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INTRODUCTION

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It has been the experience of many developing countries, upon attaining national independence, to adopt a principle of strong centralized control over public finance as one prerequisite for both national political integration and economic growth. However, during the past ten to fifteen years we have seen a tendency toward delegation of fiscal powers from the center to local authorities. The factors underlying this new development are varied and include accelerated urbanization, the need for economic development on the local level, the necessity of expanding welfare administration, demands for democratization and local political autonomy, as well as worsening environmental problems that need immediate attention. The papers that have been collected in this issue of *Developing Economies* describe and analyze the experience of six countries that have followed this trend in decentralizing fiscal authority to local levels. The reader will also find in this material indications of new contradictions that have arisen as the result of such decentralization policies.

Each of the countries taken up here has its own very unique set of fiscal conditions. China and India are not only nations with enormous populations, but are also countries with local authorities that have traditionally enjoyed substantial autonomous powers. Egypt, on the other hand, has throughout its history tended toward political centralization, and the Republic of Korea is a country that has implemented development administration through an authoritarian central government. Public finance in Indonesia is characterized by fiscal revenues generated by its petroleum mining industry, while Argentina is an example of fiscal administration burdened with a huge, accumulating public debt. Nevertheless, even though each of these countries does have its own unique fiscal character, in general they all represent typical examples from which to understand and analyze the fiscal problems being experienced by all developing countries. Let us look at each in a little more detail.

China

During the thirty-year period between 1950 and 1979, Chinese public finance was dominated by strong centralization policies. Then in 1980 provincial-level governments began to be invested with more and more fiscal autonomy, but would proceed at a rate of increase far beyond the expectations of policymakers at that time. As a result, this over-accelerated separation of powers gave rise to a number of contradictions. First, there was the creation of a running deficit to support central government spending and an overall weakening of centralized fiscal influence within the economy. Secondly, government spending on the provincial level showed large-scale increases, as provinces took on more of the responsibility for developing the economy. Next, county-level governments experienced no expansion in their fiscal authority; and finally, large discrepancies began to be seen between fiscally rich townships where the development of rural industry was vigorous and the poorer ones whose industrial sectors were still in a state of underdevelopment.

What this state of affairs means in part is that the growing fiscal authority of provincial-level governments marks a revival of traditional Chinese regionalism, a phenomenon that will surely be an important factor in political change to come.

India

The budgetary transfers from the federal government to the states in post-independent India can be characterized as "retrogressive" with respect to revenues generated locally in each state. In other words, it was thought that a fiscal policy allocating to poorer states larger amounts of grants and loans was the most appropriate way to proceed. However, if we only look at the equity motivation of the central government and assess how efficiently this was pursued by the center in distributing funds to states, we will never be able to see why regional disparity has persisted and states' budgets have suffered due to a variety of reasons that vary from state to state.

One way to answer to this problem is to analyze the structure of state expenditures in order to elucidate the political and social features underlying the fiscal relationships between the center and the states. Within the framework of the current budgetary transfer system, a wide variance in spending patterns can be observed among India's states. Highly politicized states like West Bengal and Kerala realized the highest welfare-oriented spending shares, while wealthier states, like Punjab and Haryana, were the most active in infrastructure-oriented spending for irrigation and electrification projects. In contrast to them, the so-called Hindi belt states located in the central part of the country, which comprise the majority of India's enormous population, appear to go through a transformation from maintaining low-level balanced budgets to adopting policies increasing spending in both categories of welfare and infrastructure-building. This transformation, if it is maintained, will become a serious factor in intensifying the political turmoil that has already brought about significant losses for the Congress Party in the Hindi belt.

Indonesia

Indonesia's public finance system, like China, has four vertical levels: the central government, first stage and second stage autonomous regions, and administrative villages. The strongest level in this system is the oil-rich central government, while the first and second stage autonomous regions act as agents of centrally-determined fiscal policy. In contrast, budgets of administrative villages, while in fact receiving subsidies from higher-level governments, are mainly financed through self-generated sources of revenue stemming from village self-help funds and village assets.

However, changes have been gradually taking place in this state of affairs beginning in 1985 with large decreases in available revenue from petroleum enterprises. At the present time the Indonesian government is making do via the incursion of foreign debt in order to maintain its clearly over-centralized fiscal system. Therefore, as this foreign debt grows more burdensome, it will become more and more difficult for Indonesia to support such a system.

The Republic of Korea

With the declaration of democratization issued in 1987, Korea started revising its policies of fiscal centralization that had reigned for almost thirty years. The centralized development policies carried out by the authoritarian central government were funded by a system of taxation that concentrated revenue at the center. The legacy of that system cannot be easily wiped out and even today the national tax collected by the central government comprises 81 per cent of all tax revenues.

Korea's centralized development policies have given rise to three contradictions: serious economic imbalances between regions, large economic differences between the urban and rural sectors, and a sudden jump in social costs of maintaining urban areas as the country's population continues to concentrate there. Today the capital of Seoul, neighboring Incheon City, and the province of Gyeonggi are highly developed areas that account for 40 per cent of the nation's GNP, while two-thirds of the country's 260 local administrative units (cities, counties, and wards) have been left behind in development and cannot generate enough local tax revenue to pay the salaries of their government officials.

In response to this state of affairs local citizens are today issuing strong demands for both greater investment in regional social and economic development and strict implementation of local autonomy, a movement that will surely bring about changes in Korea's brand of centralized public finance.

Argentina

The question of how to decentralize Argentina's public finance system has been debated since the 1970s. It was international rather than national considerations that gave rise to the problem in the first place. Recommendations from such organizations as the World Bank and the International Monetary Fund urged that the debt being accumulated by the central government be cut substantially. The measures adopted by the government included attempts to decrease spending by transferring the burden for such areas as social security and welfare services to local governments, and there were also moves to privatize public enterprises. However, the former measure only caused mounting deficits on the local level, while the latter failed to contribute much to increasing tax revenue. And so beginning in 1988 a method was introduced for balancing in a rational manner both budget allocations and responsibilities between the center and local governments. However, due to insufficient tax revenues on all levels, the measure was not successful, causing instead "the decentralization of the public debt."

Egypt

Due to the necessity of integrated control over the waters of the Nile River throughout its history and also the strong influence of Turkish and French institutions, Egypt has been characterized by an extremely centralistic public finance system. The first attempt by Egypt to delegate fiscal authority to local governments was made in 1960, but this scheme never really got off the ground. Then in 1975 local councils were set up, and since then local fiscal authority has expanded somewhat. However, because local branches of central government bureaus continue to control local public finance both in terms of budget decisions and personnel, Egypt's experiment with fiscal decentralization is at a stage of partial delegation of authority under the leadership of the central government.

In conclusion, at least three observations can be made from the analysis of the relationship between central and local government in the above six countries. To begin with, of the six countries dealt with in this issue, it is socialist China that shows the weakest control by the central government over local authorities. Secondly, in the cases of China, India, and the Republic of Korea, we can clearly observe that the impetus for transferring fiscal authority from the center to local governments has been provided by an ever widening demand by local citizens for more economic development and social welfare projects financed on the local level. Finally, in the case of countries with large public debts like Argentina, we can observe a decentralization, or reapportionment, of the debt burden taking place from the center to local governments. This problem is one that will no doubt be facing Indonesia in the near future, as its public debt continues to mount. The question of whether Indonesia can avoid this happening is indeed a topic that deserves close attention.