FISCAL DECENTRALIZATION AS A MUST FISCAL POLICY TO CONGOLESE ECONOMY

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ABSTRACT
Existing theory and evidence on the effects of fiscal decentralization as a pro - poverty public policy are abundant. This paper describes the theoretical linkage between fiscal decentralization and poverty. The fiscal decentralization does reduce poverty if there are control and transparency in local governments. Indeed, fiscal decentralization is presented as a panacea for problems of development, natural resources, and poverty. Contrary to proponents of centralized state bureaucracy, Tiebout argued that local governments could generate an adequate supply of public goods (such as public safety) since they compete for citizens who can express their preferences for public goods by "voting with their feet. According to Congolese Society, the fiscal decentralization is the best fiscal policy capable to reduce the poverty.
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INTRODUCTION
The Fiscal Decentralization is a system which permits " different groups living in various states to express different preferences to public services; and this, inevitably, leads to differences in levels of taxation and public services (Eva - Maria and Ulrich Ladurner, 2009).There are three basic reasons. First, central governments increasingly are finding that it is impossible for them to meet all of the competing needs of their various constituencies, and are attempting to build local capacity by delegating responsibilities downward to their regional governments. Second, Central governments are looking to local and regional governments to assist them on national economic development strategies. Finally – and, Regional and local political leaders are demanding more autonomy and want the taxation powers that go along with their expenditure responsibility.

We agree with Robert and Zeckhauser [2010] affirm that Policy analysis seeks to answer questions. It is well known that a key function of government is the finance and provision of local public goods. The effect of government expenditures, taxation, and debt on the aggregate economy is of immense importance, and therefore great controversy, in economics. A broad range of essential services is provided by governments, requiring the collection of taxes and fees. This paper, however, covers only a subset of these issues, those associated with the macroeconomic aspects of fiscal decentralization.

This paper seeks to answer this question: Should fiscal decentralization be used to reduce the severe poverty? Poverty is considered as bad thing for any country because of its consequences such as terrorism, army conflict, political instability ... The problems of poverty and fiscal decentralization are interesting for poor people such as Congolese.

Fiscal decentralization refers to the set of policies designed to increase the revenues or fiscal autonomy of subnational governments. Fiscal decentralization policies can assume different institutional forms such as an increase of transfers from the central government, the creation of new subnational taxes, or the delegation of tax authority that was previously national. Political scientists who draw from the liberal tradition argue that decentralization helps to deepen and consolidate democracy by devolving power to local governments (Diamond and Tsalik 1999). Economists who draw from a market theory of local expenditures argue that decentralization helps to improve resource allocation through better knowledge of local preferences and competition among localities (Oates 1972). Other scholars, meanwhile, warn against the devolution of power to subnational officials and show that it can augment distributional conflicts (Treisman 1999), foster subnational authoritarianism (Cornelius, Eisenstadt, and Hindley 1999), and exacerbate patronage (Samuels 2003). Recent studies also suggest that, in the absence of proper fiscal and political mechanisms, the transfer of resources to subnational governments may lead to higher levels of inflation (Treisman 2000), larger deficits (Rodden

2002), and poorer overall macroeconomic performance (Wibbels 2000). Interestingly, despite their disagreements on the effects of decentralization for democratization and economic reform, all of the aforementioned studies share an assumption that decentralization increases the power of subnational officials. This power increase is generally used as the intervening variable connecting decentralization policies and either positive or negative outcomes, without questioning the existence of such a power increase in the first place. In fiscally decentralised settings, any attempt to increase taxes in one jurisdiction will result in the migration of its tax base to another jurisdiction (Tiebout, 1956). Brennan and Buchanan (1980) follow this approach, and argue that fiscal decentralisation heightens the competition among jurisdictions. Such competition forces restraint on political elites, even if they would like to maximise revenues.

WHAT CAUSES DEVELOPING COUNTRIES TO EMBRACE FISCAL DECENTRALIZATION?

Developing countries adopt fiscal decentralization for various reasons. First, in a complex world fraught with national territorial disintegration, fiscal decentralization can be seen as an appropriate venue to defuse potential political and social tensions and unrest. Second, democratization can also be an important trigger for the general process of decentralization and specifically for fiscal decentralization. Third, structural and economic changes could be a catalyst for fiscal decentralization.

THEORETICAL FRAMEWORK

Despite providing a theoretical backdrop addressing ‘operational’ factors, the frameworks nevertheless have serious limitations in their ability to actually measure and analyze the functional dimensions and content of decentralization (Bossert, Larranaga et al. 2003). Decentralization can take a number of forms – administrative, fiscal or political – and depending on the academic and professional background of the theorist or researcher, is defined and conceptualized in a multitude of ways, resulting in a medley of definitions, analytical and theoretical frameworks (Pranab Bardhan, 2002).

The theoretical case for fiscal decentralization dates from 17th to 18th Century philosophers, including Rousseau, Mill, de Tocqueville, Montesquieu and Madison. Theories of Public Economy can be approached in two ways. First, I attempt to state the rules and principles that make for an efficient conduct of the public economy. Last, I attempt to develop a theory that permits me to explain why existing policies are pursued and to predict which policies will be pursued in the future Musgrave [1959,4]. Weingast [2006] divides the literature of fiscal federalism into two generations.

The First Generation Fiscal Federalism (FGFF) is largely normative and assumes that public decision makers are benevolent maximizers of the social welfare (see, Musgrave, [1959]), Oates [1972], Rubinfeld [1987]. And, the Second Generation Fiscal Federalism (SGFF) builds on FGFF but assumes that public officials have goals induced by political institutions that often systematically diverge from maximizing citizen welfare (Oates [2005], Garzarelli [2006] and Qian and Weingast (1997); see also Brennan and Buchanan [1980 and Wicksell [1896]. Here we assume that the Congolese policymakers Here we assume that the Congolese policymakers are benevolent maximizers of the social welfare.

The allocation function is government’s role in deciding the mix of public and private goods that are provided by the economy or by government. Each level of government may be more efficient in delivering certain governmental goods and services. The superiority of the national government in delivering national defense or national health research is obvious as is the likelihood that certain services such as fire and police protection are more suitable for local government. In attempting to match local revenues and expenditures in the allocation process, economists are concerned about efficiency, vertical imbalances (mismatches between revenues and expenditures), horizontal equity (fiscal capacity among regions), externalities (spillovers), and tax exportation. Additional public management concerns have to do with overlapping of taxes and roles, and responsiveness and accountability for service delivery.

As “a core component of decentralization” (Rondinelli, 1999,3), fiscal decentralization has been defined in several ways. This paper employs the following definition of fiscal decentralization developed by the United Nations Development Program (UNDP) for analytical purposes:“Fiscal decentralization . . . constitutes the public finance dimension to decentralization in general, defining how and in what way expenditures and revenues are organized between and across different levels of government in the national polity" [italics original] (UNDP, 2005). Poverty can be defined in relation to others or according to biological necessities (Sen,1981).

ARGUMENTS FOR FISCAL DECENTRALIZATION

Wolman has divided the proponents' arguments under two headings. First, efficiency is an economic value seen as the "maximization" of social welfare. The public sector does not contain the same price signals as the private sector, to regulate supply and demand. Public sector allocation of goods and services are inherently political; however, as nearly as possible tax and service packages should reflect the aggregate preferences of community members. Besley and Coate (2000) focus on the importance of political aggregation mechanisms in the trade-off between centralized and decentralized provision of local public goods. Under decentralization, locally elected representatives select public goods.

One detailed study of targeting performance of a decentralized program using household-level information in a developing country is that of Galasso and Ravallion (2001) studying a decentralized food-for-education program in Bangladesh. They find that the program was mildly pro-poor. Also, Acemoglu[2005] and Besley and Persson[2008] argue that the economic efficiency is hurt when the central government is too weak to function effectively such as maintaining social stability, as is not unusual in the developing world. With greater decision-making authority, local managers may have greater incentives to exploit local information in response to market signals, which increases the efficiency of resource.

Last, governance values include responsiveness and accountability, diversity, and political participation. Cohen and Peterson [2008] affirm that decentralization of any form or type can stimulate the emergence of good governance constrain subnational ethnic conflict, promote democratic practices, facilitate the growth of civil societies, and increase the privatization of public sector tasks. Diversity in public policy is a second governance argument for fiscal decentralization. It is valued because it offers citizens a greater choice in public service and tax options when they are deciding where to reside.

Democracy is worth cultivating because the structure of political institutions makes a difference to the performance of government. But new democracies are vulnerable to failure and breakdown, and a democratization process needs every advantage that can be derived from careful analysis of different democratic institutions (Myerson, 2006) Finally, fiscal decentralization is thought to enhance political participation at the local level. This has the potential to enhance democratic values and political stability at the local level. It provides a forum for local debate about local priorities, and can be a proving ground for future political leaders. For example, 4 of the last 5 U.S. presidents were state governors. Among the exceptions to tendency toward neglect of the topic are a few World Bank studies focused on legal, financial, and administrative aspects of decentralization as a potential development strategy (Cohen and Peterson, 2008).

ARGUMENTS AGAINST FISCAL DECENTRALIZATION

An obvious cost of federalism is the loss of autonomy by the central government. In fact, the benefits of decentralisation require that the central government's authority is limited (Rodden, 2006). As a result, in highly decentralised fiscal federations, central governments might find it difficult to implement coordinated economic and other type of policies and provide federation-wide collective goods.

While the international political movement towards fiscal decentralization is strong, there have been some recent cautionary notes that need to be considered (Hommes, 1996; Tanzi, 1995; Prud'homme, 1995). Tanzi summarizes this critique by raising a number of situations or conditions, especially in developing countries, where fiscal decentralization may lead to less than an optimal result. First of all, taxpayers may have insufficient information or no political power to pressure local policymakers to make resource-efficient decisions. Second, local politicians may be more corrupt than national politicians or at least find themselves in more corrupting situations. Third, the quality of national bureaucracies is likely to be better than local bureaucracies. Fourth, technological chance and increased mobility may reduce the number of services that are truly "local" in nature. And last, local governments often lack good public expenditure management systems to assist them in their tax and budget choices. Fiscal decentralization may exacerbate a central government's ability to deal with structural fiscal imbalances.

Prud'homme [1995] finds other potential flaws in the theory of fiscal decentralization. The economic efficiency argument, he suggests, requires roughly even regional fiscal capacities—a condition not existing in developing countries. Fiscal inequities may actually increase with decentralization. Prud'homme (1995) sees decentralization as "essentially a political problem" representing, in Latin America for example, a stark departure from centuries of centralism. The success of decentralization may depend upon the existence at the local level of a civic cultural tradition—informal civic institutions, such as solidarity, cooperatives, etc. With a lack of local governmental experience and riddled with patronage, local governments in Latin America tend to be captive of the elites and political barons.

McClure argues that Prud'homme sets up a straw man—pure decentralization of fiscal federalism—and easily details its flaws. Decentralization done badly says McClure, will cause problems. However, Congolese legislators did not propose full decentralization; rather, what is proposed is decentralization of some functions. Clearly, the central government must retain sufficient revenues (and discretion) to be effective in both their stabilization and distribution roles. Furthermore, a national role in establishing uniform financial reporting requirements and in clarifying roles and responsibilities is also an important aspect of effective fiscal decentralization.

HOW DOES FISCAL POLICY AFFECT THE SUB-MACRO ECONOMY?

Fiscal policy affects aggregate demand, the distribution of wealth, and the economy's capacity to produce goods and services. In the short run, changes in spending or taxing can alter both the magnitude and the pattern of demand for goods and services. With time, this aggregate demand affects the allocation of resources and the productive capacity of an economy through its influence on the returns to factors of production, the development of human capital, the allocation of capital spending, and investment in technological innovations. Tax rates, through their effects on the net returns to labor, saving, and investment, influences both the magnitude and the allocation of productive capacity.

FISCAL DECENTRALIZATION AND POVERTY REDUCTION

Poverty is a multidimensional concept and as such it can be defined in many ways: Poverty is lack of income, food, shelter, job opportunities, or physical asset bases such as livestock and land. Poverty is also not having access to safe drinking water, health facilities when needed or not being able to read and write. Poverty is also about being at risk, uncertainty about the future, vulnerability, powerlessness, lack of voice, representation or freedom (World Bank 1990 and 2001).

The causes of poverty may be attributed to different processes and social factors. In what follows we review some of the most commonly suggested determinants of poverty in the literature, which include regional, demographic and cultural factors, as well as institutional and socio-economic factors. The economic argument for providing public goods at the sub-national level was originally formulated in a decentralization theorem that "… the level of welfare will always be at least as high if Pareto-efficient levels of consumption are provided in each jurisdiction than if any single, uniform level of consumption is maintained across all jurisdictions" (Oates,1972).

It is generally assumed that by bringing decision-making about the provision of public goods and services closer to citizens, decentralisation allows poor people to voice themselves more clearly, facilitates communication and information flows between local policy-makers and their constituents, and fosters improved accountability (UNDP, 2005). Earlier research focused heavily on the impact of fiscal decentralization on development in general (Bahl, 1999; Schroeder, 2003), and on aspects of development other than poverty, such as corruption (Arikan, 2004; Fisman and Gatti, 2002), public service delivery (Bardhan and Mookherjee, 2006), and health (Lieberman, Capuno, and Hoang, 2005). More research attention has recently been paid to the link between decentralization and poverty. Most studies, however, look into the impact of decentralization on poverty in all three of its forms: political, administrative and fiscal (Braun and Grote, 2000; Jütting et al. 2004). Political decentralization is one of the most commonly used mechanisms to reduce ethnic conflict in the world today (Dawn Brancati).

Scholars in related fields of development and public finance agree that fiscal decentralization and poverty are indeed correlated. They have attempted to come up with a general framework to exactly account for how fiscal decentralization affects poverty. The frameworks presented by Jütting et al. (2004) and Braun and Grote (2000) identified the economic influence of fiscal decentralization on poverty reduction via higher efficiency and better targeting. Despite the fact that centrally-provided investment in certain public areas enjoys economies of scale and size, it would be more efficient for lower levels of government to expend the majority of public services. Local governments are expected to be in a better position to identify their local needs (including those of the poor) and to deliver public services accordingly (UNDP, 2005, 7). In other words, the efficiency advantage in combating poverty that lower-level governments enjoy relative to higher level governments comes from the former's local knowledge and relative proximity to the target population – the impoverished.

The fiscal decentralization enters into country poverty alleviation strategies in a number of ways. On the basis of the "subsidiarity" principle (discussed above), sub-national governments are often given the responsibility for managing many "pro-poor" priority sectors, including primary and secondary education, primary health care, agricultural extension, water and sanitation services, and local roads and public infrastructure. Wallis and Oates (1988) argue that smaller states may benefit more from centralization as economies of scale may not be exhausted due to small population size at decentralized levels. Wallis and Oates also argue that population concentration in urban areas increase the benefits from decentralization.

In addition, a number of important studies and think-pieces (among others, see Moore and Putzel 1999; Crook and Sverisson 1999) have underlined that decentralization, in and of itself, is not synonymous with poverty reduction – and that a wide range of "external" factors (e.g. central government's political commitment to poverty reduction, overall literacy rates, the strength and effectiveness of central government institutions and functions, gender sensitivity in public expenditure management, etc.) determine whether the outcomes of decentralisation are pro-poor or not (UNDP, 2005). What the central government should do before fiscal decentralization. The inability of the central government to reach its citizens effectively suggests that something else is necessary. Insulation of bureaucrats from electoral politics requires strong political institutions and a large degree of transparency. Then, decentralization depends on a series of political, fiscal and administrative factors, and good results should be reached by an appropriate interaction among those factors. Corruption is rampant in many poor countries (Abhijit Banerjee, Sendhil Mullainathan and Rema Hanna, 2012). As such, anti-corruption policies continue to be a central component of development strategies. For example, since 1996, the World Bank alone has supported more than 600 anti-corruption programs. Specially, it allows the bureaucrat to have multiple dimensions of malfeasance (Corruption, Bribe-taking, Shirking, Red-tape). Recent studies have reaffirmed the link between poverty and armed conflict, in relation to both the outbreak and the duration of wars.

CONCLUSION

Fiscal decentralization means the transfer of resources among different levels of government (federal, states, and municipalities). To reduce poverty constitutes in the developing countries the main goal of public policymaker. By using fiscal decentralization government can quickly reduce poverty. This large-scale transfer of resources, responsibilities, and authority has brought subnational governments to the forefront of politics. In that sense, two important factors should be introduced to improve results of decentralization: control and transparency. Control, mainly external control, should provide information and should act as an accountability agency in order to improve the output of governmental programs. Transparency has also extreme importance.

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