions).

Stone's definition builds on the assumption that a formal structure of local government authority is inadequate by itself to mobilize capacity and coordinate resources. These capacities are prerequisites to effective governance. Moreover, the impotence of (local) government is the by-product of structural (constitutional) arrangements. There is a hierarchy among the branches of government, and the least of these is local government. The assumption is that most local governments are not able to amass, control, and/or manipulate the resources required to implement (urban) policy. Resource supply and manipulation is the province of the private sector; thus, local government leaders must build informal cross-sectional coalitions or partnerships with business elites and others to guide the regime in setting goals and achieving socially valuable goods and services.

Orr and Stoker (1994) studied regime building in Detroit during the mayoral tenure of Coleman Young (1973-1993). Their contribution revolved around the locus of power in cities and governing capacity therein. They contended that economic restructuring, racism, and fiscal distress shaped politics in Detroit. These scholars suggested that urban regimes emerge within the context of the limited capacity of local government to control wealth, investment decisions, and other decisions that rest in the hands of nongovernmental actors.

Scholars Mossberger and Stoker (2001) argue that a regime is greater than a group of individuals. It is a framework of incentives and meaning into which new actors can be incorporated. Thus, they shift the "core criteria" of the urban regime concept from the informal networks and formal relationships of actors drawn from governmental and business sources to the incentive structures that hold those networks together. Collaboration is necessitated by social production, which is characterized by the need to coalesce fragmented resources, to accomplish tasks. The composition of the participants will generate identifiable agendas that reflect the values and aims of the stakeholders. If the incentive structure is viable and flexible enough to maintain the coalition over time, it will ultimately foster a longstanding pattern of cooperation rather than a temporary coalition. Yarn (1991 and 1999) defines regime as a temporary alliance or partnering of groups in order to achieve a common purpose through joint

activity. It is a process by which parties (individuals, organizations, or nations) come together to form a coalition. He maintains that through coalitions, weaker parties to a conflict can increase their power; and that coalitions are the “primary mechanism” through which disempowered parties can develop their power base and thereby better defend their interests. Regimes can be built around any issue and at any scale of society, from neighborhood issues to international conflict. Savith and Thomas (1991) have studied typologies or types of coalitions based upon their orientation, and the present study has grouped them in three categories: 1) government centered (Dahl, 1961), 2) multiple-stakeholder, and 3) government or business.

Within the government-centered coalitions, we find the mayor-centered coalitions which are characterized by charismatic incumbents who have lengthy terms in office. These arrangements point toward government as the coordinator of events, if not the superior partner in the coalition. Such groups are led by elected officials who, by virtue of their charisma, leadership style, ability to assemble internal administrative support, and favorability among diverse constituent groups exercise influence regardless of the form of government, or the state of intergovernmental and local government or business relationships.

Sharply contrasting the mayor-centered coalition is the federalist typology which consists of groupings of political allies including non-governmental organizations and groups, e.g., the business community and allied public officials who come together in their desire to limit federal preemption of state and local laws (Stone, 1989). The conflict between business, state, and local interests serve as the glue that keeps these coalitions together. Businessmen and political leaders (at least, conservative, pro-business political leaders), the thinking goes, share anti-“Big Government” interests and values. A major goal of this coalition is to facilitate mutual respect and understanding. These are prerequisite to a productive relationship between governments and corporations.

The third coalition is the Caretaker (Stone, 1989) or Maintenance model (Stone, 1993). This arrangement is typically led by political leaders. They are transitional and conditions which foster their existence facilitate regime change. They serve as the glue that pieces informal groups together until a milestone in their operations brings new stability. The fourth coalition is the Developmental model. This coalition is composed of political executives and business stakeholders. The aim of this arrangement is to promote a specific objective (such as infrastructure improvement), or the political use of infrastructure as a link in the chain that enhances a political subdivision’s economic muscle.

The multiple-stakeholder category is an accumulation of opportunistic interests, representative of a broad array of civic concerns and non-governmental organizations. Unlike the competing concept, there is no overt hegemony. The “end-game” of many of these coalitions is similar to that in the previously discussed category. Coalitions such as “Lower Class Opportunity Expansion” and “Human Capital Regime” may also be found in the government-centered and multiple-stakeholder categories but, their aim, regardless of where they are found in any governmental setting, is to advance the cause of groups that are or have been traditionally marginalized within society. The difference between government-centered and multiple-stakeholder categories lies in the presence of an identifiable charismatic leader.

Business-centered coalitions also contain subgroup with similar aims as described in the government-centered and the multiple stakeholder coalitions. The greatest difference is that, within the business-centered coalitions, government leaders are conspicuously subordinate to business elites. The table below details the three key groups of coalitions and the classes of activity that one might expect to find under each heading. A quick glance will reveal that some kinds of activity may be found in each of the three groups. The key contribution of regime theory is its focus on problems of collective organization and action.

Government Centered	Multiple Stakeholder	Business Centered
Mayor Centered (Dahl, 1961),	Government–Business (Savith and Thomas, 1991)	Corporate (Stone, 1989);
Federalist; (Stone, 1989)	Entrepreneurial (Stone, 1989)	Entrepreneurial (Stone, 1989)
Caretaker (Stone, 1989) or Maintenance (Stone, 1993)	Pluralist (Elkin, 1987)	Caretaker (Stone, 1989) or Maintenance (Stone, 1993)
Developmental (Stone, 1993)	Progressive (Stone, 1989) Lower Class Opportunity Expansion (Stone, 1993) Human capital regime (Orr and Stoker, 1994) Caretaker (Stone, 1989) or Maintenance (Stone, 1993) Developmental (Stone, 1993)	Developmental (Stone, 1993)

Wilburn (2004) studied the influence of city contexts on urban regimes across 14 cities in the United States. He surveyed previously published case studies and applied a qualitative comparative analysis. To explain variation in a regime typology, Wilburn tests components of market conditions (a city’s fiscal resource base and mobility of local

capital) and democratic conditions (local civic participation and ward-style representation). The results indicate that all of the components are necessary, but no single component is sufficient to support the emergence of a progressive, as opposed to a developmental or caretaker regime. Instead, interactions between three components of the market and democratic conditions explain the presence of progressive regimes: (1) a city's fiscal resource base, (2) the mobility of local capital, and (3) the extent of participative penetration (ward versus at-large representation and electorate turnout).

The concept of urban regime theory advances three fundamental ideas to consider when studying local government policy outcomes. The overarching idea is the belief that governmental entities cannot independently marshal the resources needed for effective implementation of public policy. Within URT, there is a strict division of labor between governmental and private sector entities. This division of labor is found in the control and manipulation of resources (Imbroscio, 1998). Then there is the inevitability of different factions within the dominant interest group (Orr and Stoker, 1994). To these ideas I add the notion that the private sector entities are also impotent alone to implement private sector projects (that is, zoning waivers may be necessary; infrastructure, road sewer and telecommunications facilities may be required; and/or changes in the scheduling of city services to implement a proposed project). I also concur with Imbroscio (1998) that the strictness of the division of ability to control and manipulate resources between private and public entities may be relaxed depending upon municipal charter options.

Synthesis of Theoretical Concepts

How are effective coalitions of stakeholders formed, modified, and changed internally in order to implement public policy? Each of the three concepts, PE, ACF, and URT contributes to an understanding of how coalitions of stakeholders inside and outside of government form to implement effective policy. Each of these three concepts is recognized to have its own limitations. I posit that the three can be united to form into a policy coalition theory. Policy coalition theory is formed when the strengths of one theoretical concept makes up for the weaknesses in others. With this new conceptualization they form a more unified, consistent, and comprehensive theory that entails policy coalition formation, policy development, and policy transformation.

Local government policy change is neither consistently smooth nor predictably revolutionary (PE). The development of local government policy appears to follow identifiable stages (ACF), the timing and articulation of which are bound to the belief

systems of the dominant interest within a particular policy arena. Major policy change is apparently triggered by circumstances largely beyond the control of interests within the policy arena (PE). Minor policy changes or policy modification may be driven by the fact that not all of the actors share equally in the goals, biases, and values of the coalition (ACF). In order to maintain access to resources controlled by different actors the incentive structure within, the coalition may have to change over time and with regard to circumstance. An urban regime is characterized by its flexibility and its ability to modify the incentive structure needed to maintain the coalition’s resources for success over time.

PE adds causality to ACF, and URT provides linkages and drives. Where ACF is top-down in direction, URT is bottom-up. ACF points out that some goals are only partially shared within a coalition. Accommodation of the differing needs and expectations within the framework (dominant group) can account for differences in the progression of stages in the development of policy and the time that each stage requires. Urban regimes exist where dominant interests reach a critical mass of resources and talent to get something done. Urban regimes are a subset of a way of looking at political power centers, which may include local, state, or federal governments. It is a set of actors characterized by their ability to get something done. The difference between the state and local government is how much economic power is controlled by the former, i.e., the power to tax, condemn property, run a deficit, create debt, and issue bonds. The table below compares terms from the three concepts in a way which highlights parallel understanding.

Punctuated Equilibrium	Advocacy Coalition Framework	Urban Regime Theory
Policy arena	Policy subsystem	
Dominant interests	Advocacy Coalition	Urban regime (where effective)
Competing interests		
Policy images	Staged policy development	
Shared core beliefs	Belief systems	Shared values
Political understandings		Caretaker, developmental, middle class progressive, lower class opportunity expansion
Institutional structures		Market conditions and democratic processes
Politically relevant resources		Private sector resources
Focusing events	Policy cycles	

The purpose of governing coalitions is to recognize events which demand governmental action (focusing events) and marshal the resources necessary to respond to them. Between focusing events, the purpose of governing coalitions is to maintain the influence and further the interests of the broadly defined dominant interest group under changing circumstances. In so doing, the coalition recognizes the differing motivations of actors within the dominant interest group. These actors control access to resources. They facilitate the incentive structure by connecting to other actors with sufficient resources to advance the coalition's goals.

A concept critical to this emerging theory of governance is that governmental entities working alone lack the capacity to marshal the resources required to govern effectively. It is within the policy arena that we observe actors involved in dealing with a policy problem. Hjern and Porter (1981) argue that effective policy implementation depends on a networking approach among identified actors. The main tenet is the connection between policy changes and the actors and their interests. In this way, punctuated equilibrium is akin to Lowi's "Arena of Power" theory (Lowi, 1964; Ripley and Franklin, 1982). What distinguishes the nature of the policy arena is the system of core beliefs of the dominant interest group. Lowi's power concept complements Kingdon's (1984) "Multiple Streams," which focuses on the role of ideas and analysis in policy making. Kiser and Ostrom (1982) contributed to "Rational Choice," suggesting that institutional roles affect individual behavior, and Truman (1951) argued the importance of interest group competition in molding governmental institutions. He infers in this conceptualization that multiple interest groups and varied approaches to understanding are fundamental.

Now that I have argued that governance models have weaknesses and limitations, it is appropriate to advance those tenants which are crucial to a vigorous PCT: establishing dominance, developing policy and maintaining cooperation.

Establishing Dominance

According to PE, policy actors can be subdivided into dominant and competing categories. Dominant actors control policy images and institutional structure in ways that reinforce their preferred policy positions while limiting the impact of rivals. This structure-induced equilibrium is the same as "partial-equilibrium." Riker (1962) observed that deliberation mechanisms, such as committee systems in legislatures, rules restricting committees, and agenda setting devices serve to divide the decision making process into a set of decisions on single dimensions. Institutionally engendered equilibrium is often observed in the real world.

Dominant and competing groups individually attempt to maintain (on the one hand) and strive to achieve (on the other) policy monopoly. Effective policy monopoly exists in instances where elected officials, members of the bureaucracy, and private elites work together to produce consistent policy outcomes. Riker (1962) observed that were the majority not restrained by institutions and apathy they would often unilaterally dictate policy outcomes. There is evidence of an underlying structurally sustained instability associated with partial equilibrium, particularly as it is enforced through policy arenas. Consequently, equilibrium is characterized by a function of dominant interests, reinforcing policy images and supporting institutional structures. Consequently, it is the product of a “deliberate” rather than an “invisible” hand.

Competing interest groups attempt to reframe policy images, change venues, and capitalize on focusing events to elevate the policy debate to the public agenda. Successful manipulations can disrupt an arena’s partial equilibrium. Competing interest groups’ adroit use of politically relevant resources to challenge policy preferences of the dominant interest groups can affect changes in equilibrium. The ultimate goal of competing interest groups is to substitute their own preferences and position themselves in a place of dominance within the policy arena.

There is a certain quality of stability about the informal coalitions themselves arising from their core beliefs. This stability in informal coalitions is being ignored or brushed aside by the nomenclature with which these coalitions are being described in ACF and URT. Nomenclatures function as labels. This “labeling” serves to emphasize the way in which policy tools are being used as is the case in the mayor centered or corporate coalition. The nomenclature/labeling demonstrates which competing groups are using policy tools, i.e., how the middle class progressive or lower class opportunity coalition influences policy image formation. I argue that the informal structures that I identify in these policy arenas and informal coalitions of similarly minded individuals demonstrate little fundamental differences. They differ more in their use of similar or identical policy tools and image forming activities than in whether or not they use such identified tools to shape policy. By defining informal coalitions in terms of their policy tools and policy outcomes, ACF and URT are seeing more distinctions in the nature of different informal coalitions than may actually exist.

The dominant interest group not only insures that its economic and social interests are upheld or maintained above or in contradiction to the interests of the competing interest group. The political affirmation of the value system of the dominant group, even in contradiction of observed reality, reduces any identity conflicts that otherwise might occur within the dominant group and its members, and exacerbates such identity conflicts within the competing interest group. Reality is reinterpreted or reframed to accommodate the political needs and values of the dominant interest group.

Developing Policy

Public policy is what governments do, or deliberately decide not to do. Brewer and de Leon (1983) define distinctive stages of the policy development process. They begin with initiation (defining objectives) and proceed to estimation (normative examination of likely consequences). After initiation is selection (debate of options, compromises, bargains and accommodations, integration of ideological and other non-rational elements of the decision). These steps build up to implementation (modification of the decision to reflect operational constraints including incentives and resources) and then to evaluation (comparison of expected and actual performance levels). Finally, is termination (assessing costs, consequences and benefits, and the reallocation of resources). The goal orientation or deliberateness of this process can be subsumed under the rubric of agenda setting, which we consider the prelude to policymaking.

The most critical struggle for any coalition is to influence the public agenda in a way that advances their beliefs and values. The agenda is the sum of the issues to be addressed within the deliberative venues, be it city council, county board, state legislature, or national government. An issue is legitimized or marginalized based on the extent to which it buttresses the dominant belief system (URI). Timing of announcements, articulation of policy images, mobilization of the electorate, and selecting venues are key ingredients that stem from the deciders and lead to that which is decided. Agenda setting resolves the question of what questions are relevant to the current policy circumstances. It is this stage that is crucial. Management of the process of agenda development leads to policy outcomes that support a coalition's goals. Agenda setting so formulated is the essence of what is meant by political. Brewer and deLeon (1983) argue that this is the juncture where relevant questions are prioritized, and they embody Easton's (1953) "input" concept of the systems theory. These political considerations determine the designation of spokespersons to communicate both to lawmakers, non-governmental organizations, civic interests, and business interests.

Brewer and de Leon's estimation and selection phases constitute the "conversion mechanism" concept of the systems theory approach. Implementation and termination constitute the "output" concept of the systems approach, and the evaluation phase constitutes the "feedback mechanism" of the systems theory approach to policy development. I further assert that differences in the participant makeup of each coalition determine the timing and amount of time needed to transition through each stage. Depending upon how close the objectives are to the core beliefs of the dominant interest group, likely consequences may be taken as a given and not investigated for validity. The length of a policy cycle may thus be influenced by the different relationships present within the dominant interest coalition. Different phases

may be shortened, lengthened, or skipped based upon the policy being addressed, and the structure of the informal understandings present within the dominant interest group.

The output or implementation phase of policy development is critically dependent upon the resources both required and available to see a policy through to success. In addition to the competing interests, who seek to wrest control from the dominant interest group, the dominant interest group itself is composed of factions which have differing relationships to the shared values of the group. Unfettered or unchallenged dominance is unlikely in a democratic society. Over time, there will be both infusions of new stakeholders and changes in leadership within the dominant coalition. This internal activity is bound to impact the everyday aims of the coalition and its ability to command resources. Therefore, flexibility in the incentive structure of the coalition is necessary for its fostering and stability. Adherence to the traditional democratic creed implies that the competing factions must achieve some accommodation, even though equality of opportunity for competing groups has never meant the competing groups are entitled to absolute equality or a guaranteed outcome within the coalition. The potential impasse which this fosters creates the challenge of maintaining sufficient cooperation to ensure the engagement of resources to maintain a coalition. Highlighting this conundrum for intensive scrutiny is one goal of policy coalition theory.

Maintaining Cooperation

A coalition must build a base that accommodates change. When groups unite, each faction's idea of change and tolerance must be acknowledged before it can be broadened. As time passes, it becomes increasingly difficult for internally competing groups to disregard the initiatives of other factions as dismissible or as singular interests.

Moreover, there is no guaranteed permanency of a prevailing consensus, creed, or even a political system. In short, there are no immutable products of democratic ideas, beliefs, and institutions. For better or worse, they are always open, in some measure, to alteration through those complex processes of symbiosis and change that constitute the relations of leaders and citizens in a pluralistic democracy (Dahl, 1961).

Smart stakeholders recognize their mutual dependence and subsequently find something to work on together to determine how to respect each other's differences in order to get something accomplished. Since a coalition is only as strong as its weakest link, it becomes incumbent upon the members with greater access to

resources to be willing to accommodate members with lesser yet critical resources and perhaps sublimate principle-based urges that could hinder the accomplishment of an objective desired by all parties in the coalition.

A coalition's values are culturally biased and form a historically specific model of urban governance. A values-based agenda will thereby foster more permanent informal arrangements than an issues-based or project-based coalition. Moreover, it can broaden the potentially available resources in the absence of a scheme of cooperation. If cooperation is maintained in the face of social change, new actors, and communication breakdowns, it may be considered the hallmark of an urban regime. This is so because it demonstrates the capacity to act as opposed to merely establishing a coalition (which may fail). Cooperation maintained across institutional sectors will depend upon the essential values of the coalition.

These values will determine which institutions will be natural allies and which will be natural antagonists to the coalition. The goals and values protected by an institution's structural makeup will determine its inclusion within a coalition, and whether that institution's structures and processes will be supported or undermined by the dominant coalition.

Conclusion: A Succinct Statement of Policy Coalition Theory

Policy coalitions achieve dominance when they convince an electorate that their view of the world is more accurate than any other and that their goals and values are more consistent with those of the majority of the electorate than any other competing view. This equilibrium is most often disrupted by a drastic change (focusing event) or by a mal-association between the policy images formulated by the coalition and the circumstances facing the body politic as perceived by the electorate (disillusionment).

Once dominance is achieved, the dominant coalition must establish and maintain access to the resources necessary to accomplish its goals. Without such access to resources, success is not possible. The dominant coalition must do this by accommodating the differing and changing priorities of its internal factions. Success or (regime formation) occurs when accommodation can be maintained over extended periods of time and differing projects.

By concentrating on the distinct interests and resources of individual stakeholders and the incentive structures which either sustain or undermine cooperation, Policy Coalition Theory becomes more prescriptive and diagnostic than PE, ACF, or URT alone. Highlighting incentives and goals will allow more in-depth

comparison of the reasons why coalitions are successful in forming regimes in some cities and not in others. The Kuhn paradigm on theory construction (1962) suggests that before one can describe a new theory there must first be definitions, statements (or theories), and the interrelations between these statements or theories. The researcher acknowledges to have followed the Kuhn prescription.

Moreover, the newness of a new idea is best appreciated in the context of the scope and quality of the old idea. The previous sections of this article demonstrate this requirement by the connection between Public Administration (PA), New Public Management (NPM) and New Public Governance (NPG) governance paradigms. The researcher then moves beyond that genre to other social science contributions to analyze PE, ACF, and URT. In a qualitative analysis of variance they are compared with each other. From this approach, the researcher has: 1) developed a new conceptualization of the phenomena as provided in the previous paragraph. 2) proposed a new research strategy for gathering evidence to support my new paradigm; specifically, the research strategy would be to gather data on the stakeholders, the resources that they provide, and the motivations for cooperation. 3) identified new problems that may arise by formulating the problem in a way which demonstrates that coalition policy theory fosters comparisons between coalitions and among coalitions in different political jurisdictions. Policy Coalition Theory provides a means to analyze success or failure in regime formation, and 4) provided an explanation that PE, ACF, and URT was not individually able to explain. As such policy coalition theory fulfills the mandates of descriptive (description of hierarchical structures and relationships with their task environments), assumptive (rigorous understanding of the roles of participants in the policy implementation process), and instrumental (refining of managerial techniques for the efficient and effective attainment of public objectives) theory formulation.

Endnotes

- ¹ There is some debate over whether or not these governance styles can be termed as paradigms, particularly the notion that new public management is a new paradigm for public sector management. I argue that it is appropriate to use the term to distinguish these different styles.

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Chapter 6

Fiscal Inequality and Grant Allocation: Provincial Analysis of Thailand's Local Government Finance

Direk Patmasiriwat

Abstract

This paper is based on a case study of local public finance in Thailand with special reference to two issues: the horizontal fiscal imbalance and the equalization grant. Our units of analysis consist of 75 provinces which are the sum of per capita tax revenues and per capita grant amount of all local administrative units of the province. Inequality is confirmed and most pronounced in the case of own revenue per capita. We assume that there are economic and social factors that might have influenced own tax, shared tax, and grant revenue per capital and we test the relations by a seemingly unrelated regression technique. The latter part of the paper presents a simulation exercise by assuming that the Decentralization Committee agrees to set up an earmarked fund to narrow the fiscal gap between the rich and the poor provinces based on the notion of 'poverty gap' and calculate the fund amount with two parameters assumed. The fund amount was calculated to be 12.5 billion baht, which accounted for 8.6 percent of the grant allocation for local administration in 2011, and this fund would be targeted for the bottom 28 provinces on the ground of closing fiscal disparity.

Introduction

Mismatching between expenditure assignment and tax assignment can always occur; this problem is referred to in public finance literature as fiscal imbalance. Two kinds of mismatching are frequently cited (Boadway and Shah, 2009): *vertical fiscal imbalance* refers to cases where the tax assignment and the expenditure assignment between central and local governments are not balanced. *Horizontal fiscal imbalance* refers to mismatching in tax and expenditure assignments among different local authorities of the same type. Imagine the case of two municipalities with identical responsibilities and similar characteristics (measured in terms of population, area and other city characteristics), yet their tax assignments are significantly different.

This paper is a case study of fiscal imbalance in Thailand with a primary focus on the “provincial” tax assignment and the grant allocation from the central government. Two issues in particular are explored. The first is the extent of provincial tax, as explained by two factors: unequal gross provincial products and unequal tax base among different provinces. The second is the variation in the amount of grant allocation, based on the assumption that the central government should allocate these funds on a more equitable basis.¹ From the normative perspective, the grant allocation should be designed to serve policy objectives, such as (1) to guarantee that the citizenry, wherever they chose to reside, are entitled to have access to ‘standard’ levels of public services from local authorities; (2) to serve an income distribution objective, that is to say, to avoid a large fiscal disparity between different local authorities. In reality, the grant allocation may or may not coincide with the normative principles as it could be influenced by multiple factors such as political power, political will of government, and historical and institutional settings.

The paper is organized into five sections. Section I presents a short introduction. Section II briefly describes the decentralization experience in Thailand and highlights institutional settings that might have aggravated fiscal imbalance. Section III clarifies the research methodology and the scope of study; in particular it explains why “provincial units” are adopted in this research rather than focusing on a particular type of local governance. It also explains the hypotheses of factors that influence three components of local revenues, i.e., own revenue per capita, shared tax per capita, and grant revenue per capita. Section IV provides data sources and reports the findings, which comprise a comparative analysis and an econometric estimation. Section V consists of policy simulation exercises with an objective to narrow the fiscal gaps (between 75 provinces) and a discussion. Section VI contains a conclusion.

Decentralization and the Fiscal Imbalance in Thailand

The Constitution of 1997 mandates public sector reforms in Thailand in many areas, ranging from political election rules under a democratic system, political parties, establishment of autonomous agencies, people’s entitlement and expectations from the state, basic state policy, and local governance and decentralization. The Decentralization Act of 1999 stipulates a decentralization reform that lays out the details of devolution of 245 functions from the central agencies to local administrations in a given time frame. The process of administrative and fiscal decentralization began after 1999.

The past decade has witnessed a stronger administrative oversight of devolved functions and fiscal resources. Roughly speaking, prior to 1997, local administration organizations in Thailand had the authority to manage less than 10 percent of the central government revenue. At present, they manage not less than 26 percent. The number of local personnel has increased and the activities (local public services) performed by local administration organizations have expanded greatly. It is fair to say that at present local administration has played an increasing role in the provision of public services that in turn have led to noticeable improvement in the quality of people's lives.

Local administration in Thailand may be briefly summarized as a two-tier structure with provincial administrative organization (PAOs) on the upper tier, and municipality and *tambon* administrative organizations (TAOs) on the lower tier. There are two units of special administration, viz., the Bangkok Metropolitan Administration (BMA) and Pattaya City. There are three kinds of public administration: 1) central, 2) regional, and 3) local. Each unit of local administration has its own budget and the autonomy to spend money for the provision of public services according to law under supervision of the central agencies and regional administration (provincial governors and district chiefs). All local administration adopts an annual budget and follows a budget cycle similarly to the central government. The Office of Auditor General (OAG) has power to perform budget audits in all public entities, including local authorities.

Increased fiscal discrepancy: Despite the progress of local governance over the past decade and expansion of local public services, there has been a gradual structural change that aggravates the fiscal imbalance problem, both vertically and horizontally. This has been caused by the increased disparity between tax assignment and expenditure assignment. That is to say, over the past decade, there has been little change in local tax laws and virtually no change in the local tax bases, which means that there has been little or no increase in local government's revenues. Over the same time periods, however, numerous functions and responsibilities were transferred from central to local agencies. Although there was some increase in intergovernmental transfer of funds, it was proportionately lower than and insufficient for the transferred functions. We have heard many complaints from local management about the "unfunded mandate." There are reasons why tax reform (and local tax assignment) is lagging behind decentralization. Everybody realizes that tax amendment is a complicated and time-consuming process and there are many laws involved, for instance, alcohol tax law, tobacco tax law, value-added tax law and others. Fiscal imbalance has been rising over time and there is increasing pressure for intergovernmental transfer. Local administration has three sources of finance: a) own revenues, b) shared taxes, and c) grant revenue from the central government.

In fact, from a local management viewpoint, grants are not the best option. An expansion in local taxes or more sharing in the shared taxes is preferable to a larger grant, over which they have little or no control. The situation as described speaks for higher fiscal imbalance which, in fact, poses a burden on the central government and local administration. As of Fiscal Year 2012, the grant budget accounted for about 10 percent of the total government expenditures.

As stated earlier, horizontal fiscal imbalance refers to the mismatching or discrepancy between tax assignment and expenditure assignment among local administration organizations of the same type. Mismatching is, in fact, a notion that is complicated and difficult to measure, especially when considering that a large number of local administrative organizations (7,853 units) operate under three guiding laws. Imagine the case of two municipalities that have identical or similar characteristics and hence 'similar fiscal needs,' but that are located in different regions where one ranks high in income per capita or in gross provincial product (GPP) and the other ranks low. The chances are high that the tax disparity between the two units is large.

To cope with tax disparity and horizontal fiscal imbalance, the central government may design an intergovernmental transfer that serves an equalizing role, i.e., narrowing the fiscal gaps that might exist among provincial administration organizations (PAOs), municipalities, and tambon administration organizations (TAOs). Therefore, it is important to understand that the issue of fiscal disparity and grant allocation is important and relevant to policy making. This task, however, is enormous and beyond the scope of the present study. We must narrow our scope to the "provincial level" (thus the number of units is reduced to 75 only), as will be explained below.

A Case Study of Provincial Fiscal Disparity

There are two reasons why we chose case study of provincial fiscal disparity rather than focusing on one type of local administration organization. "Provincial" in this context refers to the provincial boundary in which many local authorities co-exist. There are reasons why the provincial case study is interesting and how it fits our purpose. First, the number of provinces is not too many (77 units); hence, it is easier to handle without much difficulty. We chose to exclude two provinces from our sample, i.e., the Bangkok Metropolitan Administration (BMA) and Buengkan, which is a newly established province (formerly part of Nongkhai province). Second, we are interested in testing the relationship between the provincial local revenue and economic activities, for example, how local taxes are correlated to GPP. Third, there

are economic and social data available at the provincial level such as GPP and poverty index. It is not possible to disaggregate further into the district or the subdistrict levels.

Within each provincial boundary, three types of local administration organizations coexist, namely, PAOs (provincial administration organizations), municipalities and TAOs (*tambon* administration organizations). Let us symbolize them as LAO (ij) where i refers to the ith province and j refers to the jth local administrative organization in the ith province. The fiscal data of interest in this study are own revenues, shared taxes and local revenue from grants. We sum all these figures into the provincial unit. Because of variations in area size and population between provinces, it is reasonable to compare them on *per capita basis*, rather than the absolute amount.

$$(1) \text{ Per capita own tax revenue} = \sum R1 (\text{LAO}(i)) / N(i)$$

$$(2) \text{ Per capita shared taxes} = \sum R2 (\text{LAO}(i)) / N(i)$$

$$(3) \text{ Per capita grant revenue} = \sum R3 (\text{LAO}(i)) / N(i)$$

As of FY2011 local administrative organizations which were classified into:

- 76 units of PAOs,
- 2,044 municipalities;
- 5,672 TAOs
- 1 Bangkok metropolitan administration
- 1 Pattaya City administration

Local revenues from grants are influenced by many factors, especially government policy. There are laws and ministerial rules that stipulate how tax revenues are to be shared between central and local administration. An example is the environmental health law that sets a ceiling for garbage collection fees that every local administration must obey. Intergovernmental transfer is annually determined by the government in consultation with macro-policy agencies, such as the Bureau of Budget, the Ministry of Finance, Bank of Thailand, etc.

Regarding local taxation, local revenues are collected from local taxation, fees, and non-tax revenue such as interest from bank accounts and the net profit from locally owned enterprises. It may be sensible to imagine how local revenue may fluctuate from year to year due to change in economic variables and policy variables; for brevity, these factors are translated into notations below.

Locally Collected Revenues (R1) are the sum of tax and non-tax revenues of all LAOs within the province. According to the local government accounts, these revenues are known as “five groups of revenue,” consisting of the following: 1) local tax revenues, 2) user fees, charges, and fines, 3) property income, 4) net revenue from local enterprises, and 5) miscellaneous revenues. Local taxes consist of land and

building taxes which are assessed from the rental value of land and buildings, farm land (without building or construction), signboard taxes, and animal slaughtering fees. Examples of non-tax revenue are interest from bank accounts (which tends to vary directly to an accumulated fund), garbage collection fees, net revenue from waterworks or pawnshops, etc.

$$(4) R1/N = f(B, A, t, e; z)$$

Where our notations stand for:

B= local tax bases (for instance, land and building tax, signboard tax, land value)

A= local government assets (of which “accumulated money” is one of the components)

t = local tax rates (this in fact includes tax and non-tax rates; local tax rates tend to be uniform over the country; yet, there are many types of user fees in which the local management can propose a change upon approval of the local council, but this is not done frequently for fear of political unpopularity and citizen protest)

e=a parameter that reflects a tax loophole or tax evasion which tends to be higher where there is a more extensive underground economy or informal economic activities.

z=policy variable, for illustration, a rule or policy decision over a tax exemption or deduction which affects local revenue; during the past few years, there were exercises of political power over a reduction of land acquisition tax rate, normally 2 percent of the land value, to the minimum on ground of economic stimulus.

The next sources (and much more important than the own-revenue) are the so-called shared taxes (R2) which include VAT, excise taxes, and natural resource taxes. These revenues are shared according to laws or rules and they are collected by central government agencies; the Revenue Department and the Excise Department under the Ministry of Finance are the principal agencies that collect shared taxes. There are other agencies as well, the Department of Inland Transport collects vehicle fees on an annual basis, the Land Department collects the land acquisition tax, and the Department of Mineral Resources collects royalty fees from petroleum, natural gas and other items according to natural resource extraction laws.

(5) $R_2 = f(k, BC, e, \text{and macro economic indicators})$

BC = the shared tax base (e.g., value-added tax, alcohol tax, and other types of excise taxes) – these tax revenues are assumed to be positively correlated with GDP.

t = tax rates (which are subject to change from time to time, for instance the VAT rate which is currently 7 percent can be changed but cannot exceed 10 percent; alcohol tax and tobacco tax rates are also subject to change occasionally)

k = tax sharing ratio (e.g., 10 percent for the cases of alcohol and tobacco taxes)

e = a parameter that reflects a tax loophole or tax evasion which tends to be higher where there is a more extensive underground economy or informal economic activities.

An intergovernmental grant is a policy variable of interest and is highly important in our context. Intergovernmental transfer is a control variable in which the government has full control and discretionary power to revise the rules about how the amount is distributed among different LAOs. To understand the situation, it is important to take into consideration an institutional setting; in our context, the National Decentralization Committee (NDC), which is chaired by the Prime Minister, plays an important role especially in determining how the grant amount is distributed. The grants are classified into two components: general grants (GG) and specific grants (GS). General grants are allocated according to a formula based on indicators such as population, area, population density; number of school children, elderly, teachers, etc. Specific grants are more complicated as the rules are subject to change from year to year, from one government to another. There are conditional and project based, i.e., a particular local authority applies for the grant based on conditions specified by NDC in principle and operationally by the Department of Local Administration (DLA). Upon approval of the grant committee under DLA, the budget amount (say x million baht) would be granted along with the project approval to the particular local authority. Not all applications are granted. From the local management perspective, general grants are known in advance and the budget amount would be included as part of “the local annual budget” before the fiscal year (1 October). Specific grants are different; because of uncertainty, specific grants cannot be included as part of “expected local revenues” when the local officials prepare and analyze the budget. Most often, approval of a specific grant lags behind the budget cycle; i.e., the grant is settled and distributed (to thousands of local administrations) at about mid-year or toward the end of the fiscal year. If there is unspent money ($x' < x$, where x' = the spent amount of grant, and x = allocated amount), the local administration cannot spend it.

(6) $R3 = GG + GS$

(6') $GG = f(g, N, z)$

(6'') $GS =$ conditional project grants

$R3$ = grant revenue which is classified under 2 forms: general grants and specific grants

GG = General grants, which tend to be allocated (proposed by NDC) with the use of simple indicators that reflect demand for services (N) such as population, the elderly, teachers, etc.: In addition, the unit cost (g), which tends to vary from place to place (office equipment tends to be more expensive in rural areas); the quality of public infrastructure (z , for instance, 1 km of rural road is cheaper than 1 km of urban road).

GS = Specific grants are very difficult to predict and to model. Institutionally, the amount is jointly determined by NDC and the Bureau of Budget, its distribution is under the grant committee under the DLA. From empirical evidence, the amount of funds fluctuated from year to year and the “condition” or “purpose” of projects change frequently; the major parts of GS were about infrastructure construction, repair and rehabilitation (flood protection, canal digging, nursery school improvement, and others).

Data and Evidence

The author relies on secondary data from three sources: The first is from the Department of Local Administration (DLA), all related to local revenues. These are (1) own revenue generated by local administrative organizations, (2) shared taxes or taxes collected by central agencies and later reassigned to local authorities; (3) grant revenue (general and specific). All fiscal figures refer to fiscal year 2011 and they are grouped into 75 provinces as explained earlier. The second source is from the National Income Accounts in which the gross provincial product (GPP) and the percentage shares of industry and services are taken for our hypothesis testing in econometric estimation. Because of time lag, GPP data of the calendar year 2009 is assumed. The third source of data is the provincial poverty index, which is part of the Human Capital Index organized by UNDP.

Hypotheses:

- H1: Own local revenues per capita tend to vary widely over provinces, which are the result of economic inequality (measured by GPP per capita) and the formal productive structure. It may be useful to note that informal economic activities exist in every province—where the informal activities are high, the local tax base is reduced.
- H2: The shared tax per capita that is determined by tax rules and government fiscal policy, which is subject to occasional change by recommendation of the National Decentralization Committee. An allocation of shared tax per capita may be weighed by multiple objectives which are not clearly defined. Similarly to H1, the provincial tax capacities differ widely and thus there may be unequal distribution of shared tax per capita.
- H3: Intergovernmental transfer is allocated by the central government with multiple objectives: (1) to support local government services and to fill the “fiscal gaps” of particular local administrative organizations, i.e., to enhance the supply of local public services; (2) to reduce somewhat the degree of inequality.

Provincial Comparison and Fiscal Disparity

Table 1 provides descriptive statistics that indicate the fiscal disparity between provinces and the GPP which measures provincial production; all figures are expressed in per capita. Local government revenues are the sum of three sources: a) own local government revenue, b) shared taxes, and c) grant revenue. The provincial revenue per capita amounted to 6,036 baht per capita in FY2011. Two important sources of local revenue are from b and c. The shared per capita on average amounted to 2,855 baht, and the grant revenue per capita, 2,702 baht. A simple measure of disparity is used, the ratio of the 90th percentile to the 10th percentile (P90/p10), which is widely used in income distribution literature (Wolff, 2009). The high disparity was most pronounced in the case of own tax revenue per capita; the 90th percentile was 5.57 times that of the 10th percentile. Regarding shared tax per capita, the same measure was 1.97 times and the grant revenue per capita, 1.45 times.

It should also be noted also that there are considerable variations in GPP per capita; for example, the 10th percentile was 41,581 baht per capita and the 90th percentile 272,467 baht per capita.

Table 1: Provincial Fiscal Statistics and GPP Per Capita

	Own tax revenue per capita	Shared tax revenue per capita	Grant revenue per capita	Total revenue per capita	GPP per capita
units=75					
Mean	479	2,855	2,702	6,036	132,906
<u>Percentile</u> 10 th	169	2,058	2,265	4,675	41,581
25 th	216	2,282	2,415	5,200	54,701
50 th	320	2,660	2,679	5,737	81,670
75 th	544	3,065	2,939	6,607	127,048
90 th	938	4,047	3,286	7,661	272,467
p90/p10	5.57	1.97	1.45	1.64	6.55

Source: Department of Local Administration, Ministry of Interior Unit: baht per capita

Table 2 provides another dimension of fiscal inequality. The unit of analysis in this case refers to “regions,” which are categorized into 7 groups, i.e., northeast, north, south, east, west, central, and Bangkok vicinities. Table 2 compares the revenue per capita by regional average and the GPP per capita grouped into regions. Of note are the following: (1) the Bangkok vicinities ranked on top with mean values for own tax revenue per capita and GPP per capita of 1,168 baht and GPP per capita of 349,157 baht; (2) the northeast region ranked on the bottom in both per capita own revenue and GPP per capita; (3) it can hardly be denied that there exists a high degree of fiscal disparity between regions.

Table 2: Regional Statistics of Per Capita Own Revenues and GPP Per Capita Unit: Baht Per Population

	no of Provinces	per capita own revenue		per capita GPP	
		Mean	Median	Mean	Median
Northeast	19	197.2	183.4	46,913	43,920
North	17	292.5	264.0	78,316	72,521
South	14	688.4	426.6	113,406	102,683
East	8	726.5	509.5	293,700	132,262
West	6	454.7	401.6	113,344	116,804
Central	6	530.3	390.0	213,003	103,471
BKK vicinities	5	1,168.3	1,308.1	369,971	349,157
Total	75	479.0	320.5	132,906	81,670

Source: Department of Local Administration, Ministry of Interior

To get a sense of institutional settings, it may be informative to report individual province data, which is in Table 3 where we list the top 10 provinces ranked by local revenue per capita. All top 10 provinces have local revenue per capita exceeding 7,000 baht. By contrast, local revenue per capita for the bottom 10 ranged from 4,200 to 4,800 baht. Provinces are different in terms of area size, population, and number of local administrative organizations.

Table 3 Comparative Statistics of the Top Ten and Bottom Ten Provinces

Pvname	Total revenue per capita (baht)	No. of municipalities	No. of tambon administrative organizations	Population (persons)	Area (sq.km)
Top 10					
Phuket	12,411	9	9	343,062	566
Rayong	9,695	27	40	620,923	3,817
Chonburi	8,792	44	53	1,199,651	4,629
Saraburi	8,260	31	77	613,250	3,359
Nonthaburi	7,978	14	31	1,092,177	646
Ayuthaya	7,837	36	121	777,405	2,318
Samutprakarn	7,705	18	30	1,174,834	966
Samutsakorn	7,661	12	25	488,989	880
Suratthani	7,421	31	106	997,220	14,410
Phetchaburi	7,184	13	71	460,056	5,740
bottom 10					
Nakornphanom	4,721	17	86	702,469	5,401
Mahasarakam	4,699	18	124	939,716	5,446
Ubonratchathani	4,675	39	199	1,809,214	15,648
Buriram	4,639	53	155	1,541,231	10,335
Sisaket	4,596	25	191	1,445,432	8,187
Sakonnakorn	4,466	43	97	1,119,789	9,219
Roiet	4,427	58	144	1,308,103	7,793
Nongbualamphu	4,405	24	43	501,854	4,143
Surin	4,365	25	147	1,362,352	9,377
Nakornratchasima	4,285	76	257	2,570,582	20,844

Source: Department of Local Administration, MOI

Table 4 shows the distribution of provinces measured by per capita total revenue and ranked from low to high (column A). At the bottom, there were 5 provinces with less than 4,500 baht per capita total revenue. The majority of provinces have 5,500 – 7,500 baht per capita. On top, there were two provinces that enjoy more than 10,000 baht per capita. Column C displays the distribution of own revenue per capita, column D the shared taxes per capita, and column E the grant per capita. It should be obvious that the grant allocation did not perform an equalizing role according to the normative objective, despite the fact that the grant allocation was less unequal compared with the own revenue per capita and the shared tax per capita (measured by the Gini coefficients as presented in Table 5).

Table 4: Distribution of Provinces Ranked by Revenue Per Capita

A per capita total revenue	B Frequency	C own revenue	D per capita shared tax	E Grant
4500	5	191	2,073	2,126
5000	8	195	2,137	2,446
5500	15	248	2,390	2,643
6000	13	326	2,575	2,808
7500	26	526	3,014	2,951
9000	6	1,149	4,538	2,352
10000	1	1,615	5,418	2,662
12500	1	3,253	6,336	2,822
	75			

Source: Department of Local Administration, Ministry of Interior

Table 5 provides inequality measures (by Gini coefficient) of own revenues, shared taxes, and grants (all by per capita). It is apparent that inequality was most pronounced in the case of own revenue, followed by shared taxes and grant revenue per capita.

Table 5: Inequality Measures (by Gini Coefficient) of the Provincial Revenue Sources

Per capita	Gini coefficient
Own revenue	0.41
Shared tax	0.15
Grant	0.09
total revenue	0.11

Source: Department of Local Administration, Ministry of Interior

Econometric Estimate of Local Revenue by Sources

This section reports the determinants of provincial revenue using regression technique. The dependent variables of interest are: (1) own revenue per capita, (2) shared taxes per capita, and (3) grant revenue per capita. These three variables are assumed to be influenced by economic, social, and political factors (government policy). It is conceivable that the residual terms may be correlated positively or negatively, so it is sensible to adopt the seemingly unrelated regression (SUR) technique. The findings are reported in Table 6 along with observations and discussion.

The first equation refers to own revenue per capita as a dependent variable. From the estimate we take note of the relationship. First, own revenue per capita was found to be positively and significantly responsive to GPP per capita with an elasticity of 0.76; that is a 100 percent change in GPP per capita induce 76 percent change in own revenue per capita. According to tax study, tax elasticity can be greater than 1 (highly elastic) and less than 1 (inelastic). The estimated parameter of 0.76 should be interpreted that the local tax elasticity is less than unitary elastic; this might be the consequence of factors such as tax deductions, tax avoidance, and tax loopholes, which deserve further in-depth study. Second, it seems to be the case that provincial area had a negative impact on own revenue per capital (with 10 percent confidence level); this is not surprising, as the large provinces (in area) tend to be less populated. And lastly, the percentage share of industry in GPP had a positive impact on own tax revenue per capita but not the service sector.

The second equation in which the dependent variable refers to the shared tax per capita indicates that: (1) GPP per capita was strongly and positively related to the shared tax per capita, with the beta coefficient of 0.26; (2) the percentage shares of industry positively and significantly impacted the beta coefficient; and (3) similar to industry, the percentage share of service had a positive impact on local shared tax although the magnitude was somewhat less than the case of industry.

The third equation refers to the grant revenue per capita, which is tested against a different set of explanatory variables. It appears that: (1) grant amounts tend to vary with the own revenue per capita and inversely with the shared tax per capita; (2) the larger provinces (measured by population) tend to receive a smaller amount of grant per capital; (3) those provinces with a higher number of local administrative organizations (PAO, municipalities, and TAOs) received higher grants per capita; and (4) the poverty index failed to exert any significant impact on grant allocation, which is contrary to the hypothesis that a greater grant amount is allocated to the poor provinces than the rich provinces.

Table 6: Regression Estimates of Provincial Revenue Sources

	Coefficient	std err	z	prob > z 	
Eq 1 own tax revenue per capita, ln					
Lncapgpp	0.7560	0.0513	14.73	0.00	GPP per capita, ln
Lnpop	0.1181	0.0774	1.52	0.13	population, ln
Lnarea	-0.0989	0.0514	-1.92	0.06	area, ln
Service	0.1979	0.3001	0.66	0.51	percent service sector
Industry	1.4484	0.3849	3.76	0.00	percent industry sector
_cons	-4.0673	1.0546	-3.86	0.00	constant term
Eq 2 shared tax per capita, ln					
Lncapgpp	0.2629	0.0182	14.48	0.00	GPP per capita, ln
Lnpop	-0.0103	0.0276	-0.37	0.71	population, ln
Lnarea	-0.0299	0.0180	-1.67	0.10	area, ln
Service	0.2745	0.1043	2.63	0.01	percent service sector
Industry	0.6517	0.1339	4.87	0.00	percent industry sector
_cons	4.9774	0.3778	13.17	0.00	constant term
Eq 3 grant revenue per capita, ln					
Lncaptax	-1.0937	0.1190	-9.19	0.00	shared tax, ln
Lncaptaxown	0.3922	0.0465	8.43	0.00	own revenue, ln
Lnpop	-0.3196	0.0542	-5.89	0.00	population, ln
Lnnolao	0.1759	0.0574	3.06	0.00	no of LAOs
Poverty	-0.1363	0.1324	-1.03	0.30	percent under poverty
_cons	17.7358	0.9499	18.67	0.00	constant term
Correlation matrix of residuals					
Lncaptaxown	1				
Lncaptax	0.440	1			
Lncapgrant	-0.374	0.464	1		
Breusch-Pagan test : Chi2 = 41.1 , Prob=0.0					
log likelihood	Df	AIC	BIC		
124.00	18	-212.00	-170.28		

Source: The author's calculation based on data as earlier described.

Simulated Redistributive Exercises

We can see from Table 4 that the grant allocation failed to perform an equalizing role. It may be sensible to imagine a policy simulation exercise with the prime objective of lessening inequality² at least to a certain extent (but not to eliminate it altogether). We shall suppose that the National Decentralization Committee set up a policy to redesign the grant allocation as an instrument to lessen the horizontal imbalance to some extent and requested advice from an academician. In fact there is an infinite number of ways to design redistributive policy measures. Herein we adopt the concept called the “Rank Preservation” principle, as suggested by Wolff (2009):

The notion here is that an equitable tax system should leave rank order of tax units unaltered. If family A was better off than family B before taxes, it should remain after tax it asserts that all relative positions must be maintained (586).

That is to say, we want to redesign the grant allocation with the objective of serving an equalizing role and yet preserving ranking.

We assert two options. The first option is to earmark a central government fund (x million of baht) to be allocated to the poor provinces. We adopt the concept of “poverty gap” (Amartya Sen) and assume that if all provinces need a total revenue of 5,500 baht per capita³ to perform the minimum local public services, it makes sense to design the granting formula to fill the poverty gap. From Table 4 we learn that there are 28 provinces with a total revenue per capita below 5,500 baht. To achieve the policy objective, we propose an equalizing grant according to:

$$g_i = (z - x_i)^\beta \text{ under the condition that } g_i > 0 \text{ if } z > x; \text{ and } g_i = 0 \text{ if } z \leq x$$

given the budget constraint, i.e.,

$$\sum g_i \leq B^*$$

Where the notations mean:

- g_i = an equalization grant for the i^{th} province
- z = the provincial fiscal needs in order to provide adequate public services, measured in terms of per capita
- x_i = the provincial revenue per capita
- β = a policy fulfillment parameter, $0 < \beta < 1$; $\beta = 1$ if the policy is able to fulfill the gap
- B^* = budget available for an equalizing objective

In FY2011, all 75 provinces (which are our units of analysis) commanded fiscal resources of 332,665 million baht from 3 sources as indicated in Table 7. We shall assume that the NDC proposes an additional fund to be earmarked for an equalizing role; for simplicity, the policy objective is to raise the per capita total revenue to 5,500 million baht, which is below the average figure (6,036 baht per capita) and the median level (an amount equivalent to 30 percent of the grant amount (146,871 million baht as of FY2011). The earmarked funds would amount to 44,061 million baht; the NDC might opt for a stronger equalization role, 40 percent or 50 percent, which would imply a larger fund to be earmarked for this objective (as indicated in Table 7).

Table 7: Earmarked Fund for Equalization to Lessen the Horizontal Fiscal Imbalance

Local revenue (75 provinces combined)		
	million baht	
own revenue	26,247	
shared taxes	159,546	
grant revenue	146,871	
	<i>332,665</i>	
<u>Simulation</u>		Earmarked fund (million baht)
	28 provinces will be better off	
target 5,500	beta = 0.8	4,661
target 5,500	beta = 0.9	9,020
target 5,500	beta = 0.95	12,564
target 5,500	beta = 1	17,514

Source: Department of Local Administration, Ministry of Interior

Conclusion

This paper presented a study on local government finance in Thailand with special reference to the issue of horizontal fiscal imbalance with 75 provinces as our units of analysis. It should be noted that “province” as used in this study refers to the sum of revenue or grant amount of all local administrative organizations in a particular province. First, we performed a comparative analysis by province and by region to realize the fiscal disparity with highlights on: 1) own revenue per capita, 2) shared taxes per capita, and 3) grant revenue per capita. Fiscal inequality is confirmed by evidence and was found to be most pronounced in own revenue per capita, followed

by shared taxes per capita. We tested the relationship by an econometric technique called seemingly unrelated regression on the ground that the residual terms are correlated; if so, the OLS (ordinary least squares) is inappropriate. The findings yield some interesting relationships worth discussion and further investigation. For instance, the estimated parameter shows a local revenue elasticity of 0.75 in response to a one percentage change in GPP per capita, which implies that tax evasion or tax loopholes exist. Of particular note is the fact that where the percentage share of industry in GPP is high, the tax revenue per capita also tends to be higher. What is surprising and contrary to prior expectations is that the grant allocation fails to perform an equalizing role. We earlier presumed that the government (the Decentralization Committee) designed grant for equalization. This hypothesis, however, is unfounded. Next, we performed a policy simulation with normative objective to close the fiscal gap (similarly to the notion of closing “poverty gap” suggested by Amartya Sen with income transfer from government targeted for poor people, defined by income under the poverty line). Two parameters are assumed in our exercise: first, z^* which refers to the needed amount of revenue per capita to poor provinces for upgrading public services to the “standard” level; second, the policy fulfillment parameters β which may lie between 0 and 1. We took into consideration the “Rank Preservation” concept, that is, to avoid any change in the ranking between provinces. Under the assumptions of $z^* = 5,500$ baht per capita, and $\beta=0.95$, an earmarked fund of 12,564 million baht would be sufficient to achieve the objective of narrowing the fiscal gap (not to eliminate the gap completely). This budget amount would benefit the bottom 28 provinces (mostly in the northeast region) on grounds of reducing fiscal disparity. How to close the fiscal gap is an interesting topic to pursue further. Analytical exercise only shows there are ways to close the gap and other policy options worth research.

Endnotes

- ¹ There are many examples from numerous countries that intergovernmental transfer is designed with equalization as the prime objective, the case of Japan is very well illustrated and detailed information how the grant were allocated into prefecture (47 units) in Mochida (2007).
- ² A quotation from Boadway (2006) reads, "The objective of fiscal equity seems to represent a reasonable compromise between horizontal equity and the decentralized decision making that is a basic characteristic of federalism....The differences in tax capacity and needs should be fully compensated by federal equalizing transfer, that is, resources from better-off states should be transferred to those less well-off states so that comparable public service could potentially be delivered in all states using comparable tax systems..." (361).
- ³ Policy judgment over the criteria of grant and the policy of closing fiscal gaps are difficult to avoid, which is in agreement with Boadway's observation as quoted herewith: "the case for equalization transfer, like the case for all government policies that involve elements of redistribution, relies on some non-trivial judgments. These include first and foremost judgments about the equity basis for such transfer. There must be a consensus across the federation that horizontal equity is an accepted value, that is that persons ought to be treated alike no matter where they reside" (377).

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Appendix

Table A1: Provincial Fiscal Statistics, FY2011

Pvname	Own tax Revenue Per capita	Shared taxes Per capita	Grant revenue per capita	Total revenue per capita	Gpp per capita	Population
		Baht			baht	Person
Amnat Chareon	161	2,277	2,796	5,234	35,986	371,498
Angthong	417	3,223	3,344	6,983	87,410	282,803
Ayuthaya	931	4,498	2,407	7,837	620,773	777,405
Buriram	186	2,022	2,430	4,639	40,114	1,541,231
Chacheongsao	716	3,393	2,560	6,669	361,569	669,422
Chainat	339	2,648	3,620	6,607	90,424	332,442
Chaiyaphum	159	2,027	2,939	5,125	46,922	1,117,370
Chantaburi	488	2,974	2,813	6,275	80,734	512,350
Chiangmai	544	3,083	2,525	6,152	86,212	1,635,194
Chiangrai	294	2,395	2,510	5,200	65,221	1,193,103
Chonburi	1,447	4,782	2,564	8,792	441,062	1,199,651
Chumphon	755	2,735	2,795	6,285	108,589	486,437
Kalasin	183	2,207	2,678	5,069	47,358	980,348
Kamphaengpet	263	2,897	2,225	5,385	120,164	726,511
Kanjanaburi	328	2,555	2,667	5,550	104,022	813,764
Khonkaen	290	2,448	2,378	5,116	82,211	1,764,058
Krabi	791	2,680	2,534	6,005	137,497	430,639
Lampang	353	3,049	2,985	6,386	72,521	760,848
Lamphun	426	2,825	2,795	6,047	160,500	403,031
Loei	232	2,403	2,864	5,498	70,127	618,026
Lopburi	342	2,651	2,527	5,521	95,412	750,668
Maehongson	226	2,600	2,910	5,736	53,079	226,561
Maharakam	165	2,058	2,475	4,699	41,593	939,716
Mukdahan	216	2,362	2,920	5,497	49,416	339,016
Nakhonnayok	342	2,739	2,964	6,045	80,041	252,525
Nakornpranom	182	2,053	2,486	4,721	38,688	702,469
Nakornprathom	789	3,305	2,371	6,465	152,225	858,700
Nakornratchasima	320	2,358	1,606	4,285	61,136	2,570,582
Nakornsawan	315	2,571	2,324	5,210	80,498	1,057,875

Table A1: Provincial Fiscal Statistics, FY2011 (Continued)

Pvname	Own tax Revenue Per capita	Shared taxes Per capita	Grant revenue per capita	Total revenue per capita	Gpp per capita	Population
NakonSithammarat	311	2,340	2,731	5,382	80,816	1,511,966
Nan	213	2,543	3,023	5,779	54,701	475,453
Narathiwat	172	2,069	2,907	5,148	71,786	728,579
Nongbualamphu	146	2,099	2,160	4,405	36,734	501,854
Nongkhai	268	2,282	2,430	4,979	45,049	506,476
Nonthaburi	1,008	4,887	2,083	7,978	127,048	1,092,177
Pattalung	375	2,252	2,928	5,556	65,750	508,203
Pattani	174	2,252	3,121	5,547	64,157	647,433
Phangnga	724	3,335	2,916	6,976	139,878	251,543
Phayao	225	2,465	2,979	5,669	57,372	484,702
Phetchabun	197	2,420	2,381	4,999	82,902	994,658
Phetchaburi	549	3,349	3,286	7,184	129,586	460,056
Phichit	214	2,915	3,118	6,247	72,149	552,550
Phitsanulok	365	2,897	2,234	5,496	82,817	840,318
Phuket	3,253	6,336	2,822	12,411	262,529	343,062
Prachinburi	413	3,040	2,276	5,729	165,892	465,568
Prachuab Kirikhan	690	3,206	2,841	6,737	131,574	506,715
Prae	264	2,660	3,188	6,112	48,937	460,684
Prathumthani	1,327	3,768	1,844	6,940	349,157	973,888
Ranong	399	2,755	2,825	5,979	104,625	182,467
Ratchaburi	438	2,874	2,394	5,707	151,631	833,324
Rayong	1,615	5,418	2,662	9,695	1,052,575	620,923
Roiet	143	2,019	2,265	4,427	43,920	1,308,103
Sakonnakorn	187	1,973	2,306	4,466	41,581	1,119,789
Samutprakarn	1,409	4,477	1,819	7,705	528,899	1,174,834
Samutsakorn	1,308	4,047	2,306	7,661	692,525	488,989
Samutsongkarm	365	3,000	3,370	6,736	81,581	192,889
Saraburi	789	4,536	2,935	8,260	272,467	613,250
Satun	293	2,178	3,513	5,984	99,624	296,039
Singburi	364	2,962	3,332	6,658	111,530	214,063
Songkhla	748	3,239	2,648	6,635	119,041	1,348,566
Srakaew	261	2,212	2,447	4,919	69,091	533,367

Table A1: Provincial Fiscal Statistics, FY2011 (Continued)

Pvname	Own tax Revenue Per capita	Shared taxes Per capita	Grant revenue per capita	Total revenue per capita	Gpp per capita	Population
Srisaket	132	1,959	2,506	4,596	36,142	1,445,432
Sukhothai	244	3,109	2,772	6,125	61,912	599,877
Suphanburi	359	2,642	2,736	5,737	81,670	841,084
Suratthani	938	3,065	3,418	7,421	138,034	997,220
Surin	156	1,915	2,294	4,365	38,681	1,362,352
Tak	309	2,328	2,485	5,123	82,997	532,974
Trad	531	2,830	2,733	6,094	98,632	220,286
Trang	454	2,664	2,597	5,716	100,740	621,599
Ubon Ratchathani	169	2,092	2,415	4,675	44,950	1,809,214
Udonthani	262	2,475	2,679	5,416	52,012	1,540,499
Utaithani	225	2,752	3,225	6,201	77,374	327,476
Uttradit	294	2,625	3,452	6,371	72,009	459,662
Yala	250	2,886	3,283	6,419	94,611	481,904
Yasothon	190	2,149	2,979	5,319	38,722	538,934

Source: Department of Local Administration, Ministry of Interior

Table A2: Regression Estimates of Local Revenues: unit=province

Variable	OLS	Robust	Meaning
Lncapgpp	0.8928 9.19	0.9139 9.16	Gpp per capita, log (t-statistics)
Lnpop	-0.1138 -1.21	-0.0706 -0.73	population, log
Lnarea	0.0885 1.18	0.0673 0.88	area, log
Service	0.4489 1.04	0.3848 0.87	Percent service in GPP
Industry	2.24 4.84	2.3607 4.97	Percent industry in GPP
_Iregcode_2	-0.5169 -3.16	-0.5732 -3.41	North
_Iregcode_3	-0.1539 -0.75	-0.1799 -0.85	South
_Iregcode_4	-0.4809 -2.32	-0.5309 -2.49	East
_Iregcode_5	-0.4099 -2.11	-0.4787 -2.4	West
_Iregcode_6	-0.4617 -2.31	-0.5314 -2.6	Central
_Iregcode_7	0.0285 0.12	-0.0615 -0.26	BKK vicinities
_cons	-4.2342 -3.4	-4.834 -3.78	constant term
N	75	75	
log likelihood	0.6616		
F	39.9587	38.7727	
R2	0.8746	0.8713	

Table A3: Regression Estimates of the Shared Taxes

Variable	OLS	Robust	Meaning
Lncapgpp	0.3329 8.68	0.3976 11.23	gpp per capita, log
Lnpop	-0.003 -0.08	-0.0302 -0.88	population, log
Lnarea	-0.0512 -1.73	-0.0287 -1.05	area, log
Service	0.1267 0.75	0.0434 0.28	Percent service in GPP
Industry	0.746 4.09	0.7948 4.72	Percent industry in GPP
_Iregcode_2	-0.0712 -1.1	-0.179 -3	North
_Iregcode_3	-0.1761 -2.16	-0.2831 -3.76	South
_Iregcode_4	-0.1935 -2.37	-0.3325 -4.4	East
_Iregcode_5	-0.1691 -2.2	-0.2745 -3.87	West
_Iregcode_6	-0.15 -1.91	-0.2891 -3.98	Central
_Iregcode_7	-0.1698 -1.84	-0.3428 -4.01	BKK vicinities
_cons	4.3897 8.94	3.9192 8.64	constant term
N	75	75	
Log likelihood	70.4447		
F	34.4991	39.0472	
R2	0.8576	0.8721	

Table A4: Regression Estimates of the Grant per Capita

Variable	OLS	Robust	
Ln captax	-0.0352	-0.03	shared taxes per capita,
	-0.47	-0.39	Log
Ln pop	-0.128	-0.1233	population, log
	-5.16	-4.8	
Poverty	-0.0678	-0.0869	poverty rate
	-0.49	-0.6	
_Iregcode_2	0.0526	0.0426	North ¹
	1.25	0.98	
_Iregcode_3	0.0881	0.0714	South
	1.86	1.45	
_Iregcode_4	-0.0228	-0.0343	East
	-0.39	-0.56	
_Iregcode_5	0.0739	0.0606	West
	1.25	0.99	
_Iregcode_6	0.0962	0.0836	Central
	1.49	1.25	
_Iregcode_7	-0.1784	-0.197	BKK vicinities
	-2.46	-2.62	
_cons	9.8595	9.7705	constant term
	14.77	14.11	
N	75	75	
Log likelihood	64.0946		
F	8.9971	7.8174	
R2	0.5547	0.5198	

Chapter 7

Jurisdictional Spillovers and Decentralized Local Governments

Judith I. Stallmann and Eunice Patron

Abstract

Decentralization creates the potential for competition between local governments which, as with competition in the private market, can lead to lower prices and innovations in new goods and processes. Public finance theory points out that there are some goods that a competitive market does not provide at efficient quantities. It then goes on to lay out an economic role for government in a market economy. This paper applies concepts from public finance about failures of the competitive market to competition among decentralized governments. Just as competition among firms does not lead to efficient outcomes in cases of market failures, in these same cases competition among decentralized local governments may not lead to optimal outcomes for their citizens because of jurisdictional spillovers. Lack of optimal outcomes suggests the need for flexible governance among decentralized local governments to be able to provide closer to optimal levels of public goods and services.

Much of the research on intergovernmental relations focuses on the hierarchical relations between levels of government. While each level has some modicum of autonomy on certain issues, generally the higher levels of government have oversight of the lower levels and some ability to restrict their activities. At the same time lower levels may have incentives to try to shift costs to higher levels of government (Oates, 1999).

The focus will be on present concerns relations among decentralized local governments with no hierarchical relations and thus, no powers of oversight or ability to restrict the actions of other local governments. A good deal of this literature is focused on environmental issues.

The initial part of this paper is drawing on the public finance literature, which suggests roles for government in a market economy when the market cannot or is not designed to provide certain desirable economic outcomes. They will be given focus then applied to decentralized local governments to show that in some cases

competition among local governments can lead to undesirable results. This suggests flexible governance institutions among local governments that change to fix the issue to be addressed. Because each country structures its local governments differently, it is not possible to provide examples that fit for every country.

The Economic Role of Government in a Market Economy

Public finance theory suggests there are five areas where the market cannot be counted on to provide desirable economic outcomes.¹ These five areas suggest an economic role for government in a market economy:

1. Maintain competitive market conditions because a competitive market provides an efficient allocation of resources (given an initial distribution) for the society;
2. Ensure the efficient provision of goods and services that the market by itself will not provide at efficient quantities;
3. Equity;
4. Economic stability;²
5. Economic growth.

There are some important underlying assumptions about a competitive market. But even if some are violated it is possible for the market to provide outcomes that are nearly efficient. But public finance theory has identified several instances where it is difficult for the market to provide efficient outcomes. This paper will focus on the sub-items under No. 2, above, and also address equity.

The market provides private goods efficiently. A private good has two characteristics: it is rival and excludable. Rival means that use by one person decreases its value of use for another, or makes it impossible for another to use (it is completely consumed). Excludable means that property rights are clear and that it is not cost prohibitive to enforce that property right. These two characteristics mean that to own the good, the full costs of the good must be paid or the original owner will not transfer the property right (excludable) and once owned the new owner receives all of the benefits of the good (rival). People will acquire goods to the point that their additional or marginal benefit of another unit is equal to their additional or marginal cost of acquiring that unit. But there are goods that do not have these characteristics and market outcomes are not efficient. This is often referred to as market failures.

Goods with external costs or negative externalities mean that the owner does not pay the full costs of producing or consuming the good. But costs must be paid and that means that they fall on other members of society. These are the external costs.

The economic actor will produce or consume to where their marginal benefit equals their marginal costs, but their private marginal costs are less than the social marginal costs. That means the actor will use the good beyond what is socially efficient—the market will give an inefficient outcome. A common example is pollution.

Goods with external benefits or positive externalities mean that the economic actor cannot capture the full benefit of their action. As a result, they will use the good to the point where private marginal cost equals private marginal benefit and will ignore the external benefits to others. In this case the market will provide a quantity that is less than is socially efficient. A common example is vaccinations, which protect not just the person who is vaccinated, but lower the chance of the disease spreading, thus providing benefits to others.

Public goods are both non-rival and non-excludable. Non-rival means that use by one does not decrease its value in use by others. It is non-excludable, meaning that once it is produced, it is cost prohibitive to keep others from using it. That is, charging for the good is not feasible. In this case there is no profit incentive for the market to produce the good. A common example is national defense.

Common pool resources are rival but non-excludable. Because it is rival, the incentive is for an economic actor to acquire or use as much of the rival good as possible before another actor can acquire or use it. Because it is non-excludable it is cost prohibitive to limit use. Common examples include ocean fisheries, common grazing grounds and use of water resources. Ostrom won a Nobel Prize in Economics for her work on common pool resources (Ostrom et al., 1999).

Information has several sides to it. If there is no full information the market is not efficient. As with all goods, there are costs to obtain it. In addition information, depending on the type of information, can be rival (once one person uses it, it is of little value to others) or non-rival and excludable or non-excludable. Stiglitz (2008) in his Nobel lecture points out these characteristics of information.

If the costs of obtaining the information are higher than the benefits to the economic actor, the information will not be obtained. But if the information is non-rival and costs are less than the marginal benefits to society, then it would be efficient for society to obtain the information. Once information is known, it may be difficult to limit access to it and exclude others. If it is non-rival and non-excludable it is a public good. An example of the costs of obtaining information is the nutritional content of foods. It is costly for the individual consumer to obtain, but the benefits to society of having the information are large. Once the nutrition information is known it can easily be available to all.

Additionally if one party to a market exchange has information that the other does not have, that information can be used to their advantage and lead to perverse market outcomes. An example of asymmetric information is the used car market. Because the quality of the car that is offered for sale is not known, it may increase the probability that used cars are low quality (Steinman, 2011).

Equity is not an outcome the market is designed to provide, but is generally accepted that it is a desirable outcome. To complicate matters, even within a given society there is no generally accepted definition of equity. Equity is fairness, not equality. Thus equity is inherently a role for government. Stiglitz (2012) argues that equity is important, not only for its own sake, but also for economic growth.

Unitary Government Versus Decentralized Governments

A unitary government holds a monopoly over the geography it governs, the citizens within that geography and some of the goods and services it provides. The private sector may provide similar goods and services in some cases. The presence of these substitutes makes the government monopoly weaker. How weak depends on the institutional rules in the country about whether, and under what conditions, the private sector can provide competing goods and services.

Basic economics tells us that monopolies, because they lack competition, are inefficient—prices are higher and quantities supplied are lower than if there were competition. It also suggests that monopolies, without competition, do not have the incentive to innovate. As a result they become outdated in their technologies, ways of doing business and serving customers.

Applying the monopoly framework to governments suggests that the public revenues allocated to certain services are higher per unit of service (called the tax price) than for the private sector in a competitive market. In addition to costs, there is also the restriction of quantity that monopolies use to maintain higher prices. In the case of public telecommunications monopolies the restriction of quantity is manifested in waiting lists for services (often several years) and the quality of the service provided, such as ability to secure a dial tone. Privatization without competition does not completely solve the issue; if the state monopoly merely becomes a private monopoly, prices will still be higher and numbers served lower than with competition (Stiglitz, 2000). Bayliss (2001) found water system privatization in Puerto Rico, Trinidad and Tobago led to price hikes with no improvement in services. Birdsall and Nellis (2003) found that privatization of the electrical system in the Dominican Republic led to both

higher prices and decreased service. Competition in many countries came in the form of new technologies such as cell phones competing with land lines.

Decentralized governments are weak monopolies at best. A decentralized local government still has a monopoly over its geographic space, but its monopoly over citizens is much weaker. Given that citizens have some option of choosing where they live, and thus their local government (Tiebout, 1956), local governments are weak monopolies at best. How much weaker will depend on ease of transportation and citizens' preference for and against commuting and migration. Thus, there is the potential for competition between local governments which can lead to lower costs of local public goods and services, larger quantities of services and innovations in services, such as quality or delivery mechanisms.

For example, the US states have been called laboratories to try new ideas because they can choose to do some things each in their own way (Brandies, 1932). Many federal policies are based on policies and programs started and "tested" at the state level. The national health care law going into effect incrementally in the US is based on state health care programs in Massachusetts and Hawai'i.

As with the market, the other side to competition is that there is no guarantee that competition between decentralized local governments will provide desirable outcomes in the same cases for which the private market does not provide desirable outcomes. When speaking of governments, the focus shifts from the action of individuals to the actions of governments and their impacts on other jurisdictions. These are called jurisdictional spillovers and are most common with same goods: negative externalities, positive externalities, public goods, common pool resources and information. Oates and Schwab (1988) found that even without jurisdictional spillovers, provision of environmental quality can be below optimal levels. This suggests that flexible governance mechanisms between local governments may need to work toward those ends. Several of these are examined below in the context of decentralized local governments.

External Costs

Common examples of external costs are pollution generated in one jurisdiction that affects another. An example of this at the international level is sulfur dioxide emissions from power plants in the US drifting into Canada, causing acid rain and killing Canada's lakes and forests. Needless to say, this affected relations between Canada and the US. The US first instituted regulations requiring power companies to use specific

technologies to reduce sulfur dioxide. These were expensive and did not reduce emissions as much as hoped. In addition, there was no incentive for technological innovation, because the law required a specific technology. In the 1990s the US instituted a cap and trade policy for the largest power plants in the eastern US and this resulted not only in reduced emissions for Canada and the eastern US, but also technological innovations that reduced the costs of energy production (Portney, 2003; Chestnut and Mills, 2005).

Sigman (2002) reports that rivers that flow between states are most polluted at the borders. That is, those upstream have less incentive to reduce pollution as it enters another state. The same river is less polluted in the interior of the state, where the costs of such pollution are borne by the citizens of the state. In another study Sigman (2005) compared states that had been given authority by the federal Environmental Protection Agency (EPA) to set and enforce water quality standards (within federal guidelines) with those states without such authority. States with the authority provided four percent more pollution to downstream states than did states functioning under federal authority. This means that the states chose to set their standards to minimize costs to them, but which increased external costs downstream.

An example that I observed is a county in Texas, which built a prison on the edge of a town. This is an area of low annual rainfall, and to save money the county did not install a storm water system even though a prison has a lot of impervious surface. Now when it does rain, water flows down the main street of the town, overwhelms the town's storm water system and several times has flooded the businesses on main street. It was cheaper for the county but caused flooding of the businesses on main street; that is, they bore the costs of the decision by the county to lower its costs.

This issue easily leads to adversarial stances. Governance mechanisms that encourage collaboration between jurisdictions are needed. An independent facilitator or mediator, perceived by both parties as unbiased, may be needed if collaboration between the affected governments does not resolve the issue (Lackey, Freshwater and Rupasingha, 2002).

External Benefits

Jurisdictions may take actions that have the potential to benefit other jurisdictions but may not take those benefits into account in their decision making. A local jurisdiction may build a road that connects to a road in another jurisdiction, but may only build the

road to its standards without taking into account those of the neighboring jurisdiction. It is common to see a change in road quality at the borders of jurisdictions. If the two jurisdictions collaborated, the road could be built to standards that fit the needs of both jurisdictions. This might require neighboring jurisdictions to co-finance roads. Another example is that a jurisdiction may provide high quality education, and other jurisdictions benefit by hiring those graduates.

Common Pool Resources

When jurisdictions share a common pool resource there is an incentive for each jurisdiction to extract as much from the resource as possible without taking into account the impact on the other jurisdiction that shares the resource. Rivers are a common example. The Missouri River in the US flows through six states before it empties into the Mississippi River. In the northern states, there is low annual rainfall and the river is fed by snow melt. Reservoirs were built to capture the snowmelt as flood control measures and for the water to be released for irrigation later in the season. In addition, dams were built for hydroelectricity. Over time the reservoirs became popular as recreation areas, which increased economic development in the region of each reservoir. Further downstream, the river also is used to transport grain by barge. In years of low water levels, Missouri, the final downstream state, wants water released from the reservoirs upstream to maintain the level of water needed for barge traffic. The upstream reservoirs are reluctant to release water because in drought years it could have negative impacts on irrigation and on recreation in their regions. Because it is a common pool resource, all states are trying to capture the benefits of water levels that maximize their state economies without consideration for states up and downstream.

Public finance theory suggests that in the case of jurisdictional spillovers, responsibility for the resource might be assigned to a higher level of government that includes all of the jurisdictions (Rosen, 2005). This is the case of the Missouri River, which is managed by a federal agency, the Army Corps of Engineers, with a manual on the priorities for river management. That does not mean that the manual can cover all situations and it is possible that over time some economic uses have become more important than others and the manual may need revision. For example, studies in 2004 indicate that non-hydro power plants that use water from the Missouri River for cooling would have to pass increased costs to consumers due to low water levels (Krause and Womack, 2004; FAPRI, 2004).

While the federal government has the authority to manage the river, that does not mean that there are no longer disputes between states, and states may even dispute

the decisions by the federal government. These disputes have traditionally ended in federal courts, which have jurisdiction over disputes between states. More recently, there has been an attempt to move beyond the formal governance system of a federal agency to include citizens and state, local and tribal government representatives holding dialogues on the issue to feed information into the more formal governance structure (US Army Corps of Engineering, 2012)

Tax bases are also a common pool resource as citizens of one jurisdiction are taxed by another (called tax exporting) (Rosen, 2005). For some types of taxes, tax exporting is much easier and more common than others. If local jurisdictions can choose from a variety of taxes to impose, they may choose those that are easier to impose on people outside the jurisdiction. One example of this is the Missouri local option sales tax. The state has a sales tax and local jurisdictions – municipal and county governments – can choose to impose an additional percentage above the state percentage. Particularly in urban areas where there are multiple jurisdictions – several counties and dozens of municipalities – consumers easily cross jurisdictional boundaries to shop. Thus the various jurisdictions are competing for taxable sales – the tax base. As part of that competition, they attempt to attract retailers to their jurisdictions using many kinds of tax and other incentives. But they do not focus on attracting new retailers to the region; instead they often offer incentives to retailers to move from one jurisdiction to another within the urban region. It is common to see abandoned retail space as the retailer moved just across the jurisdictional boundary. Ingraham, Sincer and Thibodeau (2005) show how firms receiving incentives have cannibalized retail sales from other stores in the Dallas area. The Brookings Institute (2002) found that the competition for local sales taxes led to sprawl in the St. Louis Metropolitan region. Besides loss of tax base when a business is recruited to another jurisdiction, sprawl can lead to additional costs for surrounding jurisdictions – congestion (an example of external costs), the need to build new infrastructure, etc. An agreement to share tax revenues among local jurisdictions could lead to fewer subsidies given to retailers (which would allow the public revenues to be used for other purposes) without reducing total taxable sales.

Public Goods

While public goods are often thought of in national terms – national defense – there are also local public goods available to those who live in a jurisdiction. But because it is difficult to exclude others from the good, those who live in other jurisdictions may benefit, either by visiting, shopping or working in the jurisdiction or the benefits spill across jurisdictional borders.

Information

Jurisdictions face several information issues. Information may be difficult for local governments to obtain for a variety of reasons. It is costly to do the research necessary to create new information (jurisdiction-specific information may be needed) but it may also be costly to search for information that already exists. Further, information, once found, may be useful for a limited time only. When the context changes, new information may be needed.

The difficulty of seeking information is compounded when public officials are volunteer, part-time, lack training in management and budgeting and/or not skilled in using technology to access information.

For example, I built a spreadsheet with fourteen years of budget information for the 88 smallest counties in the state of Missouri. It simply provided the data and graphed trends in revenues, expenditures and tax bases. An extension agent using it with county officials reported that the trend information was new to them. When county officials present a new budget, the state, requires that it include the final budget for the previous fiscal year, the budget as passed for the current year and the projected budget for the next year (that is the new budget they are working on). This provides a three-year view of the budget. Even though they have the data, setting up an additional spreadsheet that tracks long term trends requires extra work for which they may not have the workforce, or it had not occurred to them that there was information to be gained by taking a longer term view. What they learned, the agent reported, was that their current budget problems were not just a short-term problem due to the recession but also were part of longer term trends (Vanderbrugen e-mail). The extension services associated with universities in the US provide information to local governments. In addition it is common for universities to support centers that provide information and analysis for local governments.³

Jurisdictions may simply follow what similar jurisdictions are doing because information is costly to acquire. If one jurisdiction implements a new policy or program, other jurisdictions may assume that it has information that they do not have and may simply copy the policy or program without seeking other information or without analyzing how it fits the jurisdiction (Case, Rosen and Hines, 1993 and Broekner, 1998).

To provide information, local governments need to look beyond political science, public administration and economics to regional science, and institutional economics. For specialized areas need to look at policy in those areas – health policy, education policy.

Citizens or businesses may have information that local governments do not have (Stiglitz, 2008) and they can use this information asymmetry to their benefit at the expense of the other citizens of the jurisdiction. An example of this in the US is the use of tax incentives to attract businesses. The research shows that the majority of the promised jobs does not materialize (Peters and Fisher, 2004) and suggests that it may be the firms that are only marginally feasible that receive the incentives (Gabe and Kraybill, 2002).

In addition, there may be asymmetric information between jurisdictions; one jurisdiction may have information that another does not have and use that information to its advantage. Information asymmetry might also explain why jurisdictions follow what neighboring jurisdictions do (referred to below as strategic interactions). Information is costly to obtain and one jurisdiction may assume that neighboring jurisdictions have information that it does not have.

Equity

Tiebout (1956) shows that citizens may sort themselves among jurisdictions based on their preferences for the public goods provided and the tax price of those goods. This implies that there will be diversity among jurisdictions and some jurisdictions will have more resources than others. This can lead to increasing resource disparities among jurisdictions and over time could negatively affect the ability of some jurisdictions to provide basic public goods and services to their citizens. Many countries have rules whereby a higher level of government provides additional resources to jurisdictions where resources are limited. For most states in the US, primary and secondary schools are the responsibility of local governments, often a single-purpose government called a school district. Many states provide additional revenue to school districts with limited tax bases. Lackey, Freshwater and Rupasingha (2002) find that collaboration is impeded when jurisdictions have differential access to resources.

The “race to the bottom” is the concern that for certain types of programs in local jurisdictions, especially those that redistribute income. There is an incentive for those who are paying taxes and are not recipients to move to other jurisdictions that do not have such a program (Tiebout). Those who would benefit have an incentive to move to jurisdictions offering such programs, thereby increasing costs for that jurisdiction. As a result jurisdictions may have an incentive to cut or eliminate such programs, leading to a “race to the bottom” (Broekner, 2000). This term seems to be used to focus on expenditures, but clearly there are tax implications of cutting the expenditures. Braid (1996) finds that tax competition leads to the undersupply of local public goods under several different circumstances, that is, it is quite common.

Strategic Interaction among Governments

Because of jurisdictional spillovers and lack of information, rather than leading to lower costs, more services and innovations competition between local governments can lead to negative impacts on neighboring jurisdictions or on the jurisdiction itself. Tax rates are a reflection of the choices made by local governments in response to the demand for local public services (which require expenditures) and the available tax base. Tax rates may also be influenced by rates in competing jurisdictions. Among these interactions are *border effects* that tax differentials can generate. The next two sections will focus on two particular types of strategic interactions among local governments – a “race to the bottom” for certain expenditures and tax competition.

Race to the Bottom

In 1996, the US reformed its main welfare program for low-income families and delegated more responsibilities and control to the states. States expressed concern that families might migrate into their state if they provided higher benefits, increasing their state’s total costs. There was also a concern that states might cut benefits to decrease costs and also to discourage in-migration, that is, there might be a “race to the bottom” in the level of benefits offered or in the number of beneficiaries who could qualify for the programs.

Brueckner (2000) reviewed eight welfare migration studies⁴ finding mixed empirical support for welfare migration. He also reviewed four strategic interaction studies⁵ finding statistically stronger results in support of strategic interaction among states. He concludes that benefit levels in nearby states affect a given state’s benefit choice. “Although evidence on welfare migration is mixed, the direct behavioral evidence of strategic interaction is compelling. It suggests that states are indeed playing a welfare game, which is more likely motivated by a concern about welfare migration, and that a race to the bottom may emerge” (p. 523). He concluded that “instead of switching from matching to block grants, welfare reform should have left the matching-grant structure in place while relying on other changes in the law to restrict eligibility and to broaden the scope of the cost-sharing rules encouraging innovation” (p. 507).

Case, Rosen and Hines (1993) investigated interdependence in spending by state governments in the United States, using a spatial lag framework. Their findings are that a given state’s spending responds positively to higher spending in “competing” states. This is the other side of tax competition. If neighbors have higher rates, it provides some latitude to raise taxes while still being competitive with neighbors. It is

also compatible with Niskanen's (1997) argument that it is difficult to limit government growth and that its growth can become a hindrance to growth of the private sector.

Brueckner (1998) uses Case, Rosen and Hines' (1993) model and applies it to local governments. He argues that strategic interaction among governments occurs because "the market environment in which local policy decisions are made is affected by the actions of other local governments" (p. 438). Brueckner focuses on the adoption of growth control measures by cities in California and looks for evidence of policy interdependence using several measures to define "neighbors." "A large population, high education and skill levels, a liberal political stance, and high house prices increase a city's preference for controls. Conversely, dense, high-income cities that contain many one-person households have a weaker preference for controls" (pp. 462-463). Results provide evidence of strategic interaction; growth controls are likely to be adopted or increased if neighboring jurisdictions have growth controls. However, they do not prove that the source of it can be identified; "cities could be naive followers of localized policy fads in a setting of generalized hostility toward growth" (p. 465).

Tax Competition

Following Brueckner (1998) and Case, Rosen and Hines (1993), Brett and Pinkse (2000) reviewed two studies⁶ that provide models of tax competition between two jurisdictions of unequal population. Each study concludes that tax rates are higher in more populous regions. The intuition is that the losses associated with the erosion of the tax base are lower in more populous regions, since population provides an advantage in the battle to attract and retain businesses. Thus, those with lower populations must compete by having lower tax rates.

In a study of cities in British Columbia, Canada, Brett and Pinkse (2000) considered four different measures to define "neighbors," including distance, shared boundaries, population size, and economic similarities. They estimated both random and fixed effects models. On balance they did not find evidence of tax competition.

Revelli (2001) suggests these inconclusive results could be due to the fact that geographical neighbors are more likely to experience similar shocks, such as tax-base and business-cycle shocks. It could be difficult to separately identify the spatial correlation in local taxes attributable to spatial dependence because of strategic interaction from correlation that is simply due to the effect of common shocks. If there are tiers of government, shocks to local taxes would be expected to produce correlations between tiers of governments that depend on the same tax bases.

However, tax spatial dependence would not be expected to occur between different levels of government if they provide different public good and services. Thus correlation of tax rates between tiers of government would be an indication of spatially correlated shocks. If strategic interaction is driving tax rates, there would be no correlation between tiers of government.

Revelli (2001) uses panel data of the English non-metropolitan districts and the higher-tier county authorities from 1983 to 1990. The results confirm the presence of large and significant spatial interactions among districts. A 10 percent increase in the local property tax rate of a district's neighbors leads to an increase of 4-5 percent in its own property tax rate. The absence of correlation in tax rates between district authorities and county authorities suggests that the spatial pattern in district tax rates is not the result only of spatially auto-correlated shocks, but rather is compatible with strategic interaction at the local level.

Missouri Sales Tax Holiday

This section summarizes a study of competition among Missouri cities for a common pool resource – taxable sales (Patron and Stallmann, 2005).⁷ To test for strategic interactions among jurisdictions in competition for a common pool resource, we took advantage of a change in Missouri's sales tax law. A sales tax holiday is a temporary drop in the tax. The sales tax holiday law exempted certain items from state sales taxes for several days in August and was promoted as a way to reduce the cost to families shopping for school supplies and clothing. The exemptions included clothing under \$100, school supplies not to exceed \$50 per purchase, computer software with a taxable value of \$200 or less per purchase, and personal computers and computer peripheral devices that did not exceed \$2,000.

Local governments, both counties and cities, in Missouri may have additional sales taxes, above the state rate. The law allowed local governments to opt in or out of the holiday. Because shoppers may travel to other jurisdictions, cities and counties might take into consideration what other governments might do when they make their tax decisions. Local jurisdictions might lose tax revenues no matter what their decision would be. If they participate in the holiday, they will lose tax revenues on the exempted items. If they do not participate in the holiday, they may lose tax revenues as shoppers shop elsewhere and while there make some purchases they otherwise would have made in the home jurisdiction. Our dependent variable takes the value one if the city participated in the tax holiday and zero if the city opted out.

These tax base movements can be compared to Brueckner's (2000) approach to welfare migration, but in this case shoppers "migrate" to lower sales-tax-rate jurisdictions. Thus, we can expect jurisdictions will take into consideration what other city and county governments would do. As suggested by Brueckner, jurisdictions are influenced by actions of neighboring jurisdictions. In making the decision to participate in the sales tax holiday, a city would be expected to consider its own characteristics, including its dependence on particular tax bases.

Walsh and Jones (1988) analyzed the border cities to assess the sensitivity of per capita grocery store sales in 46 counties of West Virginia during the period 1979-1984. The data were divided into two sub-samples: those counties that border one or more of the five neighboring states, and those that do not share a border with another state. The results indicate that West Virginia consumers living in border counties had been shopping outside of West Virginia to avoid the tax on food, but stopped shopping elsewhere as the tax was phased out over a three-year period.

A sales tax holiday is a scenario where the sales tax rate could drop to zero in some jurisdictions. Cities located in counties on the state border may be more willing to participate in the sales tax holiday, if the surrounding states are not having a sales tax holiday on the same dates, in hopes that they will try to bring consumers from neighboring states into their areas. Cities in counties along the state border were coded one and all other cities received a value of zero.

In the case of Missouri, all decisions are made in a short time period so there is very little information about the actions of others. We assumed that jurisdictions substitute the neighbors' characteristics for their unknown actions when choosing to participate or not. Like Brueckner (1998 and 2000) we used several measures for the neighboring jurisdictions. Cities within the same county were given the highest weight, cities in surrounding counties a lower weight, and all other cities are weighted zero in order to test for the impact of nearness on decisions. A second measure of potential competition is the number of cities in the same county and the total number of cities in all of the neighboring counties.

Revelli (2001) takes into consideration not just horizontal but vertical spatial interactions among jurisdictions. It might be the case that the county decision can affect the decision of cities located in the county (vertical interaction). For that purpose we include a variable indicating if the city's county participated or not in the sales tax holiday. We might expect that both move together (positive relationship). Since counties and cities made a concurrent decision, it would be interesting to estimate them simultaneously. But for the purposes of these paper we will assume that local governments used some informal networks to figure out whether or not the county would participate in the tax holiday.

Empirical Results

Cities located in counties that participated in the tax holiday were more likely to participate in the holiday than cities in counties that did not participate. This result supports the idea that vertical tiers could be reacting to the same economic or policy shock as Revelli (2001) suggests.

The higher the number of cities in the county lowers the probability that a city in that county will participate. This result seems counter-intuitive; but it may be that given the number of competitors for consumers, the city does not see that it will gain much advantage by participating, perhaps because they have already reached what they consider their best tax rate to compete with the other cities. The coefficient on the number of cities in other counties is positive, which suggests strategic interaction, but it is not statistically significant.

We find evidence that cities in border counties are more willing to participate in sales tax holidays than interior cities. If the city is located in a border county, the probability of its participation in the tax holiday will increase around 51 percent.

The sales tax rate of the cities shows that a one-percent point increase in the rate will induce a reduction of minus 48 percent in the probability of participating in the sales tax holiday. A positive sign on the sales tax rate could be an indicator of tax competition. A negative sign is an indicator of the city's revenue dependence on sales taxes. That is, cities with higher sales tax rates rely on the sales tax holiday. They do not want to give up these revenues.

It is important to note that in all of the models, the intercepts are statistically significant at 0.01 percent confidence. Given the estimations results, the probability of a city participating in the tax holiday when the rest of the variables are not considered is very high. Confirming this, nearly seventy-eight percent of Missouri cities did participate in the holiday.

Overall, we find the strongest evidence for tax competition along the state border and some limited evidence for competition among cities within the state.

Policy Implications

Public finance theory suggests there are situations in which actions by one governmental jurisdiction can spill over into or affect another jurisdiction, positively or negatively. In the face of jurisdictional spillovers, competition may not result in socially optimal

levels of public goods and services. The empirical literature supports the notion that competition between jurisdictions results in sub-optimal provision of public goods.

In addition, we summarize our research on the Missouri sales tax holiday, testing for jurisdictional competition for a common pool resource – taxable sales. Overall, we find the strongest evidence for tax competition along the state border and some limited evidence for competition among cities within the state.

Because in the face of jurisdictional spillovers competition among decentralized local governments result in suboptimal provision of public goods, governance institutions that lead to more optimal provision should be encouraged.

Given the differences in the types of goods that lead to jurisdictional spillovers, they cannot all be reasonably addressed by the same governance institutions. This suggests that in addition, to formal institutions, policy should encourage the formation of flexible and informal governance institutions as needed. To avoid the proliferation of governance institutions, informal institutions can exist for the purpose and length of time needed to resolve the issue and then disband.

Local governments need many types of information. Because innovations are hard to predict, local governments may adopt policies or implant programs for which there is little or no research information. Some of these innovations will be successful and others will not, but research on their effectiveness will be useful to those considering later adoption.

Managing local governments is challenging and local officials are often focused on the present. Useful information includes showing how past trends feed into the present. In addition researchers who are looking forward and can suggest future trends and their potential impacts might provide local governments the ability to be proactive rather than reactive.

There are many ways for local officials to acquire information. They may form associations with the objective of disseminating information through meetings and have newsletters. In order to have information to disseminate, the association might be funded at a level sufficient to provide unbiased research and information for their use. They might cooperate and contract with universities to obtain the information, or universities might serve as advisors to the research funded by the associations. There might be training requirements for newly elected officials.

External costs have negative impacts on other communities while goods with external benefits and public goods have positive impacts. While in all of the cases collaboration should be encouraged, in each case at least one jurisdiction has the

incentive to avoid some costs and still benefit. In this case they may not participate in informal governance institutions, or may participate but refuse to come to agreements with others. A further governance institution may be needed – an institution that is perceived as an independent facilitator (or providing independent facilitators) to bring the two sides together. It would be hoped that agreement can be reached without resorting to a higher level of government for regulation or laws, or to the courts. University of Virginia Institute for Environmental Negotiation is an example of an institution that provides unbiased facilitators.

There is no guarantee that these informal governance institutions will develop. Lackley, Freshwater and Rapasingha (2002: 138) found that “there are factors, such as a lack of strong advocates for cooperative projects, suspicion of neighboring communities, and differentials in available resources that impede collaboration. Conversely, there are supporting factors, including financial inducements, opportunities for officials to interact, and the presence of a neutral facilitator that can increase the amount of collaboration.”

With decentralization, one question is how to encourage the competition among decentralized local governments that leads to lower costs and innovation; another question is how to best manage the competition for efficient outcomes. This is because one local jurisdiction can positively or negatively affect another. The lack of sufficient information to make a decision may lead to other outcomes.

With decentralization, there are two questions, the first of which is how to encourage the competition among decentralized local governments that leads to lower costs and innovation. The second is how to manage the competition that leads to inefficient outcomes. The cause of these outcomes is either the fact that one local jurisdiction can positively or negatively affect another, or that they lack sufficient information to make a decision which leads to efficiency or equity.

Endnotes

- ¹ The following section is a general statement of some of the basics of public finance. Some widely used basic public finance books include: Rosen, Harvey S. 2005. *Public Finance* (7th ed.), Boston: McGraw Hill Irwin; Musgrave, Richard A., and Peggy B. Musgrave. 1989. *Public Finance in Theory and Practice* (5th ed.), New York: McGraw-Hill; Edgar K. Browning and Jacqueline Browning. 1983. *Public Finance and the Price System* (4th ed.), Macmillan; Stiglitz, Joseph E. 2000. *Economics of the Public Sector*, W.W. Norton.
- ² Sometimes economic stability and economic growth are listed as a single role.
- ³ The Community Policy Analysis Center at the University of Missouri is an example: <http://www.cpac.missouri.edu/>
- ⁴ Southwick (1981), Gramlich and Laren (1984), Blank (1988), Levine and Zimmerman (1995), Walker (1994), Enchautegui (1997), Borjas (1997), and Meyer (1998).
- ⁵ Brueckner (2000) reviews the principal studies on evidence on strategic interaction among states. These are: Figlio, Kolpin, and Reid (1999), Peterson, Rom and Scheve (1997), Smith (1997), and Saavedra (2000). All found evidence of strategic interaction among the states in the choice of welfare benefits, but Smith's (1997) results were not as conclusive.
- ⁶ The cited studies are Bucovetshy (1991) and Kanbur and Keen (1993).
- ⁷ This section summarizes the results of a study concerning the Missouri sales tax holiday. The detail of the estimation is provided in Patron, Eunice and Judith I. Stallmann, "Optional Sales Tax Holidays: Which Jurisdictions Participate?" North American Regional Science Meeting, Las Vegas, Nevada. November 10-12, 2005.

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Chapter 8

Use of Fiscal Impact Analysis as a Tool for Local Government Educational Programs

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Abstract

Through the notion of devolution, the relationships between national and local government are being fundamentally altered in many countries. Many countries where much of the political and budgetary powers have been centralized in the national government are transferring those responsibilities to local governments. From a government effectiveness perspective such devolution makes sense because of the heterogeneous characteristics of the citizenry: local governments are better positioned to make policies and budgetary decisions that best meet the preferences of local residents. From an efficiency perspective, however, local governments are often not the most cost effective means to provide services. Two reasons: (1) lack of economies of scale and (2) incidents of managerial inefficiency. The latter is of particular concern because many local government officials and staff lack the training necessary to make efficient managerial decisions. Within the U.S. the network of public universities, particularly the land grant institutions and cooperative extension service, have become an important source of educational training to help improve the managerial efficiency of elected officials and local government staff. This training can take many forms from formal workshops to informal opportunities that help local officials and staff think through policy and budgetary options. One opportunity centers on requests for economic and fiscal impact assessment of some event or shock to the local economy. In this essay I outline an approach that has been used in numerous U.S. states cooperative extension services that use economic and fiscal impact assessment to think through alternative policy options.¹

Introduction

Over the past few decades the number of nations that are removing responsibilities from the central government to state and/or local governments has been expanding. Countries such as France, Canada, Australia and Thailand (for the latter through the Plans and Process for Decentralization to Local Administrative Organizations Act of 1999) have embraced devolution as a national policy. Devolution is the statutory granting of powers from the central government of a sovereign state to government at a subnational level, such as a regional, local, or state level. Devolution can be mainly financial, giving state and/or local governments a budget which was formerly administered by the central government. Devolution can also be granting statutory power to state and/or local government to make legislation relevant to the area. It can take the form of default where the central government elects to discontinue a service that local residents prefer to maintain. Here the state and/or local government must step in to provide the service in place of the central government.

While there is a robust academic literature outlining the trends and rationale for devolution (e.g. Kettle, 2000; Conlan, 1998) there has been less discussion of “on the ground” difficulties with transitions. While larger state governments and cities have the wherewithal to successfully cope with their growing responsibilities, many smaller and more rural local governments do not. These smaller state and local governments are struggling under the burden of increasing needs and responsibilities in the face of limited financial and human resources. Specifically, many local officials and staff lack the professional and managerial skills to adequately address increasingly complex issues. While many of the policy and academic discussions speak to improve effectiveness by crafting local policies to better match the needs/desires of local residents (often under the cover of “local solutions to local problems”), the cost efficiency of devolution is seldom discussed. The organizational, leadership and institutional capacity of smaller state and local governments is seldom a focal point of these discussions.

For the U.S., in addition to the 50 states, there are 89,476 general purpose local governments including 3,033 county governments, 19,492 municipalities (cities/villages) and 16,519 towns or township along with 50,431 special districts, of which 37,381 school districts. This means that there is one local unit of government for every 7,980 people. Now consider Wisconsin where there are 3,120 general purpose local governments (72 counties, 592 cities/villages and 1,259 towns) and 1,197 special districts (441 school districts) or about one unit of local government for every 1,830 people. For Wisconsin there are over 21,000 elected officials serving in these various units of local government: the average county board has about 25 members, about 12 city/villages 5, town boards, special district about 3 board members and the typical

school district has 9 elected board members. This means that at the local government level there is one elected official for about 265 people.

From a Jeffersonian perspective, or effectiveness in the ability of local government to match policies and budgetary decisions with the desires of local residents, this concentration of many small government with a high ratio of elected officials to population is attractive. But from a government efficiency perspective, or the cost of providing services, such a structure of local governments creates difficulties for three distinct reasons. First, numerous studies have documented that many public services exhibit significant economies of scale. Second, there is sufficient evidence to suggest that smaller units of government lack the managerial capacity to produce services at the lowest possible cost.² Third, because all of these elected local government officials are citizen volunteers, the pool of viable citizens that are willing to run for office and serve can be a barrier to proficient management.

In Wisconsin some local elections have no candidates or elected officials consistently run unopposed. Many are retirees who are running out of a notion of civic duty and for some, unfortunately, simply to remain active. Indeed, many smaller rural local governments are dominated by what is affably referred to as the “good ole’ boys’ network.” Increasingly, many elected officials run on one issue, generally related to cutting local taxes, and view all issues through the lens of cutting taxes. This pattern can create difficulties in a strong environment of devolution; elected officials are resistant to new ideas and ways of approaching their roles as elected officials and seldom take advantage of professional development opportunities.

Many elected officials and local government staff tend to approach their responsibilities with a reactive view as opposed to taking proactive policies and actions. The notion that “this is a sleepy little town where not much happens” creates an environment of maintaining the status quo, and proactive policies that can alter the status quo are often discouraged. Many elected officials and staff do not fit the mode of a “social entrepreneur,” someone who sees opportunities to improve the betterment of the community and uses entrepreneurial principles to organize, create and manage community efforts to build on those opportunities. Because social entrepreneurs are constantly seeking proactive opportunities to move forward, in this case the community, they are often perceived as a threat to the comfort of the status quo.

Most communities, however, will eventually face an event that challenges the status quo, and conflict can arise. This could be a new firm seeking to open or significantly expand operations, or more commonly a major employer announces that the firm will close, causing a large number of local residents to lose their jobs. Or a proposal to radically use an existing resource in a fundamentally different way, such as

clear cutting a forest resource or creating a mine. Local elected officials and staff, as well as the larger community, are often unprepared to manage the conflict or adapt to the change. They lack the skills, information and processes required when radical change comes to the community. Many times during these periods of community shock or change, questions about the economic and fiscal impacts arise. Concern over the size of the economic and/or fiscal multipliers is often hotly debated. Proponents of a new development or reuse of an existing resource will argue for all the economic gains to the community and how it will provide additional resources to local governments. Oftentimes communities will accept the proclamations of the advocates of the project and make decisions based on those analyses.

For example, in the early 1990s, the Governor of Wisconsin, Tommy Thomson, was a major proponent of the introduction of dog track racing facilities as a means to expand the sizable tourism base of Wisconsin. Hired consultants were brought into the communities where these tracks were proposed to “sell” the community on all the economic benefits of the track. These consultants argued that these tracks would become engines of economic growth with ten new jobs generated in the community for every job at the track itself: an employment multiplier of ten. In addition, the tax revenues generated would be more than sufficient to offset any costs of extending public services to the track. Indeed, the tax revenues would be sufficiently high that local officials would be able to lower the property taxes on the average house. Six communities embraced the tracks and made significant investments in their public infrastructure to support all the new economic activity. Many communities incurred significant increases in their debt burdens to pay for these improvements. Many private developers made significant investments in hotels and restaurants to take advantage of all the activity claimed to be associated with the dog tracks. Today, all six dog tracks are in bankruptcy and are mothballed. The demand for the type of entertainment offered by dog racing was vastly overestimated and none of the positive spillovers predicted by the track proponents were ever realized. The six communities were left holding the bag of higher municipal debt and the blight of large unused facilities. There was even limited talk of suing the consultants for “malpractice.”

A situation like this, whether it is a proposed new development such as an ill-conceived entertainment facility or the closing of a major employer, creates what is referred to as a “teachable moment,” where people who possess the skills and knowledge can help move the community forward. In other words, there is a role for the community economic development practitioner. Here the practitioner is an objective partner who can play several potential roles.³ The practitioner is someone that elected officials and concerned citizens can turn to for help.

The practitioner can assume many roles, but for our discussion here are two that are particularly relevant: technical assistance and self-help. In the technical assistance role the practitioner brings specific skills to the table or is sufficiently networked to bring “experts” to the table if they lack the specific skill themselves. Potential roles could be to provide objective evaluations of economic, fiscal or environment impact assessments conducted by others or offer insights into what is legally required or acceptable. It could take the form of writing grant applications for retraining funds for local residents or special funding for infrastructure improvements. Here the practitioner tries to provide objective answers to direct questions, often working directly with elected officials and staff. The primary advantages of the technical assistance approach include: (1) change can be rapid; (2) it works in any size community; (3) it is task driven (easier to sink your teeth into it); and (4) decisions are based on fact. The disadvantages of this approach include: (1) it gives the illusion of finality of the process; (2) process may be lost to task accomplishment; (3) a holistic view is often lost; and (4) it presumes the practitioner has, or can obtain, the necessary technical skills.

The self-help approach presumes that the “correct answer” to the issue that is being addressed varies across communities and that the community must come to their own strategies and conclusions. Because no two communities are exactly the same what may be the “correct answer” in one community is inappropriate in another. Thus, the “correct answer” must be extricated from within the community itself. This involves both the facilitation of community discussions as well as the introduction of research based information. The ultimate goal is to help the community make a more informed decision; making the decision is process focused and more informed than educational focused. The primary advantages of the self-help approach include: (1) it builds a stronger sense of community; (2) it often evolves into a holistic approach; (3) builds a self-sustaining ability to deal with problems; (4) allows for community specific solutions. The primary disadvantages include: (1) it is more difficult to implement in larger communities; (2) change or action is often slow; (3) special interests within the community may cloud issues; (4) accomplishment of specific tasks becomes secondary to processes; and (5) decisions can be based on impressions rather than facts.

The objective of this essay is to outline examples of how the Cooperative Extension Services, housed in the network of Land Grant Universities across the U.S., have used economic and fiscal impact analysis as a means to help communities become more informed and vested to act. The intent is to outline a framework to engage, educate and help communities, including elected officials, staff and concerned citizens, move forward; it is not to outline the range of tools that are commonly used to conduct economic and fiscal impact assessment.⁴

Outline of an Educational Program

The framework that is offered here is based on the numerous models of strategic planning within a community economic development setting (Walzer, 1996). The Community Economic Analysis program developed by Glen Pulver and Ron Shaffer at the University of Wisconsin-Extension in the early 1980s asked four basic questions: where have we been, where are we now, where are we going, and how do we get there. These questions set the stage for a strategic planning program that helps communities craft a vision for themselves and identify specific economic development strategies to achieve that vision. While economic growth and development is often the issue that brings the community to the table, the strategic planning process may uncover underlying issues that the community was unaware of or did not realize what needed to be addressed before undertaking formal economic development efforts. For example, a community may discover that it lacks local institutions or organizations that are required to pursue economic development, such as a business association, chamber of commerce, or a specialized government agency or committee. In the end nearly all community strategic planning processes have common themes. Strategic planning is “a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it” (Bryson, 1995: x).

Through strategic planning, organizations or, in our case, communities can:

- Examine the environment in which they exist and operate;
- Explore factors and trends that affect the way they do business and carry out their mission;
- Frame the strategic issues they must address; and
- Find ways to address these issues by reexamining and reworking organizational mandates and missions, costs and financing, management, and organizational structures.

The benefits of strategic planning include: increased effectiveness and efficiencies; improved understanding and better learning; better decision making; enhanced organizational capabilities; improved communications and public relations; and increased political support (Bryson and Alston, 1996: 3). The framework outlined in this essay builds on community strategic planning with economic and fiscal impact analysis as a focal point.

As outlined above, many times elected officials, staff and concerned citizens find that they are faced with some shock or event that could significantly change their community in some way. Local decision makers can be faced with competing information and opinions. Here the community economic development practitioner

can serve as a resource for both information and facilitation skills to help think through the information and make decisions. If elected officials, staff or concerned citizens turn to the practitioner for assistance, the practitioner must elevate the role that he or she needs to play, one of providing technical assistance or a self-help approach. The educational program outlined here is a blending of these two approaches.

The goals of this program or approach are to: (1) inject objective research-based information into the decision making; (2) create a mechanism for the community to think through and prioritize actionable items; and perhaps most importantly (3) elevate the understanding of the local economy and how local government functions within the economy. The program is designed to address four common questions facing elected officials and the broader community: (1) what is the event or scenario under consideration; (2) what does the base-line or current economic and fiscal picture look like; (3) what is the simulated impact of the scenario or event under consideration; and (4) what strategies or actions can the community take to maximize the economic and fiscal benefits while minimizing the costs. Each step in the process of addressing these questions creates a teachable moment for elected officials, staff and concerned citizens.

The process of describing the event or scenario is akin to helping the community focus on the particular question or issue that they are struggling with. In addition to gathering the relevant information needed to conduct the actual analysis, the process of the community thinking through the details of the event under consideration helps citizens better understand the dynamics of the local economy and fiscal position of the local government. By asking detailed questions about the scenario, valuable insights into the nature of the event can be gained. If those proposing the development or change are unwilling or unable to answer detailed questions, this in itself can be enlightening. In some instances, the process of describing the scenario steers the community in certain directions that it may not have considered otherwise.

Developing a baseline creates an opportunity for elected officials and concerned citizens to stop and reflect upon the current economy and fiscal situation of the local government. In essence the practitioner leads a discussion of an economic profile of the local economy. A discussion of trends in population, income, sources of employment, government revenues and expenditures helps the community better understand their strengths and weaknesses independent of the event or shock that initiated the process. Presenting the baseline to the community creates an environment where elected officials and residents think about where the community has been, where it is now, and where it might be in the future without the event or shock. It is important that the practitioner avoid lecturing but rather engage the participants in a conversation.

The third step centers on the presentation and discussion of the impact analysis. This usually is in the form of a formal presentation and the practitioner assumes the role of providing technical assistance. In other words, the results of the technical analysis are shared with the community. Through the discussion of the simulated impacts, the community is often surprised to discover that the multiplier effect is not ten, as the developer or project proponents implied, but more likely the multiplier has a magnitude of one-and-a-half. Discussions of dollars circulating through the economy and leakage often help the community better understand how the local economy functions. In terms of fiscal impacts on local governments, the notion of public service “lumpiness” comes to the forefront. For example, services that are operating at less than full capacity can absorb growth with little additional costs. But if the services are exhibiting characteristics of congestion, additional growth may require significant investment in those services. Consider a school that is operating at 80 percent capacity; adding new families to the school add very modest costs to the school district. But if the school is already overcrowded, adding the same number of families may require that a new school be built at significant costs.

The fourth step includes working with the community to identify strategies to affect change. This last step typically uses a nominal group process identifying priorities and tools, such as force field analysis, to defined specific tasks and action. Here the community economic development practitioner assumes the role of self-help (facilitator) and helps generate community discussions of ways and strategies to affect change. This can be strategies to minimize the negative impacts of a major employer closing operations or maximize the positive impacts associated with new developments. At the end of the process, the community has a report detailing the structure of the local economy, the potential economic and fiscal impacts of the event, and a community-driven plan of action.

This process is aimed at heightening the understanding of the local economy of elected officials, staff and concerned citizens; entering unbiased information into the decision-making process; and allowing the community to identify community specific strategies. Here the concept of “community ownership” is extremely important. Rather than a hired consultant providing the community with “the answer,” the community comes to their own answers. Because these are community-derived strategies, the sustainability of the action plan is significantly higher. In other words, if it is the community’s idea to pursue some particular strategy, they are much more likely to follow through. This local ownership is one of the fundamental drivers behind the devolution movement. Experience has shown that community-based decisions not only allow for “local solutions to local problems” (i.e., a Jeffersonian philosophy), but locally-derived strategies are more sustainable in the long run. In other words, community level “buy-in” is vital to long term sustainability of actions.

Two Examples

To help better understand the framework that is being offered, consider two Wisconsin examples, one concerning the contribution of water based industries to central Wisconsin and one focusing on the introduction of frac sand mining in western Wisconsin.

Water Use in the Central Sands

A large section of central Wisconsin, referred to as the Central Sands, is a large agricultural production region producing a range of vegetables, most notably potatoes. But because of the sandy nature of the soils, farmers use irrigation techniques drawing from shallow aquifers. The nature of the soils also requires the aggressive use of chemical fertilizers. Over time two events have occurred that have created levels of conflict within the region. First, the level of nitrates entering the watershed has caused some municipalities to make significant investments in public water treatment facilities along with concerns over the safety of private potable water wells. Second, a number of recreational lakes (ponds) that have substantial residential development have seen significant draw downs in water levels. Indeed, a couple of lakes have “gone dry.” In addition to the loss of recreational and environmental values, there have been significant impacts on the values of the housing stock on the effected lakes.



While the lake drawdowns have not been definitively linked to agricultural irrigation, these two trends (water levels and water quality) have resulted in a popular call for placing strict limitations on water use for irrigation. The agricultural community has forcefully stated that such restrictions on irrigation would devastate production levels and lead to significant negative economic impacts. The conflict within the community (region) has resulted in numerous unsubstantiated claims and counter-claims.

To help shed light on the importance of water dependent industries on the regional economy the University of Wisconsin-Extension, Cooperative Extension Service was approached to document the economic impacts. The university was

acceptable to nearly all parties involved in the conflict because of UW-Extension's reputation of impartial analysis and educational programing. Response to the request for information could have taken one of two approaches: (1) technical assistance where we "sit in our office," conduct the analysis, and ship the report to elected officials and concerned citizens; or (2) follow the self-help approach and host a series of community meetings to help the community further discuss the issues. Instead, we elected to use the approach outlined above which is a blending of these two approaches.

To begin we identified a group of community members to form the foundation of a "study team." We were purposeful in identifying people who were respected in the community for being objective and represented the farming community, the County Board who formally requested the study, the broader business community, and health care professionals. An initial team of 12 persons were identified. The team members needed to commit to four two-hour meetings scheduled about two weeks apart. The objectives of the study were clearly laid out and roles and responsibilities defined.

The first introductory meeting had three objectives: (1) review of the study intent and the roles and responsibilities of the study team; (2) a presentation of an economic profile of the region (defined as Portage County, WI); (3) beginning discussions of what defines "water dependent production activity." At each stage it was emphasized that the study team should engage in discussion of the particular issue being presented at the time. One outcome of this discussion was the difficulty of defining "water dependent production activity." Initially the focus of the study was to be on agriculture, but in discussions it became clear that there were other manufactures that there are heavy users of water, including a large brewery (Stevens Point Brewery) and a medium-sized paper mill (New Page Corporation). The largest single user of water, however, was not agriculture, the brewery or the paper mill, but rather the University of Wisconsin—Stevens Point campus. This opened a lengthy discussion about what was meant by "water users" and it was decided that water for human consumption would not be considered, only industries that used water in the production process. Needless to say, this first meeting lasted three hours and the study team was more than supportive of having the longer discussion.

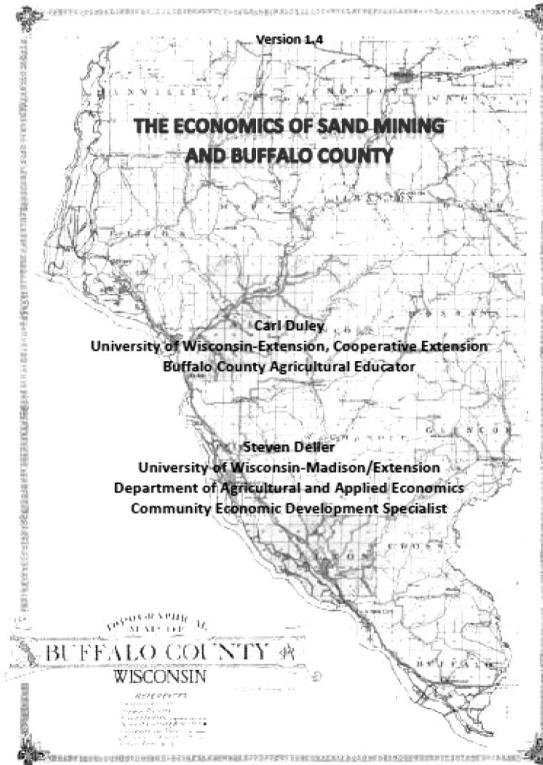
The second meeting focused almost exclusively on reviewing the initial economic impact assessment with an eye towards refining the scenario to the finest extent possible. Time was also spent outlining what should and should not be in the final report to be delivered to the County Board. This meeting lasted less than the scheduled two hours. The third meeting consisted of reviewing the final impact

analysis and the outline of the initial draft of the final report. Here significant attention was paid to the next steps beyond the study itself; these were the action steps. The group decided that a fourth meeting would not be required, but rather further refinement of the final report could be done using e-mail and if necessary a conference call could be scheduled. In the end, the process created an objective forum for community discussion and an analysis that placed boundaries on the numerous unsubstantiated claims and counter claims.⁵ Unfortunately, this one study and process could not provide “the answer” to a complex issue, but it did provide a foundation under one element of the larger community debate.

Impacts of Frac Sand Mining

High energy prices and the movement to become energy independent, coupled with new engineering practices numerous regions within the U.S. are being activity mined for oil and natural gas. The technology, known as hydraulic fracturing, or “fracking,” is designed to remove oil and natural gas from rock formations and has created “mining booms” in large parts of the western Appalachian Mountains (the Marcellus fields in the Appalachian Basin) and western North Dakota and eastern Montana (the Bakken fields in the Williston Basin). The engineering of the extraction process requires sand with specific characteristics that is in abundant supply in many parts of Wisconsin. The surge in demand for this “frac sand” has created what appear to be significant economic opportunities for the western and central parts of Wisconsin. Indeed, the almost sole source of the sands that meet the engineering requirements of fracking is in Wisconsin and southeastern Minnesota. The result has been a “gold mine” mentality in many parts of Wisconsin.

Given the current economic conditions, the promise of the developers of the proposed mines to create significant employment opportunities at relatively high wages had led to the almost unquestioned approval of mining permits. In addition, given the strongly held conservative principle of private property rights, there was strong reluctance to deny the opportunity of landowners to sell mining rights to the highest bidder. This has created significant conflict within many communities where the rush to opening sand mines has resulted in significant pushback along two lines: (1) potential environmental damage and (2) the negative externalities associated with significant increases in truck traffic in high amenity rural communities. Many of these communities had gone through state-mandated comprehensive planning exercises where most envisioned their communities as primarily agriculture with high levels of natural amenities including wildlife. The shift to numerous large-scale sand mines was not consistent with the visions many communities held of themselves. But the



“promise” of numerous well-paying jobs and strong notions of private property rights trumpeted widely-held visions of their own communities. It is not clear which one, but one mining company claimed that for every mining job created there would be eight additional jobs created in the community, a “statement of fact” that had been repeated in a number of community meetings. This was reminiscent of the economic multiplier often used by the proponents of the dog race tracks.

Due to the political pressures created by the pushback described above, many communities imposed a moratorium on approval of additional mining permits till the issues could be adequately studied

and policies put in place. In the spring of 2012, the Buffalo County Board approached the University of Wisconsin-Extension, Cooperative Extension Service to conduct an economic impact assessment of mining on the county economy. Again, rather than “sit in our offices” and conduct the analysis as would be done under a purely technical assistance approach, we elected to follow the educational program outlined in this essay.

The first step in the process was to identify nine community residents who were viewed as objective and respected in the community. This, unfortunately, proved difficult to accomplish. The level of conflict within the community (county) was sufficiently high that most people whom we approached refused to participate. A common response was, “I have friends and family members on both sides of the issue and I would prefer to stay out of it,” or words to that extent. We finally identified six people willing to serve on the study team after being turned down by at least a dozen people.

As we prepared for the first working meeting, which would focus on better understanding the current state of the local economy and a discussion of the impact

scenarios to explore, local news outlets learned of the study group and demanded to be present at all discussions. When one newspaper threatened to sue the university and the county board over open meeting requirements, it was decided that the study group's work should be open to the public. At the first meeting there were over 60 people in the audience, including four news reporters. Five of the six study team members basically sat in silence throughout the whole of the meeting. The sixth member arrived about 45 minutes into the meeting, took three steps into a packed room and stopped, turned and started to leave. The next morning, all six members of the study team resigned. Two members agreed to serve as points of reference as we moved forward.

We elected to retain the same basic educational framework but needed to adjust to the new dynamics within the community. The second meeting, which was open to the public, was a focused discussion on what we know about the impacts of mining broadly defined. This involved a review of existing literature and new research undertaken by the researchers at the university.⁶ The results of this analysis highlighted the fact that there are both pros and cons to the promotion of mining operations. The point of the discussion was that the socioeconomic impacts of mining are not black and white, but rather shades of gray. This discussion emphasized what communities can do to promote the positive impacts while minimizing the negative.

The third meeting had two objectives: (1) overview of the economic impacts of four comparable scenarios; and (2) use a new interactive technology to instantly poll meeting participants on a range of issues. Four different economic development scenarios were considered for comparison purposes: (1) a sand mine that would employ 30 people; (2) a sand processing facility that would employ 30 people; (3) expansion of dairy operations that would create 30 new jobs; (4) expansion of tourism equivalent to 30 jobs (15 in hotels and 15 in restaurants). The discussion of the four different "what if" scenarios allowed for a discussion not only about the relative sizes of multipliers across industries but also how different types of development can complement or conflict. Through discussions at the second meeting, which had about 30 in attendance, people became aware that the economic multipliers for Buffalo County are quite small (e.g., 1.3), prime farm land should be preserved and that the most important negative externality was related to truck traffic and not necessarily the mines themselves.

The new instant polling (or clicker) technology required people to respond to a series of question by pressing a button on a handheld device and the results are instantly calculated. Here we asked participants to respond to 25 statements using a Likert-type response (strongly agree to strongly disagree). Those questions were

based on a community-preparedness index development by the university.¹ We used the instant responses to the questions as a means to engage the community in a conversation. The questions were specifically aimed at the ability of the community to enact economic development activities to build on the economic activity generated by sand mining operations. Two distinct ideas came together: (1) because of the rural nature of the local economy, the multipliers are quite modest and the ability of the local economy to capture economic spillovers is limited; and (2) the community is not well positioned to be proactive in the area of economic development. As one participant of the third meeting put it, “we are a sleepy little rural community and we like it that way, but maybe it’s time to start being more proactive.”

Over the course of the study a noticeable change occurred in the nature of the community discussions. In the first meeting the tension was thick enough to cut with a knife: people seemed ready to engage in heated debate. By the end of the third meeting, the discussion turned more to how can we make this a win-win situation. How can we better position ourselves to gain economically but minimize the negative elements, which turned out to be mostly concerns over truck traffic and how that truck traffic will affect quality of life and adversely affect tourism. Ideas such as limiting mining to two operating mines at any given time and limiting truck traffic to Monday through Thursday, particularly during the tourist season, seemed to most as reasonable win-win compromises.

The final report presented to the county board emphasized four things: (1) the economic multiplier is much more modest than previously thought; (2) the community is not well positioned to take advantage of economic growth and development opportunities, and perhaps the county needs to be more proactive; (3) mining by its very nature tends to be an unstable industry and there must be plans in place to address this instability; and (4) the central concern regarding the mining operations is increased truck traffic and how that will affect quality of life, tourism and road safety.⁶

The county board left the meeting with more questions than answers and later voted to extend the moratorium. In essence, the questions became more focused on notions of implementing win-win strategies. Early in the process the discussion was almost a black-white, yes-no, for-or-against mining mentality. As time progressed and the community was able to engage in more “information-based discussions,” shades of gray and areas of compromise (i.e., win-win strategies) came to the forefront. In addition, the county board chair asked Extension for more information on what the county could do to be more proactive in economic growth and development. By using the process outline in this essay, a situation that could be “political dynamite” for the

UW-Extension turned into a powerful educational program that moved the community forward.

Conclusions

In a growing era of devolution, more responsibilities for decision making are falling to local elected officials, staff and concerned citizens. For many smaller more rural places these elected officials are volunteer citizens who are often not versed in complex issues and tend to be reactive as opposed to proactive. When change comes to the community, whether it be a proposed new economic development or the closing of a major employer, an opportunity is created to help those elected officials, staff and concerned citizens address those changes.

In this essay an educational program centered on economic and fiscal impact analysis is outlined. Using a shock to the local economy, in other words, creates a teachable moment where local officials, staff and residents can not only learn about the local economy but also strategies that are available to them to address that shock. The educational program is a blending of technical assistance and self-help philosophies with community economic development. The process outline is aimed at helping communities make more informed decisions. By interjecting research-based information, communities raise their level of understanding of not only the local economy but also the specific issues they are facing. By facilitating a decision-making process, communities can craft custom strategies to fit their specific local needs; local solutions to local problems which go to the heart of devolution.

Rather than acting as a hired consultant who provides “the answer,” the process is aimed at allowing the community to identify its own “answer.” Based on the research of strategic planning, it is clear that if the community develops its own strategies based on the best information that is available, the outcomes will be much more sustainable. I get asked a lot to come out to communities and talk about what is happening with the economy. Inevitably I am asked “what would you do?” I always respond, what I would do is irrelevant because I do not live in this community. What might be “right” for me could be “wrong” for you.

Endnotes

- ¹ Leatherman, John C. and Steven C. Deller. 2001; Deller, Steven C., John Leatherman. and Martin Shields. 2009; Deller, Steven C. and Martin Shields. 1998; Shields, Martin, and Steven C. Deller. 2003.
- ² See for example, Deller, Steven C. and Carl H. Nelson. 1991; Deller, Steven C. and Edward Rudnicki. 1992; Deller, Steven C. 1992; Deller, Steven C. and John M. Halstead. 1994.
- ³ The objective nature of the practitioner is key. It is vital that the practitioner is not viewed as being biased for or against any particular event or plan of action. While the practitioner may have a personal opinion on the situation they must put those opinions to the side in order to work effectively with the community.
- ⁴ For a detailed discussion of these tools see, for example, Johnson, Thomas G., Daniel Otto and Steven C. Deller. (eds). 2006.
- ⁵ <http://www.uwex.edu/ces/cced/economies/cedpi.cfm>
- ⁶ Duley, Carl, and Steven Deller. 2012; It is interesting that at the same meeting with the County Board the Highway Department delivered its report on the potential impact of truck travel which discussed only the engineering standard of the roads and if the road could physically hand the weight loads and frequency. There was no discussion about safety or home truck traffic might affect property values or businesses along the truck routes. The idea that sand truck traffic could conflict with tourism and negatively impact tourism dependent businesses had not been asked.

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Chapter 9

University Contributions to Local Government in Canada

Andrew Sancton

Abstract

Generalizations about Canadian local government and universities are difficult because each province and territory has a different legislative framework for municipalities and different expectations of universities. Canadian universities do not provide training for municipal councillors. To the extent that if there is any such training, it is provided by provincial governments and municipal associations. Most training of staff takes place within the context of professional and occupational organizations, although some universities provide education for senior general municipal management. Canadian municipalities have no functional responsibility for tertiary education, but there are significant issues of mutual concern for universities and the municipalities in which they are located. Municipalities are especially interested in the potential for universities to enhance local economic development. The successful record of the University of Waterloo in Waterloo, Ontario in promoting local economic growth is the one that everyone wants to replicate.

Introduction

Because Canada is a federation and because the Constitution places “municipal institutions” under the jurisdiction of the provinces, Canada has ten distinct systems of local government, thirteen if we count the rudimentary systems in the three northern territories that remain ultimately under the jurisdiction of the central government in Ottawa. Rather than attempt to describe each of the ten (or thirteen) different systems (Sancton and Young, 2009), this paper will first attempt to generalize observations and then explain how Canadian local governments are linked (or not) to the country’s universities.

The first point to make is that the term “local government” is generally used in such a way in Canada that it includes many local special-purpose bodies, such as school boards, police commissions, library boards, and others; that it helps make local decisions about particular local services, but has a degree of autonomy from municipalities, which are responsible simultaneously for a variety of local governmental services. This paper will not explicitly discuss local special-purpose bodies and so, for its purposes, the terms “municipal government,” “municipalities” and “local governments” will usually be treated as synonyms. The general objective is to discuss the entire Canadian experience. As the researcher has been based for the past 35 years at the University of Western Ontario in London (halfway between Toronto and Detroit), many examples will derive from Ontario.

Canadian Municipalities

Canadian municipalities owe their legal origins to the municipal corporations that were established in England in medieval times. A few pre-date the establishment of the Canadian federation in 1867. The British parliamentary system of government was established for the federal government based in Ottawa, and was replicated in each of the provinces. Municipalities, on the other hand, have retained their formal status as corporations and, unless there are specific legislative provisions to the contrary, they do not act on behalf of the provinces under whose legislative jurisdiction they fall. Unlike American states, Canadian provinces do not have their own constitutions, so it is legally impossible for municipalities to be given the kind of state constitutional protection that Americans call “home rule.”

Most of Canada’s vast area is not included within any municipality. Land that is not part of a municipality is usually referred to as being “unincorporated,” although it could also be land that is designated for the use of Canada’s indigenous peoples. However, most of the populated parts of the country do fall under some form of municipal jurisdiction. Rural municipalities generally are known by such labels as “township,” “rural district,” or “county.” Urban municipalities are generally known as cities, towns, or villages. In seven provinces, there is only one tier, or level, of municipal government. In parts of British Columbia and Ontario there are two, with regional districts in the former and counties in the latter constituting the upper tier. Parts of Quebec have three tiers of municipal government. In 2008, there were 3647 municipalities in Canada, of which 143 were upper-tier and two were at the top of the three-tier systems in Quebec (Sancton, 2011: 9). There is a huge variation in the populations of the municipalities. The single-tier City of Toronto in 2011 had a population of 2,615,060; the official population of Dorval Island within the Montreal Metropolitan Community was five.

The functions performed by Canadian municipalities are quite specialized. Nowhere do municipalities provide public education, because this is a function in all provinces for local school boards. Only in Ontario do municipalities have any responsibility for social services, especially public “welfare” payments and subsidized housing and child care. Elsewhere, such services are provided directly by the provincial governments. Municipalities generally have no responsibilities for hospitals and health services, except in Ontario where some administer public-health programs. Instead, they focus on regulating the built environment; providing local infrastructure for water supply, sewage, roads and public transit; and on local police and fire services. Except for social services and public housing in Ontario, there is very little in the way of provincial operating grants for municipalities. Most local services are funded by a municipal tax levied on the assessed value of “real” property (i.e. land and buildings) and by user fees, especially for water supply and public transit. Other utilities, including electricity, natural gas, telephone, and broadband are generally provided either federally or by provincially regulated private monopolies or by agencies of provincial governments.

Municipalities are governed by councils that are elected by citizens of Canada within the municipal boundaries. Councils range in size from 65 in Montreal to five (or even fewer) in many small rural municipalities. The period between elections varies, but it is usually between two and four years. Most councillors in cities and towns are represented to elect a small area of the municipality (a ward), but in rural areas and in British Columbia, at-large elections are the norm. National and provincial political parties do not participate in municipal elections, which generally are conducted on a nonpartisan basis, reflecting the common Canadian view that municipal councils are not suited for partisan political activity. However, in some cities in Quebec and British Columbia, local parties (or slates) participate in municipal elections and provincial legislation for municipal elections provides for the regulation and (in Quebec) the public subsidization of such parties.

Mayors of municipalities are almost universally elected at-large and, except in a very few large cities, they preside as the chair of their respective municipal council. In general, Canadian mayors have little or no personal executive authority in relation to the municipal bureaucracy. Because of this fact and because (outside urban areas in Quebec and British Columbia) they are not leaders of local political formations, Canadian mayors tend to lack real power to get things done. In comparison to mayors in American “strong-mayor” systems, Canadian mayors are generally weak. However, there have been circumstances in which particular mayors in particular places have managed to amass considerable political power for themselves.

Each municipality makes its own arrangements for staffing, so there is almost an infinite array of different internal organizational arrangements. Almost every Canadian municipality has one person who is designated as the head of the municipal bureaucracy, although the titles for such a position vary widely: city manager, chief administrative officer, clerk-treasurer, and director-general (in Quebec) are the common ones. Much of the workforce is unionized and the general labor laws for each province apply to the municipal sector, except in the cases of police and fire services where special rules preventing strikes and requiring mandatory arbitration for wage disputes tend to apply.

The Job Description of a Canadian Municipal Councillor¹

In principle, every municipal councillor can decide how he or she wants to do the job. In a small municipality, where remuneration is negligible, a councillor with lots of time and independent financial resources could work on municipal business all the time. In large municipalities, where councillors might get paid around 100,000 CAD annually (not counting budgets for office supplies and staff support), a councillor could still carry on a private business, only showing up for the occasional meeting at city hall. Re-election, of course, would be unlikely because attentive media would soon note the slacking off. The point here is that there is really no job description for a municipal councillor. Even within the same municipality, councillors take radically different approaches to their jobs, which is not necessarily a problem—variety among democratic representatives is not wrong.

But councils do have to make decisions that affect the nature of the job and therefore the kind of people who run for municipal office. Such decisions are of particular importance in mid-sized cities, where expectations of municipal councillors might be ambiguous. One such decision seems very simple on the surface: when to schedule official meetings of council and its committees. If meetings are regularly held in the daytime, the implication is that being a councillor prevents regular full-time employment. The attendant implication is that remuneration should be relatively high, unless it is assumed that council membership really is being reserved for retirees, autonomous professionals (e.g., lawyers in private practice), or people with independent incomes. But what does a ‘relatively high’ income mean? For a recent university graduate, the prospect of earning 80,000 CAD a year as a councillor might seem enormously attractive; the attraction might be considerably less for a 40-year old accountant with three children and a mortgage.

For reformers who wanted to minimize the role of traditional politics in municipal government, the favored policy would be to hold evening meetings and pay councillors relatively little. The expectation would be that councillors would stay clear of details and show up at council meetings only to make decisions on matters presented to them by their highly qualified staff of municipal professionals. Attractive as such a model might seem, it runs into difficulty when residents expect councillors to respond immediately to requests for help with neighborhood issues or when the local media uncover improper actions by trusted municipal staff. In fact, the pressure in municipal government is towards making the position of councillor closer to full-time rather than part-time. In many cities, councillors are expected to attend meetings at city hall in the day and meetings with residents in the evenings. The job becomes more than full time and not suitable for people with young families even if remuneration is exceptionally high.

As the job of councillor becomes closer to full time, municipalities as organizations become much more complex. The old reform-style model of a professional staff working in isolation from politicians—except at times of formal meetings—becomes totally out of touch with reality. In major Canadian cities today, councillors are interacting with staff at all levels all the time. In places like Toronto, members of councillors’ personal staffs are interacting with municipal staff all the time, often asking officials to bend normal practices to meet the needs of particular constituents. Thus, the management function in municipalities often becomes more difficult than in private companies—where members of boards of directors have nothing to do with mid-level managers—or in federal or provincial governments—where individual legislators hardly have more influence on public servants than members of the general public.

Training for Municipal Councillors

Given the extreme diversity of councillors’ roles described above, it is not surprising that there are no national or even provincial requirements for councillor training. It is not at all clear what could be taught. No one – certainly not a university academic – is in a position to teach “the right way” to do the job. In the past the Local Government Program at the University of Western Ontario offered an annual three-day residential “Course for Local Elected Officials” (CLEO), featuring seminar-style discussions led by experts on such subjects as municipal finance, issues in relationships between councillors and municipal staff, and whatever local public-policy issues might be topical (the recycling of waste, accommodating disabled people, downtown revitalization). However, with only about twenty registrants a year, we could claim to

have made only a very modest impact, if any, on the quality of municipal governance. Participants generally had to pay from their own funds or use travel allowances allocated by the municipality. If they chose the latter, they often gave up attending important meetings of national or provincial municipal organizations. Some participants wanted to insure that their involvement in our course was not publicized because they did not want to be accused by political opponents of needing to learn how to do the job to which they had been elected and/or of wasting taxpayer funds on an excursion to a well-appointed executive education site outside their own area. In any event, we discontinued CLEO in the face of resource constraints and programming challenges. It looks like some private entrepreneurs have recently stepped into the vacuum but it is unclear whether they are attracting many customers (Councillor College, 2012).

After municipal elections in most provinces, the provincial ministry of municipal affairs and/or provincial associations of municipalities offer brief training sessions for municipal councillors. Such sessions are, of necessity, quite rudimentary, focussing on overall frameworks of municipal structures, financing, and law. For many new municipal councillors, the most significant training they receive comes from the staffs of their own municipalities. Obviously, local staff will not address sensitive political issues and relationships, but they can and do explain how things get done in their particular municipality. Knowing whom to call with a particular problem is often the most important kind of knowledge a local councillor needs. The “Briefing Book” for all municipal councillors, prepared after each local election by the staff of the City of Toronto, Canada’s most populous municipality, is available on the city’s website and provides a comprehensive account of city procedures and policies (Toronto, 2012).

Perhaps the most important thing that municipal councillors need to learn is how to stay clear of severe legal difficulties. A distinct section (S.123) of the Criminal Code of Canada is devoted to “municipal corruption.” It states (in part):

123. (1) Every one is guilty of an indictable offence and liable to imprisonment for a term not exceeding five years who directly or indirectly gives, offers or agrees to give or offer to a municipal official or to anyone for the benefit of a municipal official — or, being a municipal official, directly or indirectly demands, accepts or offers or agrees to accept from any person for themselves or another person — a loan, reward, advantage or benefit of any kind as consideration for the official

- (a) to abstain from voting at a meeting of the municipal council or a committee of the council;
- (b) to vote in favor of or against a measure, motion or resolution;

- (c) to aid in procuring or preventing the adoption of a measure, motion or resolution; or
- (d) to perform or fail to perform an official act.

There are both common law and statutory obligations on municipal councillors to avoid conflicts of interest. During a recent inquiry on this subject, the presiding judge stated the following:

Members of City Council are entrusted by those who elect them to act in the public interest. Optics are important. In other words, members of a municipal council must conduct themselves in such a way as to avoid any reasonable apprehension that their personal interest could in any way influence their elected responsibility. Suffice it to say that members of Council (and staff) are not to use their office to promote private interests, whether their own or those of relatives or friends. They must be unbiased in the exercise of their duties. That is not only the common law, but the common sense standard by which the conduct of municipal representatives ought to be judged (Mr. Justice Cunningham, quoted in Sancton, 2011: 192).

If municipal councillors learn nothing else as they prepare to take office, they should learn this.

Training for Municipal Staff

The vast majority of managers in Canadian municipalities have some form of professional training and certification. However, there is no municipal staff position in Canada that legally *requires* a particular form of certification. Someone (in theory, at least) could be appointed to a position like “director of legal services” in a municipality and not even be qualified to be a lawyer. Such a person, however, could not represent himself/herself as a lawyer, because in order to do this, one has to be properly certified. In short, professional designations do not attach themselves to particular positions in an organizational chart. All municipalities from time to time require the services of people with professional designations (lawyers, engineers, accountants, land-use planners) but they need not engage them as employees. As far as the broad membership of these traditional professional groups is concerned, most are *not* employed by municipalities.

There are programs in vocational colleges for young people preparing for employment in the emergency municipal services: police, fire, and ambulance. Some provinces operate their own specialized colleges for new recruits to such services

(Ontario Ministry Community Safety and Correctional Services, 2012). But much training for people already in specialized municipal positions is provided in-house by large municipalities and/or by various provincial associations of such specialists. One of many possible examples of such associations is the Ontario Building Officials Association. More general courses for relatively junior local government administrators are offered by a variety of university programs in public administration, university extension departments, colleges, and associations of local-government managers. The organization that reaches the most such general administrators is the Association of Municipal Managers Clerks and Treasurers of Ontario (AMCTO). However, its courses are focussed only on the needs of managers based in Ontario (AMCTO, 2010). For a similar clientele outside Ontario, the departments of Extension at Dalhousie University in Halifax and the University of Alberta in Edmonton have collaborated to create the National Advanced Certificate in Local Government Administration (NACLGA) (University of Alberta, 2012).

Since the late 1970s, the University of Western Ontario, has been offering summer courses for municipal managers leading to an undergraduate Diploma in Public Administration (DPA) after students have also completed an independent research project (Western Social Science, 2012). In more recent years we have entered into contractual arrangements with the City of Toronto, a consortium of suburban municipalities around Toronto, and with the City of London to offer these courses on-site for qualified managers that are pre-selected by the relevant municipality. All of the courses are labelled as Political Science because it is this department that has academic responsibility for the courses. More importantly, a founding principle of the DPA is that the most important and distinctive aspect of municipal management, especially at the upper levels, is the necessity of understanding the full political and intergovernmental context in which it takes place. Despite this political emphasis, however, courses include subject matter directly relating to organizational behavior and management.

In the United States, the Masters of Public Administration (MPA) degree is often regarded as almost a pre-requisite for general municipal management at a senior level. Young graduates without much experience can begin careers as assistant city managers in small municipalities and work their way up to being city managers in much larger places. This career path is much less common in Canada, perhaps because we have relatively few of the small suburban municipalities that seemed to have found MPA graduates especially attractive for their general management positions. In any event, in the early 1990s we created an MPA program on the foundation of our DPA. Ours is the only English-language MPA in Canada that focuses on local government management.² 12 full-time students, mostly recent university graduates without

municipal experience, are admitted each year. Most of the courses are offered at times (e.g. Friday afternoons and Saturdays) that are convenient for part-time students who are already working in municipal government. Although many of our graduates have become senior municipal managers (or been promoted to even more senior positions after having taken our MPA part-time), the MPA degree is still not seen as the norm for senior municipal managers in Canada. A more common pattern is for accomplished functional specialists to be promoted to senior management positions without any particular training in public administration.

Our programs (DPA and MPA) still reach only a very small proportion of municipal managers in Ontario municipal governments, and an even smaller proportion if we take Canada as a whole. Nevertheless, we have an active alumni association, which is probably our best advertising mechanism for the sector to which we appeal. Most serious municipal managers at least know that we exist and many have read at least some of the academic work of our instructors. Our program's greatest strength – the commitment to insuring that municipal managers understand the political context in which they are working – is probably also a source of weakness. Because we are housed in a political science department, it is difficult for us to hire full-time faculty who specialize in management. This is perhaps not as obvious a weakness as it might seem, because there are no full-time academics in Canada who specialize in local-government management. The result is that we tend to hire part-time practitioners – some of whom are our MPA graduates – to teach many of our management-related courses. Their challenge is not to become too focused on their own “war stories” or on the latest management fad, but most seem to avoid such temptations, even though this is exactly the type of content a few of our students are looking for. Another problem relates to the teaching of economics, finding the right level between the theoretical rigor of academic economics and the practical concerns of many managers proves difficult for any instructor. We remain convinced, however, that municipal managers have much to learn from some of the basic tenets of this discipline.

I will consider our program to have met its original objectives when I see more job advertisements for municipal positions stating that possession of an MPA degree is either a requirement or a significant asset. In smaller municipalities, there is still limited awareness of the MPA, especially in Ontario where courses offered by the AMCTO are better known. Our relations with this organization are relatively close and cordial. Many municipal clerks and treasurers who have taken their courses go on to take ours. Although we have had discussions over the years about giving mutual credit for some of our respective courses, the main stumbling block is our own alumni organization, many members of which do not consider that there is much equivalence. They maintain that our courses are more rigorous. The problem for some

of our younger full-time MPA graduates is that some municipalities still seem more comfortable with the AMCTO qualifications than with our MPA. From our point of view, it would certainly be beneficial if municipalities gave more recognition to academic credentials in Public Administration. However, no one suggests that they should be *required* to do so. Hiring whom they want is a basic attribute of Canadian municipal autonomy.

Relations between Municipalities and Universities

For the purposes of this paper, it is important to note that tertiary education is a provincial responsibility in Canada. The federal government plays an important role in funding basic university research, but has no role in setting policy for the organization and funding of universities and colleges. With very few minor exceptions, all universities and colleges receive significant provincial operating funds, which mean that most tertiary educational programs have relatively low tuition fees, at least in comparison with private American universities. No municipality in Canada operates any kind of educational institution, certainly not a college or university, although municipalities occasionally contribute to capital fund-raising campaigns of their local universities. They do so for reasons connected to economic development, a subject to which we shall soon return.

There are a number of other important ways in which universities relate to their respective municipalities in Canada. For local politics, probably the most contentious of such issues involves student housing. Most students do not live in university dormitories and they often join together in groups of three or more to rent nearby accommodation on the private market. If there is a shortage of suitable rental accommodation, entrepreneurs are quick to provide it, even buying up ordinary homes if the city does not permit them to build new apartments close to the university. Such neighborhood instability is profoundly disturbing to city residents whose homes are near the university (many of whom are professors). They generally want the municipal government to regulate off-campus student housing as much as is legally possible. Students and their absentee landlords, on the other hand, generally want little or no municipal regulation. These differing interests often cause considerable local conflict, with long-term residents concerned about student behavior relating to noise, garbage, parking, and general demeanor that is usually different from their own. In most Canadian university cities, the municipal government simply does not have the legal tools or resources to regulate as strictly as the long-term residents would want and local elected councillors are often caught in the middle.

Other issues involve the provision and financing of municipal services that are provided to universities. Services for which there are user fees are not a big problem; the university pays the same fees (for water, for example) as any other consumer. But clearly universities benefit from many other local services, although they are generally exempt from property taxes. (In Ontario, the provincial government pays municipalities a per capita amount for each student in university residences within their territories). Local public transit systems probably benefit from having university students to transport; local police services have more work to do, especially when bars close during weekends and special university events such as “homecoming” festivities.

However, since Stanford University helped cause the emergence of Silicon Valley in the 1950s (Lécuyer, 2006), almost every university in North America has tried to emulate its remarkable contribution to local economic growth. Every mayor of a university town wonders why their university cannot be another Stanford. In Canada, the University of Waterloo (UW) in Waterloo, Ontario has come closest. It is the center of a cluster of almost 500 companies (Bramwell and Wolfe, 2008: 1179) devoted to high-tech innovation, the best-known one being Research in Motion (RIM), the maker of the Blackberry. Although RIM’s future might seem tenuous now, its past has been a remarkable success story and UW has definitely been part of it. Founded in 1957, UW has always emphasized engineering and computer science. From the beginning, the university adopted two important policies which appear to have been very important in fostering local economic development:

1. It instituted a co-op program which is now the largest in the world (1181). Under this program about 60 percent of the university’s 11,000 students are placed with employers while they are still studying. Especially in high-tech fields, these students have been remarkable conduits between academic and entrepreneurial innovators. Because these same students move around from company to company they take “their specialized skills with them...providing a highly effective method of tacit knowledge transfer within the local cluster” (Bramwell and Wolfe, 2008: 1181).
2. It actively encourages faculty and students to connect with local businesses, to provide consulting services, and to maintain personal ownership of whatever intellectual property (IP) derives from such activities. As a result, there is an entrepreneurial culture at UW that is not likely replicated at any other Canadian university (Bramwell and Wolfe, 2008: 1185). Such a culture is the origin of many of the companies that have “spun off” from the university.

Researchers who have studied the role of UW in local economic development have been careful not to exaggerate its importance. They write:

In Waterloo, Ontario, Canada, regardless of whether or not firms had formal or informal links to the university or no links at all, most of them cited the presence of the University of Waterloo as a critical factor in the development of the local high-tech entrepreneurial economy. In fact, a number of firms reported limited involvement with university research activities, and some alluded to a disconnect between the expectations of firms and the university suggesting that Waterloo [the university] may get a larger share of the credit than its total input into the local economy warrants. However, even firms with tangential or no ties to the university...still cite the presence of the university as a critical factor for the strength of the local economy (Bramwell and Wolfe, 2008: 1185).

No one claims that local government has played any significant role in the emergence of Waterloo as a centre for Canada's high-tech industries. A recent study of the "culture of cooperation" in the Waterloo area points to a high level of civic capital combined with a relative *absence* of significant governmental involvement in economic development. It seems as though inter-municipal cooperation takes place *despite* the existence of a regional level of government, rather than because of it (Nelles, 2012: 140). This makes it difficult for local government officials in other communities who would like to replicate Waterloo's experience. Indeed, Waterloo would seem to be a classic beneficiary of "first mover advantage." If other communities in Canada are to benefit economically from local university research, they are probably going to have to develop their own unique models. Anybody who knew what such a model would look like could make a great deal of money as a consultant. Meanwhile, communities without universities can only look on enviously. Even with no research spin-offs at all, cities that host universities experience significant inflows of economic activity simply as a result of faculty and staff salaries and student expenditures, all of which are paid mainly by outside sources. The largest metropolitan area in Canada without a university of its own is Barrie, Ontario (2011 population of 187,000). Since 2011, Laurentian University of Sudbury has operated a satellite campus in Barrie, primarily to offer an MBA program for foreign students from China (Laurentian University, 2012).

The main item of business bringing together the University of Western Ontario and the City of London is a desire by city officials to move part of the university's somewhat isolated and peripheral campus to a downtown location. The object is to create new economic growth indirectly by bringing more economic activity to the downtown area, thereby making the city more attractive to visitors and future investors

and facilitating the community's branding as an "Education City." Moving part of the campus to downtown civic buildings that the city has outgrown is fraught with potential difficulties both within the university (who will move?) and between the city and the university. Many local taxpayers convinced that their taxes should be used to subsidize the further expansion of a university that often seems removed and isolated from the day-to-day concerns of the city. There is not much for the university in such a move *unless* its expansion is subsidized by the municipality.

Conclusion

Local governments and universities in Canada have generally remained aloof from each other. University administrators and faculty members look to the federal (national) government for research funds and to provincial governments for overall regulation and for subsidizing the teaching function; few people in Canadian universities had much cause to pay attention to local governments, except those whose job it is to look after the universities' physical infrastructure. There are a very few faculty members who study local government as an academic pursuit and who teach courses to people who work, or wish to work, as senior municipal managers. There are no Canadian equivalents of American "land-grant universities" having special responsibilities for developing practical education for such people as local government managers. Nevertheless, the demand for tertiary education in this field, while not exploding in Canada, has certainly been growing consistently over the past few decades. There is clearly a niche market for an MPA program in local government such as that offered by the University of Western Ontario. But most municipal officials do not think of universities as places where they can learn how to better run their municipalities. They think of universities as catalysts for economic growth. In the nineteenth century, every Canadian urban municipality wanted a railroad and advanced manufacturing facilities, preferably ones well protected by high tariff walls. In the late twentieth century nothing seemed better than an automated car plant, even if it was owned by the Japanese. In the twenty-first century, universities are often seen as the key to local economic growth – hence the MBA for Chinese students now being offered in Barrie, Ontario.

Endnotes

¹ This section follows Sancton, 2011, 190-2.

² For French-speaking municipal managers, mainly in the province of Quebec, the École nationale d'administration publique (part of the Université du Québec) offers a "Maîtrise en administration publique" (MAP), which has an optional focus on "gestion municipale" (municipal management) [http://www.enap.ca/ENAP/2217/MAP_gestionnaires_Management_municipal.enap].

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Chapter 10

Universities Working with Local Governments in Australia: The Experience of the Australian Centre of Excellence of Local Government

Melissa Gibbs

Abstract

The Australian Centre of Excellence for Local Government was established in 2009 with funding support from the Australian Government. The Centre's mandate is to enhance professionalism and skills in local government, showcase innovation and best practice, and facilitate a better-informed policy debate. The Centre is a unique collaboration of universities and professional bodies. Since its establishment the Centre and its consortium members have collaborated with established local government organizations and networks to encourage innovation and best practice across local government; foster good governance and strategic leadership within the sector; promote new and improved training and development programs for elected representatives and staff; and stimulate and inform debate on key issues for local government in the 21st century. This paper outlines the background to the Centre's establishment, presents an overview of the current systems of local government across Australia, outlines the nature of the various collaborations and strategic partnerships formed since establishment, presents the types of assistance offered to local government, discusses the skills and knowledge requirements of elected representatives and staff, and outlines key issues and challenges.

About the Australian Centre of Excellence for Local Government

Established in 2009, the Australian Centre of Excellence for Local Government (here on referred to as ACELG or The Centre) was made possible by financial support from the Australian Government. It aims to improve professionalism and skills in local government, highlight innovation and best practice, and provide a more well-rounded policy debate. The Centre is a one-of-a-kind institution that collaborates five universities with government professional associations.

The Consortium

The ACELG consortium is led by the University of Technology, Sydney (UTS) through its Centre for Local Government (CLG), which operates as an autonomous unit within the university, and has for more than two decades provided professional development programs for local government personnel and associated professionals. Other consortium members are the University of Canberra (UC), which for many years hosted the former Australian Centre for Local Government Studies; local government's two largest professional associations – Local Government Managers Australia (LGMA) and the Institute of Public Works Engineering Australia (IPWEA); and the Australia and New Zealand School of Government (ANZSOG) which itself is a unique collaboration of Australian and New Zealand governments and universities that offers Australia's premier public sector executive leadership program.

In addition, there are currently two active program partners to provide program support in specialist areas and extend the Centre's national reach: Charles Darwin University (CDU) and Edith Cowan University (ECU).

ACELG is hosted by UTS and based in Sydney. IT has an annual budget of around AUD \$2 million per year.

Mission and Vision

The Centre's vision highlights the pursuit of excellence: World-class local government to meet the emerging challenges of 21st century Australia. At the end of its initial five years, the Centre will have brought about enduring improvements in local government's capacity and performance. To achieve its vision, the Centre's mission is to provide:

- A national network and framework within which local government organizations, government agencies, academic institutions, training bodies and other key stakeholders can collaborate in areas of mutual interest
- Research and development capacity to support policy formulation, drive innovation and help address the challenges facing local government
- Leadership in promoting informed debate on key policy issues
- A clearing house for the exchange of information and ideas, identifying, showcasing and promoting innovation and best practice in local government
- Inputs to capacity building programs across the local government sector, with an initial emphasis on long term financial sustainability and asset management

- Workforce development initiatives including education, training and skills development for both staff and elected members
- Leadership development programs for both senior and emerging leaders
- A specialist focus on the particular needs of local government in rural and remote areas, including Indigenous local governance.

Program Areas

The Centre carries out its activities through six program areas. The six program areas are:

- Research and policy foresight
- Innovation and best practice
- Governance and strategic leadership
- Organization capacity building
- Rural-remote and Indigenous local government
- Workforce development.

The program areas and their objectives are detailed in Table 1.

Table 1 ACELG Program Areas and Their Objectives

ACELG Program Area	Program Objectives
Research and policy foresight program	To support evidence-based policy formulation, promote informed debate on key policy issues and help address major challenges facing local government.
Innovation and best practice program	To promote the exchange of information and ideas, and to identify, showcase and disseminate innovation and best practice in local government.
Governance and strategic leadership program	To increase understanding of effective strategic leadership and to build the capacity of local government to achieve consistently high standards in leadership and governance.
Organization capacity building program	To build local government capacity in key areas of planning, management and service delivery.
Rural-remote and Indigenous local government program	To identify and address specific governance and capacity building issues facing rural, remote and Indigenous councils.
Workforce development program	To address specific skills shortages and gaps in the professional workforce, as well as broader requirements for enhanced expertise, and to establish local government as an employer of choice.

Local Government in Australia

Australia is a federation of six states and two territories. Constitutional responsibility for local government lies with the states and territories, which provide the legislative framework for the operations of local governments. With the exception of some remote and sparsely populated areas in two states and one territory, local governments have covered the whole of Australia for the past century. Australia currently has around 560 local governments. They range from small, remote communities and rural shires with small populations dispersed over large geographic areas, to large, densely populated metropolitan and regional cities.

Local Government Functions

Although functions and systems differ across the jurisdictions, the main roles of local government are advocacy, governance, planning, community development, service delivery, asset management and regulation. Examples of local government services and functions include:

- Building inspection, licensing, certification and enforcement
- Commercial, including parking, aerodromes, cemeteries, quarries, abattoirs, sale-years, markets
- Community services, including child care, aged care and accommodation, refuge facilities, counselling and welfare
- Cultural services, including libraries, art galleries and museums
- Engineering, including public works design, construction and maintenance of roads, bridges, footpaths, drainage, cleaning, waste collection and management
- Health, including water and food sampling and testing, immunisation, public toilet facilities, noise control, animal control
- Land use planning and development control
- Recreation, including swimming pools, sports and recreation centres, public halls, camping grounds
- Water and sewerage in some jurisdictions (DRALGAS, 2012).

Critical Issues Facing Local Government in Australia

In spite of the diversity of local government in Australia – particularly in terms of the size and geographic areas covered, roles and functions carried out, and capacity – there

remain common characteristics and challenges requiring attention and action over the coming decades. Critical national issues of note include:

- Financial sustainability of local government
- Infrastructure funding and maintenance
- The impacts of an ageing population and the increasing expectations of citizens for a wider and higher quality of local government service delivery
- Climate change and environmental management
- Fragmented governance of major cities
- Housing affordability and social inclusion
- Closing the education, health and wellbeing gap between Indigenous and other Australians
- National productivity (ACELG, 2011).

An additional challenge is the need to recruit, develop and retain a skilled local government workforce at a time when Australia is confronted by decreasing supply and increasing demand for workers across many of the skilled areas in which local government operates (LGMA, in press).

Collaborations

Collaboration, networking and development of strategic partnerships are at the heart of ACELG's operating structure. The Centre plays an important role in the Australian inter-governmental system as an independent interface between the federal, state and territory governments and local government itself. As such, there is strong collaboration both within the Centre (i.e. between consortium members across a range of program activity) and between ACELG and the local government sector.

Examples of the various collaborations with the sector include:

- Joint development and delivery of local government training and development programs
- Establishment of reference groups with membership of key stakeholder groups to guide and provide advice on ACELG program outputs
- Research partnerships with academic institutions, researchers and local government practitioners
- Collaborative research projects with local government associations
- National and state-based local government research forums and showcases
- Development of programs, policies, projects and strategies on behalf of the Commonwealth government.

Types of Assistance Offered to Local Governments

ACELG has produced a range of tools, resources, practice notes, research publications, roundtable discussions and guides to assist in the Centre’s aim of increasing the professionalism of local government and contributing to a better-informed national policy discussion. The categories of assistance provided and examples of outputs are outlined in the following table.¹

Table 2 Assistance Provided by ACELG to Local Governments in Australia

Category of Assistance	Examples (not exhaustive)
Research outputs	<ul style="list-style-type: none"> • Commissioned papers (covering for example, governance, service delivery, climate change, shared services and collaboration, metropolitan governance, financial management) • Research partnerships with local governments and academic institutions (covering for example social enterprise and local government, food safety, community indicators, citizen committees) • Research forums and networks (for example, establishment of a local government research network and national and state-based research forums)
Strategies, guides and toolkits	<ul style="list-style-type: none"> • Capacity building strategy for rural-remote and Indigenous local government • National workforce strategy (in development) • Asset management for small communities practice note • Long term financial planning practice note • Innovation guides • Indigenous employment strategy and demonstration projects
Discussion papers	<ul style="list-style-type: none"> • Discussion paper on strengthening local government revenues • Discussion paper on the role of mayors in Australian local government • The use of social media in local government in Australia
Data collection and analysis	<ul style="list-style-type: none"> • Establishment of a National Assessment Framework to measure improvements in asset management and financial management • Establishment of a national minimum data set for the local government workforce

Table 2 Assistance Provided by ACELG to Local Governments in Australia (Continued)

Category of Assistance	Examples (not exhaustive)
Roundtables and forums	<ul style="list-style-type: none"> • Roundtables in each state and territory to discuss current and emerging local government issues • Data collection roundtables • Rural-remote and Indigenous local government roundtables • Forums for CEOs from rural-remote and Indigenous local government to discuss capacity building needs • Social media and innovation roundtables • Indigenous employment roundtables
Fact sheets	<ul style="list-style-type: none"> • Fact sheets on characteristics of the local government workforce
Case studies	<ul style="list-style-type: none"> • Case studies of innovative practice profiled on the Innovation and Knowledge Exchange Network (IKEN) website
Training and professional development	<ul style="list-style-type: none"> • Review of training and development of local government elected officials • Provision of the Excellence in Local Government Leadership Program • Development of a Graduate Certificate in Local Government Leadership • Delivery of a Master of Local Government in 2013 • Local government short courses

Skills and Knowledge Requirements of Elected Officials and Staff

The rapid change and critical challenges facing local government have significant implications on the role of elected representatives and senior staff in Australia. Local government has certainly moved on from its initial focus on the three Rs of “roads, rates and rubbish”, and it is more than just a provider of municipal services. Legislation across Australian jurisdictions places local government’s role within a broad, strategic framework, with service delivery sitting alongside such concepts as community leadership, cultural diversity, environmental conservation, and being a responsible employer (amongst others) (Gibbs, 2011). Thus, elected and appointed officials need a high level and broad range of skills and knowledge to effectively carry out their responsibilities (Davy and Brands, 2012).

Learning Needs of Elected Representatives and Staff

In spite of local government's expanding role and the attendant need for high level skills, current state and territory legislation in Australia does not mandate training for elected representatives and executive staff.² The notable exception to this is in South Australia, where there is a requirement in legislation for local governments to prepare and adopt a training and development policy for elected officials aimed at assisting members in the performance of their roles. Other jurisdictions provide guidelines requiring local governments to provide for a professional development allowance (for example, the Northern Territory and New South Wales) and to develop training and development policies (New South Wales). Of course, it is good practice for local governments to provide training and professional development opportunities for elected members and staff, and many do this as a matter of course. Still more will do so in the future as local government is required in a number of jurisdictions to develop workforce development plans.³

Currently Available Training for Elected Representatives

In 2012, ACELG undertook a national review of training and development for local government councillors. It found that, although elected representative training is not mandatory, a number of local government associations and state and territory governments provide resources to guide elected representatives on their role and responsibilities. In addition, there is a range of training available to elected representatives in all Australian jurisdictions provided by a range of organizations. Training currently available falls into a number of categories:

- Pre-election information and training
- Training provided by local government associations
- In house training
- Collaborations
- Partnerships
- Higher education (Davy and Brands, 2012).

Accredited Courses for Elected Representatives. At present, there is only one accredited course targeted specifically at the needs of elected officials. This is provided by the Western Australian Local Government Association. It consists of ten units of competency:

- Councillor roles and responsibilities
- Ethics and conduct of an elected member

- Strategic planning
- Financial reports and budgets
- Change management
- Policy development
- Land use planning
- Sustainable asset management for elected members in local government
- CEO (Chief Executive Officer) performance appraisals
- Managing conflicts (Davy and Brands, 2012).

Training and Development Offered by ACELG

As ACELG has a critical interest in raising professionalism in local government, it has developed a number of programs aimed at filling professional development and training gaps for elected representatives and staff. The following sections briefly outline these programs.

Excellence in Local Government Leadership Program. ACELG, through its consortium member the Australia and New Zealand School of Government, has developed the Excellence in Local Government Leadership Program (ELGLP), a program designed specifically for senior executives and elected members to stretch their intellectual boundaries and build strategic capacity. An emphasis is placed on strategic leadership, collaborative governance with other governments, citizens and stakeholders and innovative service delivery. The ELGLP tackles many of the fundamental questions confronting local government leaders who are seeking to build a culture of problem solving at a local level. The program also considers the role that local government plays in:

- Harnessing the resources of the community to collectively determine public value and to source and diffuse innovation
- Being a collaborator of first resort in local and regional policy and delivery networks
- Being a learning organizations and knowledge broker
- Being an employer of choice.

The program provides the opportunity for local government leaders to work with the best academics and practitioners from both Australia and around the world. It is delivered with a focus on interaction between presenters, case study discussions, exercises, small group work, peer clinics and formats to draw on participants' knowledge and experience (ANZSOG and ACELG, 2012).

Advancing Leadership Initiative. The Advancing Leadership Initiative aims to identify and network the best of existing leadership programs from around the country targeted at developing the leadership capability of local government professionals. As part of this initiative, partnerships are being formed with associations, training and education providers, sector organizations and local governments themselves. A model Graduate Certificate in Local Government Leadership has been developed and is now being taught and adapted by partners across the country.

Master of Local Government. ACELG has supported the establishment of a Master of Local Government, through UTS, for delivery in 2013.

Short courses and workshops. ACELG has also contributed to the development of a local government short course on enhancing local government service delivery, and developed and delivered workshops on workforce planning in partnership with the Western Australian government.

Issues and Challenges

One of the key strengths of the Centre is its ability to bring together local government practitioners, academics, state and territory government officials, and local government professional and representative associations. Local government in Australia is diverse and the sector is often fragmented with the competing interests of professionals, political and elected representatives and jurisdictional priorities. ACELG is seen by as the “honest broker” with no vested interest, but with the capacity and resources to play a role in joining up the diverse interests of the local government sector in Australia.

There is an emerging challenge, however, in balancing the needs of academia with the practical demands of local government professionals. This tension is perhaps best illustrated in a report summarising the feedback from a survey undertaken following the National Local Government Research Forum convened by ACELG in December 2011. The report states:

Comments were made about the future needs of local government research, including: the building of relationships between researchers, practitioners and policy maker increased engagement with researchers...greater visibility of research in the operation of local government; greater appreciation of how local government research fits into other academic fields such as political science and business ethics; greater recognition of practitioners.

The need for recognition of the importance of practitioners to the research was again articulated in several of the concluding comments, with two forum participants citing the value of having more practitioners to balance out the academic element and provide some on-ground knowledge at such forums (ACELG, 2012b p. 18).

Bearing in mind its operating framework, resources, and the sheer size and number of local governments in Australia, it is impossible and unrealistic to expect the impact of the Centre to be felt in all 560 local governments. Therefore, the focus so far has primarily been on establishing collaborative networks with peak local government professional and representative associations in order to maximise impact. The exception to this is the cohort of approximately 125 local governments categorised as rural-remote and Indigenous, where the Centre has made direct contact with CEOs and senior elected representatives to determine capacity building needs.

Notwithstanding the challenges of engaging with a fragmented sector, the Centre has made a concerted effort to ensure it has a national reach. ACELG has worked in collaboration and partnership with a broad range of local governments and stakeholders, conducted roundtable events in every state and territory and continually fine tunes its work program to take into account feedback received along the way to ensure it is responsive to the sector's needs. As ACELG reaches full capacity, the number and extent of forums, roundtables, training and development opportunities, research papers, production of tools and guides will increase, along with its exposure and impact.

The Centre is conscious of the need to measure its impact in the local government sector. Under the legal agreement between the Commonwealth of Australia and the University of Technology, Sydney to constitute the Centre, the Commonwealth is required to undertake a mid-term review of ACELG in the first quarter of 2013. While the terms of reference for the review are still to be finalized, it is understood the review will include gaining stakeholder input and comment as to the Centre's effectiveness and impact as well as compliance with the terms of the funding agreement. ACELG is keen to build on the findings of the mid-term review and address any weaknesses raised.

Conclusion

The Australian Centre of Excellence for Local Government is a very real and tangible case study of universities and professional associations working together to provide capacity building to local government in Australia. As the Centre's activities continue to grow, more and more local government executive staff, elected representatives, professional associations, jurisdictional representatives and researchers will have the opportunity to use ACELG's program outputs to inform policy development and assist local government deal with the challenges of the 21st century.

Endnotes

- ¹ A full list of ACELG publications is at: <http://www.acelg.org.au/library.php?id=mostRecent>
- ² There are legislative requirements for some technical and operational staff to hold certain tickets and licenses to operate equipment, control traffic and perform some regulatory functions. Training and refresher courses are required for staff performing these functions, and the need for the training and licenses is primarily aimed at ensuring workforce health and public safety.
- ³ Workforce planning is defined as “a continuous process of shaping the workforce to ensure it is capable of delivering organisational objectives now and in the future” (ANAO, 2005).

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Chapter 11

Establishing and Developing a Network among Medium-Size Cities in Asia: A Case Study from the City of Kobe

Hirofumi Ando

Abstract

This case study is an attempt to identify key factors for a modest but successful inter-city network in the field of population, environment and development. It proceeds by describing the formation and key activities of a center established by the City of Kobe to help promote the exchange of information and experience with other medium-sized Asian cities. The study also highlights unique and innovative management practices of Kobe which are considered to have contributed to the program of this center. The AUICK program may serve as a model for an educational institution works in partnership with local communities to develop its own international cooperation program.

Introduction

The City of Kobe was a small fishing village and one of the five ports opened to foreigners when Japan started its modernization process in the 1870s. It is near Osaka, which is the second largest city in Japan after Tokyo Metropolitan City. Kobe has grown to be the fifth largest city in Japan, with a current population of about 1.5 million. Its population grew from 11,000 in 1870, 245,000 in 1900 and one million in 1939, but fell to 400,000 in 1945 because of wartime destruction. However, population of Kobe City increased to one million within one decade.¹

Geographically, it is located on the shore of Seto Inland Sea, facing the sea on the south, and a mountain range on the north. These physical conditions restricted rather severely the accommodation of Kobe's expanding population growth as well as the infrastructure required for rapidly recovering economic activities in the city, especially after World War II.

Rapid population growth also seriously affected the physical environment of the Kobe area, which resulted in deforestation of the Rokko Mountain range due to the need for fishing boat construction and firewood. The deforestation caused serious and often devastating floods, especially in the 1930s, until the city was able to replant trees on the range.

This population pressure for more space induced the City of Kobe to expand its land area by creating man-made islands, including Port Island and Rokko Island, as well as a new airport in the bay. These additions have increased the city's land area by 17 km² to 550 km.² The two islands accommodate around 34,000 people with facilities for education and medical/health care as well as commerce and manufacturing. The islands are occupied by nationally-known corporations including a pearl manufacturing company and a coffee company. Like the airport, they are connected to the mainland by a very efficient transportation system, including a monorail, as well as roads, bridges and tunnels.²

During World War II, the City of Kobe like many other parts of Japan, suffered severely from the air raids. However, it recovered well and became one of the country's six major cities in terms of population as well as economic and cultural activities. It often hosts international meetings and conferences, and now boasts a number of innovative programs for its citizens, including a recreational park called "Village of Happiness," with a pasture for producing dairy products and a winery as well as a "Silver College" where senior citizens can study for two years in such fields as arts including oil painting and calligraphy, foreign languages, botany and gardening (Miyazaki 1993: 175-178). It also has the greenest environment among Japanese cities in terms of per capita public park space.

Being one of the five ports to be opened to foreigners at the time of the modernization of Japan in the 1870s, Kobe has a sizable foreign and academic community comprised of expatriates from England, the US, Germany and India, in addition to long-term residents of the Korean and Chinese communities. It is also home to a number of colleges and universities. This multi-national, cultural and intellectual background may be an important factor contributing to the openness and innovativeness of the City of Kobe administration.

Establishing the Asian Urban Information Center of Kobe (AUICK)

Becoming concerned with rapidly increasing urbanization as early as the 1980s, UNFPA convened four international meetings of urban area mayors. They were held

in Rome, Barcelona, Mexico City and Kobe. These meetings proposed to establish a regional or sub-regional network of cities for the exchange of information and experience. Only the City of Kobe responded to this call for action to establish such a network. The city invited a number of mayors or their senior representatives, as well as representatives of UNFPA country offices in Asia, to a meeting in Kobe to discuss the population issues related to urbanization in 1987. This was arranged with a view to obtain their political commitment to support such a network. With their endorsement, the Asian Urban Information Center of Kobe (AUICK) was formally established in the Kobe International Center for Cooperation and Communication (KIC) in 1989. It started with management by a small secretariat, namely one full-time middle-level Kobe City government officer, one clerical staff member and two temporary clerical workers, while receiving administrative and substantive support from the director and deputy director of KICC on a part-time basis. The secretariat receives advisory support from a non-full-time and non-resident president of AUICK. About two-thirds of the budgetary support has come from the City of Kobe, and the rest from UNFPA. The UNFPA support has been used primarily to organize the training program for administrators from the nine AUICK Associate Cities (hereon referred to as AACs).

The small secretariat has also benefited from the technical and political support of its International Advisory Committee (IAC), composed of several prominent population and development experts. IAC members have often served as resource persons, and have helped to mobilize additional resources. Two of the IAC members also have ministerial experience.

Recognizing that there was a dearth of basic data and information on demographic and socio-economic conditions in small and medium size cities, AUICK initially concentrated on the gathering and storing of such basic data. (In contrast, there were much more data and information on the major or capital cities in the world, in part because they have their own networks, and international organizations tend to pay more attention to them.) AUICK undertook four surveys to collect basic demographic and socio-economic development related data in Asian cities, including over 100 cities in nine countries. It also produced two monographs: *Five Cities – Modelling Asian Urban Population-Environment Dynamics*, edited by Gayl D. Ness with Michael M. Low, Singapore: Oxford University Press, 2000 and *Asian Urbanization in the New Millennium*, edited by Gayl D. Ness and Prem P. Talwar, Singapore: Marshall Cavendish Academic, 2005. AUICK has also established a web-based data system to disseminate such data and information widely to Asian cities, along with a web-based periodic journal, *Asian Cities and People*. The most recent issue was downloaded over 17,000 times from September to December 2011 alone.

Another increasingly important activity of AUICK was to share the so-called good practices of the City of Kobe in the field of population issues, such as the provision of family planning and prevention of HIV/AIDS. For this purpose, AUICK began its training program through which selected good practices were introduced to senior administrators from small and medium-sized Asian cities. Initially, the selection of the cities to be invited was done randomly. However, the AUICK secretariat realized that it was spreading its limited resources too thinly to make any impact on the administration of these small and medium-sized cities in Asia. So since 2004, AUICK has decided to concentrate on its collaboration with nine selected cities, the AUICK Associate Cities (AACs). They are Chennai, India; Chittagong, Bangladesh; Danang, Vietnam; Faisalabad, Pakistan; Khon Kaen, Thailand; Kuantan, Malaysia; Olongapo, the Philippines; Surabaya, Indonesia and Weihai, China. Seven of these are port cities like the City of Kobe, and the nine cities cover three major cultural regions: Hindu, Buddhist/Confucian and Islamic.

As the focus of AUICK narrowed, its substantive program of activities, especially its training project, also sharpened to include mainly the issues related to reproductive health/HIV/AIDS services, population aging, and water and environmental management, in close consultation with UNFPA, which has been a strong partner of AUICK from its inception. The main themes were also selected within the framework of the International Conference on Population and Development (ICPD) Program of Action and the United Nations Millennium Development Goals (MDGs). The training program has been designed for senior and/or middle level administrators from these nine cities (director or deputy director of the relevant department).

In addition, the orientation of the training program has shifted from the North-South exchange of ideas and experience to the South-South or even South-North approach of cooperation. Initially, lessons to be learned came from the City of Kobe, but in recent years, there has been much more exchange of ideas and concrete experiences from the other medium-sized Asian cities. One of the unique instruments introduced in the AUICK training program is an “Action Plan Program” to facilitate participants’ implementation of ideas and practices learned in Kobe upon their return to their respective cities. Each of them formulates an action plan which clearly details key activities in a well-defined time frame, to be undertaken to accomplish a set of goals, such as setting up a group counseling service program for adolescents. This instrument has not only helped participants accomplish their projects, but also the monitoring of results of training programs by the AUICK secretariat.

Throughout the brief experience of the AUICK program, its major emphasis has been on the mobilization of existing community resources or popular participation for the solution of population related issues in urban settings, rather than expensive

and high-technology oriented facilities or activities. The rationale behind this approach is that all the cities involved have community resources which they can mobilize while they cannot afford expensive infra-structure. This has also been the lesson that the City of Kobe has learned.

Another important or unique orientation of the AUICK program is to mobilize locally available academic or technical resources through the concept of the “City and University Partnership” (CUP). In conducting surveys and training activities, AUICK has tried to rely on such local level cooperation as much as possible. A number of local universities have been involved in projects such as the establishment of Management Information Systems (MIS) based on web-based basic data banks for senior managers to use for planning.

Key Organizational Factors Contributing to the AUICK Program

One must wonder why and how Kobe decided to establish and maintain such a network of activities as those of AUICK, especially after the Great Hanshin Awaji Earthquake of 1995. To answer this question, we have to look at the unique organizational characteristics of the City of Kobe administration and try to identify key organizational factors (Ness with Low, 2000: 205-241). They include:

1. Visionary leadership⁴

The City of Kobe has had a series of visionary leaders in its mayors, who had long-term perspectives for providing better services for its citizens. For example, the city was able to build a major highway to connect (through the Rokko mountain range) the northern agricultural area with the more developed area on the southern side situated on the bay. The mayor at that time decided to sell bonds to raise enough funds to build it within a few years instead of relying on the annual loans from the central government. Such loans would have meant taking more than ten years to build. The highway built with bonds started earning much sooner than if it had been built by central government loans, and had much wider positive economic implications for the city (Miyazaki, 1993: 142-152).

2. Sustainable leadership

In addition to the fact that Kobe was fortunate to have mayors who were visionary leaders, their tenures were long despite the fact that they held elective office. The tenure of each of the last four mayors was between 12 to 20 years. This helped them plan and execute such long-term projects as the creation of two artificial islands, which took 26 years to complete, from 1966 to 1992. If the mayoral elections had produced a new mayor every three years, neither of these islands would have been

completed. In addition, the last three mayors, although elected, came from within the city administration rather than from outside. This must have helped the longitudinal planning of services and infrastructure building.

3. Stable but flexible personnel management: competence vs. seniority

The civil servants of Kobe seldom leave the city administration once they are recruited, but they are periodically rotated from one organizational unit to another throughout their careers. They are often assigned to different types of work, and also to work at ward or district offices, where they come into direct contact with local communities or citizens. The city administration also has a number of unique programs to stimulate and reward young civil servants within the rigid bureaucratic structure. One of these is the contest for innovative ideas or proposals, in which winners receive one million yen each to implement their ideas. One such contest winner went to Holland for one month to learn about the management of bridges there. The other unique management practice is to assign young and capable civil servants to senior posts which are not too popular with their senior staff members, thereby creating little resentment within the bureaucracy. Any public organizations tend to be less flexible than private ones when it comes to the promotion of competent young staff members over their senior staff members. One way to remedy such a problem is to assign a competent junior officer to be a supervisor of the landfill solid waste management post which few of his senior officers want. The junior officer receives *a de facto* promotion and the workers at the land fill are delighted to have a highly motivated and competent young person in charge. Other ways include sending competent young officers to semi-public corporations established by the City of Kobe, whereby they learn how to handle public issues like corporate managers rather than typical bureaucrats.⁵

Financial Autonomy

The City of Kobe, like local administrations elsewhere, is now trying to be more independent from central governments in Japan and other Asian countries in order to meet more appropriately and more speedily the needs of its people. Without a reasonable degree of financial autonomy, it would not have been able to have a number of innovative projects or programs for its citizens. As described earlier, Kobe, in the most effective manner, built a major highway which generated a significant amount of revenue for the city budget. The construction of the two artificial islands, Port Island and Rokko Island, was financed by the bonds sold not only in Japan but also in Europe, without relying on financial support from the central government. In part, it is due to the appreciation of the Japanese currency in the 1970s and 1980s, as well as the sale

of land on the two islands for private enterprises. The selling of these two islands have generated a huge financial gain for Kobe, which in turn increased financial and political independence of the city from the central government.⁶

In addition, the city administration has set up a number of funds with annual savings to meet the future financial deficits. With such financial resources to utilize, Kobe City Government has been able to support such projects as AUICK to promote international cooperation with other Asian cities, in collaboration with a United Nations agency, UNFPA.

Citizens' Support

The city administration has become increasingly aware of the importance of receiving support from its citizens for the services it provides, in part because it is guided by the city parliament and in part because the mayoral position is elective. One of the first things which the mayor did was to send a questionnaire to each household in the city asking their views and needs. One may question why he had to send a questionnaire to each family rather than to randomly selected families as many surveys would do. His reason was that he wanted to get in touch with each of the families so that they would also feel motivated to participate in the decision making process of the city administration. He and his successors maintained close communication with the citizens by holding public hearings as often as possible to facilitate popular participation in the management of the administration's activities.

This process of consultation with citizens, especially at the wards (districts within the city) was extremely important and useful during Kobe's reconstruction after the 1995 earthquake. In the rescue operations after the earthquake had devastated the city, it was widely acknowledged that the key administrative unit to help and support the lives of the citizens was not really city hall, but its local offices and the local community.

While the city administrators facilitate and encourage the participation of the citizens in decision-making processes, they also go further than that by urging them to help implement what they propose to the city administration. This has often been seen during the reconstruction of the city at the local community level. One such example is the redesigning and reconstructing of local community parks, which reflects the taste and needs of the local community, but relies on the support of the local people for the rebuilding process. Many of the parks have facilities such as emergency food and medical supplies, as well as benches which incorporate toilets for use when the parks become shelters during emergency situations.

Historically, the political culture of Kobe has been known to encourage popular participation. This is the city where the first cooperative movement in Japan started. This is also the city where women's associations are socially and politically active, producing among others the first female Speaker of the House of Representatives in Japan.

Such a political environment has contributed to the establishment of AUICK to demonstrate that the City of Kobe can help promote international understanding and cooperation as early as the 1980s. The sentiment of Kobe citizens to express their appreciation for the international assistance they received immediately after the Great Hanshin Awaji Earthquake of 1995 sustained the operation of AUICK despite the economic hardship that they went through. This may be a symbolic act of the citizens of Kobe to be independent from the national government of Japan in the field of international cooperation. As a matter of fact, Kobe has established its friendship with and/or liaison offices in such cities as Seattle (US), Milan (Italy), Tianjin (China) and Singapore.

Organizational Factors Directly Contributing to AUICK's Successful Management

We have so far identified exogenous factors which appear to have contributed to the establishment and sustained activities of the AUICK program. We should now attempt to identify the factors which seem to be contributing to the successful operation of the AUICK program. They include the following factors.

1. Focused field of operation:

The AUICK program from the beginning was focused on a limited number and clearly defined fields of population and development, namely, reproductive health and family planning including HIV/AIDS; environmental management in particular related to water and solid waste management; and population aging. It also focused on concrete experiences of the City of Kobe to share with senior administrators from the nine AACs through short-term training workshops.

2. Focused substantive activities:

Within these substantive fields, AUICK has concentrated its activities first on the collection of basic data and information since such data as the number of family planning acceptors by contraceptive methods and number of service providers were not readily available for city administrators. Secondly, AUICK has emphasized the training of city administrators in the selected substantive areas, namely, reproductive health especially for vulnerable groups, population aging, environmental management

such as solid waste management as well as provision of clean and safe water. For these activities, AUICK has mobilized the local universities to help collect and analyze data. AUICK also introduced an innovative method called the “Action Plan Program” to monitor and assess the result of training sessions. The program facilitates the trainees to go back to their cities with concrete plans to implement upon their return, to apply the lessons and information they gained from the AUICK training program over an 18-24 month period (See *AUICK Newsletters* for examples).

3. Focused partners:

The AUICK program since 2004 concentrated its key activities (particularly its training program) on the nine AACs, as mentioned earlier, so as to help establish a critical mass of expertise in the management of population and development issues in urban settings. Some of the ACCs have started sharing experiences with other cities, particularly Surabaya, which has done so not only in Indonesia but also with another AAC recently. However, it should be noted that AUICK continues to share information about its activities with other Asian cities through its information database. The AUICK Newsletter, which reports on key events such as training workshops, is readily accessible through the website of AUICK.

4. Most cost-effective management:

The City of Kobe kept the organizational size of AUICK as small as possible in part to keep its operational costs at a minimum level. It has been relying on the technical expertise available outside AUICK itself so that it can more effectively respond to the changing needs of the AUICK program of activities. The strategy is based on the management view that “in-house” technical experts often cease to be as such within a few years. It usually deploys locally available experts within the city administration or universities in Kobe, and often uses community-level examples for its training workshops. It has also been guided and supported by a small international advisory committee composed of six highly competent technical experts and senior policy makers of high international reputation.

5. Pragmatic experiences at the community level:

Another important orientation of the AUICK program is that it is essentially very pragmatic in managing its key activities and in selecting Kobe experiences that they can be easily replicable in other Asian cities with very limited resources. It promotes the dissemination mainly of the experiences based on a high degree of community involvement and popular participation rather than concentrating on highly technical examples. In addition to the community participation in the reconstruction process of the city after the 1995 earthquake, another example is the inter-generational communication that was promoted through a compost-making project involving children and elderly citizens at the ward level. They collect food waste and leaves on the street and make

them into compost to grow vegetables, which they harvest, cook and enjoy as good meals together at the community center established by the City of Kobe. Through this process the children, whose parents are usually at work, often not only talk with but also confide in the elderly people. They learn about environmental, as well as health and diet issues from the elderly, who in turn feel rejuvenated by their contact with the children. This Kobe model has been adopted in the AACs rather widely.

Policy and Strategic Recommendations

What the experience of AUICK suggests to a higher educational institution that works in tandem with local government organizations is to apply the following:

1. Develop a compact project to promote inter-university cooperation first for gathering and sharing information and data on local administration through reports and case studies by faculty members and students;
2. Develop a web-based database to disseminate information and data as obtained from the project;
3. Concentrate especially initially on a few tangible experiences like management of One Tambon One Product Project, management of micro-credit in Khon Kaen or management of key infra-structure building such as irrigation;
4. Build a project based on limited internal resources, initially for data and information gathering, data sharing, and later for training on data generation, data management and data analysis on issues salient to local administration such as decentralization;
5. In the final analysis, local governments and universities should be working together as strategic partners for decentralized management improvement.

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Endnotes

- ¹ For a comprehensive description of the City of Kobe, see Kiyoyuki Kanemitsu, Kyogi Ueno, Tsukasa Hashimoto, Miho Koike, Gayl D. Ness with Michael M. Low, “Kobe City: Well-Managed Population-Environment Dynamics,” in Gayl D. Ness with Michael M. Low, 2000, 205-241.
- ² Tatsuo Miyazaki, *Kobe Wo Tsukuru (Creating Kobe)*, Tokyo: Kawade Shobo, 1993, pp. 178-184. The first of the two islands, Port Island, is the size of 120 standard baseball stadiums or 436 ha. It took 15 years to complete (from 1966 to 1981) with a total budget of 530 billion yen.
- ³ For a useful conceptual paper on visionary, political and ethical leadership, see Barbara C. Crosby, John M. Bryson and Melissa M. Stone, “Leading Across Frontiers: How Visionary Leaders Integrate People, Processes, Structures and Resources,” *The New Public Governance?* edited by Stephen P. Osborn, London and New York: Routledge, 2010.
- ⁴ Miyazaki, 1993, 152-157.
- ⁵ This relationship is well reflected in the number of retired senior central government administrators “seconded” to local governments, implicitly in return for the financial support from various ministries of the central government. This practice is popularly referred to as “*amakudari*,” senior bureaucrats “descending from heaven.” For the changing relationship between the central government and the local governments in Japan, see Shirgeru Tamura, *Boosoo Suru Chihou Jichi (Local administration going out of control)*. Tokyo: Chikuma Shobo, 2012.

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Website Information

1. For an overview of the local administration system in Japan (definitions of various local autonomy bodies): <http://www.soumu.go.jp//main/soshiki/jichi.gyousei/bunken/gaiyou.htm/>
2. For information about local administration budget in Japan (role of local budgets): <http://www.Soumu.go.jp/iken/11534/htm/>
3. General statistical information about Kobe City, 2011: http://www.city.kobe.lg.jp/information/data/ststistics/toukei/toukeisho/23to_ukeisho.hm/

Chapter 12

Balancing Knowledge and Relevance: An Experiment in Joining Global Perspectives to Local Government Practices

Richard Pratt

Abstract

This paper focuses on the importance of enhancing learning environments that provide education about local governance and administration. Public administration education today, like so many fields, takes place in an international context. Understanding that context presents opportunities and challenges. The paper reviews changes that have taken place over recent decades in views about the role of public institutions, the right way to improve them, the role ideology has played in fueling disenchantment with the prospects for reforms, and the new period of reform we have entered. It then turns to why, in the current global setting, it is important to utilize international resources for learning about local governance, but from a global-local perspective. It describes a spring 2012 experiment at the College of Local Administration at Khon Kaen University on the inter-related subjects of organizational change, leadership and public service ethics. This two-level “hybrid course” incorporated recent technology to engage practitioners from Honolulu, Hawai`i in a global-local conversation. The innovation is described and lessons are drawn from it.

The Shifting Importance of Public Institutions

Not too long ago it was almost conventional wisdom in many places that public institutions, and especially government, would be less important in the future life of societies.¹

This was based on the conclusion that two related and almost irresistible forces were at work. Within nations private institutions and marketplace dynamics were believed capable of better fulfilling the functions once filled by government agencies. Internationally, factors associated with globalization were making the nation state less

significant. At the peak of American power it became some influential observers predicted that all societies would evolve along a liberal “small government is better” path (Fukuyama, 1989). This seemed to portend a future in which efforts would be directed at reducing the size and effects of public institutions rather than trying to improve them.

There has been a significant shift away from this sense of the inevitable decline of the social significance of public institutions. This has happened for a number of reasons. There now is a greater appreciation globally that we are facing collective crises in the form of climate changes, food shortages, competition for resources, disease epidemics and non-state actor warfare. These will require the resources, coordinating capacity and even the coercive authority of public institutions. Greater recognition of the role public institutions must play in achieving a broader distribution of the benefits of globalization is another factor. While private economic activities may be the most successful in creating wealth, they are not engaged in addressing how wealth is distributed. Yet fairness is at the center of peoples’ concerns about globalization. Issues of fairness continue to recur in various forms, and these issues cannot be significantly addressed without public institutions (Dator, Pratt, and Seo, 2006).

Changes inside the United States and in external judgments about “American exceptionalism” are playing a role in the shifting views of public institutions. Americans have periodically swung from an embrace of the marketplace as the path to liberty and individual freedom to acceptance of the need to use public authority to deal with the fallout from growing inequality. This swing may be occurring again, pushed by greater inequality, abuses in the financial sector, and higher levels of insecurity as systems of social support like health care and retirement security appear to be threatened (c.f., Roberts, 2003).² Concerns about “too much government” have less urgency than fears about “too much insecurity,” and it is more common to see arguments for government as a protector, or even as a provider of services (Ben-Ner, 2003). This shift is not likely to result in American officials promoting larger roles for public institutions in other countries, but it may restrain the recurring assault made on them. Equally important, declining global public regard for the United States as a moral leader and a model society is likely to lessen the influence of its prescriptions.³

Accompanying changing views of United States change is a parallel recognition and acceptance of the significant, legitimate roles public institutions play in non-Western societies, especially Asian societies. This role is less likely to be seen as merely a point along a transition to a better model (c.f., Sarker, 2006). Not only is that view less prevalent, but now the United States is more apt to be encouraged to learn from others to meet its challenges (c.f., Greider, 2003 and Luce, 2012).

Finally, the value of public institutions is strengthened by their connection to democratic values. It has become commonplace to see democracy as coupled to the market because of, among other things, the emphasis both place on individual choice (Lindblom, 2002). It is also clear however that strong, democratically-based public institutions capable of “public ordering” are required to confer legitimacy on the “private ordering” of the market. (On this interesting point cf., Katz, 2002)

Disenchantment with Reforms

Although public institutions appear to have grown in stature, somewhat ironically the credibility of strategies used to reform them has diminished. Starting in the 1980s a number of factors came together to create a global agenda for change (c.f., Peters, 2001: chp. 1; Kamarck, 2000: 232 and Salaman, 2005: 144). Table 1 provides a list of these factors, although there is no agreement on which is most important overall or in any specific setting.

Table 1 Forces that Created a Focus on Reform⁴

<p>Fiscal and budget crises heightened by global competition.</p> <p>Reforms in private sector organizations.</p> <p>Ideas of democracy, transparency and community participation.</p> <p>The promise of information technology.</p> <p>A large consulting industry promoting programs for change.</p> <p>The call to meet “best practices,” often promoted by NGOs.</p> <p>Changing public expectations, the consumer movement, and citizen as consumer.</p> <p>Anger about corruption.</p>

These forces together led to a remarkable range of reform efforts. Kamarck captured its extent in a late 1999 survey of the largest 123 nations (those with a population of more than 3.4 million). She looked for “government reform movements that dealt with the actual operations of the state or the traditional ground of public administration” (Kamarck, 2000: 230). Looking only at reform movements at the national level she found that significant government reform is going on around the world and that, to a remarkable degree, similar kinds of reform efforts exist in very different countries. That Tanzania purports to have created ‘executive agencies’ – a concept borrowed directly from British reform efforts – and that the United States adapted its PBO concepts from the same British reform efforts shows considerable global imitation (Kamarck, 2000: 249-50).

The pace, extent and relentlessness of reform was captured by T.D. Wilson in an article expressing concern about the then-new approach called “knowledge management.” Wilson began by arguing that knowledge management was the latest in a series of “techniques” dating back to Taylor’s “scientific management” in the early 20th century. He then observed that, “In the second half of the twentieth century the pace of new techniques quickened considerably...” (Wilson, 2001: 1). To underscore this observation he produced this partial list:

Table 2 (Wilson, 2001: 2)

the repertory grid	management by objectives
theory X and theory Y	T-groups
the matrix organization	planning programming budgeting system (PPBS)
zero-based budgeting	organization development
total quality management	downsizing
organizational learning	systems thinking
team-building	cultural change
‘strategic information systems	benchmarking
ISO9000 certification	the balanced scorecard
core competencies	business process re-engineering
enterprise resource planning	customer relationship management
knowledge management.	

In the private, despite early doubts and the resources devoted to organizational change programs, success rates were well below what was promised (c.f., Beer, Eisenstar, and Spector, 1990). The most promising change strategies often simply failed even though continuously trumpeted by richly rewarded consultants like Tom Peters as the desirable or at least unavoidable future of organizations (Peters, T., 1992). Business process re-engineering (BPR) is a notable example among the “techniques” on Wilson’s list. Consultants touted it as an approach that could deliver quick results to businesses that needed to compete more effectively in a globalizing world. Today even its founders admit it not only failed to deliver, but did real harm⁵ (Davenport, 1995).

Results in the public sector followed a similar course. The most enthusiastic reform advocates saw themselves riding an unfolding revolution in which organizations would be efficient, flexible and effective, and more public regarding (Toonen; 1996 and Osbourne, 1998). Evaluating these claims, especially those about changes in whole systems, can be difficult (c.f., Boston, 2000). Enough time has elapsed however that it is possible to have a clearer idea of what happened. The results are quite mixed.

In the United States the “reinvention” movement, known at the national level as the National Performance Review, is a piece of history. Any discussion of it is about what was accomplished (cf. Calista, 2002; Brudney and Wright, 2001; and Thompson, 2002). Reviews of civil service reform across the American states describe a highly uneven picture, with some states seeing meaningful changes in these systems, and others showing little or nothing. The organizers of the reviews conclude, “Suffice it to say that sweeping reforms consistently have failed to keep the promises their advocates made in the process of selling them to legislators, elected executives, organized interests, public managers, and the public at large” (Nigro and Kellough, 2006: 319). Although specific details and rates of success differ, similar results are found in other developed nations. New Zealand, in many ways the poster child for “radical” changes in the public sector, has been the subject of more sober and critical reviews of its reforms (Gregory, 2004 and Goldfinch, 2009).

The results in Asia also have been a mixed and frequently disappointing. Cheung concluded his survey of Asian countries by observing, “Administrative reforms remain essentially policy instruments to shore up an existing pro-state, and very often pro-bureaucracy, regime” (Cheung, 2005: 273). Sarker, who observed Singapore and Bangladesh’s implementation of principles associated with the new public management (NPM), concludes that, “Many developing countries have endeavored over the years to implement reform measures, although the rate of implementation of reforms is not satisfactory ... Singapore’s relative success reveals that it was very cautious in embracing the NPM formula (Sarker, 2006).”⁶ Common’s study of Hong Kong, Malaysia and Singapore concluded that, “...it appeared that administrative reform was mainly used as an instrument to sustain existing PNT’s (relations between elected politicians, the bureaucracy and civil society) in the face of political pressure, both internal and external.” (Common, 2004 Introduction) Our own analysis in Mongolia since the Soviet departure in 1990 found reform results are very uneven and difficult to balance from a public interest perspective (Pratt, 2006).

Graeme Salaman identified three broad themes in his summary of research findings on a global scale about reducing or eliminating bureaucracy. First, despite the claims “that we live in new times which demand new forms of organization, researchers note that bureaucratic forms of organization survive and succeed.” Second, where introduced the new approaches do not liberate organizations but instead impose, “new more insidious forms of control.” Finally, caution is required before “too easily accepting the more outspoken claims and predictions of those who insist that the post-bureaucratic form of organization is now pervasive (Salaman, 2005: 146).”

The Role of Ideology in Global Thinking about Improving Governance

Reform's unfulfilled promises can foster disenchantment and this disenchantment is increased by the role of ideology. "Ideology" is used in different ways, but here it refers to a set of shared beliefs that describe how things are, how they should be, and what needs to be done to get things to be what they should. Ideologies are powerful because their ability to exclude inconvenient information enables those holding them to act passionately, or even forcefully, together. For example, it is much easier to mobilize against a nation of crazed killers than against a people who have some legitimate grievances and have turned violent.

Reform ideology became at once a catalyst for change and an impediment to it when joined to the intense efforts of the 1980s and 90s. On the one hand, it helped to mobilize resources and energy, such as through international organizations that offered rewards for cooperation. On the other, it acted as an impediment because, even under the best of circumstances, reform is a highly complex and challenging process requiring continuous adaptation to circumstances. A belief system that ignores the complexity, underestimates the challenge, and inhibits adaptation simultaneously heightens expectations and reduces the likelihood of meeting them.

Salaman notes that highlighting the weaknesses of traditional bureaucracies has "delighted organizational analysts" for decades. The difference is that the critique and search for alternatives has been "redefined, restructured and hijacked ... absorbed by wider ideological discourses on organization, economy and government." Moreover, "The critique of bureaucracy appropriates morality in its analysis of the limitations of bureaucracy and its advocacy of the virtues of the alternatives" (Salskov-Iverson, 2000: 142). Hansen and Bislev observed that the rhetoric of reform associated with New Public Management moved from pluralistic thinking in the 1990s to a more focused, normative discourse about the necessity of improving public organizations and the *correct way* to do it.

In contrast to one "correct way," Common's analysis of change in Hong Kong, Singapore and Malaysia lead him to conclude there was a "gradual introduction of this set of public management techniques associated with NPM, although there is very little consistency in its application ... administrative reform is too powerful a term to describe the marginal changes made to the public management systems of these governments (Conclusion)." Bowornwathana and Poocharoen (2005), on the basis of a six-country review that includes Thailand, Malaysia and Japan, wrote that "there is no one golden rule for organizing reform work (1)." Our work in Mongolia shows that the NPM-type reforms, strongly supported by some international NGOs,

constituted only one of several “waves” that had to be reconciled with another and integrated into local circumstances.

A New Period of Reform? Combining Urgency and Realism

These reactions to ideologically driven reform, together with the weakening of the neo-liberal views that had given them so much energy, necessarily make less evident the direction of change in public organizations. The reactions also could signal we are entering a new period of reform. If so, will it be less ideological?

Peters (2001: 1) observes that, “Western ideas may be somewhat more subtle in the third millennium, but they still represent assumptions that one style of managing (whether in the public or the private sector) is best, and indeed is the only acceptable way” (164). One form this new “right way” might take is through the complex of ideas referred to as “indirect government” (c.f., Salamon; 2002 and Goodsell, 2006). Also known as “governance networks,” “issue networks,” “private-public partnerships,” cross sector collaborations,” and “third party government” this emergent view of the right way to fix public organizations is, for many reasons, powerful in Western societies.⁷ It is also susceptible to morphing into a more ideological and hegemonic message, as other approaches have done. (For a discussion of the challenges this presents educators, see Koliba, 2007).⁸

Another more subtle reform ideology might coalesce around “digital era governance (DEG).” Also based on reasonable ideas, the ideological potential can be detected in an analysis by Dunleavy et. al. (2007). After arguing that NPM is dead and issuing caveats against over-selling DEG, the authors write that, [DEG] holds out the promise of a potential transition to a more genuinely integrated agile, and holistic government, whose organizational operations are visible in detail both to the personnel operating in the fewer, broader public agencies and to citizens and civil society organizations. The aim of a coherent and self-conscious digital-era governance strategy would not just be to achieve a time-limited or one-off direct stimulus to social problem solving like earlier management regime changes (489).

It is also possible that dissatisfaction with more formulaic approaches to reform, in combination with the increased appreciation of the role of public institutions, contains the ingredients for a period in which efforts can be treated with both importance and realism. The *importance* would emerge from recognition of the need to develop institutions that are simultaneously responsive and accountable, something I refer to as “responsible flexibility” (Pratt, 2012). This is a by-product of the preceding

era of reform. *Realism* would come from acknowledging the need for multi-dimensional, sustainable approaches to reform that remain principle driven while also taking into account the conditions in which the reforms are being attempted. This desire for realism could be a reaction to the period of formulaic reform.

Nick Manning (2001) made this point in observing that although “one right way” approaches did not fulfill their promises, they also did no long-term harm, and may have created some new possibilities: One lesson from the NPM adventure is fundamental: there are no silver bullets. However, the relative failure of NPM has opened up some interesting, albeit untested, possibilities. We will certainly be fortunate if it turns out that its lack of success has inspired some much-needed thinking (308).

This perspective finds an interesting ally in Francis (Fukuyama, 2007: 5). Well-known for earlier predictions of the global triumph of neo-liberal perspectives, he has recanted many of those conclusions. He elaborated on this change of view in March 2007 observing that with respect to the reform of public institutions, “...there is much more design latitude in the way that institutions are actually formulated and implemented in different countries than I think we often are willing to admit.” He continues on to note that the impetus for institutional reform cannot come primarily from the outside, but, “really has to come from people who understand both the formal and informal rules by which their societies are governed” (Fukuyama, 2007: 7).

Education’s Challenge in an Era of Local and Global

If this is the context for work in improving local government and governance, then these questions are critical: How do we (1) avoid ideology and fads and (2) gain the benefits of working across national and cultural boundaries to improve local government administration? How do we respect knowledge of local history, culture, politics and community aspirations while at the same time benefiting from what now can be so easily learned from other contexts? In short, how do we balance global information with local knowledge?

There is a broad agreement that traditional public organizations present important challenges. These challenges are to the individuals working in them whose efforts to provide good public service can be frustrated; to the organizations’ ability to meet their public and community purposes; and to the broader prospects for democracy. The sources of these challenges, which are both structural (e.g., balancing the need for hierarchy against the need for responsible flexibility) and contextual (e.g., differences in resources and public service ethics), are complex and not well understood

by the public and often even by the staff.⁹ Work that makes them more transparent to both insiders and outsiders is valuable. It reduces unhelpful uniformed judgments and demoralizing stereotypes and lays the groundwork for more appropriately focused problem solving. (For an example of an effort to do this, see Chandler and Pratt, 2011).

Endeavors that go beyond this embrace the need to change local public service organizations in positive ways. There is a wide variety of ways to think about education and research that has this purpose. Becoming knowledgeable about them re-joins us to the global dialogue about reform, however this is now framed by the necessity to better align global and local knowledge.

It is in this spirit that we initiated a small but significant innovation to balance global information and local knowledge. It took place in March of 2012 in the new doctoral program in public administration (DPA) at COLA. The DPA program has been designed in cooperation with two partner universities in the United States – the Truman School of Public Affairs at the University of Missouri and the Public Administration Program at the University of Hawai’i. The degree will be conferred by Khon Kaen University, with faculty from all three universities participating in the program’s design, course offerings and dissertation work. The goal of this partnership is, among other things, to enrich the learning experience of the doctoral candidates by exposing them to international perspectives on local governance.

At the University of Hawai’i the researcher teaches courses that examine three inter-connected subjects: change in public organizations, the role of leaders and leadership in creating positive change, and public service ethics. The first of these, organizational change, emphasizes understanding the weaknesses of traditional public organizations; responses to them and the strengths and weaknesses of these alternatives; and situationally relevant change processes that are most likely to lead in the direction of a desirable alternative. The second subject, the role of leaders and leadership, emphasizes the perspectives, skills and contextual sensitivities required to be effective in advancing positive change at any level in a public organization. The last, public service ethics, emphasizes tools for arriving at public-regarding decisions when faced with the dilemmas that appear to inevitably arise with change.¹⁰ These three subjects are interwoven. Organizational change is a structural issue as well as a process that requires leadership able to deal with the strenuous demands of change while addressing the ethical dilemmas that are its byproducts.

“Seminar in Public Affairs Management” is the last of several required courses taken prior to the comprehensive examination in the College of Local Administration’s DPA program. The course description is that it “identifies and offers in-depth examinations of emerging topics in public affairs management.” Framed

differently, it is intended to develop academic research and applied scholarship that will benefit the effective management of public organizations at the local level.

In the experiment described here, this seminar was designed as a mixed or “hybrid” course in two respects. First, it was divided into two broad sections, one taught by a faculty member from the University of Missouri and the other by me.¹¹ This exposed students to perspectives on local governance from parts of the United States that have significantly different histories and political cultures.

Missouri is in America’s heartland and embodies many basic themes that have shaped its institutions. Particularly relevant is that the government evolved from local jurisdictions in the context of historic American apprehensions about central authority having too much power. Reflecting this, the state of Missouri has hundreds of small towns, each with its own elected officials, taxing authority and administrative staff.

Hawai’i is largely outside this history, having been shaped by the interaction of more divergent political cultures. Unlike Missouri, its governing institutions evolved from centralized authority, at first that of a kingdom and later a tightly controlled plantation society. Local government came reluctantly, forced by the national administration as a condition of joining the United States. The government’s modern role was heavily influenced by the attitudes and experiences of immigrants from Asia. Today it is the most centralized of all 50 American states, having no cities or towns with elected officials or taxing authority, and only four jurisdictions – the counties -- with this authority below the state level.¹² The counties are relatively small in size owing to the state’s 1.3 million total population. They are responsible for the public functions common to local jurisdictions in many places, such as the cities and towns of Missouri, such as police, fire, water and sewage.

The seminar was hybrid in a second way, it used telecommunications technology to integrate practitioners from Hawai’i into the class. Their inclusion enabled the course to approach the inter-related subjects of change in public organization, the role of leadership in positive change, and public service ethics in a way that (1) incorporated the perspectives and experiences of two successful practitioners from Honolulu and (2) forced the six doctoral students enrolled in the seminar to adapt those perspectives and experiences to conditions in Northeast Thailand.

To accomplish these goals the students were sent readings about change, leadership and ethics several weeks before the first meeting. They also were asked to make notes in response to a set of questions. Some questions focused on their

understanding of the content of the readings. Two others asked them to reflect on change, leadership and ethics:

- (1) What kinds of research would it be important to do?
- (2) How could they directly apply what they learned? (See Appendix A for syllabus.)

The class met face-to-face for full three days at COLA. On the first day the researcher introduced additional material and we went over their reading notes and reflections together. Practitioners participated in the class by Skype video on the second and third days, for two hours each day. One of the two practitioners is Ms. Charlene Young, the former Deputy Director of the state's Department of Health. For many years she has been a consultant to Hawai'i's public organizations trying to improve their performance through training, consultation and technical assistance. The second practitioner is Mr. Chuck Tutto, the Executive Director of Honolulu's Ethics Commission. Ms. Young shared her experiences as an administrative officer, but focused primarily on what is involved, in very practical terms, in working with a public organization to improve its performance. Mr. Tutto's interest was to share what is required to establish and maintain an effective public ethics program. Although their content was different, the preparation and in-class process for both practitioners was the same. For reasons of space and because cultivating a public service ethic is so crucial to the effectiveness of local governance, this article only describes the role played by Mr. Tutto.

The Honolulu Ethics Commission was established to oversee efforts to develop and promote ethical standards and improve ethical decision-making in Hawai'i's local government. Its mission is described as follows (emphasis added):

The Honolulu Ethics Commission *advances the standards of ethical conduct in government* as expressed in the Revised Charter and the Revised Ordinances of Honolulu. The purpose of these laws and the Commission's work is to **improve and maintain public confidence in government officials and employees**. The Ethics Commission:

- Advises and makes recommendations to city employees and officials as well as the public regarding conflicts of interest, acceptance of gifts, misuse of city resources, misuse of official position, representation of clients before city agencies, political activities, and post-employment restrictions.
- Enforces the ethics laws by imposing civil fines or recommending discipline for violations.
- Educates city officers and employees to perform their duties in an ethical manner.
- Administers and enforces the financial disclosure requirements for city officials, employees, board and commission members, council members, and candidates for city elective office.

- Administers and enforces the city's lobbying laws. (Honolulu Ethics Commission, 2012).

Organizationally the commission is small and consists of Mr. Totto, an attorney and the executive director, another staff attorney, and one full-time staff person. Their work consists of fact-finding investigations, issuing advisory opinions, imposing fines for ethics violations, and conducting training for public employees. Their endeavors are overseen and supported by six commissioners, appointed by the mayor.

Mr. Totto's goal in the seminar was not to deliver a lecture about ethics and their importance in local government. Instead it was to share his experiences of an ethics program in a local government in a way that engaged the graduate students in the challenging work of determining the relevance of these experiences for Thailand.

This objective was explained to him when the invitation was issued, and then several weeks prior to the class he was sent the following six questions:

- What is the mission of your office?
- How does it go about its work of creating an ethical environment for the city and county?
- What seems to succeed in terms of creating that environment, and what are your measures of success?
- What are the biggest challenges?
- What advice you would give to someone without many resources for how to create public service ethics?
- What kind of research do you think would be valuable to have relating to ethics in local government in a particular place?

In his time with the graduate students, Mr. Totto first went through these questions. What he shared went well beyond what could be obtained from reading a textbook or article about building a culture of public service ethics in local government. He described the real-world, sometimes ironic and often frustrating complexities of his position as an advocate for ethics. He referred to especially troublesome cases that he has dealt with. He described the limits of his authority and commented on how he knows when to temper his advocacy in the face of resistance by the politically powerful. He shared pride in his successes, and the disappointments of coming up short of this mission. And he offered his observations on what needs to be done to protect the integrity of his office and to increase its impact on both elected officials and administrative staff.

The researcher and the students asked him to clarify specific points or comment on related issues during his talk. As we agreed ahead, he left sufficient time to engage in a truly international dialogue about ethics at the local level. This focused on the relevance of his experiences for northeast Thailand. Stated differently, given

the differences in political culture, cultural values, public service norms, types and extent of corruption, economic conditions and available resources, what should they take away from this particular engagement with the global?

The final requirement asked students to review the same questions asked before the class, but now to integrate into their prior notes thoughts on change, leadership and public ethics. This pulled together what they had learned from reading, from each other in class, and, importantly, from their interactions with two international practitioners.

Lessons

What can we learn from this small effort at innovation in local governance education? The first is to recognize that experimentation must have fertile soil and to acknowledge the leadership of COLA for their openness to experimentation and willingness to do all the work that is required to make it work. It is easy to reject ideas like this as too unconventional or too inconvenient.¹³ And despite our optimism about its potential, technology presents us with unexpected breakdowns that must be dealt with.

Next is the importance of continuing to try out different local-global learning environments. We must continue to experiment if education is going to make a difference in local governance. The next time this course is offered, it can include practitioners from both Missouri and Hawai'i. When the technology supports it, practitioners from both places might join the class at the same time. This would enable the practitioners to learn from one another, and students would benefit from seeing their similarities and differences in real time. Doing this also would add a new and significant dimension to the partnership between the three universities.

Third, consider preserving this as a resource by starting an international video library of practitioners sharing their experiences. It might be helpful to develop a generic set of questions that could be asked of all practitioners. This could inquire about what they found most helpful in preparing them for the work they now do, or what lessons they have learned from their successes and failures.

Fourth, use the experiences of local and international practitioners as the basis for cases that share experiences of efforts at reform. The cases might be written using similar themes. They can highlight small, medium, or large successes and the steps that lead to them. Equally valuable, they can provide accounts of failures. Such a global-local case bank would broaden all of our understandings. It would have the additional built-in incentive of being an outlet for scholarly research and writing in this field. Selecting the outstanding reform cases for presentation each year at the local government conference could be an additional attraction.

Conclusion

This paper reviews international efforts over time to improve through reform the work of public organizations. The review describes trends that seem to be in conflict with one another, namely a sense of the growing importance of public institutions for the well-being of societies along side frustration with ideologically driven efforts to change them. One result of these trends may be the opportunity to undertake positive changes in public organizations, including those at the local level, in a way that incorporates both urgency and realism. The realism incorporates the desirability of balancing global information with local knowledge. A small but significant innovation at the College of Local Administration at Khon Kaen University is used to illustrate how this can be done. The lessons drawn from it have broader applicability for improving public administration education's impact on governance at the local level.

Endnotes

- ¹ “Public institutions” in this article refers to government entities at all levels, as well as those organizations that are set up by, and to some degree under the authority of governments.
- ² There is overwhelming data that wealth inequality has increased in the United States since the early 1980s. Today the top one percent control about 35 percent of the wealth, and since 1979 the top one percent’s share of wealth has more than doubled (Business Insider).
- ³ The Pew Global Attitudes Project details the decline in regard for American policies and positions during the Bush administration.
- ⁴ These also vary for industrial and “developing” societies. Best practices have played a greater role in developing settings. Corruption at one time was the primary motivation for reform initiatives in the United States, although it is not today (See Anechiarico and Jacobs, 1994).
- ⁵ This article, written by a co-founder of the re-engineering movement, is worth reading. It is a story of how a sensible, not very revolutionary set of ideas for improvement can quickly change into something that only too late is recognized as not helpful, and is often destructive.
- ⁶ NPM refers to “New Public Management,” a collection of reform programs that emphasized applying private sector principles to public organizations.
- ⁷ Cheung suggests that governance movements that include the networking and collaborative elements may have particular appeal to East and South Asian countries because of the tight relationships that exist between business and government.
- ⁸ An interesting moment occurred at the conference at which this paper was presented. One of the panelists decided to take on the challenge of justifying organizational walls in the face of forecasts of their replacement by networked organizations with soft boundaries. At one time this might have been unnecessary, but here a member of the audience referred to her as “brave.”
- ⁹ “Structural” refers to the persistent features of traditional public bureaucracies, such as hierarchical decision-making, excessive rules, a separation of knowledge from authority, and rigid boundaries. “Contextual” refers to features that are distinctive to a place, such as inadequate technology, lack of management or leadership skills or a culture of corruption.
- ¹⁰ For example, change commonly presents the ethical dilemma of whether it is a “right” to obtain more organizational efficiency by providing staff less employment security, or more flexibility by reducing checks on accountability.
- ¹¹ This “hybrid” dimension of the course was reduced from what was originally proposed, and from what might be done in the future. This is addressed at the end of the paper.
- ¹² The four Hawai’i counties are roughly equivalent to provinces in Thailand.
- ¹³ Dr. Peerasit Kamnuansilpa deserves special mention for his acceptance of this idea and his continuous support for it.

Appendix A Seminar Syllabus

College of Local Administration
Doctoral Program in Public Administration
Syllabus
Capstone Course - Part One
Professor Dick Pratt
University of Hawai'i

Overview

Part One of the capstone course will focus on issues relating to leadership and change in local government, while also giving attention to strengthening the ethical foundations of local government. It will combine in-person lectures and discussions with video-conference presentations and discussion with practitioners in local government from Honolulu, Hawai'i.

Learning objectives:

1. Understand the challenges of positive change at the local level in terms of the opportunities they present for research and application.
2. Understand principles of effective leadership, their importance for local governance, and in terms of the opportunities this presents for research and application.
3. Be familiar with the process for ethical decision-making, as well as steps needed to develop ethical environments at the local level.

Course Process

Readings will be distributed about two weeks prior to the first class that will be held on Tuesday, February 28. Each reading will be accompanied by questions. It is essential that each person come to class with written notes that summarize their responses to the questions. These will be the basis of discussion for the day the readings are assigned. The notes for each session's readings will be turned in to the instructor at the end of that session, and for all the session readings after the end of Part One of the capstone (See "Assignment" below).

Assignment

As noted above, each member of the capstone course is expected to come to class with notes that respond to questions about the readings. The questions are listed at the bottom of the syllabus. Copies of these notes will be turned into the instructor at the end of each session. On March 9 each person should submit revised notes as a paper that incorporates what he or she has thought about and learned through discussions in class and from the international practitioners about organizational, leadership and public service ethics.

Evaluation

The evaluation for Part One will be based on:

- (1) Quality of participation in discussion during each session.
- (2) Quality of written paper submitted after the end of the course.

Schedule

Tuesday, February 28 -- Organizational Change 6 hours

Lecture and discussion

Reading: Chapters 2 and 3 from *The Future of Governing*, H. Guy Peters. 2nd edition.

Wednesday, February 29 - Organizational change and Leadership, 6 hours

I. Lecture and discussion

Reading: "Transformational Leadership and Public Service Motivation" from *Public Administration Review*.

II. Teleconference presentation and discussion with Honolulu practitioner Ms. Charlene Young, former Health Department Deputy Director, adviser to state and local government and nonprofit agencies.

Topic: Intervening for positive change in a local public organization.

Thursday, March 1 -- Leadership and Ethical Public Service 6 hours

Lecture and discussion (4 hours, to be arranged)

Reading: Chapter 8 from *The Courageous Follower*

II. Teleconference presentation and discussion with Honolulu practitioner

Mr. Chuck Totto, Executive Director, Honolulu Ethics Commission.

Topic: Building an ethical environment in local government.

Questions – See Assignment Above

I. Peters, *The Future of Governing*.

The two chapters, one on the market model of reform and one the participation model of reform, describe reforms of government that have been used internationally.

General questions:

1. What do you see as the most important elements of each of two models, market and participatory, that Peters introduces?
2. In general, what are positive features of each?
3. In general what are areas of concerns for each for public institutions?
4. What examples do you have of the use of the models in Thailand?

A. As a research problem: How would you learn which model is more appropriate for a particular local government in Thailand?

B. As an applied practice problem: How would you assist a local government organization to adopt one or more important elements of one of the models?

II. Paarlberg and Lavigna, “Transformational Leadership and Public Service Motivation.”

This article focuses on the idea of transformational leadership and its importance in creating high motivation of public service.

General questions:

1. What distinctions is it useful to make between a manager and a leader?
2. What do you see as the most important characteristics of transformational leaders?
3. What examples do you have of these leadership types in Thailand?

A. As a research problem: How would you learn what elements of leadership are most, and least, appropriate for local government in Thailand?

B. As an applied practice problem: What intervention would you propose to introduce transformative leadership into a local governance organization? What do you expect to be the main obstacles?

III. Chaleff, *THE COURAGEOUS FOLLOWER*. Ira Chaleff encourages leaders to be open to the concerns of subordinates and, more than that, to encourage the development of followers who communicate their concerns and, when needed, take moral stands.

General questions:

1. What are some of the ways that Chaleff presents for leaders to accomplish this?
2. Which of the things he suggests would work best to create courageous followers in Thai local government? Are there other things he doesn't suggest that you think would work?

A. As a research problem: How can you learn what are the primary ethical issues faced by formal and informal leaders in Thai local governance, and how well equipped are they to deal with them?

B. As an applied practice problem: How would you introduce or promote the practice of developing courageous followers in a local government organization?

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Chapter 13

Keeping HOPE Alive: The State of Georgia Government and Georgia State University's Role in Maintaining Educational Opportunities

Larry Berman and Elizabeth (Beth) Jones

Abstract

HOPE is the nation's most generous merit-based education and grant program, but is facing near completion of reserves. State and local governments are struggling to develop a way to save HOPE, an acronym for Helping Outstanding Pupils Educationally. The funding currently comes from the state lottery and provides scholarships and financial aid to Pre-K programs and eligible college students residing in Georgia. The scholarships are all merit based and have allowed Georgia to retain many of its best students. The great fear is a brain drain of the best and brightest if these financial awards are no longer available, hence the great concern of state and local governments to find solutions, in partnership with the Board of Regents of the University System of Georgia.

Introduction

The educational system in Georgia in the 1990's was near the bottom in many measured educational categories. Only 48 percent of Georgia high school students enrolled in college or universities and more than 136,000 of its citizens had not completed fifth grade.¹ State leaders led by then-Governor Zell Miller took action by offering a funding source for potential college students. On November 3, 1992, Georgia voters passed the lottery amendment by a narrow margin of fewer than 100,000 votes (1,146,340 to 1,050,674) providing the revenue model for both a HOPE college scholarship program as well as an opportunity to enter the educational process in a pre-kindergarten program.² The Helping Outstanding Pupils Educationally (HOPE) scholarship program was to be completely funded by the Georgia Lottery. The purpose of the HOPE program was to create a well-qualified workforce for the 21st century by providing qualified applicants with a means of completing a postsecondary degree without incurring long-term debt.³

Governor Miller anticipated future trends of a job market that would require a college education. Approximately 60 percent of new jobs that will be created over the next decade will require education beyond high school. The goal of the state of Georgia is to add 250,000 more college graduates by 2020 (AJS, 4/1/12 Hope Dwindles for Future Class). Yet this education comes at a cost many families find prohibitive. Georgia's HOPE is the nation's most generous merit-based education and grant program, but is facing near elimination of reserves. State and local governments are struggling to develop a way to save the HOPE programs.

Keeping HOPE alive is the focus of the paper. The scholarships are all merit based and have allowed Georgia to retain many of its best students. If these financial awards are no longer available, a brain drain of our best students is likely to occur. Before HOPE, fewer than one-quarter of students who scored 1400 or higher on the SATs went to college in Georgia; after the implementation of HOPE, three-quarters of these same type of high-achieving students remained in state. The great concern of state and local governments, in partnership with the Regents of the University System of Georgia, is to find solutions.

Background and Legal Context

Funding the new educational programs through a constitutional amendment had many advantages. The amendment to Article I, Section II of the Constitution of Georgia, authorized the General Assembly to provide a lottery to be run on behalf of the state and to utilize revenues from the lottery for educational purposes. Specifically, the Georgia Lottery for Education Act of 1992 stated, "that net proceeds of lottery games conducted pursuant to this chapter shall be used to support improvements and enhancements for educational purposes and programs and that such net proceeds shall be used to supplement, not supplant, existing resources for educational purposes and programs."²⁴ The Lottery for Education Act of 1992 created the Georgia Lottery Corporation (GLC) to oversee the functioning and continued growth of the Georgia Lottery.

The Education Act of 1992 statutorily created the Georgia Lottery Corporation as a public entity with the sole purpose of managing lottery proceeds. Further declaration within the law said: "That lottery games shall be operated and managed in a manner which provides continuing entertainment to the public, maximizes revenues, and ensures that the lottery is operated with integrity and dignity and free of political influence."²⁵ The Georgia Lottery Corporation is accountable to the Georgia General Assembly and to the public through annual audits and reports.

A seven-member board of directors governs the corporation and is appointed by the governor of Georgia, confirmed by the Senate and serves five year terms.⁶ Three distinct and individually funded educational programs were made possible by the lottery; the HOPE Scholarship Program, a voluntary pre-kindergarten program for four-year olds, and an instructional technology program.⁷

Helping Outstanding Pupils Educationally (HOPE)

The United States continues to have one of the highest college participation rates in the world. In 2011 about 68.3 percent (2.1 million) of high school graduates enrolled in college, compared with 22 percent in 1983.⁸ Students in the United States who complete a 4-year college education may see their lifetime earnings increase by as much as \$1 million (Howe and Strauss, 2007). Knowing the economic gain and increase in career potential, obtaining a bachelor's degree is the dream of many Americans.

The HOPE scholarship program of 1992 was created as a merit scholarship aimed to motivate Georgia high school students to pursue educational opportunities after high school. The original requirements of the merit scholarship were for the student to be a Georgia resident, have a 3.0 grade-point average from an accredited Georgia high school, and an annual family income less than \$66,000 (Eby-Ebersole, 1999). The scholarship covered the first two years of tuition for postsecondary education in a public Georgia college, university or technical school contingent upon the student maintaining a 3.0 grade point average. Students studying at a private college in Georgia could receive \$500 for full-time study and those completing a General Education Diploma (GED) were eligible for a \$500 voucher (Carl Vincent Institute). The goal of the HOPE program was to provide opportunities for Georgia citizens to increase the skills of the workforce and to keep the “best and brightest” in Georgia.

As previously stated, the source of funding for the HOPE scholarship was the Georgia Lottery. When the lottery started, the unofficial goal was for 35 percent of the revenue to go towards educational programs. Through the twenty years the lottery has been in existence, the games and prizes have changed and the revenue to education is now approximately 25 percent of lottery revenues. This revenue was an unknown for the first year of administration in 1993 and the income cap reduced the number of applicants for the HOPE program. For the fiscal year 1992-1993, the HOPE scholarship was awarded to only 42,807 students at a program cost of \$21.4 million. The Georgia Lottery ended its first full year of operation with sales totaling \$1.1 billion.⁹

For the fiscal year ending June 2012, there were 202,995 HOPE recipients and HOPE awards totaled \$462.1 million as shown in Exhibit 1.¹⁰ Georgia Lottery revenue for the fiscal year ending June 2011 exceeded \$3 billion, and the lottery deposit to Georgia Student Finance Corporation for HOPE awards totaled \$883.8 million.¹¹ Exceeding revenue estimates allowed the opportunity to develop enhancements to the HOPE program. By Georgia law, changes to the program can only be made through the Georgia legislative process and implemented by the Georgia Student Finance Commission (GSFC).¹²

Exhibit 1

Students Earning Georgia's HOPE Scholarships and Grants¹³

Fiscal Year	HOPE Recipients	HOPE Awards
1993-1994	42,796	\$21.4 million
1994-1995	98,398	\$83.7 million
1995-1996	122,976	\$133.7 million
1996-1997	128,353	\$153.2 million
1997-1998	136,660	\$173.2 million
1998-1999	141,101	\$189.0 million
1999-2000	148,194	\$208.6 million
2000-2001	169,170	\$276.6 million
2001-2002	195,858	\$322.6 million
2002-2003	212,629	\$361.7 million
2003-2004	222,550	\$405.8 million
2004-2005	222,266	\$427.0 million
2005-2006	212,577	\$436.0 million
2006-2007	207,325	\$452.0 million
2007-2008	202,334	\$459.5 million
Fiscal Year	HOPE Recipients	HOPE Awards
2008-2009	216,135	\$522.3 million
2009-2010	248,276	\$640.3 million
2010-2011	256,442	\$747.9 million
2011-2012	202,939	\$461.8 million
2012-2013	58,920	\$38.5 million

Evolution of HOPE and Legislative Updates

The first expansion of HOPE occurred in 1994 when the program began covering four years of tuition instead of two, mandatory fees and \$100 per quarter for books.¹⁴ As lottery sales continued to grow, the HOPE program continued to evolve. In 1995, legislative changes were made allowing students who had lost HOPE a chance to regain it. That is, if a student completed the college sophomore year with a cumulative “B” average, the HOPE was available for the junior year. In the same year, the family income cap of \$100,000 was abolished making the HOPE program available to more high school graduates in Georgia. The number of student recipients for 1995-1996 totaled 122,976.¹⁵

In 1996, for the first time, private college students were required to have a “B” average to qualify for HOPE, and could receive a \$3,000 scholarship per year instead of \$1,500. Students entering high school were required to earn a “B” average in the core curriculum of English, math, social studies, foreign language and science to qualify for the scholarship. Even with increases to the rigor of the scholarship, the number of recipients continued to increase and during 1996-1997 there were 128,353 HOPE scholars.¹⁶

As Exhibit 2 shows, revenues to the Georgia lottery continued to increase through the 1990’s. Increases in expenditures went hand-in-hand with additional changes to the HOPE educational scholarship program. In 1997, the Georgia Finance Commission adopted a policy allowing homeschooled students who maintained a B average during their first year of college to retroactively qualify for the HOPE Scholarship during the 1997-1998 school years.¹⁷ Georgia voters in 1998 approved a constitutional amendment protecting the HOPE Scholarship Program from legislative tampering. The amendment stipulated that proceeds from the lottery were limited to educational purposes and programs to be expended for scholarships, pre-kindergarten programs and shortfall reserves would receive priority over teacher technology training and capital outlay projects for educational facilities.¹⁸ Five years after its creation, the HOPE Scholarship was awarded to 319,000 students for more than \$580 million.

Legislative attention continued to focus on the HOPE scholarship program. Changes put in place by Senate Resolution 220, passed in 2003, created the improvement of the HOPE Scholarship Joint Study Commission to evaluate and study methods to ensure the continued success and viability of HOPE.¹⁹ The Joint Study Commission made its recommendations to the Legislature in January 2004 resulting in Georgia House Bill 1325, which caused the most sweeping changes to HOPE. The approved bill went into effect with the graduating class of 2007, stipulating that all high

school coursework attempted in the core curriculum subjects of English, math, science, social studies, foreign language and college preparatory work would be included in the computation of HOPE eligibility.²⁰ Furthermore, schools were no longer responsible for calculating grade-point average for HOPE eligibility. Instead, schools would transmit student data for graduating seniors to the Georgia Student Finance Commission (GSFC) for authentication. All reported grades would be converted by GSFC to a 4.0 scale. All grades obtained in the core academic courses would be used for the purpose of calculating the grade- point average. Improvements in reporting resulted in 212,577 HOPE recipients for fiscal year 2005-2006, a 4.3 percent decrease from the previous year.²¹

A decrease in lottery revenue soon led to questions about funding for the existing HOPE program. By the year 2007 there was a program deficit of approximately \$141 million (Exhibit 2). Even with program deficits, the Georgia legislature continued to modify the HOPE program and in July 2008, funding for private colleges was increased from \$3,000 per academic year to \$3,500. Senate Bill 492 increased the residency requirement to 24 months for students who did not graduate from a Georgia high school. House Bill 152 of 2008 allowed the inclusion of home study students, ineligible high school graduates and GED recipients to gain HOPE scholarship eligibility by scoring in the 85th percentile on a standardized admission tests such as the ACT or SAT.²²

Roots of Crisis

Over the past 18 years, funds raised through the Georgia Lottery have helped to educate over 1.7 million students in postsecondary education by using the HOPE scholarship at cost of over 6 billion dollars. The popularity of the HOPE scholarship, expansion of the coverage and the increase in college tuition and fees are outstripping the new lottery revenue at an accelerated rate. At the same time the award of the HOPE scholarship was becoming an expected outcome of graduation from high school in Georgia. The revenue from the lottery, at a time of the national recession in 2009, was not keeping pace with the demand. Without changes to the program, the deficit was on a path to increase to over half a billion dollars by fiscal year 2009, as shown in Exhibit 2.

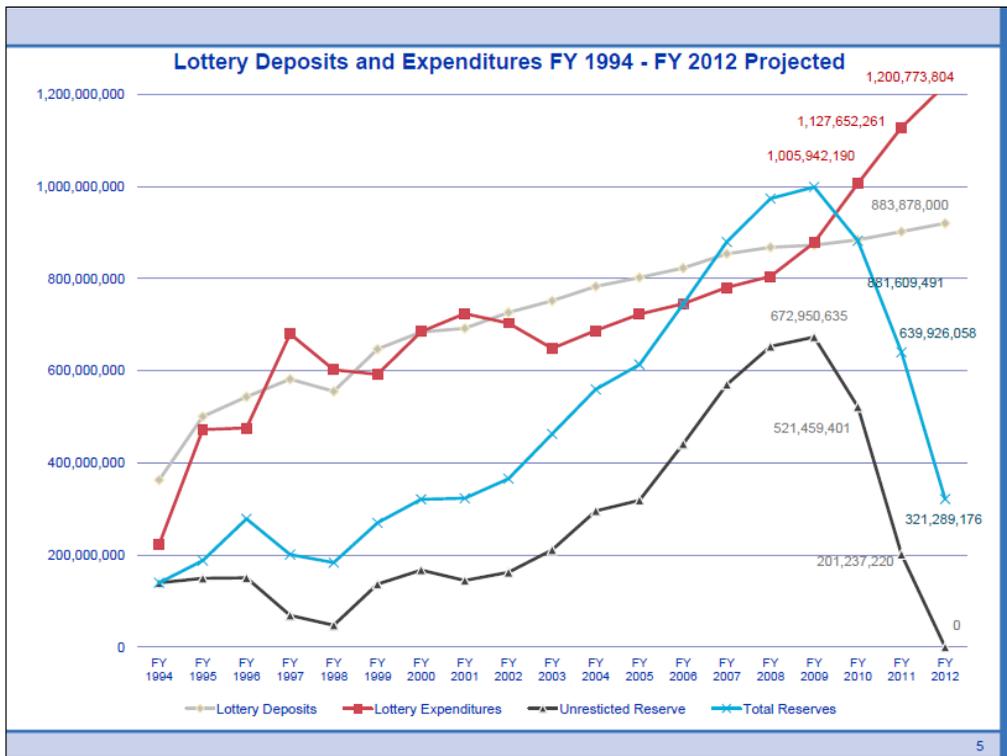
Legislators in Georgia took action in the legislative session of 2010-2011 by passing a bill to revise processes within the Georgia Lottery. During the General Assembly of fiscal year 2011, House Bill 326 resulted in substantive changes to the HOPE scholarship program.²³ These legislative changes included limitation for regaining HOPE once lost, no payments for books or fees for all students, no payments for remedial college coursework, established GPA requirements for the HOPE Grant, set a standard for the reserve level lottery funds, established the Zell Miller Scholarship for high-achieving high school graduates with no grandfather provision for current HOPE students and uncoupled the HOPE benefit from the rate of college tuition. The amount of the HOPE benefit in the future will be determined by the General Assembly each year based on available revenues, reduced commission for lottery retailers, and reduced benefits for Georgia lottery employees.

By the time of his State of the State speech in January 2012, Governor Nathan Deal took stock of HOPE by saying, “One year ago, HOPE—arguably the nation’s most generous merit-based, higher education scholarship and grant program—was on an unsustainable course and complete depletion of reserves as early as FY 2013.” The governor’s view of the future is supported by analysis from the Georgia Student Finance Commission which administers the scholarship as shown on Exhibit 2. Annual growth rate of HOPE recipients is at 4 percent and tuition increases are projected at 3 percent. Beginning in FY2014, expenditures for the HOPE program will be limited to projected revenue and the use of reserve funds will not be allowed.

Alternative Models for Supporting the HOPE Scholarship

As shown in Exhibit 2, lottery revenue has not kept pace with the expenditures, and the challenge for Georgia leadership in higher education has been to determine if there are methods within institutional budgets to ensure continuing support to HOPE scholars who now face reduction in scholarship funding from the lottery-supported HOPE program. State legislative changes for the HOPE program under the current lottery revenue model are unlikely to provide enough support for the HOPE scholarship program. Georgia is not the only state to face this type of challenge. It is instructive to assess how other states have used lottery-funded, merit-based scholarship assistance.

Exhibit 2⁴



New Mexico

Since 1996, the New Mexico Legislative Lottery Scholarship has assisted over 75,000 students in their quest for education.²⁵ The scholarship covers 100 percent tuition for eight semesters, beginning with the second semester of college, and applies to both universities and junior colleges.²⁶ Eligibility for the scholarship is determined upon the conclusion of a student's first semester of college.²⁷ Students must maintain at least a 2.5 GPA and enroll full-time (meaning 12 credit hours or more) in order to qualify.²⁸

According to recent research, New Mexico's scholarship raised university enrollment by 56 percent. However, the change in enrollment is primarily due to high-income, lower-achieving students who enroll. Although the program led to increased enrollment, there has been no detectable change in student retention.²⁹ In that sense, the scholarship is only partially successful in its goal of increasing enrollment and retention.

Similar to Georgia, New Mexico has not escaped budgetary concerns with the scholarship. Shortfalls in the revenue generated from the lottery in recent years have posed problems for the scholarship's continuation. While the New Mexico lottery's revenue has steadily decreased, student enrollment has made a swift upward climb, and tuition rates have similarly been on the rise. This combination of less money and higher enrollment and tuition has led the Legislative Finance Committee to speculate that the funds available for the scholarship could be depleted as early as 2014.³⁰

Similarly, in 2008 the New Mexico scholarship had an \$18 million deficit, so the state was required to institute new policies in an effort to reform the system. When examining avenues for scholarship reform, one of the primary suggestions for saving money was to raise the requirements for students obtaining the scholarship. The oversight committee decided to reduce administrative expenses and shift those expenses towards the scholarship funding pool. Since New Mexico had the fifth-highest administrative costs in the nation for their lottery, reducing those expenses was a natural solution for reducing the deficit. Before the 2008 change, the lottery was contributing only 24 percent of its revenue towards New Mexico's scholarship. Following the 2008 reduction in administrative costs, 30 percent of the revenue was being allocated towards the scholarship, giving 6 percent more of the annual revenue to the scholarship.³¹ While New Mexico ameliorated its budget woes by reducing its administrative costs, this alternative does not appear to be on the radar as an option for shoring up Georgia's scholarship deficit.

Although the program is helpful in assisting students with their aspirations of obtaining a college degree, some critics maintain that the scholarship has some fundamental problems that must be addressed. One of the arguments is that it discourages high school achievement. Since the scholarship only requires a 2.5 GPA, students have little incentive to achieve academic excellence in high school and in college. Consequently, students are vastly under-prepared for college-level work. This is evidenced in the fact that nearly half of all New Mexico students are required to take remedial courses. Critics also contend that the scholarship primarily benefits the upper socio-economic class. Lower-income students obtain the scholarship at half the rate of their fellow upper-class students; some consider the scholarship as failing to meet the needs of low-income students.³²

Although New Mexico's scholarship is similar to Georgia's HOPE scholarship in many ways, there are some significant differences in funding. The New Mexico Legislative Scholarship provides 100 percent funding, while the HOPE scholarship is capped at 90 percent of the 2011 tuition. The New Mexico legislative scholarship provides 100 percent funding, but only for eight consecutive semesters. If a student

does not complete his or her courses within those eight consecutive semesters—which students often do not; then they no longer qualify for the scholarship and must pay for the remainder of their college courses. Conversely, Georgia's HOPE scholarship covers up to 126 credit hours and places a 6-year limit on completing a degree. This enables students to maintain the HOPE scholarship, even if they do not complete their degree within a 4 ½-year period. By limiting a student's scholarship funding to eight consecutive semesters, Georgia could save money. Students would then be forced to find alternative sources of support to complete college if needed.

In order to save money, Georgia could emulate New Mexico's policy where students receive the scholarship only upon their second semester of college. Since nearly half of all students lose their HOPE scholarship within the first year, this change could give scholarship committees an opportunity to examine a student's college performance and use that first semester as a way to gauge their eligibility for HOPE. Since there is usually a considerable difference between high school performance and college performance, this policy could increase the chances that the funds would go towards students who are likely to maintain the scholarship. This would prevent the state of Georgia from providing funds to students who are currently losing the scholarship after the first checkpoint. In this type of plan, first generation students, low income and underrepresented students should be given special consideration.

Tennessee

Tennessee's HOPE scholarship, largely modeled after that of Georgia, seeks to provide lottery-funded, merit-based financial aid. In order to obtain Tennessee's HOPE scholarship, a student must attain an ACT score of 21 or have a combined score of 980 on the SAT. Additionally, a student must maintain a 3.0 GPA in order to qualify.³³

Similar to Georgia, Tennessee's HOPE scholarship has not evaded budgetary problems. In 2011, Tennessee's HOPE faced an \$8 million deficit with a projected \$20 million deficit within 10 years if the program maintained the status quo.³⁴ Despite Tennessee's precarious financial position, few changes in the scholarship have advanced through the legislature. However, one of the ways that Tennessee was able to reduce budgetary problems was by reducing the number of credit hours the scholarship covered. Tennessee's HOPE scholarship formerly fully funded four years of college. This is similar to New Mexico because the scholarship had a tight time limit for completing an undergraduate degree. Under the new Tennessee changes, however, the HOPE scholarship would fund 120 credit hours. Since the average college student completes their degree within 133 credit hours, many students will end up paying for these additional courses, consequently saving some of the scholarship's money.³⁵

Although this scholarship is intended to increase student enrollment and retention, research indicates that the scholarship has had a negligible effect on student behavior.³⁶ Students who returned to school while they were older were more likely to follow through with their degree under the HOPE scholarship. However, there was no enrollment or retention difference with first-time and transfer students.³⁷ Also, 63 percent of students lose their HOPE scholarship funding within the first year, so the scholarship applies to a small percentage of the student population.³⁸ Since the percentage of students with Tennessee's HOPE scholarship is low, its effect on enrollment and retention overall would naturally be low.

While Tennessee's HOPE scholarship largely mirrors Georgia's HOPE scholarship, there are some key differences. One of the differences is that Tennessee's scholarship contains a minimum SAT/ACT score, while Georgia's standard HOPE scholarship (not the Zell Miller Scholarship) does not. Furthermore, Tennessee's scholarship provides a fixed amount of financial assistance (\$4,000 in aid for a four-year institution).³⁹ Since Tennessee gives students a fixed award of \$4,000, Tennessee is able to distance itself from the rising tuition at universities. Conversely, until the passage of House Bill (HB) 326 in 2011, Georgia's HOPE program was tied to tuition rates. If the Board of Regents had approved higher tuition, then the state of Georgia would have been required to give students more scholarship money in order to make up for that rise in tuition. Georgia HB 326 ties the HOPE Scholarship to 90 percent of 2011 tuition. Only Zell Miller Scholars continue to receive 100 percent of current tuition. Since Tennessee has a fixed award amount for the scholarship, they avoid this problem. Having a fixed scholarship amount for HOPE recipients, then, could be a viable alternative to the HOPE scholarship's current program.

Delaware

Although many states dedicate their lottery revenue exclusively towards education, Delaware's lottery revenue only partially goes towards education. Delaware's lottery funds are allocated towards numerous state projects, such as public safety initiatives, correctional services, public education projects, environmental control, and social services.⁴⁰ The lottery contributes 30 percent of its revenue towards this general state fund, which is then divided up among the various state projects.⁴¹

Not only is Delaware's lottery program unique because it allocates money towards a host of state-funded projects, but the scholarship is also notable because it is a combination of merit-based and need-based aid. While many states have one or two main state-funded scholarships, Delaware has 23 different state-funded scholarship

programs.⁴² While there are a few merit-based programs, they are provided to a minority of the students within the state. For example, for one of the state-sponsored merit scholarships, the Diamond State scholarship, there are only approximately 50 recipients in the state per year, and the award is significantly lower than scholarships in other states (winners receive \$1,250 per year).⁴³ In 2012-2013, only 37 Diamond State scholarships were awarded. Overall, in the 2012-2013 year, the state provided \$129,000 of merit-based aid to 41 students in Delaware.⁴⁴ Compared to the other states' programs, Delaware's merit-based scholarship program is relatively minor.

The most common form of financial aid in Delaware is a need-based/merit-based combination, which is given through the Scholarship Incentive Program (ScIP). First, a student must demonstrate financial need in order to qualify for this award. If a student qualifies as being in financial need, they will receive a base award of \$700, and additional awards are determined based on a student's GPA. The highest award amount is \$2,200, which is provided to students with a demonstrated financial need who have a GPA between a 3.75 and a 4.0. The lowest amount that a student can receive through the program is \$700, and a student must have between a 2.50 GPA and a 2.74 GPA in order to receive that \$700 minimum award.⁴⁵

Delaware's need- and merit-based scholarship combination addresses a problem often raised about merit-based, lottery-funded scholarships. Merit-based scholarships tend to benefit families who are better off financially. Delaware's program works to ensure that low-income students are still able to attend college and by performing well will earn more money through the "incentive" aspect of the scholarship program.

Delaware's scholarship and lottery programs bear little resemblance to Georgia's HOPE scholarship. Perhaps the largest difference is that Georgia dedicates all of the state-allocated lottery revenue towards only three educational initiatives including the HOPE scholarship, while Delaware dedicates its revenue towards a host of state-funded social services. Consequently, Delaware's scholarship awards tend to be more difficult to obtain and are often much lower in their value. However, advocates of a more equitable financial aid system are likely to approve of Delaware's Scholarship Incentive Program. Since many Georgians wish to see more need-based aid incorporated into the HOPE scholarship, the Scholarship Incentive Program could be a potential alternative.

Florida

Florida's Bright Futures Scholarship is a lottery-funded, merit-based scholarship created in 1997 to encourage students to obtain their degrees within the state. The Florida Bright Futures Scholarship receives its funding through the Florida lottery and is administered by the Florida Department of Education (FDOE).⁴⁶ It is credited as one of the nation's largest merit-based programs.⁴⁷

The Florida Bright Futures Scholarship is separated into three awards, which are tiered in their level of financial aid and difficulty to obtain. The three primary scholarships in order of award level (highest to lowest) are: The Florida Academic Scholars (FAS) award, the Florida Medallion Scholars (FMS) award, and the Gold Seal Vocational Scholars (GSV) award.⁴⁸ Award amounts vary based on type of college. The FAS award contains the highest initial requirements; FAS scholars must obtain a minimum SAT score of 1290 or a 28 on the ACT.⁴⁹ Recipients of the FAS receive \$100 per semester hour at 4 year schools, \$61 per semester hour at 2 year schools, \$69 per semester hour at Florida public colleges and \$50 per semester hour at career/technical centers. In order to retain the scholarship, the student must maintain a 3.0 GPA while taking at least 12 credit hours each semester (for eligibility under the full-time award amount).⁵⁰ For the FMS award, a student must receive a minimum score of 1170 on the SAT or a 23 on the ACT.⁵¹ Recipients of the FMS award receive \$75 per semester hour at 4-year schools, \$47 per semester hour at 2-year schools, \$61 per semester hour at Florida public colleges and \$51 per semester hour at career/technical centers. Finally, the GSV award does not contain a minimum SAT/ACT score, but it requires a student to maintain a 2.75 GPA or above and take at least 6 credit hours each semester in order to qualify for the part-time scholarship. Recipients of the GPV award receive \$75 per semester hour at 4-schools, \$47 per semester hour at 2-year schools, \$51 per semester hour at Florida public colleges and \$38 per semester hour at career certificate programs or applied technology diploma programs, and \$47 per semester hour towards technical degree education programs.⁵²

By reviewing the Bright Futures Scholarship requirements yearly, it is evident that the program had to make adjustments to its minimum scores in order to reduce costs. Perhaps the most notable change was in the SAT/ACT requirement. For the 2008-2009 school year, the minimum score for the FAS award was a 1270 SAT and a 28 for the ACT; for the FMS award, the minimum SAT/ACT score was a 970 on the SAT and a score of 20 on the ACT. These baseline standards were raised in 2012 and 2013. The minimum scores for the FAS was raised to 1290 for the SAT (20 points higher) and 28 for the ACT. For the FMS award, the minimum SAT score was raised to 1170 (200 points higher) and the minimum ACT score to 26 (6 points higher).⁵³

The state's rising SAT/ACT standards suggest that the state needed ways to reduce its costs towards the scholarship. In order to do so, it increased the SAT/ACT minimum requirements, cutting off some students from aid. Georgia has recently incorporated SAT/ACT standards through the Zell Miller scholarship. One of the ways that Georgia may consider trimming costs would be through implementing a minimum SAT/ACT score for the HOPE standard portion of the scholarship (not just the Zell Miller scholarship).

The Florida Bright Futures Scholarship has yielded positive results. The program has effectively increased enrollment numbers for students, especially for students who qualify as low-income or at-risk.⁵⁴ Research also indicates that the program has led high schools to create more difficult coursework in order to more thoroughly prepare students for the academic rigor of college.⁵⁵ As a program, the Bright Futures Scholarship appears successful.

The Bright Futures Scholarship has also encountered budgetary problems. Since the scholarship paid funding towards tuition, there was an emphasis on keeping tuition costs low in order to save the state money. Consequently, Florida's universities were vastly under funded. While the average in-state tuition for a 4-year school is approximately \$6,800, the University of Florida had tuition and fees around \$3,700 a year. While Florida's lower tuition enables students to afford college, this minimal budget has made programming difficult for universities. In order to alleviate the disparity between the University of Florida's tuition rates and the nation's average tuition rates, policymakers suggested capping the Bright Futures Scholarship award at approximately \$3,100. With a cap, schools could increase tuition as necessary without reaching farther into the state coffers. Georgia has also incorporated a scholarship cap in an effort to reduce the HOPE scholarship deficit. In 2011, Georgia Governor Deal capped the HOPE scholarship at 90 percent of 2011 tuition. Similar to the proposals from Florida, this cap helped to control the amount of money that the state would have to contribute when raising tuition was involved.

Kentucky

Kentucky's Educational Excellence Scholarship (KEES) was created in 1998.⁵⁶ It is a lottery-funded, merit-based aid program. The scholarship has multiple components, including the KEES yearly GPA award, the KEES ACT bonus award, KEES AP/IB supplemental award, and the KEES ACT award.⁵⁷ The KEES scholarship bases a student's award amount both on their performance on the ACT and on the student's GPA at the end of each year.⁵⁸ The minimum award is \$125, which is given to students

with a GPA between 2.5 and 2.59. The minimum bonus award for an ACT score is \$39, which is given to students who score a 15 on the ACT. On the other end of the spectrum, a student with a 4.0 GPA receives a \$500 scholarship and a student with a 28 or above on the ACT receives a \$500 bonus award.⁵⁹ While there is more to the scholarship program, it primarily operates on this upwardly sliding award scale.

Critics maintain that the scholarship can reward students who take an easier route, either by attending a school that is deemed less competitive or through taking lower-level, less challenging courses. If a student opts for the easier solution and consequently earns a higher GPA, then they are awarded more money through the KEES program. In a similar vein, not all GPA systems are equal. Some schools, for example, may award a 3.7 GPA for an A- grade, while other schools may not even give out an A-. If a school does not operate on a +/- scale, then a student with an A- level grade would receive an A, or a 4.0 GPA.⁶⁰ Under the KEES system, a student with a 4.0 GPA would qualify for a \$500 award, while a student with a 3.7 GPA would receive the considerably lower \$425 award.⁶¹ This difference in award levels has been a source of criticism. However, in order to alleviate the GPA concerns, some have suggested universalizing the grading scale,⁶² which is what the Georgia HOPE scholarship does.

Although the program has enjoyed considerable success, it has also encountered budgetary problems.⁶³ One of the chief concerns is how the scholarship money is allocated. While the state fully funded the KEES program, when the state encountered budget problems, freezes and cuts on the College Access Program (CAP), which is a need-based financial aid system, were implemented. Before the assistance freezes, only a third of the students who qualified for the CAP were able to obtain assistance because the available funds were already too low.⁶⁴ While most states find ways to trim down expenses for the merit-based lottery scholarships internally, the Kentucky government took a different route altogether by reducing the need-based elements of a financial aid program. The Kentucky model demonstrates that budgetary problems often lead to solutions somewhere else in order to maintain the scholarship program.

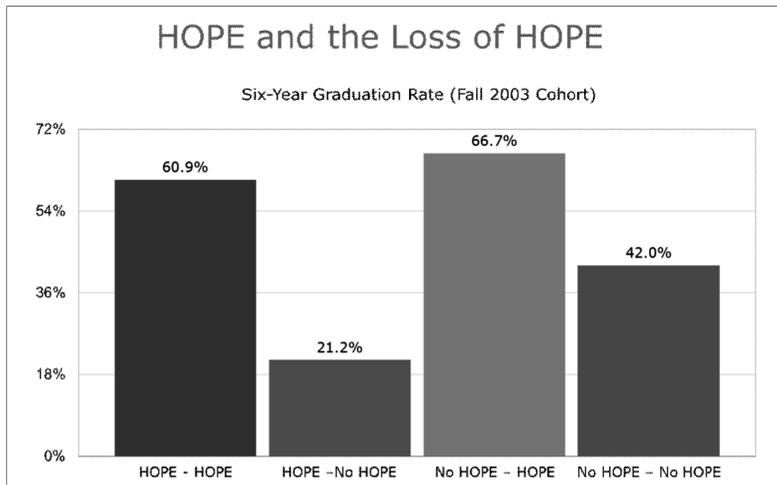
Georgia State University's Efforts to Keep HOPE Alive

Georgia State University has an undergraduate population that is 30 percent first generation, 87 percent on financial aid, 53 percent Pell recipients, 60 percent non-white, 58 percent transfer, and 26 percent adult learners. Georgia State University is not only a microcosm of the emerging post-secondary demographics of the state of Georgia; it is also a collection of the very population that higher education has traditionally failed (Georgia State University Campus Completion Plan 2012). Leadership at Georgia State

University (GSU) has sought ways to supplement reductions to HOPE Scholarship recipients by creating a “Keep HOPE Alive” program for its students—a program that is already yielding remarkable positive results. According to a 2011 brief released by The Education Trust (EdTrust), fewer than half of the minority students enrolling as college freshmen annually earn a bachelor’s degree in six years. The reasons are those most commonly faced by students and understood by educators—“underfunded high-schools, an intimidating college-admissions process, and daunting financial circumstances” (Courtney Boyd, Achievement Gap).

Yet, in 2011, GSU graduated more minority students than any other school in the state of Georgia and more African Americans than any university in the nation.⁶⁵ Like many schools, GSU found that half their students lost their HOPE award and once lost, the graduation rate for these students was less 21 percent. “Keep HOPE Alive” was developed as a way of creating a path to graduation for these students. Using funds from unrestricted school donations to create “student success initiatives” GSU provided \$500 per semester (\$1000 yearly) to students who had lost scholarships, attaching conditions that require them to attend workshops on study habits such as test-taking skills and time management, scheduled meetings with academic advisors, and financial literacy sessions. Less than ten percent of GSU students ever regain their HOPE, but more than 60 percent of those enrolled in the program regained their HOPE scholarship during the 2011-2012 academic year.

At Georgia State, 74 percent of the freshmen class arrives at college supported by the HOPE scholarship with \$8,000 a year. This program has been life changing and life saving for many undergraduates. As “unmet need” continues to increase (how much money students need after scholarships, loans, jobs and family contributions) because lottery monies have not been able to keep up with the costs of attending college, the most vulnerable low-income students suffer the most. Tuition at GSU is \$3,641 a semester while the HOPE scholarship provides \$3,181.50.⁶⁶ The path to graduation is clearly greased by holding onto the scholarship.

Exhibit 3⁶⁷

Conclusion

Georgia's HOPE scholarship program continues to be popular and an expectation of High School graduates in Georgia. College expense increases, along with the number of HOPE scholars, creates a continuing need for school and legislative leaders to review program attributes and requirements. Reviewing other state merit scholarship programs supported by lottery funds provides options for consideration in Georgia.

Program changes of particular interest in Georgia could be to evaluate the effect of limiting the HOPE to the approximate eight semesters needed to complete a college degree. This change could improve the graduation rate for students and encourage retention. Emulation of New Mexico's practice of awarding the scholarship after a qualified student successfully completes one semester of college with at least a 3.0 GPA would further assure student success and program funding. Further distancing the HOPE funding from college tuition by offering a fixed award amount could also be a consideration.

Many states have lottery-supported scholarship programs and continuously deal with budgetary issues. Georgia's HOPE program is no different. The promise of the HOPE scholarship program in 1992 was to keep the "best and the brightest" in the state. HOPE has helped to accomplish the goal by educating more than 1.5million⁶⁸ students in Georgia during the past 20 years totaling more than \$6 billion. State legislators should continue to evaluate the requirements surrounding the HOPE program along with recommendations from local leaders in the colleges and universities who understand the benefits of certain program changes that will be critical towards continuously securing a more educated workforce for Georgia.

Endnotes

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- ⁵ Georgia Code 1981, § 50-27-2, enacted by Ga. L. 1992, p. 3173, § 2.)
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