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# Centralized and Decentralized Federal System: A Comparative Analysis of Governance Structures and Policy Implementation

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## ***Abstract***

*A comparative analysis of centralized and decentralized federal systems with the exploration of their governance structures and the implications for policy implementation is conducted in this research. Centralized and decentralized systems with their attributes are studied and critically analyzed. By examining case studies from various countries, the research seeks to shed light on the strengths and weaknesses of each system and identify the factors that contribute to its effectiveness. The paper also delves into the distribution of powers, decision-making processes, fiscal arrangements, and the level of autonomy granted to subnational entities in both centralized and decentralized federal systems. The findings of this study offer insights into the dynamics of governance and policy implementation within federal systems, ultimately contributing to a deeper understanding of the relationship between centralized and decentralized approaches. It is found that even countries with a decentralized federal system acquire few characteristics of a centralized federal state and vice versa. Meanwhile, Nepal being a decentralized federal state hasn't yet been able to maintain a complete decentralized governance system as many of the authorities and obligations are concentrated in the central government.*

**Keywords:** *Governance, Centralization, Decentralization, Local autonomy, Jurisdiction.*

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## **Introduction**

This article tends to provide a comprehensive analysis of centralized and decentralized federal systems, focusing on their governance structures and policy implementation. With the diverse political landscapes around the world, understanding the strengths and weaknesses of different governance models is crucial for policymakers, scholars, and citizens alike. The article aims to shed light on the advantages and challenges associated with centralized and decentralized approaches, enabling a better understanding of their implications on governance and policy outcomes. To address the research question, an in-depth comparative analysis of centralized and decentralized federal systems across various countries and contexts is conducted. The governance structures, decision-making processes, and policy implementation mechanisms employed in each system are also examined. The research has involved extensive literature reviews, case studies,

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and comparative analyses of real-world instances, providing a comprehensive understanding of the subject matter. The scope of this study is limited to the analysis of governance structures and policy implementation, and it does not cover specific country contexts or broader issues of federalism.

The main findings of the analysis reveal distinct characteristics and outcomes associated with centralized and decentralized federal systems. In centralized systems, decision-making authority is concentrated at the national level, resulting in streamlined policy implementation, uniformity, and efficiency. However, centralized systems may face challenges such as limited local autonomy, reduced responsiveness to regional needs, and potential bureaucratic inefficiencies. On the other hand, decentralized systems, with power devolved to regional or local levels, tend to promote local autonomy, flexibility, and responsiveness to regional needs. However, decentralization can also lead to coordination challenges, policy inconsistencies, and inter-jurisdictional conflicts.

This article contributes to the ongoing discussions on governance structures and policy implementation in federal systems. The significance of this study on centralized and decentralized federal systems lies in its potential to provide valuable insights into the dynamics of governance and policy implementation within federal systems. Understanding the variations and implications of centralized and decentralized approaches is crucial for policymakers, researchers, and practitioners involved in designing and managing government systems. The study's findings can contribute to informed decision-making by highlighting the strengths and weaknesses of each system, identifying best practices, and offering recommendations for optimizing governance structures, decision-making processes, and intergovernmental relations. Additionally, by deepening the understanding of the relationship between centralized and decentralized federal systems, this study can contribute to enhancing the effectiveness, responsiveness, and accountability of governance, ultimately promoting the well-being and satisfaction of citizens within diverse political contexts.

**Background:** Federal systems are a form of governance that distribute power and authority between a central government and subnational entities such as states, provinces, or regions (Riker, 1964). The distribution of powers in federal systems can vary significantly, leading to distinct models of governance. Two prominent models within federal systems are centralized and decentralized approaches. In a centralized federal system, power and authority are concentrated primarily in the central or federal government. The central government has a significant role in decision-making, policy formulation, and implementation across the entire country (Lijphart, 1999). Centralized federal systems often exhibit a stronger central authority, uniform policies, and limited autonomy for subnational entities. Countries with a centralized federal system include France, where the central government holds significant power and decision-making authority, while subnational entities have limited autonomy (Elgie&Moestrup, 2011).

In contrast, a decentralized federal system grants significant power and authority to subnational entities, allowing them greater autonomy in decision-making and policy implementation (Elazar, 1987). Subnational entities, such as states or provinces, have more independence in managing local affairs, including legislative powers and control over certain policy areas (Watts, 1998). Decentralized federal systems tend to exhibit more diversity in policies and practices across different regions. Countries with decentralized federal systems include the United States, where

states have considerable autonomy in areas such as education, health, and transportation (Kincaid, 1999). The choice between centralized and decentralized approaches in federal systems has significant implications for governance structures, decision-making processes, fiscal arrangements, and policy implementation (Duchacek, 1970).

**Governance Structures and Decision-Making Processes:** In a centralized federal system, the central government holds the primary authority in decision-making and policy formulation. It typically has the power to make and enforce laws, oversee national programs, and maintain uniformity across the country (Lijphart, 1999). Key policy areas such as defense, foreign affairs, and national economic policies are often controlled by the central government. The decision-making processes in a centralized system usually involve top-down approaches, where policies are formulated at the central level and cascaded down to subnational entities for implementation (Elazar, 1987).

In a decentralized federal system, governance structures exhibit a more dispersed distribution of power. Subnational entities, such as states or provinces, possess significant decision-making authority in policy formulation and implementation within their jurisdictions (Elazar, 1987). These entities have the flexibility to design and implement policies that cater to their specific regional needs and preferences. Decision-making processes in a decentralized system often involve a combination of top-down and bottom-up approaches, where policies may be formulated at both the central and subnational levels through collaborative mechanisms (Watts, 1998).

**Fiscal Arrangements and Autonomy:** Fiscal arrangements play a crucial role in federal systems, determining how resources are generated, distributed, and utilized (Bird & Smart, 2002). In a centralized federal system, fiscal powers are predominantly concentrated at the central level. The central government exercises significant control over revenue collection and allocation, often redistributing resources to subnational entities based on predetermined formulas or criteria (Bird & Smart, 2002). This central control over fiscal resources limits the financial autonomy of subnational entities, reducing their ability to independently fund and implement policies.

In a decentralized federal system, fiscal arrangements tend to provide greater autonomy to subnational entities. Subnational governments often have the power to levy and collect taxes, make spending decisions, and manage their budgets (Oates, 2005). They may have control over revenue sources such as income taxes, property taxes, or natural resource royalties. Fiscal decentralization allows subnational entities to tailor policies and allocate resources based on local needs and priorities. However, it can also lead to disparities in fiscal capacities between regions and raise challenges related to intergovernmental fiscal transfers (Bird & Smart, 2002).

**Implications for Policy Implementation and Governance Effectiveness:** The choice between centralized and decentralized federal systems has direct implications for policy implementation and the effectiveness of governance. In a centralized system, the central government's authority enables uniformity in policy implementation across the country. However, it can also lead to a lack of responsiveness to local needs and limited innovation in policy design. Policy decisions may take longer due to the involvement of multiple levels of government and bureaucratic processes (Duchacek, 1970).

In a decentralized system, subnational entities have greater flexibility to implement policies tailored to their local contexts. This can enhance responsiveness to local needs and foster

innovation in policy design. However, the diversity in policies across regions can lead to challenges such as coordination issues, potential duplication of efforts, and the need for intergovernmental cooperation (Watts, 1998). Effective intergovernmental relations become crucial in a decentralized system to ensure coherence, avoid conflicts, and facilitate cooperation among different levels of government (Watts, 1998).

## **Objectives of the Study**

1. To compare and analyze the governance structures, decision-making processes, and policy implementation in centralized and decentralized federal systems.
2. To examine the fiscal arrangements and level of autonomy granted to subnational entities in centralized and decentralized federal systems, and their impact on policy effectiveness and intergovernmental relations.
3. To evaluate the strengths and weaknesses of centralized and decentralized federal systems in terms of governance effectiveness, policy responsiveness, and citizen participation, providing insights and recommendations for policymakers and practitioners.

## **Research Questions**

1. What are the key differences in governance structures and decision-making processes between centralized and decentralized federal systems?
2. How do fiscal arrangements and the level of autonomy granted to subnational entities vary in centralized and decentralized federal systems?
3. What are the implications of centralized and decentralized approaches for policy implementation and the effectiveness of governance within federal systems?

## **Research Methodology**

This research employs a comparative analysis approach to examine centralized and decentralized federal systems, focusing on their governance structures and implications for policy implementation. The study involves a comprehensive review of existing literature, including scholarly articles, books, reports, and policy documents, to establish a theoretical foundation. Additionally, multiple case studies from different countries are analyzed to gain practical insights into the functioning of both systems. Empirical data are collected through various sources, such as government expenditure data and policy outcomes. The collected data are analyzed using qualitative methods, including thematic analysis. The findings are presented and discussed, highlighting the strengths and weaknesses of centralized and decentralized systems and identifying factors contributing to their effectiveness. The research aims to deepen our understanding of the dynamics of governance and policy implementation within federal systems, ultimately providing insights and recommendations for policymakers and practitioners.

## Literature Review

Federal systems are widely adopted around the world as a means to manage diverse political, cultural, and geographical contexts within a unified country. These systems vary in terms of the distribution of power between central and regional governments, which influences governance structures and policy implementation mechanisms. This paper aims to provide a comparative analysis of centralized and decentralized federal systems, examining their impact on governance and policy outcomes. Centralized federal systems, also known as "strong" federal systems, concentrate significant power in the central government. This structure allows for standardized policies and efficient decision-making processes. However, it may lead to limited local autonomy, reduced responsiveness to regional needs, and challenges in accommodating diverse interests (Smith, 2009). Decentralized federal systems, also referred to as "weak" federal systems, grant substantial power and autonomy to regional governments. This approach ensures greater local participation and tailoring of policies to regional requirements. Nevertheless, it may result in policy inconsistencies, intergovernmental conflicts, and difficulties in achieving national coherence (Stephens, 2012).

Centralized federal systems provide a clear hierarchical structure, allowing for efficient coordination, uniform policies, and easier accountability. Decentralized federal systems, on the other hand, foster greater local participation, regional diversity, and innovative policy approaches (Ostrom, 2010). In centralized federal systems, policy implementation is streamlined due to centralized decision-making and unified bureaucratic structures. In contrast, decentralized federal systems face challenges in policy coordination, monitoring, and ensuring consistent implementation across regions (Wollmann, 2008). Despite extensive research on federal systems, several research gaps remain. Firstly, there is a need for more empirical studies comparing the outcomes of centralized and decentralized federal systems on various governance indicators. Secondly, the relationship between governance structures and policy effectiveness requires further exploration. Lastly, the impact of evolving technological advancements on the efficiency and effectiveness of governance in federal systems remains understudied. This paper provides a comparative analysis of centralized and decentralized federal systems, highlighting their governance structures and policy implementation mechanisms. It emphasizes the need for further research to bridge existing gaps, particularly in assessing the outcomes of different federal systems on governance and policy effectiveness.

In a centralized federal system, power and authority are concentrated in the central government, with limited autonomy granted to subnational units (Velasco, 2017). Decision-making processes in centralized systems are characterized by top-down approaches, where policies and directives are formulated and implemented by the central government (McCubbins et al., 2011). This allows for efficient decision-making and swift implementation of policies, as the central government has the authority and resources to enact changes on a national scale (Velasco, 2017). On the other hand, in decentralized federal systems, power, and authority are distributed between the central government and subnational entities, providing them with significant autonomy and decision-making authority (Abers & Keck, 2013). Decision-making processes in decentralized systems are more bottom-up, with subnational governments having the flexibility to design and implement policies that address local needs and preferences (Rodriguez-Pose & Gill, 2003). This localized decision-making allows for greater responsiveness to regional variations and challenges, as

policies can be tailored to specific contexts (Ostrom, 2010). Furthermore, centralized systems often have a more hierarchical governance structure, where policies are formulated at the central level and enforced downward to subnational units (Wibbels, 2006). This can lead to a lack of understanding and consideration of local needs, resulting in policies that are disconnected from ground realities (Wibbels, 2006). In contrast, decentralized systems promote a more participatory governance structure, where subnational governments engage in collaborative decision-making processes with local stakeholders (Abers & Keck, 2013). This enables a better understanding of local needs and facilitates the incorporation of diverse perspectives into policy formulation (Rodriguez-Pose & Gill, 2003).

In centralized systems, the concentration of power and authority can lead to streamlined processes and swift governance, enabling the central government to effectively implement policies on a national scale (McCubbins et al., 2011). This centralized decision-making can be advantageous during times of crises or emergencies, as the central government has the ability to make and enforce decisions efficiently (McCubbins et al., 2011). However, it may also result in limited citizen participation and a lack of responsiveness to local needs, as power is concentrated at the central level (Rodriguez-Pose & Gill, 2003). On the other hand, decentralized systems offer the advantage of tailoring policies to specific local contexts and addressing regional variations (Ostrom, 2010). The participatory decision-making processes in decentralized systems promote citizen engagement and enhance the sense of ownership and legitimacy of policies (Rodriguez-Pose & Gill, 2003). However, decentralized systems may face challenges related to coordination and policy consistency, as different subnational units may adopt divergent approaches, leading to disparities and inequalities among regions (Kincaid, 2013).

**Governance Effectiveness, Policy Responsiveness, and Citizen Participation:** Centralized federal systems concentrate power and authority in a central government, with limited autonomy granted to sub-national units. Centralized systems allow for efficient decision-making processes and effective implementation of policies due to the concentration of power at the central level (Velasco, 2017, p. 123). This can result in streamlined processes and swift governance. For instance, in centralized systems, the central government can have better control over infrastructure development and economic planning. Centralized systems can ensure consistent standards and regulations across the entire country. This reduces disparities among regions and promotes national integration (Lijphart, 2012). Centralized systems enable swift policy formulation and implementation, especially in times of crises or emergencies. The central government's ability to make and enforce decisions efficiently can lead to timely responses to urgent situations (McCubbins et al., 2011). This allows for effective management of national emergencies. Centralized systems can provide policy coherence and stability, facilitating long-term planning and addressing national priorities. The central government's authority ensures continuity and consistency in policy formulation and implementation (Kincaid, 2013). This stability can be beneficial for economic development and infrastructure projects.

On the other side, Centralized systems may struggle to fully understand and address local needs. Decision-makers at the central level may not possess the necessary knowledge of local contexts, resulting in policies that are disconnected from ground realities (Wibbels, 2006). This can lead to ineffective or inappropriate policies. The concentration of power in centralized systems can create opportunities for corruption and authoritarian tendencies. Without robust checks and balances, there is a higher risk of abuse of power and rent-seeking behavior (Shleifer & Vishny, 1993). This

undermines transparency and accountability in governance. Centralized systems may lack the flexibility to respond to diverse regional needs and preferences. Policies formulated at the central level might not adequately consider local variations and may not be easily adaptable to different contexts (Ostrom, 2010). This can lead to a lack of responsiveness and hinder local development. Centralized decision-making can restrict citizen participation at the local level. As power and authority are concentrated in the central government, citizens may have limited opportunities to actively engage in policy-making processes (Rodriguez-Pose & Gill, 2003). This can weaken the sense of ownership and legitimacy of policies among the citizens.

Decentralized federal systems distribute power and authority between a central government and subnational units, granting significant autonomy to the regional or local governments. Decentralized systems allow decision-making to be closer to the local level, ensuring that policymakers have a better understanding of local needs, challenges, and opportunities. This can result in more contextually informed policies that are tailored to specific regions (Rodriguez-Pose & Gill, 2003). Decentralization enables subnational governments to design and implement policies that directly address local concerns. Local authorities have the flexibility to adapt policies according to regional needs and preferences, promoting effective policy implementation (Abers& Keck, 2013). Decentralized systems are better equipped to respond to diverse regional needs and preferences. Subnational governments can tailor policies to specific local conditions and adjust them as circumstances evolve, facilitating policy responsiveness (Ostrom, 2010). Subnational governments in decentralized systems often have the autonomy to experiment with new policy approaches and initiatives. This promotes innovation and allows for the identification of effective policy solutions that can be scaled up at the national level (McCubbins et al., 2011). Decentralization enhances opportunities for citizen participation in decision-making processes. With decision-making power closer to the local level, citizens have greater access to policymakers and can contribute to shaping policies that directly impact their communities (Abers& Keck, 2013). Citizen participation in decentralized systems fosters a sense of ownership and legitimacy of policies among the local population. When citizens actively engage in decision-making processes, policies are more likely to align with their preferences and gain broader acceptance (Rodriguez-Pose & Gill, 2003).

On the other hand, Decentralization can lead to policy inconsistencies and fragmentation when different subnational units adopt divergent approaches. This can result in disparities and inequalities among regions, creating challenges in achieving uniformity and national cohesion (Kincaid, 2013). Coordinating policies and actions across multiple subnational units can be complex in a decentralized system. It requires effective coordination mechanisms and collaboration among regional governments to ensure coherent and cohesive governance (Pierre, 2005). Subnational governments in decentralized systems may face capacity and resource limitations, hindering their ability to effectively design and implement policies. Weaker administrative and financial capacities can result in uneven policy outcomes and implementation gaps (Wibbels, 2006). While decentralized systems provide citizen participation opportunities, participation levels can be varied across different regions. Factors such as unequal access to resources, varying levels of civic engagement, and differing capacities of local institutions can hinder inclusive participation (Abers& Keck, 2013).

In the article "Governance Structures and Policy Effectiveness in Centralized and Decentralized Federal Systems" (Smith et al., 2022), the authors explore the relationship between governance

structures and policy effectiveness. They argue that while centralized systems offer efficiency and uniformity in policy implementation, decentralized systems tend to exhibit greater adaptability and responsiveness to local needs. The study emphasizes the importance of aligning governance structures with policy objectives to achieve optimal outcomes in federal systems. In his book "Decentralization and Local Governance in Federal Systems" (Johnson, 2021), the author provides a comprehensive examination of the benefits and challenges associated with decentralization in federal systems. Johnson argues that decentralization fosters citizen participation, enhances accountability, and promotes regional development. However, he also acknowledges the potential drawbacks, such as inter-jurisdictional conflicts and inconsistent policy outcomes, which require careful institutional design and coordination mechanisms. Another recent article, "Centralized or Decentralized?: Exploring the Determinants of Governance Structures in Federal Systems" (Gupta et al., 2023), analyzes the factors influencing the choice between centralized and decentralized governance structures. The authors identify variables such as the size of the country, ethnic diversity, and historical context as key determinants. Their research demonstrates that a nuanced understanding of these factors is essential in designing governance structures that align with the specific needs and aspirations of diverse regions within a federal system. A notable contribution to the literature is the book "Federalism and Policy-making in Multi-Level Systems" (Jones & Smith, 2022), which offers an in-depth examination of policy-making processes in both centralized and decentralized federal systems. The authors argue that successful policy implementation requires effective coordination mechanisms, regardless of the chosen governance structure. They emphasize the importance of intergovernmental relations, collaborative decision-making, and clear delineation of responsibilities to overcome the challenges associated with both centralized and decentralized models. These recent articles and books collectively underscore the significance of understanding the nuances and implications of centralized and decentralized federal systems. They provide valuable insights into governance structures, policy implementation mechanisms, and the factors influencing their effectiveness.

## Findings

Centralized federal systems tend to prioritize uniformity and efficiency in policy implementation. They enable a strong central authority with significant decision-making power, allowing for streamlined processes and coordination across different regions or states (Smith, 2017). Decentralized federal systems emphasize local autonomy and responsiveness. They provide greater decision-making authority to regional or state governments, allowing for tailored policies that address local needs and preferences (Elazar, 2013). Centralized federal systems are often better equipped to handle national or cross-regional challenges. The centralized authority can swiftly implement policies and allocate resources on a large scale, ensuring uniformity and effectiveness in addressing common issues (Watts, 2019). Decentralized federal systems foster innovation and diversity in policy implementation. Regional or state governments have the flexibility to experiment with different approaches, leading to the emergence of innovative solutions and the ability to address unique local challenges (Lijphart, 2012). Centralized federal systems can experience difficulties in accommodating regional or cultural diversity. Policies may not always reflect the specific needs and preferences of different regions, potentially leading to feelings of marginalization and discontent (Wibbels, 2014). Decentralized federal systems may face challenges in achieving coordination and coherence in policy implementation. The diversity

of policies across regions can result in inconsistencies and coordination problems, requiring mechanisms for collaboration and alignment (Kettl, 2013).

The success of both centralized and decentralized federal systems depends on effective institutional design. Clear delineation of powers, checks, and balances, and mechanisms for intergovernmental cooperation are crucial for ensuring accountability and avoiding conflicts (Benz, 2015). Political culture plays a significant role in shaping the effectiveness of centralized and decentralized federal systems. Trust, cooperation, and a shared sense of purpose among different levels of government are vital for successful governance and policy implementation (Strom, 2016). Capacity-building at both the central and regional levels is essential for effective governance in both centralized and decentralized federal systems. Adequate resources, technical expertise, and administrative capacity contribute to the efficient implementation of policies and services (Peters, 2018). The choice between a centralized or decentralized federal system should consider the specific context and needs of a country. There is no one-size-fits-all approach, and the optimal governance structure depends on factors such as the size of the country, its diversity, and the historical and cultural context (Watts, 2019).

**Centralized Federal System of France:** France operates under a centralized federal system, where power and authority are concentrated primarily in the central or federal government. The central government in France holds significant decision-making authority and plays a strong role in policy formulation and implementation across the entire country (Lijphart, 1999). This centralized structure results in a stronger central authority and limited autonomy for subnational entities. The French central government exercises a wide range of powers, including control over key policy areas such as defense, foreign affairs, and national economic policies (Lijphart, 1999). It has the authority to make and enforce laws, oversee national programs, and maintain uniformity in policies throughout the country. This centralization of power allows for a coherent national approach to governance, ensuring that policies and programs are implemented consistently across different regions.

The governance structures in France's centralized federal system follow a top-down approach, where policies are primarily formulated at the central level and then cascaded down to subnational entities for implementation (Elazar, 1987). The central government sets the direction and framework for policy implementation, ensuring a consistent approach across different regions. This top-down decision-making process aims to maintain uniformity in policies and programs throughout the country. It allows the central government to coordinate and regulate the activities of subnational entities, ensuring a unified governance structure. In terms of fiscal arrangements, France's centralized federal system primarily assigns the responsibility for revenue collection and allocation to the central government (Bird & Smart, 2002). The central government exercises significant control over fiscal resources, often redistributing them to subnational entities based on predetermined formulas or criteria. This centralized control over fiscal resources limits the financial autonomy of subnational entities, reducing their ability to independently fund and implement policies. It also allows the central government to maintain a degree of control over the overall fiscal policy of the country.

The implications of a centralized federal system like France's on policy implementation and governance effectiveness are multifaceted. The strong central authority in decision-making ensures uniformity in policy implementation across the country (Lijphart, 1999). This can be

beneficial for maintaining coherence and consistency in the national governance framework. It allows the central government to address national issues and challenges with a unified approach. However, a centralized federal system may also lead to challenges such as a lack of responsiveness to local needs and limited innovation in policy design (Duchacek, 1970). The involvement of multiple levels of government and bureaucratic processes in decision-making may result in longer policy decision timelines, which could slow down the responsiveness of the government to emerging issues. The limited autonomy of subnational entities in decision-making may restrict their ability to address local concerns effectively.

**Decentralized Federal System of United States:** The United States of America is a prominent example of a country with a decentralized federal system. In the USA, power and authority are shared between the central or federal government and individual states, allowing for significant autonomy and decision-making authority at the subnational level (Watts, 1998). The decentralized nature of the U.S. federal system ensures a balance between a strong central government and the individual states, promoting regional diversity and local governance. In the United States, the central government and individual states each have their own set of powers and responsibilities. The central government is responsible for areas such as defense, foreign policy, and interstate commerce, while the states retain authority over a wide range of issues, including education, health, transportation, and criminal justice (Kincaid, 1999). This division of powers allows states to tailor policies according to their specific regional needs and preferences, promoting local governance and responsiveness.

The governance structures in the decentralized federal system of the United States differ from those in a centralized system. Decision-making processes in the United States involve a combination of top-down and bottom-up approaches, where policies may be formulated at both the central and subnational levels through collaborative mechanisms (Watts, 1998). This allows for a more participatory and inclusive decision-making process, incorporating the perspectives and input of both the central government and individual states. Fiscal arrangements in the U.S. decentralized federal system provide significant autonomy to individual states. States have the power to levy and collect taxes, make spending decisions, and manage their budgets (Oates, 2005). They may have control over revenue sources such as income taxes, property taxes, or natural resource royalties. This fiscal decentralization allows states to tailor policies and allocate resources based on local needs and priorities, enhancing local governance and decision-making.

The implications of a decentralized federal system like that of the United States are profound. The autonomy granted to individual states fosters regional diversity and experimentation in policy implementation (Elazar, 1987). It allows states to address specific local challenges and preferences, resulting in a more responsive governance system. This diversity in policies across states also promotes healthy competition and the sharing of best practices. However, the decentralized nature of the U.S. federal system also presents challenges. The diversity of policies and practices across states can lead to coordination issues and potential duplication of efforts (Watts, 1998). Ensuring coherence and coordination among different states and the central government becomes crucial to avoid conflicts and promote cooperation. Effective intergovernmental relations and mechanisms for collaboration are necessary to address shared challenges and ensure the overall effectiveness of governance (Watts, 1998). The United States decentralized federal system provides significant autonomy and decision-making authority to individual states while maintaining a strong central government. This system promotes regional

diversity, local governance, and responsiveness to local needs. Decision-making processes involve collaboration between the central government and states, and fiscal arrangements grant states significant autonomy in revenue collection and allocation. While the system encourages experimentation and tailoring of policies to local contexts, challenges such as coordination and intergovernmental cooperation must be effectively addressed. Overall, the decentralized federal system of the United States highlights the importance of balancing central authority with regional autonomy to achieve effective governance.

## Discussion and Analysis

**Fiscal Arrangements and Autonomy in Centralized and Decentralized Federal Systems:** In centralized federal systems, fiscal arrangements tend to favor a stronger central control over fiscal matters, with the central government retaining significant authority in revenue collection, resource allocation, and expenditure decisions (Musgrave, 1959). This centralized control allows the central government to maintain uniformity in policy implementation across the country and ensures consistency in the application of fiscal measures (Tiebout, 1956). One prominent feature of fiscal arrangements in centralized federal systems is the reliance on intergovernmental transfers, which involve the redistribution of resources from the central government to subnational entities (Breton, 1965). These transfers can take various forms, including unconditional grants, conditional grants, or revenue-sharing arrangements (Bird, Ebel, & Wallich, 1995). However, it is important to note that the central government has considerable discretion in determining the allocation and conditions attached to these transfers, which can limit the fiscal autonomy of subnational entities. For instance, in the context of India's centralized federal system, the central government exercises significant control over tax revenue, while state governments heavily rely on intergovernmental transfers for funding their expenditures (Oates, 2005). This centralization of fiscal authority can result in disparities in resource allocation among states and impede the ability of subnational entities to address local needs effectively. Consequently, the responsiveness and autonomy of subnational governments may be constrained, potentially hindering their ability to tailor policies and allocate resources in line with local preferences (Ahmad & Craig, 2009).

In decentralized federal systems, there is a greater emphasis on granting fiscal autonomy to subnational entities. These systems aim to distribute fiscal authority more evenly between the central government and subnational governments, allowing subnational entities to have greater control over revenue collection, resource allocation, and expenditure decisions. One approach to fiscal decentralization in decentralized federal systems is through revenue assignment. This involves assigning specific revenue sources to subnational entities, giving them the authority to collect taxes and generate revenue. This arrangement allows subnational governments to have a direct stake in revenue collection and provides them with the flexibility to tailor taxation policies to local circumstances (Boadway & Shah, 2009). For instance, in the United States, a decentralized federal system, state governments have the authority to levy and collect various taxes, such as income tax, sales tax, and property tax. This revenue assignment empowers states to generate their own revenue and make decisions regarding their expenditure priorities (Inman & Rubinfeld, 1997). Moreover, in decentralized federal systems, intergovernmental transfers also play a role in fiscal arrangements. However, unlike centralized federal systems, the transfers in

decentralized systems are often designed to support equalization and horizontal fiscal equity among subnational entities. These transfers aim to address fiscal disparities and ensure that all subnational entities have access to a minimum level of resources to provide essential public services. For instance, in Canada, a decentralized federal system, the federal government provides equalization payments to provinces with lower fiscal capacities, ensuring that all provinces can provide reasonably comparable levels of public services (Bird & Smart, 2002). This approach promotes fiscal equity while allowing subnational governments to retain a significant degree of fiscal autonomy.

In comparing the fiscal arrangements of centralized and decentralized federal systems, it is evident that centralized systems tend to concentrate fiscal authority and control at the central government level. This can result in limited fiscal autonomy for subnational entities, as the central government exercises significant control over revenue collection and resource allocation. On the other hand, decentralized federal systems aim to distribute fiscal authority more evenly between the central government and subnational entities. These systems provide subnational governments with greater fiscal autonomy, allowing them to collect revenue, make expenditure decisions, and respond to local needs more effectively. The varying dynamics of fiscal arrangements in centralized and decentralized federal systems have implications for policy implementation and resource allocation. While centralized systems may offer uniformity and control, they may face challenges in tailoring policies to local circumstances and addressing regional disparities. Decentralized systems, on the other hand, may benefit from greater responsiveness to local needs but may also face challenges in coordinating and equalizing fiscal capacities across subnational entities.

**Impact on Autonomy and Governance:** The level of fiscal arrangements and autonomy in federal systems has a significant impact on the autonomy and governance of subnational entities. In centralized federal systems, fiscal authority is concentrated at the central level, resulting in limited fiscal autonomy for subnational governments. This concentration of power restricts their decision-making capacity, innovation potential, and overall governance effectiveness. Centralized federal systems often rely on intergovernmental transfers as a key fiscal arrangement, where the central government redistributes resources to subnational entities (Bird & Vaillancourt, 2008). These transfers can take various forms, such as unconditional grants, conditional grants, or revenue-sharing arrangements. However, the central government maintains significant discretion in allocating and imposing conditions on these transfers, which can limit the fiscal autonomy of subnational entities. For example, in India, a centralized federal system, the central government exercises control over a significant portion of tax revenue, while state governments heavily rely on intergovernmental transfers for funding their expenditures (Oates, 2005). This centralization of fiscal authority leads to disparities in resource allocation and hampers the ability of subnational entities to respond effectively to local needs.

In contrast, decentralized federal systems grant greater fiscal autonomy to subnational entities through revenue assignment. Revenue assignment involves assigning specific revenue sources to subnational entities, allowing them to collect taxes and generate their own revenue (Boadway & Shah, 2009). This arrangement provides subnational governments with the flexibility to design taxation policies tailored to local circumstances. In the United States, a decentralized federal system, state governments have the authority to levy and collect various taxes, such as income tax, sales tax, and property tax, thereby empowering them to generate their own revenue and

make expenditure decisions (Inman & Rubinfeld, 1997). This revenue assignment enhances the fiscal autonomy of subnational entities and enables them to prioritize expenditures based on local needs. Fiscal decentralization and autonomy in decentralized federal systems also play a role in promoting accountability in subnational governance. When subnational entities have control over revenue sources and expenditure decisions, they are more likely to be accountable to their constituents and deliver effective public services (Bird, 2010). Fiscal autonomy enhances accountability in subnational governments. In a study conducted on developing countries, it was found that subnational governments with greater fiscal autonomy tend to exhibit better performance in service delivery and be more responsive to citizen demands (Bahl & Linn, 1992). This accountability strengthens the relationship between subnational governments and citizens, fostering trust and effective governance.

## **Federalism in Nepal: Centralized or Decentralized ?**

Nepal, a multiethnic and multicultural nation, adopted a federal structure in 2015, aiming to address historical marginalization, promote inclusivity, and enhance governance efficiency. Nepal's federalism is primarily aimed at devolving power and authority from the central government to the provincial and local levels. However, the effectiveness of decentralization depends on multiple factors, including the allocation of powers, financial autonomy, and decision-making capacity. The Constitution of Nepal outlines three tiers of government: federal, provincial, and local (Dahal, 2018, p. 443). While the federal government possesses the power to legislate on subjects listed in the federal list, the provincial governments have exclusive powers over subjects listed in the provincial list. Concurrent powers are shared between the federal and provincial governments. Local governments primarily handle matters related to local development, service delivery, and governance. Despite this devolution of powers, Nepal's federal system is often criticized for leaning towards centralization (Dahal, 2018, p. 448). The federal government retains significant control over crucial areas, such as security, foreign affairs, and intergovernmental fiscal relations. This centralization of power hampers the autonomy of provincial and local governments, limiting their ability to make independent decisions and implement policies effectively.

To ensure effective governance within the federal structure, Nepal has established various governance structures. These include executive, legislative, and judicial bodies at each tier of government. At the federal level, the executive power is vested in the President and the Council of Ministers, headed by the Prime Minister (Lohani, 2020, p. 207). The Parliament, consisting of the House of Representatives and the National Assembly, forms the legislative branch. The Supreme Court acts as the apex judicial body, responsible for safeguarding the Constitution and resolving disputes. Each of the seven provinces has its own executive, legislative, and judicial bodies. The Chief Minister leads the provincial executive, while the Provincial Assembly acts as the legislative body. Provincial High Courts address legal matters within the provinces. At the local level, each village or municipality elects its own local government, consisting of a mayor or chairperson and representatives. These local governments have executive, legislative, and judicial functions within their jurisdictions.

Policy implementation in Nepal's federal system faces challenges due to a range of factors, including limited administrative capacity, inadequate resources, and conflicting interests among

different levels of government. One of the major challenges is the uneven distribution of resources (Niraula&Kanel, 2021, p. 138). The federal government still holds significant control over financial resources, making it difficult for provincial and local governments to carry out their functions effectively. The lack of fiscal autonomy often results in delayed or inefficient policy implementation. The administrative capacity of provincial and local governments remains limited. The transition from a unitary system to a federal structure required the establishment of new administrative bodies, recruitment of staff, and capacity building. These processes take time, leading to delays and inefficiencies in policy implementation.

Coordination and cooperation among different levels of government pose challenges. Conflicting interests and power struggles often hamper effective collaboration and hinder policy implementation. The lack of clarity regarding the distribution of powers and responsibilities contributes to these challenges. To address these issues, Nepal needs to strengthen governance mechanisms and improve policy implementation within its federal structure. This can be achieved through capacity-building initiatives, enhancing financial autonomy, and establishing effective intergovernmental coordination mechanisms. An instance can be seen during the COVID pandemic in Nepal when all the tiers of government were equally responsible to prevent COVID transmission and mitigate the risks from it. But, only the federal government and local governments were seen to be mobilizing their resources and bringing out the programs to fight COVID, meanwhile, the provincial government was weakly functioning. Hence, the decentralization of the federal system of Nepal is observed to not come to its complete operation yet.

## Conclusion

Centralized and decentralized federal systems highlight distinct governance structures and policy implementation approaches. Centralized systems provide efficiency, uniformity, and coordination, but may limit local autonomy and responsiveness. Decentralized systems promote local self-governance, diversity, and responsiveness, but can face challenges in coordination and policy consistency. The choice between the two depends on a nation's specific context, with considerations for unity, diversity, efficiency, and democratic participation. Ultimately, finding the right balance is crucial for effective governance and policy implementation. Nepal is a decentralized federal system yet with the prevailing attributes of centralized form. Still, many powers and responsibilities are held by the federal government in Nepal. Provincial governments are seen to be weakly functioning. The coordination between three tiers of government feels to be missing in a case or few.

It is crucial to strike a balance between centralization and decentralization, considering the unique needs and characteristics of the country or region. A hybrid approach that combines elements of both systems could leverage the benefits of centralized decision-making efficiency while ensuring local needs are adequately addressed. Enhancing citizen participation in decision-making processes is essential for legitimacy and effectiveness. Policymakers should promote mechanisms that enable meaningful engagement, such as participatory forums, citizen consultations, and community-driven initiatives. Robust coordination mechanisms and collaboration between central and subnational governments are vital in decentralized systems to ensure policy coherence, avoid fragmentation, and address disparities among regions. Ongoing evaluation and monitoring of

governance structures and policy implementation are necessary to identify areas for improvement and make informed adjustments to achieve desired outcomes.

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