This book argues that fiscal federalism will consistently deliver on its governance promises only when democratic decentralization is combined with the integration of political parties. It formalizes this argument and, using new data on subnational political institutions, tests it with models of education, health, and infrastructure service delivery in 135 countries across 30 years. It also presents comparative case studies of Senegal and Nigeria. The book emphasizes that a “fine balance” in local governance can be achieved when integrated party structures compensate for the potential downsides of a decentralized state.

‘... with respect to the question of how party integration matters, and what effects it can have on the provision of public goods, Hankla, Martinez-Vazquez, and Ponce-Rodriguez’s book is essential reading. And I can’t agree more with the authors’ conclusion that “it may be time for a third generation of fiscal federalism scholarship” which “might expand on past work to address more directly the interaction of political institutions and economic factors in public goods provision under decentralization.”

– Vlad Tarko, Publius, The Journal of Federalism

‘In early work on federalism, economists and political scientists had rather distinct concerns and approaches. Second-generation theory then offered a more realistic political economy account of incentives in federal systems. This book goes further and explicitly integrates political and economic dimensions. The result is a major advance in our understanding of the political conditions that underpin decentralized service delivery.’

– Joachim Wehner, London School of Economics and Political Science, UK

‘This volume by leading scholars, Hankla, Martinez-Vazquez and Ponce Rodriguez, makes a path breaking contribution in advancing our knowledge on decentralized governance by providing a comprehensive theoretical and empirical framework on the impact of political institutions on the provision of local public goods. The volume will hopefully re-invigorate scholarship on the third generation of fiscal federalism i.e. addressing the interaction of political institutions with fiscal and administrative institutions on equity and efficiency of public goods under decentralized governance.’

– Anwar Shah, Brookings Institution, The World Bank, US and Southwestern University of Finance and Economics, China

‘Does fiscal decentralization really work? More to the point, under what specific conditions will decentralization actually deliver the gains that are often attributed to “bringing government closer to the people”? It is this second and fundamental question that Charles R. Hankla, Jorge Martinez-Vazquez and Raúl Alberto Ponce Rodríguez examine in their masterly new treatise. They start with the standard Oates’ “decentralization theorem”, but they recognize the limits of this theorem in real-world political (and economic) environments. So, in a series of chapters that

– Charles R. Hankla, Jorge Martinez-Vazquez and Raúl Alberto Ponce Rodríguez

utilize the latest in sophisticated theoretical modeling, they extend the standard framework to incorporate considerations that reflect the key underlying realities of political institutions, especially “democratic decentralization” and “party integration”. Their main conclusion is that democratic decentralization can produce the benefits predicted by Oates, but only when parties are integrated. They then test their framework in several empirical chapters, with results that largely confirm their theory. Their treatise is essential reading for anyone wanting both to understand decentralization and, more importantly, to design real-world institutions that can achieve the gains from decentralization.'

– James Alm, National Tax Association and Tulane University, US