This timely volume, originating from a major conference in Kitakyushu in 2003, is a comprehensive addition to the rapidly growing literature on decentralization. Some but not all of the papers have been updated since then. The keynote address to the conference, by Roy Bahl, reflects his stature as one of the leading authorities on the subject. He points to the principal motivation for decentralization, “the welfare gain that comes from moving governance closer to the people”(2). These gains arise from the possibility of greater government accountability and increased revenue mobilization. But equally, there is a range of potential or actual costs, including some loss of macroeconomic control, infrastructure challenges, possibly increased regional inequality, and administrative duplication. Bahl comprehensively surveys the challenges in making decentralization work effectively: dealing with sub-national taxes, structuring inter-governmental transfers, imposing hard budget constraints, and ensuring comprehensive reform.

There are nine case study chapters on Asian decentralization, comprising Japan (two chapters), China, India, Taiwan, the Philippines, Thailand, Vietnam and Indonesia. These provide a rich set of studies, asking similar sets of questions in very different country contexts. For example, the Indian chapter, by Govindra Rao, stresses the importance of reforming that country’s federal fiscal system. He points to severe vertical and horizontal imbalances and the need to reform institutional mechanisms, while nevertheless concluding that “the system of inter-governmental arrangements in India has served [the country] well for over 50 years”(138).

Reform in the Philippines has met with mixed results, as ably examined by Benjamin Diokno. While noting the considerable achievements, the new grant system has actually increased local government dependence on the centre, in the sense that grants have “been substitutive rather than stimulative of own source revenues”(181). The grants have also complicated the task of macroeconomic management, especially in the context of slower economic growth and a large debt burden.

Vietnam is a welcome addition to the volume. Nguyen Khac Hung points to the transition challenges from plan to market and central to local governments, all in the context of very rapid growth. The conclusion is that “there has been much confusion about the ‘right’ direction for decentralization”(235). Unresolved issues include how many levels of government there should be, and the relationship between the party and the state.

Wolfgang Fengler and Bert Hofman provide a balanced evaluation of Indonesia’s “big bang” decentralization of 2001, which has resulted in provinces and districts now controlling about 36 percent of total expenditures
and about half of investment in the public sector. They neatly divide their paper into five achievements and five challenges. The former include the survival of the nation state, increased local satisfaction with service provision, continuing fiscal consolidation, recovering development spending, and some attention to poor regions. Among the challenges are the quality of public expenditures, the high level of dependence on the centre, the uncertain investment climate, the centre’s reluctance to relinquish resources and the quality of local governance.

The four local public finance chapters are similarly interesting and varied, with case studies of Japan, Taiwan, Malaysia and the Philippines. The most comprehensive of these is Rosario Manasan’s paper on the latter country. She notes that the country’s tax assignment arrangements are consistent with the conventional wisdom. However, a major challenge is that the system works poorly with regard to local government autonomy. This arises because the central government has been reluctant to relinquish the necessary powers to local governments, particularly the freedom to set rates. She also concludes that the evidence on the effects on horizontal equality, that is, across regions, is mixed.

The Malaysia case study is of interest principally because it is the only federal state in developing East Asia, but the country has displayed the opposite trend with regard to local government authority. At the time of independence in 1957, the states retained considerable power, and the influence of the centre was further diminished with the inclusion of the two East Malaysia states in 1963. Since then, there has been a steady trend towards greater centralization, particularly under the long tenure of Prime Minister Mahathir. The authors, Azmi Setapa and Elayne Yee Siew Lin, examine the record of local governments, concluding on the basis of four case studies that their financial position is healthy, but that they face revenue constraints which result in a “lack of flexibility and dynamism” in their expenditures (329). They see some scope for the development of a local government bond market.

As these snippets from the chapters make clear, this is a most useful volume for academics and practitioners working in the field of public finance. Inevitably, as with all edited volumes, the quality of contributions is somewhat uneven, and some of the chapters are a little dated. But it will be an extremely important reference collection for many years to come.

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