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THE GENERAL THEORY OF FISCAL FEDERALISM, FAILURE, AND TRENDS ESPECIALLY IN THE DEVELOPING WORLD

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ABSTRACT

Tiebout (1956) and Oates (1977) work contributed immensely to the need to decentralize across the developing world. Tiebout (1956) exudes that decentralization has salutary effects on the public sector because autonomy at this level creates competition among sub national jurisdictions to provide the most efficient policies for their electorates. Every government of the world would want a fall in inflation, unemployment, stable exchange rate, balanced budget, possibly low interest rate, all indices of a robust economy. But the realization of a better economy has not been forth coming especially for federal developing countries of the world (Wibbels 2000, Tanzi, 1996). This paper examines "fiscal federalism" its apparent failure and why it is very much still being practiced throughout the world especially in the developing countries. In doing this previous theoretical overview on the issues, especially Wibbles (2000) experiment was presented as an illustration to support the evidence presented by other researchers. It also in general term examines fiscal federalism in a general normative terms and uses it to try to find the puzzle behind the continuing practice of fiscal federalism across the globe especially in developing countries even though it has been adjudged to be a failure especial in federal developing countries (Wibbles 2000). This paper is purely based on desk research using secondary sources of information. It is hoped the exposition of this nature on fiscal federalism would provide a platform for countries practicing or thinking of the system a good psyche to reflect on their decision.

Key Words: Fiscal federalism, federalism, decentralization, autonomy, rationale, Jurisdiction.

1.1 INTRODUCTION

Fiscal federalism is not a new terminology and many literatures are abounding on it. What is however not clear and therefore should be subjected to scrutiny is why nearly all countries most especially developing countries are still practicing it in spite of the gloomy reports made by researchers that fiscal federalism in developing countries leads to all sorts of crises (Wibbels (2000) Sorensens (2008) Sagay (2008) Davoodi and Zheng –Fu (1998). This apparent failure was confirmed by literature on fiscal policy in Nigeria, determining that fiscal federalism has been ineffective, Anderson (2007) Central Bank of Nigeria (2007) Alm and Boex (2002). Wibbels (2000) in particular, single- handily carried out hypotheses test that confirms what fellow positivists said about fiscal federalism, especially in federal developing countries. Wibbels (2000) findings were quite strong and contend that federalism makes a positive and a highly significant contribution to all kinds of crises.

Indicative of these poor results by Wibbels (2000) is research conducted by Wibbel's fellow positivists such as Soresens (2008), who finds that there is downward pressure on consumption if decentralization is large. Danyan Xie (1998) Davoodi and Zou (1998) and Zheng and Zou

(1998) test the impact of decentralization on growth, their model seems to suggest that decentralization may be harmful for growth. In spite of this gloomy report on fiscal decentralization for developing countries of the world, by 1997, 62 of 75 developing nations embarked on one form of decentralization or another (World Bank, 1997).

2.1 FISCAL FEDERALISM

According to many researchers fiscal decentralization, even in a developed society has become well practiced (United Nations, 2008, Shah 2005, Oates 1999 Tanzi, 1996).Throughout the hemisphere, nations are turning to decentralization, with the belief of improving the performance of their public sector (Tanzi, 1996) for example the USA central government has turned a significant portion of federal authority for a wide range of programs to the state, including Medicaid, legal services, welfare, housing and job training (Sharman, 2005).

Fiscal federalism is concerned with "understanding which functions and instruments to be best centralized and which is best placed in the sphere of decentralized government" (Oates, 1999: 1120). Fiscal federalism can be explained as an arrangement that involves intergovernmental fiscal relations in a federation's country, but fiscal federalism is not a peculiarity of federal nations as its element can be found in semi or quasi federation, confederation and unitary states. Therefore the concept of fiscal decentralization should not only be associated with federal countries but also with non-federal states with no formal federal constitutional government, in the sense that they encompass different levels of government which have de facto decision-making authority (Ademolekun, 1983). However, this does not mean that all forms of governments are "fiscally federal" but it does mean, however, that the principle can be ascribed to all countries that are attempting "fiscal decentralization" (Arowolo, 2011.p.2).

In fact, according to Oates (1999) "fiscal federalism is a general normative framework for assignment functions to the different levels of government and appropriate fiscal instruments for carrying out these functions" (p.1120) Although empirical evidence by researchers such as Case (2001) Johansson (2003) have posited that political variables representing electoral incentives of public agents are a significant determinant of the variation in fiscal transfers to sub-regional jurisdiction within countries. This notion of equity, efficiency and ensuring even distribution to all jurisdictions regarding inter-governmental transfer or fiscal federalism within a country has led many countries to rationalize their governmental structure either in the form of centralization or decentralization (Tanzi. 1996).

Therefore, at any point in time, any government whether it is a federal or unitary system would decentralize its operation at one point or another, to achieve the best provision of public goods and services to its people. Tanzi (1996) enthuses that revenues transfer from the central government to the subunits are usually not sufficient for providing the public goods hence the central government must make additional funds, for example grants or lump sums, available in the form of equalization to ensure that no sub unit is find wanting. In addition to this, the sub governments are equally assigned a tax base from where the sub government units can raise taxes in addition to what comes from the central government which are used to ensure that an equitable provision of public goods are provided to the local jurisdictions. With assignments responsibility come expenditure responsibility. The revenue transfer takes the form of vertical and horizontal transfers.

The revenue which is transferred from federal government to the state is called 'vertical' while the transfers from state to local government are referred to as 'horizontal' (Alm and Boex, 2002). In most federal countries, for example in Nigeria, transfer is guided by the constitution and the mode of sharing the federally collected revenues, like any fiscally decentralized country, is by an agreed formula (Salami, 2011), which varies from country to country due to environmental variables.

2.2 RATIONALE FOR PRACTICING FISCAL FEDERALISM

The rush to embrace fiscal federalism or inter-governmental fiscal relations as it is often called was fuelled by the initial theory on public goods by Kenneth Arrow, Richard Musgrave, and Paul Samuelson's important papers (1954-1955) which laid the initial basic foundation of the theory of fiscal federalism. Arrow's discourse (1970) on the roles of public and private sectors and Musgrave's book (1959) on public finance, provided the framework for what became accepted as the proper role of the state in the economy. Within this frame work three roles were identified for the public sector: these were, correcting various forms of market failures, ensuring an equitable distribution of income and thirdly, seeking to maintain macroeconomic stability and full employment (Musgrave, 1959).

This theoretical framework was basically a Keynesian one, which advocates for states to intervene in economic affairs (Keynes, 1964). Therefore the government is expected to step in where market mechanisms failed due to various forms of public goods characteristics. Economists teach us that public goods will be under provided if they are left to private individuals because the gain or benefits accruable to him or her would be far lower than the benefits to society. Therefore governments and their officials were seen as the custodians of public interest who would seek to maximize social welfare based on their kindness or benevolence, or the need to ensure electoral success in democracies.

If we allow for a multi-level government setting, this role of the state in maximizing social welfare then provides the basic ingredients for the theory of fiscal federalism. Each tier of government is seen as seeking to maximize the social welfare of its jurisdiction. The multi-layer quest becomes very important where public goods exist, as the consumption of it is not national in character but localized. Thus, in such circumstances, local outputs targeted at local demands by respective local jurisdiction clearly provide higher social welfare than one provided by national or central provision. This principle which Oates (1999) formalized, into the "Decentralization Theorem" constitutes the basic foundation for what may be referred to as the first generation theorem of fiscal decentralization (Bird, 2009).

The theory focuses on situations where different levels of government provide different levels of outputs of public goods "for those goods whose benefits were encompassed by the geographical scope of their jurisdiction "(Oats, 2004: 5). Such situations according to Olson (1996) came to be known as "perfect matching" or fiscal equivalence that can be achieved by traditional Pigouvan subsidies requiring the central government to provide matching grants to lower tier government so that it can therefore internalize the full benefits. Therefore, on this assumption, the role of government in maximizing social welfare through the provision of public goods came to be assigned to the lower level of government. The other two roles of income distribution and stabilization were, regarded as suitable for the central government (Arowolo, 2011). However fiscal federalism, though have been successful in advanced countries such as the USA, Canada, Australia but in federal developing countries of the world fiscal federalism practice has not been successful relative to its unity counterparts (Wibbles, 2000), Davoodi and Zou-Fu (1987) Sorense (2004).

2.3 EXPECTATIONS

As earlier indicated, Tiebout (1956) and Oates (1977) work contributed immensely to the need to decentralize across the developing world. It suggests that decentralization has salutary effects on the public sector because autonomy at this level creates competition among sub national jurisdictions to provide the most efficient policies for their electorates. Subsequently researchers such as Marlow (1988), Grossman (1989) have theorized that fiscal decentralization should influence the size of public sector, inflation rates; Tiebout (1996) and government deficits; Flornasari, Webb and Zou, (1998). Therefore there is a link between fiscal federalism and development and this can be determined within the context of political structure and economic performance. One very important reason for the formation of a federal state, asserts Kincaid (2001), "is the need to create a common market." (p.88). With federalism, argues Lohmann (1998), Qian and Roland (1999), states can police the inflationary and deficit bias of central officials and Lohmann (1998) argues that, "federalism countries are more likely than unitary countries to develop politically independent, inflation averse central banks that refuse to provide accommodating monetary policy" (p.17).

2.4 THE CHARACTERISTICS OF FISCAL FEDERALISM AND ITS FAILURE

But contrary to fiscal federalism theory, empirical findings suggest that decentralization has led to large public sectors, higher inflation, and larger deficits in developing countries Wibbles (2002) Sagay (2008), Davoodi Zou-Fu (1997) Sorense (2004). However, according to Wibbels (2000) in the developed world decentralization has relatively been long practiced and successful. This is because according to Wibbels (2000), federalism literature has failed to distinguish between fiscal and political federalism and more specifically, failed to distinguish the political incentives available to subnational leaders in federal and unitary nations.

Many other positivism researchers in fiscal federalism traditional such as Bird (1986), Fukasaku and Hansman (1988), Zou (1998) traditionally argued that, "the issues faced by unitary and federal countries are largely the same" (Fakasaku and Hansman 1988, p.149). Although a unitary system of government may be highly decentralized in terms of spending, without creating any pressure on macroeconomic performance because sub national governments have little genuine authority to complicate policy. In federal system the average expenditure is more than 45% and in unitary nations it is 14.5% (Fukasaku and Hansman 1998. 128)

Literature on fiscal federalism shows that federated nations fair poorer in macroeconomic restructuring than the non-federal nations. Early analyses as to the cause of this macroeconomic failure pointed to variables such as the distribution of costs and benefits of the adjustment process (Nelson, 1990, Alesina and Drazen 1991), severity of economic crisis (Dornbusch and Edwards 1991, Gourevitch, 1986), the nature of regimes (Skidmore 1997), the ideology of governing elites, Haggard (1985), international bargaining position (Rimmer 1990). Recently researchers have focused on the role of party systems, degree of party discipline, party system fragmentation, leftist strength, and balance of partisan forces. All these variables affect the success of economic adjustment.(Geddis 1994 ; Haggard and Kaufman, 1995)

The theory has not distinguished between decentralization where subnational officials have little power to define budgetary priorities (Unitary system) and countries where the official have substantial freedom from the federal government in fiscal system (federal systems). Hansmann (1998) asserts that in federal systems, budget share and the deficits of provincial government combine to complicate the politics of adjustment numerous times over by the need to trim deficit, privatize provincially owned enterprises and reorganize provincial systems on province by province basis. Provincials in federal systems have greater borrowing powers fiscal responsibilities and political autonomy than their counterparts in unitary systems where local and regional responsibilities are primary to the government. As such, federalism has the unique potential to disrupt the political base for integrated adjustment policies in the developing world.

It is generally believed that federalism generates policy divergence between levels of government and Rikker (1964), May (1969) hold that federalism can result in wide spread divergence policy between levels of government, but at the same time proponents of federalism such as Lijphart (1977) contends that researchers have credited federalism with enhancing national unity, while Kincain (1988) claims that it promotes security and Weingast (1995) says that it protects the citizenry from hegemonic state.

In all these findings, Wibbels (2000) enthuses that researchers have failed to put into consideration the role of federal institutions in the process of economic reform. According to Wibbels (2000), this failure is significant as federalism can create incentives for subnational officials to diverge from austerity policies adopted by central governments. Mayhew (1957) substantiated this by saying that politicians are only interested in being elected and reelected. Nelson (1990), suggests that during elections, local politicians incur wide spread social costs and provide narrowly concentrated rewards but they occasionally overcome the obstacle.

In a federal system Wibbels (2000), contends that the different players (subnational officials) respond to different constituencies and here, enthuses Rikker (1987), and lays the cause of the divergence of policy across levels of government. Policy divergence is most likely when there is national economic reform because electorates hold not sub national official for economic woes but national government officials for macroeconomic performance because provincial leaders are insulated from accountability for the nation's macroeconomics' situation. Sub national adjustment policies are subject to collective action problem, from the point of view of provincial politicians the gains achieve via state level economic reform cannot be contained within State's boundaries because state economies are so open (Wibbels, 2000).

Consequently the impact of any one state's reform efforts is likely to be marginal in terms of the overall success of economic adjustment. Wibbels (2000) suggests the coordination of national fiscal and monetary policies, as an adjustment tool is complicated with the effect of posing a challenge to national economic stability. Prud'homme (1995); Triesman (1990); Shah (1994) enumerate three characteristics that can affect macroeconomic process in a federal system.

1) Provincial fiscal policy can starve central governments of revenue source, encourages fiscal imbalance at federal level.
2) Monetary policy generates inflation.
3) Federal indebtedness can increase if national governments assume provincial debt to ensure the solvency of provincial governments.

Wibbels (2000) contends that in a unitary system, where local governments are best understood the threats to macroeconomic performance are largely moot.

The macroeconomic threats posed by developing countries federalism are not the same in industrialized world because according to Triesman (1990), federations have largely overcome the macroeconomic threat posed by this federal collective action problem. A body of American literature provides a comprehensive detail yet why this is so. Lowry (1994) reports the role of sub national balance budget laws, partisan competitor, divided government, and state bond market among other factors as crucial ingredients that ensure the health of state finances. By extension, the States have had a negligible impact on general government fiscal policy hence research conducted by Wibbels (2000) asserts the widely held assumption that macroeconomic policy remains exclusive domain of central governments.

From overall fiscal federalism practice perspective it seems all posited by theorists was based on Western model, especially America, hence Tanzi (1995) doubted and questioned the applicability of the America's scenario to emerging developing economies of the world. Tanzi

(1995) contends that there are many characteristics that are shared by emerging market federations that complicate matters, such as local tax bases, free functioning bond markets, the legal limitation on state budgets, also four features of these federal system; the weaknesses of democratic institutions, the lack of access to capital market, the tendency for divergent economic policies is exacerbated by the fiscal imbalance characteristics of most federal nations.

According to the world Bank (1996a, 1996b; Sato 1994) in Pakistan, India, Argentina transfer designed to cover sub national imbalances, reward provincial deficits, and central governments have assumed provincial debt through various mechanisms and the Inter-American Development Bank (1997) has generalized that in the context of Latin America, publicly owned provincial banks are often the primary source of total government debt. Several positivist empirical researchers, Rodden (2000) Vigneault (2005) Ahmad, Hewitt and Ruggiero (1997), have shown that over reliance on revenue transfer by State governments may make decentralization dangerous if it allows subnational governments to expand their expenditures while externalizing the cost to others. Ahmad, Hewitt and Rugerio (1995) have observed that the reliance on transfer and grants from central government to finance subnational governments' expenditure creates an incentive for subnational governments to inflate and engage in perennial negotiations with central government to attract more grants and transfer.

According to De Mello (1999) Fukasaku and De Mello (1998) subnational governments inflate their budgets for fear of losing sharable revenues to competing jurisdictions. This may entrench "free riding problem" in a context where funds are derived from exploitation are derived from natural resources that are located in subnational territories of minority groups, a case in question Nigeria. Putnam (1993), Woolock and Narayan (2000) suggest that if a federated countries opportunistic competition for freedom funds diverts energies from economically productive activities and drains society of social capital, limits social networks that cut across traditional cleavages that promote trust and reciprocity, which in turn nourishes wider co-operation, law abidingness and commitment to the larger political community. The issue of "free riding" may completely overtake competition for investment, replacing it with opportunistic competition for federation funds that can be politically destructive when conducted along ethnic lines in a divided society like Nigeria and many developing nations of the world. Wibbels, a positivist researcher like most of his counterparts, decided to test the overall views by researchers that fiscal federalism practice has been a failure especially in developing countries (the whole experiment process is not replicated here).

2.5 WIBBELS EXPERIMENT (FISCAL FEDERALISM FAILURE)

Conducting his research from positivist (positivism) stance, Wibbels (2000) went to prove or disprove the theory of fiscal federalism as it relates to federalism. Economic data was collected from forty-six large federal and unitary developing nations between 1979 and 1996 to test the proposition that federal nations have greater difficulties implementing economic adjustment policies. Wibbels (2000) only includes large nations for three reasons. First, in so far as federalism as an institutional practice is strictly limited to large nations in the developing world, the appropriate comparative control group consists of relatively large unitary nations, not microstates. Secondly, given the inherent complexities in managing large versus small economies, this distinction is not trivial. Third, on a practical level, the extension of the sample to the entire developing world would result in a data set overwhelmingly weighted with unitary system. It is important to know that no federal system in the developing world is excluded from the analysis. (For the countries included in the experiment please see (Wibbels 2000 p.699). Wibbels (2000) develops three hypotheses to test this proposition.

The first (H1) is that federal nations have a tendency to adjust macro economically less successfully than their unitary counterparts. The hypothesis follows from the notion that sub national officials in federal systems have few incentives to undertake stabilization policies at the provincial level, leaving national governments less capable of successfully carrying out policies of economic stabilization.
The second and third hypotheses, those federal nations in their attempts to adjust their economies will do so with greater volatility (H2) and frequently slippage into crisis. (H3) Based on the same notion, one can expect that national stabilization effort will founder on the political will of subnational officials.

The result was vehement and adamant of the theoretical phenomena. It will be a profound swing in economic policy and prolonged periods of failed stabilization as the politics of subnational adjustment produce policy induced cycles of macroeconomic volatility and crisis. In conducting this research design Wibbels (2000) has included only large federal nations of the world and most importantly all federated African countries.

2.6 RESULT OF WIBBELS EXPERIMENT

The result of the experiment shows that federalism has consistent and negative impact on long-term macroeconomic performance, volatility, and the frequency of economic crisis. In the case of deficits, inflation, and debt, in all three cases the coefficient for the three variables federalism measure is quite large. Federal arrangements increase budget imbalances by a profound 2.8 percent of expenditure relative to their unitary counterpart, with semi-federal systems, bloating deficit by half that amount. Similarly federal and semi federal system increase the debt burden by 1.3% and .7% of exports, respectively.

Overall the fitting statistics are quite strong. According to Wibbels (2000) federalism makes a positive and is highly significant contributor to all kinds of crises. Fully federal systems have a 21, 25 and 21% predicted probability of experiencing, inflationary, and debt crises, respectively: by contrast, unitary systems have 5, 13, and 14% predicted probabilities of the same crises. With respect to other explanatory variables, growth has a predictable negative impact on economic crisis, while GDP per capita behaves a slightly unexpected manner by decreasing the likelihood of fiscal crises, it does however increase the likelihood of inflationary and debt crises. Contrary to the findings with respect to macroeconomic performance, the control of global economic context contributes, relatively little, with increase in growth decreasing the likelihood only of deficits crises.
Therefore Wibbels (2000) concludes that his experiment is conclusive and indicative of the theoretical phenomenon of fiscal federalism. He concludes:
"Whether the indicator is of adjustment, volatility or crisis, federalism has a pronounced tendency to exacerbate economic problems in the developing world. In no case does the coefficient's direction contradict the theorized relationship; indeed, in most cases the impact of federalism is quite powerful and statistically significant". (Wibbels 2000 p.698)

The result has conclusively evidenced that fiscal federalism practice has failed to alleviate poverty, especially in the African countries scenario. This result raises significant questions about the wide spread movement toward fiscal decentralization in the developing federations of the world!

3.0 TREND OF FISCAL FEDERALISM/DECENTRALIZATION

In recent years decentralization has become a worldwide practice for many countries, especially transitional and developing countries (Smart and Bird, 2002). Since 1970 many industrialized and developing countries and more recently, post-communist countries have decentralized their governmental fiscal powers and functions from central government to subnational governments (Tanzi, 1996). Former highly centralized countries like Spain, Belgium and Italy have been transformed into federal or quasi-federal states, and countries with a long history of federal traditions, like Germany and Austria, also have reformed their federal structures (OECD, 2002 and 2003), and 62 of 75 developing countries with populations greater than five million, claimed to have implemented mere decentralized government structures (Smart and Bird 2002, World Bank 1997). Institutions such as the World Bank (2007) the United Nations (2004) report that mainly in developing and former socialist countries, they actively support the process of decentralization.

There are many factors that account for the upsurge of decentralization across the globe. Researchers such as Marlow (1988) Grossman (1989) have theorized that fiscal decentralization should influence the size of public sector, Triesman, (1996) inflation rates, Flornasari, Webb and Zou (1998) budget deficits. This aura of better macroeconomic prosperity led to many developing countries of the world to engage in some form of decentralization or another.

Developments in the European Union according to Tanzi (1996) were one of these factors given for decentralization, for example, how the union can achieve stable macroeconomic growth and stability and what level of assignment and responsibilities should be devolved to the European Union and each nation within the union! These were questions that were being asked; similar to the questions being asked for fiscal federalism, that is, which and what should be left to the center and to sub regional governments? The European debate has forced many European economists to look deeply at the fiscal institutions of countries with strong subnational governments and their literature to see what could be learnt in the European question! (CEPR 1993)

Another factor, many industrialized countries of the world has become disenchanted with the role of the public sector in economic stabilization and development. This disenchantment was heightened after 1980 and this followed the upsurge associated with central government's role in income maintenance, income distribution and stabilization after the world war and this according to Tanzi (1995), has recently led to strong reaction. At the political level, in the 1980s and 1990s, a more conservative attitude towards and especially even suspicion of, powerful central governments, were being adopted, leading to more emphasis on market forces with less power being left in the hands of the central governments. Some influential economists have questioned the role of central government in economic stabilization and improving the distribution of income, thus reducing poverty and unemployment (Tanzi 1995).

In terms of resource allocation various arguments have also been posited, regarding effectiveness, greater efficiency and a leaner public sector. Development in some countries such as Russia, China, and Canada has forced a reassessment of multilevel finance. In Canada developments were driven by political considerations, in some provinces demanding more independence, and in the old Soviet Union, the break-up of the Union led to a need to create from the scratch, fiscal arrangements that gave significant responsibilities to subnational governments, especially in Russia, which that is made up of diverse cultural, political, linguistic, ethnic social and economic composition. Other countries such as Ethiopia have been driven towards decentralization by ethnic diversity and the belief that decentralization will hold the fragile country together (Moges 2003).

In countries such as Nigeria, Argentina, India and Brazil experienced in the 1980s and 1990s a macroeconomic problem that required them to adjust their financial accounts, through revenue increases or expenditure cuts (Ekpo, 1994, Bird and Smart, 2002). These countries are constrained by their constitutions or legal arrangements concerning levels of government. But as the economy worsens they have to focus their attention on these constraints that hinder or limit the central government's scope for policy action (Nordstrom, Ben David and Winters, 2002). Also Tanzi (1995), reports that the World Bank and other notable organizations, such as the United Nations have emphasized the benefit of decentralization. The World Bank in particular has made economic restructuring and democratization a major criterion for lending.

There are more reasons that have been posited by many researchers for example, Stegarescu (2004) reports that first: the worldwide spread of democracy is referred as an important source of decentralization by enhancing the local population. Another argument is that increasing economic and social prosperity will foster the demands for decentralization and local democracy and third, the rapid growth in information technologies, globalization and integration and this Stegarescu (2004) says would expand the markets and increase transitional interdependency, and therefore national governments are too small to cope with globalization, and too large and inefficient to take account of local requirement. As a consequence these forces create both political integration of the nation-states and fragmentation into regions at the same time.

According to Ebel (1999) the problems faced by decentralizing countries are both different and also very similar indeed. Invariably, there are no universal laid down rules and principles of decentralization across the globe, because different countries operate under different environmental variables, such as political, economic, demographic, institution, history as well as human factors such as tradition and culture. The similarities are borne out of the fundamentals of the open economy and political goals act as the foundation of the policy similarities. Tiebout (1956) describes this as "laboratory federalism", which emphasizes the experimentation from which other regions may learn and then imitate that which is successful? (Cited in Ayeide, 2009. p.250)

3.1 CONCLUSION

That fiscal federalism or decentralization theorem as posited by Oates (1972) is very much sorted after by developing countries despite a gloomy report for their economies. Theory has revealed a lot of desired effects for the practice of fiscal federalism or decentralization, some are necessary for economic expediency and some are externally induced because of unavoidable circumstances. The overall picture of why developing countries are embroiled in decentralization of one kind or another points to a desire to succeed which, never the less has had an opposite effect.

Literature on fiscal federalism is adamant that federal developing countries fair poorer in macroeconomic restructuring than the non-federal nations (Nelson 1990, Alesina and Drazen 1991, Geddis 1994, Haggard and Kaufman 1995, Nelson 1990, Dornbusch and Edwards 1991, Haggard 1985, Rimmer 1990, Geddis 1994, Rikker 1987).

It seems from critically reviewing the literatures that it is not fiscal federalism or decentralization which is wrong because if it can be successful in the advanced industrial societies, and also relatively in the unitary countries it is logical enough to say something must be amiss which the authorities of the federal developing countries are simply not doing or are not capable of effectively doing. It is imperative therefore that those developing countries especially the federal developing countries would have to take step to analyze their policy measures properly rather than jump on the band wagon of decentralized countries.

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