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## **Politics of Decentralization Policy: Explaining the Limited Success of the Croatian Case after 2001**

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### *Summary*

The Croatian “decentralization package” from mid-2001 has shown how multiple pressures for shifting power to the local level may actually result in relative failure. The central government has ceded the control in particular policy sectors by shifting responsibilities for certain educational, welfare and health services to the counties and municipalities. However, the decentralization initiative was excessively marked as very limited and strongly labeled by the vertical policy dimension, expressing the dominance of top-down incentives of the central government in comparison to bottom-up initiatives stemming from the local government units. The 2001 decentralized package did not substantially increase the portion of local governments finance in total public finance, showing a failure to provide local government units with stronger fiscal capacity. The central government bodies also did not take into account the alternative proposals made by various policy actors ranging from academic institutions, researchers in NGOs, and associations of local government organizations. All these things have contributed to a relatively negligible influence of the horizontal policy dimension on the decentralization outcome. The whole process can therefore be described as centrally controlled decentralization, or decentralization from above.

*Keywords:* politics of local government reform, decentralization policy, decentralization policy in Croatia, fiscal federalism, local government policy-making, policy capacity

“Fiscal decentralization is in vogue. Both in the industrialized and in the developing world nations are turning to devolution to improve the performance of their public sectors.”

(Oates, 1999: 1120)

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## 1. Context of and Rationale for Decentralization

### *Shifts in Central-Local Relations in Croatia*

In several studies devoted to the political economy of the Croatian local government, a gradual establishment of one type of mono-centric, extremely centralized system of governance at the beginning of the 1990s was shown as one of the crucial characteristics of the Croatian system of public finance (Bajo, Jurlina Alibegović, 2008; Jurlina Alibegović, 2002, 2007; Krtalić, Gasparini, 2007; Ott, Bajo, 2002; Rogić-Lugarić, 2011; Šimović, Čulo, Rogić-Lugarić, 2010). The establishment of a strongly centralized system of public finance with a limited role of local government units in public spending was also depicted as one of the main problems in the Croatian system of governance (Perko Šeparović, 2001, 2003, 2010; Petak, 2002a, 2002b, 2004, 2006; Petak, Kasapović, Lalić, 2004). The fact was marked as a basic constraint for further development and the increase of various forms of local governments' capacity – fiscal, administrative, as well as policy capacity.<sup>1</sup> The crucial point in developing the argument in this article is the finding that such a type of development is, to a certain degree, going in the opposite direction to the development that is dominantly appearing around the world. In other words, what is now a dominant trend in contemporary governance systems is the relatively strong trend towards more decentralized structures in policy-making, affirmed in various forms of decentralizing modern polities in all parts of the world.<sup>2</sup>

This process became particularly pronounced at the beginning of the 1990s in the ex-socialist countries of Central and Eastern Europe as one of the direct prerequisites for nearing their governance structures towards the standards of democratic order and market economy (Bird, Ebel, Wallich, 1995; Péteri, 2002). Croatia, however, as part of the former Yugoslavia, was faced with quite the opposite situation. During that time, a strong decentralized system was still established in Croatia, with an extremely high scope of local governments' jurisdictions, where fiscal expenditures of local governments contributed to over 35 percent of total public consumption. It was a direct result of the liberalization of the socialist self-management order, which was run by the Communist authorities since the mid-1960s. Figures in Table 1 on the next page clearly describe the above-mentioned process. By the end

<sup>1</sup> Beside the traditional emphasis on fiscal and administrative capacities of local governments, in the 1980s a discussion was initiated on policy capacity of local government, as a peculiar analytical concept opposite to the above-mentioned concepts. See Gargan (1981).

<sup>2</sup> There is a vast body of literature devoted to the process (see Manor, 1999; Rodden, 2006; Treisman, 2007), and it is sufficient here to point out just one finding from this extensive corpus. In comparison to the late 1970s, when sub-national structures of government contributed to roughly 20 percent of total public consumption, in the mid-1990s this share rose up to roughly 30 percent, or even more (Rodden, 2006).

of this process, finalized in the 1980s, former Yugoslavia was a primer of a strongly decentralized country, based on the Titoist type of federalism, providing relatively strong autonomy of both federal and local government units.<sup>3</sup>

**Table 1.** Long-term Fiscal Shares of Croatian Local and Regional Governments (as percent of total public consumption)

	Yugoslavia ( <i>on average</i> )			Croatia
	1947-1951	1968-1970	1986	2009
Central government level	62.3	53.1	21.9	88.6
Federal units ( <i>republics</i> )	24.3	18.3	38.7	–
Local government units	12.6	28.6	37.2	11.4
Funds not allocated			2.2	

Source: Bogoev (1990), Petak (2006), Ministry of Finance of the Republic of Croatia

#### *Rationale for Decentralization*

The question of appropriate level of decentralization in one country is connected with many variables, which cannot be easily encompassed by a single theory (Hankla, 2009). Moreover, trends towards decentralization are sometimes overlapping with the simultaneous re-centralization tendencies, particularly in countries with vulnerable democracies.<sup>4</sup> De Vries (2000) showed that stronger tendencies toward decentralization in Western European democracies from the late 1980s were caused mostly by dominant values in political culture rather than by an inherent logic of decentralization itself. It was shown in the European political history that the same “arguments have been used to defend and promote both decentralization and centralization” (*ibid.*: 217). In other words, the question whether to centralize or decentralize is among the questions which depend on a multitude of factors.

Beside the questions relating to decentralization trends in particular countries, there is also a list of issues relating to institutional structure, expressed by various forms of relations between central and local/regional governments. There exists a

<sup>3</sup> In other ex-socialist countries a completely different situation was at play. Relating, for example, to the specific Polish situation, Swianiewicz is arguing why there was “room for local self-government” in that period of time. It was actually because of the subordination of local administration to higher tiers of government, which were under absolute control of the Communist party. Due to that fact, “local discretion to decide on financial issues or modes of service delivery was next to none” (Swianiewicz, 2005).

<sup>4</sup> For re-centralization tendencies in Africa, see Wunsch (2001).

dizzying array of relationships between national and sub-national levels of government (Hankla, 2009; Wibbels, 2006). In many polities, the central government is clearly dominant, putting sub-national levels of governments into a position of pure agents of the central governments' basic will. On the other hand, there are many polities with a very strong position of the local or regional level of governance, where governments located at these layers are able to compete with the government in provision of public goods. The above-mentioned cases are, of course, ideal types, with most polities located somewhere between two opposite sides.

But the basic question is why some countries have more decentralized institutional structures than others, or why so many countries run such different policies in various sectors in order to decentralize their governance structures? Relatively reliable answers are provided by various forms of fiscal federalism literature, ranging from initial contributions in the mid-1950s and the early 1960s (Tiebout, 1956; Ostrom, Tiebout, Warren, 1961), to a fully elaborated theory at the beginning of the 1970s (Oates, 1972). Much of the literature of the first generation of fiscal federalism sees decentralization policy as a kind of panacea for improving quality in governance by securing a more efficient provision of local public goods, rather in the way that in decentralized polities citizens can sort themselves geographically by "voting with the feet" (Tiebout, 1956) or by establishing advantages of the polycentric over the mono-centric order (Ostrom, Tiebout, Warren, 1961).<sup>5</sup>

In the decentralized, polycentric order, by enabling citizens to choose among different public goods at different scales of organization, it is possible to achieve an efficient system of local self-governance. Following that conclusion, an appropriate devolution policy should be designed in such a manner as to be capable of envisaging institutional arrangements that could match free citizens' choice in the provision of public goods. The crucial point developed in such an approach is the distinction between provision and production of local public goods. Provision actually means the process by which various services are made available to consumers, while production relates to an actual physical process by which those services are coming into real existence.

Why is such a type of distinction the crucial problem? Let us examine an idea developed by Ronald Oakerson (1999). In reply to some American social science scholars who thought that the emergence of metropolitan areas called for the creation of a metropolitan government, he pointed out that any kind of metropolitan consolidation is actually unnecessary. Instead of consolidation, it is quite sufficient to apply some sort of contracting out. Moreover, he very convincingly showed that

<sup>5</sup> For more on the differences between first and second generation literature on fiscal federalism, see Oates (1999, 2005).

it happened in the majority of local governance situations in the United States. Although some social scientists and public officials considered massive consolidation as *the* wave of the future, this in fact never happened. The reasons for this stem from the voters' rejection of various kinds of consolidation proposals. The numbers of local government in the United States continued to grow, with just one exception related to school districts.

### *Dangers of Decentralization*

In more recent literature devoted to fiscal federalism, the view of decentralization as a predominantly positive thing is called into question, arguing that in many cases it may appear also as a negative choice (Rodden, 2006; Treisman, 2007). Aside from the positive impact of decentralization on a more efficient provision of local public goods and services, more recent literature (Prud'homme, 1995) is pointing at regional inequalities and at the failure to solve this without a proper role for the central government, stressing the problem of possible macro-economic instability in a more decentralized polity, as well as pointing towards specific problems related with particular policy sectors, which are connected with a higher proclivity to corruption (Fisman, Gatti, 2002).

Prud'homme's paper opened a new chapter in fiscal federalism discussions. His emphasis on the bad side of decentralization – that decentralization can undermine allocative efficiency, diminish production efficiency, increase the level of corruption, and jeopardize stability (due to the fact that local and regional governments have little incentive to provide stabilization policies), produced a series of contested reactions, which can be summarized in the follow up comment to Prud'homme's paper, written by Charles McLure. He pointed out that “the benefits commonly ascribed to decentralization involve the degree of control that citizens have over decisions that affect them; local governments are better to recognize differences in tastes between sub-national jurisdictions and to respond to asymmetries in information at the local and national levels” (McLure, 1995: 224).

## **2. Key Actors in Decentralization Policy**

We must now focus on the role of particular actors in the decentralization or re-centralization projects. There are numerous kinds of motivations staying in the background of behavior of special actors. In recent work devoted to the political economy of decentralization reforms, various authors have pointed out that we are faced with different motivations which determine the logic of behavior of different actors. Various kinds of motivations can include necessities related to the urgent responsiveness to economic crisis, transition from authoritarian to democratic rule, developing requirements for more effective government in post-welfare era, necessary

to escape economic un-development and instability (Bird, Ebel, Wallich, 1995; Eaton, Kaiser, Smoke, 2010). Particularly interesting is the example of Bolivia and Colombia, where “decentralization has been framed as a means to strengthen the legitimacy of the state throughout the national territory” (Eaton, Kaiser, Smoke, 2010: xiv).

Our basic hypothesis is that exactly that moment was the crucial trigger for re-centralization in Croatia at the beginning of the 1990s. Faced with a brutal war, accompanied by a temporary occupation of almost one third of its territory, the Croatian government extremely centralized public finance (Petak, 2002b, 2006). The bulk of public money finished in the hands of the central government, leaving to local and regional units just one third of pre-war revenues. Additionally, a completely new territorial structure of local governments was established. The new territorial structure enabled the ruling elite a much easier control over the territory, because a number of local governments were established with the centre right-wing political parties (HDZ, HSS) as ruling political parties. Table 2 shows the structure of local government units over a longer period of time, covering the second part of the 20<sup>th</sup> century and the first decade of the 21<sup>st</sup> century. The number of units had slowly been decreasing from a little over 700 to a little more than 200 in the late 1960s, with the lowest number reached in the mid-1970s, when the system of local governance in Croatia was institutionalized within 100 monotypic communes (*općine*) and one city (the city of Zagreb). That was the structure of local self-governance with which Croatia was faced at the time of dissolution of Yugoslavia.

**Table 2.** Structure of Croatian Self-Government

	1952	1967	1992	1993	2010
Communes	637	183	100	418	429
Cities			1	69	126
Counties ( <i>kotari</i> )	88	–	–	–	–
Communes – average population			45.000*	4.734	3.145
Cities – average population				28.124	18.328

As emphasized above, shortly after Croatia achieved independence in 1991, a completely reverse model of local self-governance was implemented, with more than five hundreds units, including the additional meso-level with 20 regional counties (*županije*). By such a type of reform, the central government administration established control over a long list of services that had previously been provided

by local governments (police, fire-fighters, primary and secondary education, basic health-care, basic social services, etc.). It was followed by a remarkable diminishing of the share of local governments in total public consumption, which dropped from roughly 35 percent down to 10 percent of total government expenditures.

Recentralization was therefore the direct result of devising a tool for strengthening the legitimacy of the state throughout the whole territory.

At the beginning of the year 2000, a new centre left-wing coalition government designed the possibility for decentralization. Public officials in the central government bodies devised their decentralization proposals on the basis of interdepartmental meetings, at which assistants of ministers re-calculated in ballpark figures the precise portions of educational, welfare or health services that might be taken on by counties or cities (Petak, 2006). Policy experts for decentralization connected with the domestic and international think tanks and NGOs – who had contributed considerable expertise on alternative proposals for decentralization – did not play a substantial enough role in formulating decentralization policy.

### **3. Sequencing the Decentralization Reform Trajectory**

#### *Putting the Croatian Decentralization Package on the Agenda*

The Croatian “decentralization package” was launched by 2001, run by the central government initiative to decentralize some parts of services connected with the educational, social and social welfare system. The devolution process picked up speed in July 2001 when the Croatian Parliament passed the new Act on Local and Regional Self-Government, and enacted the amendments to several laws regulating local financing and social services, such as education, health insurance and social security. The government in fact transferred to the level of counties – and, in the case of primary education, to the cities with a higher fiscal capacity – the authority to finance certain aspects of primary and secondary education, social security and health insurance. In other words, those were the three spheres in which the share of the Croatian local government units was substantially smaller than in other transitional countries.<sup>6</sup>

In the first stage of decentralization, the central government renounced its portion of the income tax to facilitate the provision of those functions transferred to the local level (Lukeš-Petrović, 2002). It was a very important policy measure because

<sup>6</sup> In comparison to many other transitional countries, at the beginning of the 1990s Croatia established an extremely centralized system of health and social welfare services, with the symbolic share of local government in these public policy sectors at around 1 per cent of total expenditure outlays. The situation was a little better in the sector of education, where its share was around 16 per cent (Petak, 2006).

the importance of income tax and surtax on income tax in financing local self-government units in Croatia is very high. But the decentralized public finance package failed in giving to local government structures additional sources for providing new services in education and other sectors. Due to that fact, only around one third of municipalities accepted to run new services, for example, in education. The counties which were obliged to accept new devolved services responded by not running those services.

#### *Formulating Policy Options and the Role of Policy Analysis*

The reform approach in the Croatian devolution is basically built on functional reviews made by senior officials in public administration bodies. The ministries and other state agencies have to undergo a functional review of all government activities, separating the core state functions from the series of social service functions. Given such circumstances, decentralization is regularly followed by civil service reform. But such a reform was proposed without taking into account the policy options connected with each and every decentralization measure (Lukeš-Petrović, 2002).

The Croatian “decentralization package” from mid-2001 is an example of how multiple pressures for shifting power to the local level may result in relative failure. The central government handed over the control over the entire policy process by shifting responsibilities for certain educational, welfare and health services to the counties and municipalities. A decentralization initiative was excessively marked by the vertical policy dimension, expressed by top-down incentives of the central government to shift the responsibilities to the regional and local levels. Central government bodies did not take into account the alternative proposals made by various policy actors ranging from academic institutions, researchers in NGOs, associations of local government organizations, etc. All these things contributed to a relatively negligible influence of the horizontal policy dimension on the decentralization outcome.

#### *Decentralization from Above: Running the Implementation of 2001 Reform Project*

The whole process could be described as centrally controlled decentralization, or decentralization from above. One of the illustrations of such a conclusion is the limited success in decentralizing the operating educational costs to the city governments. Only one third of the cities have agreed to take part in the decentralization of educational services. The other two thirds of city governments simply calculated that their fiscal as well as their administrative capacity was insufficient to handle the new decentralized services. Taking into account the fact that “the decentralization package” in welfare and health was concerned only with the counties and not the cities, the limited scope of decentralization is becoming even more evident.

Central government bodies have mostly neglected to depict the role of preparedness for implementing decentralization programs. Preparedness for running decentralization policy was marked by some policy scholars as one of the decisive factors influencing the outcomes of decentralization agendas (Davey, 2002). Proclivity to decentralization due to demographic or institutional clusters or to specific functional characteristics of particular services (police, education, social welfare, housing, etc.) may just sketch out favorable or unfavorable opportunities for implementing a decentralization agenda in a particular country. The real lack of such a type of policy analysis literature is the missing link for indicating the critical role of preparedness for decentralizing some services, which could not be connected merely with demographic, functional, fiscal, or administrative capacity, or even with social capital variables. It may simply be connected to a missing policy plan or to inadequate policy work as analysis for a policy. Let us use a comparative example from some Central European countries.

The relatively unsuccessful Croatian decentralization project as of 2001 has confirmed the critical role of preparedness for achieving positive outcomes of a devolution policy in a particular country. By comparing the Hungarian and Slovak decentralization cases, Kenneth Davey has shown that the relative success of devolution in Hungary should be credited to the fact that the Hungarian Institute of Public Administration had prepared a very good policy basis for decentralization during the late 1980s (Davey, 2002: 40). The Croatian case is more similar to the Slovak case, which was in general marked by a relative failure to run a comprehensive decentralization project sketched out by the Slovak coalition government after it came to power in 1998. In both cases the crucial missing point was the lack of a coherent model for the devolution of competencies to local levels of governance. In the case of Croatia, the main reason for such an outcome was not so much the non-existence of this model, but the fact that decision-makers were reluctant to put on the agenda a model prepared by various policy experts sitting outside the government. Furthermore, when evaluating these things, one should not neglect that the inadequate place of policy analysis as the analysis for policy emerged as the decisive fault in the policy literature reviewing decentralization tendencies in Croatia and in other transitional countries. Preparedness for decentralization turned out to be a much tougher thing than was initially shown in most analyses of decentralization trends in these countries.

The basic conclusion is that the limited scope in employing policy analysis is not confined only to the role of horizontal policy actors, but also to the limited role of policy analysis in the work of the Croatian public administration system as a whole (Petak, Petek, 2009). The Croatian case has therefore confirmed the critical role of evidence-based policy for successful devolution policy in a particular country.

## Conclusion

The basic trigger for further decentralization is located within the political elite. The dominant motivation from the early 1990s, related to running the state legitimacy through the whole territory, twenty years later is dramatically changed. The basic rationale for conducting new steps in decentralizing governance structures in Croatia might be found in more effective provision of public services. But developing more robustness of local governments for providing public services may require an amalgamation or consolidation of numerous municipalities with a low level of fiscal, administrative and policy capacity.<sup>7</sup>

In addition to political willingness, we should mention the requirements relating to capacity for strategic planning (Perko Šeparović, 2010) and steering the whole process of decentralization (Koprić, 2008). One important source for developing such a type of decentralization is based on coherent policy programs of decentralization developed since 2000.<sup>8</sup> This can be labeled as one sort of evidence-based policy-making which can redirect Croatian local and regional governments into more effective service provision.

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<sup>7</sup> Some scholars from the administrative sciences field recently provided interesting reviews of trends in local self-governance in Europe, emphasizing the peculiarities of a couple of amalgamation projects, particularly the famous Danish case (Ivanišević, 2010; Pavić, 2010).

<sup>8</sup> Among others, we have to mention the coherent program of decentralization in Croatia made by the Croatian Law Center (Perko Šeparović, 2003), as well as the 2008 Cards project.

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