Varieties of Decentralization, Institutional Complementarities, and Economic Growth: Evidence in OECD Countries

Andrea Filippetti and Agnese Sacchi


1 Introduction

The new federal constitutions of Iraq in 2005 and Nepal in 2007 represent only the most recent examples of a long-standing ‘federal tendency’. Over the last recent decades, most countries have reformed their institutional settings by shifting political power and fiscal autonomy toward subnational governments, backed by the idea that decentralization would increase efficiency, and ultimately economic growth. The connection between decentralization and economic growth, however, is rather complex, and scholars have attempted to disentangle it both theoretically and empirically. At this stage, studies on decentralization are lamenting both a lack of a well-defined theoretical framework, as well as the presence of mixed evidence stemming from the increasing amount of empirical research.1

* This research has been supported by a Marie Curie Intra-European Fellowship project FP7-PEOPLE-2011-IEF-298167-REGIO_SPIN, under the EC Grant Agreement No: PIEF-GA-2011-298167.

A key weakness in the earlier research is related to the fact that decentralization is a multidimensional phenomenon encompassing several aspects connected to each other, and, in fact, it has been articulated in different ways in countries. Even though the importance of taking into account the several dimensions of decentralization and their interrelations has been recognized in principle, such an approach has rarely been adopted in theory as well or in empirical research. This has serious implications both conceptually and for the empirical analysis because, as Libman points out, “it is possible that the country which seems ‘decentralized’ according to one dimension is in fact ‘highly centralized’ according to the other one.”

The distribution of power among different levels of government is a key characteristic of the institutional structure of a country. It has been argued that institutional change is a path-dependent process. As Buchanan and Hayek, among others, have emphasized, the emergence of an institutional setting does not assure its inherent efficiency. Therefore, because different institutional systems can have different degrees of efficiency and lead to

---


4 D.C. North, Understanding the Process of Economic Change (Princeton: Princeton University Press, 2005). The institutional structure that countries inherited from the past, and that is in turn shaped by the cumulative structure of norms and rules, affects the shape of the present institutional setting. This explains both the varieties of institutional settings that emerged across countries and their persistency.