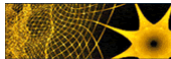


# Do decentralized governments deliver greater satisfaction in public services?

**Andrés Rodríguez-Pose**

*London School of Economics  
and  
IMDEA Social Sciences*

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## Background to the paper

- ▶ **Obsession with linking decentralization and greater fiscal and political autonomy with economic outcomes**
  1. Does decentralization lead to higher economic growth?
  2. Does it promote or undermine territorial cohesion?
- ▶ **But decentralization is fundamentally about improving the delivery of public goods and services**
  1. However this question has been fundamentally overlooked by the literature
  2. The reasons
    - Lack of data
    - Difficulties in measuring the satisfaction and happiness of individuals with the delivery of public goods and services
    - Technical problems, dealing with controls
  3. Significant recent improvements in data quality and in econometric methodologies

## Aims of the study

- ▶ **Analyse to what extent decentralized governments deliver greater satisfaction in public goods and service**
  1. Comparative analysis
  2. Including all EU countries (included in the European Social Survey)
  3. Looking at the following:
    - Overall happiness
    - Life satisfaction
    - Satisfaction with the economy
    - Satisfaction with government
    - Satisfaction with democracy
    - Satisfaction with education policies
    - Satisfaction with the health system
  4. Controlling for political and fiscal autonomy
  5. And for a large number of other factors
- ▶ **What is new?**
  1. Virtually everything

## Structure of the presentation

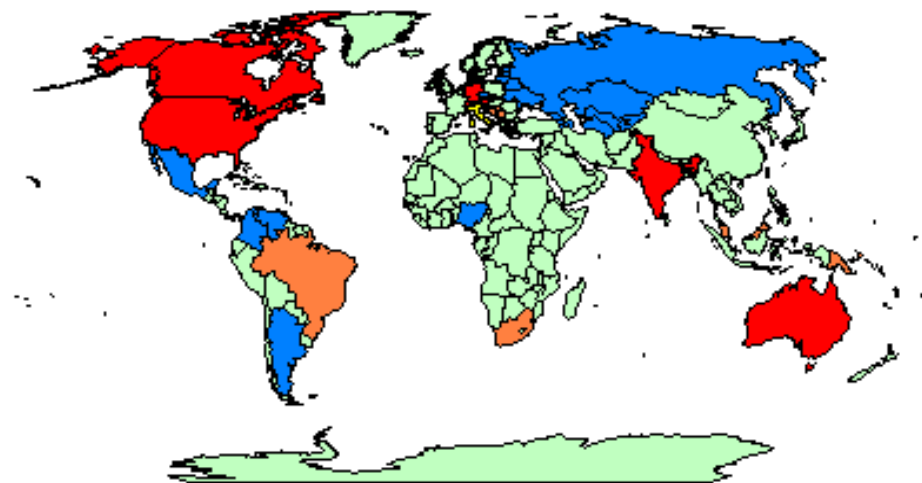
- ▶ **Visions of decentralization**
- ▶ **Decentralization and citizen satisfaction:**
  1. Positive factors
  2. Negative factors
- ▶ **Results**
- ▶ **Conclusions**

## Visions of decentralization

► Decentralization has been sold as the bearer of an 'economic dividend':

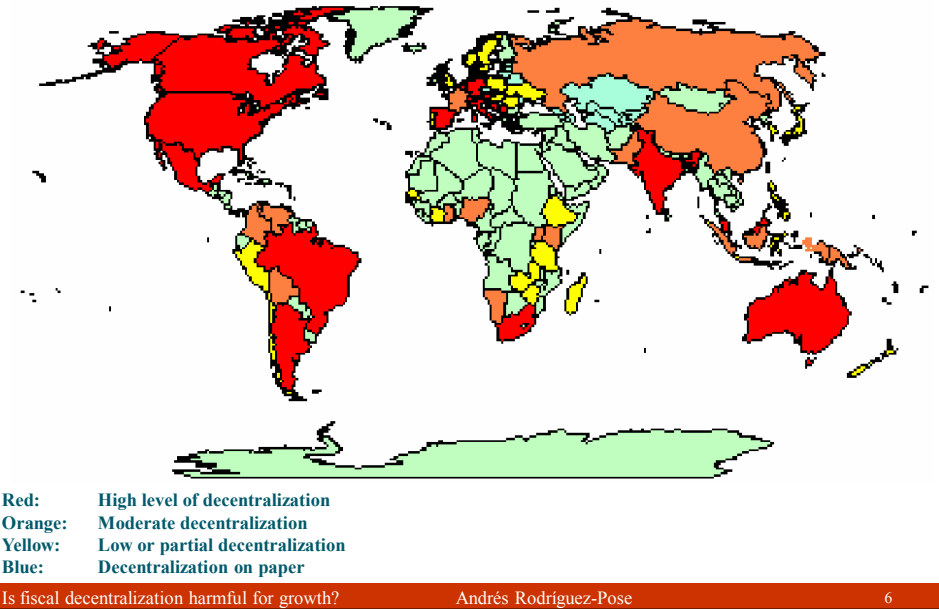
1. From above:
  1. New federalism in the US or Mexico
  2. Devolution in the UK
  3. Decentralization in China
  4. Big Bang in Indonesia or Poland
2. From below:
  1. Chiapas revolt
  2. Northern Leagues in Italy
  3. Basque Government under nationalist governments

## The world in 1970



Red: High level of decentralization  
Orange: Moderate decentralization  
Yellow: Low or partial decentralization  
Blue: Decentralization on paper

## The world in 2010



## But is there an ‘economic dividend’?

- ▶ **Difficult to find**
- ▶ **For developed countries, decentralization:**
  1. May not increase territorial disparities
  2. But there is little evidence that it generates greater aggregate growth
  3. This varies enormously from:
    - Country to country
    - Period to period
- ▶ **But decentralization should not be about production efficiency, but allocative efficiency**
- ▶ **That is, greater satisfaction with the goods and services provided**

## Decentralization leads to greater satisfaction

- ▶ **Regional and local autonomy mobilizes resources**
- ▶ **It allows for a better matching between public goods and service provision and local needs**
- ▶ **It promotes:**
  1. Greater efficiency in the provision of public goods and services (preventing voting with one's feet)
  2. Greater policy innovation
- ▶ **Improvements in public goods and service provisions in the cases of diseconomies of scale**
- ▶ **It fosters participation, accountability, transparency and civil society empowerment**
- ▶ **In sum, greater allocative efficiency**
- ▶ **...And greater satisfaction**

## Decentralization leads to greater satisfaction



- ▶ **Decentralization as a win-win situation**
- ▶ **Better allocation, improvements in efficiency, greater satisfaction with public goods and services**
- ▶ **Greater satisfaction**

## Decentralization doesn't improve satisfaction

### ► Do preferences differ across regions?

1. If preferences do not differ:
  - Scale diseconomies
  - Zero-sum or pure waste competition

### ► Do local administrations have an information advantage?

1. It depends on the areas and on the skills of politicians and civil servants

### ► Institutional and capacity problems

1. Civil society controls
2. Decision-making and technical issues

### ► Corruption risk

### ► Risks linked to the type of decentralization

- Fiscal decentralization
- Power division between central and local governments
- Risk of rising debt ('soft budget constraints')

## Decentralization doesn't improve satisfaction



"C'mon, Dad, let me borrow it. I'll be careful. I won't scratch it. What harm can come to a credit card?"

## Model

► Analyse whether fiscal and political decentralization improve the live of individuals

► Looking at:

1. The overall level of happiness
2. Life satisfaction
3. Satisfaction with the economy
4. Satisfaction with government
5. Satisfaction with democracy
6. Satisfaction with education policies
7. Satisfaction with the health system

► Controlling for:

1. Age, gender, education, employment conditions, family situation, religion, ethnicity, place of living, ...
2. For a very large number of individuals

## Decentralization and happiness

Happiness		
	Coeff.	t-stat
<b>Institutional Depth</b>	0.0587	1.99
<b>Policy Scope</b>	0.0730	2.85
<b>Fiscal autonomy</b>	0.0875	3.87
<b>Representation</b>	0.0409	2.10
<b>Self rule</b>	0.0177	2.83
<b>law_making</b>	0.4034	2.74
<b>Excutive control</b>	0.2213	2.28
<b>Fiscal control</b>	0.1619	3.26
<b>Constitutional reform</b>	0.0731	2.24
<b>Shared rule</b>	0.0389	2.77
<b>Overall Political Dec</b>	0.0144	3.11
<b>Subnational government exp %</b>	0.2645	0.70
<b>Subnat current exp %</b>	0.5864	2.06
<b>Subnat capital exp %</b>	0.3695	1.00
<b>Subnational revenue % total</b>	-0.0086	-0.03
<b>Subnat tax revenue %</b>	0.3524	1.20

Political decentralization seems to make local citizens happier

But greater fiscal autonomy does not seem to have the same effect

The awareness that local elected representatives are in charge of local affairs brings greater overall happiness

## Decentralization and life satisfaction

	Life satisfaction	
	Coeff.	t-stat
Institutional Depth	0.0507	1.29
Policy Scope	0.0869	2.56
Fiscal autonomy	0.1109	3.71
Representation	0.0452	1.76
Self rule	0.0203	2.44
law_making	0.4588	2.35
Excutive control	0.2965	2.34
Fiscal control	0.1858	2.81
Constitutional reform	0.0782	1.81
Shared rule	0.0451	2.42
Overall Political Dec	0.0164	2.67
Subnational government exp %	0.0687	-0.14
Subnat current exp %	0.6722	1.75
Subnat capital exp %	0.1511	0.30
Subnational revenue % total	-0.3416	-0.97
Subnat tax revenue %	0.4862	1.24

The impact of decentralization on life satisfaction is very similar to that on happiness

Political decentralization seems to make local citizens more satisfied

But greater fiscal autonomy does not seem to have the same effect

## Decentralization and satisfaction economy

	Satisfaction economy	
	Coeff.	t-stat
Institutional Depth	-0.0616	-0.76
Policy Scope	0.0410	0.56
Fiscal autonomy	0.1348	2.07
Representation	-0.0205	-0.38
Self rule	0.0068	0.38
law_making	0.2972	0.71
Excutive control	0.2373	0.88
Fiscal control	0.1240	0.87
Constitutional reform	0.0553	0.61
Shared rule	0.0309	0.78
Overall Political Dec	0.0073	0.55
Subnational government exp %	0.7044	0.59
Subnat current exp %	2.3015	2.65
Subnat capital exp %	0.6429	0.56
Subnational revenue % total	-0.4167	-0.50
Subnat tax revenue %	1.6157	1.78

Decentralization, regardless of whether it is mainly political or fiscal, does not seem to lead to greater satisfaction with the economy

## Decentralization and satisfaction government

Satisfaction government		
	Coeff.	t-stat
Institutional Depth	-0.0060	-0.09
Policy Scope	0.0498	0.80
Fiscal autonomy	0.1036	1.84
Representation	-0.0138	-0.30
Self rule	0.0084	0.55
law_making	0.6838	1.96
Excutive control	0.2901	1.27
Fiscal control	0.1608	1.33
Constitutional reform	0.0913	1.18
Shared rule	0.0507	1.51
Overall Political Dec	0.0105	0.93
Subnational government exp %	0.4191	0.44
Subnat current exp %	1.6160	2.30
Subnat capital exp %	0.6944	0.75
Subnational revenue % total	-0.2686	-0.41
Subnat tax revenue %	1.1850	1.62

The same can be said for satisfaction with government

## Decentralization and satisfaction democracy

Sastisfaction democracy		
	Coeff.	t-stat
Institutional Depth	0.0975	1.45
Policy Scope	0.1451	2.49
Fiscal autonomy	0.1942	3.81
Representation	0.0723	1.64
Self rule	0.0347	2.44
law_making	0.5089	1.49
Excutive control	0.3723	1.68
Fiscal control	0.1734	1.47
Constitutional reform	0.0448	0.59
Shared rule	0.0414	1.26
Overall Political Dec	0.0240	2.24
Subnational government exp %	0.6313	0.76
Subnat current exp %	1.3182	2.09
Subnat capital exp %	0.8990	1.10
Subnational revenue % total	-0.2655	-0.45
Subnat tax revenue %	1.0678	1.65

But it does seem to be associated with a greater satisfaction with democracy

This is particularly the case in areas with greater level of political decentralization

But much less so, when we consider fiscal decentralization

## Decentralization and satisfaction education

Satisfaction education		
	Coeff.	t-stat
Institutional Depth	0.0204	0.28
Policy Scope	0.0845	1.33
Fiscal autonomy	0.0948	1.64
Representation	0.0332	0.70
Self rule	0.0162	1.05
law_making	0.1520	0.41
Excutive control	0.4868	2.10
Fiscal control	0.1705	1.37
Constitutional reform	0.0799	1.00
Shared rule	0.0384	1.10
Overall Political Dec	0.0138	1.19
Subnational government exp %	2.2249	2.24
Subnat current exp %	3.1186	4.50
Subnat capital exp %	1.7913	1.82
Subnational revenue % total	0.8790	1.23
Subnat tax revenue %	2.6031	3.52

In terms of specific policies, decentralization seems to lead to greater satisfaction with the education system

Although this is not the case with political decentralization

The coefficients come as highly significant when we consider fiscal decentralization

## Decentralization and satisfaction health

Satisfaction health system		
	Coeff.	t-stat
Institutional Depth	0.2810	3.41
Policy Scope	0.3363	4.92
Fiscal autonomy	0.2854	4.42
Representation	0.1962	3.65
Self rule	0.0746	4.35
law_making	1.4072	3.34
Excutive control	1.2739	5.04
Fiscal control	0.6501	4.80
Constitutional reform	0.3386	3.75
Shared rule	0.1674	4.34
Overall Political Dec	0.0609	4.89
Subnational government exp %	0.8141	2.89
Subnat current exp %	2.6585	3.13
Subnat capital exp %	0.8623	0.75
Subnational revenue % total	0.4490	0.55
Subnat tax revenue %	1.2714	1.39

And political decentralization is closely associated with the overall satisfaction with the health system

Although this is not translated into fiscal decentralization measures

## Conclusions

- ▶ Selling decentralization as the bearer of an ‘economic dividend’ is risky
- ▶ Decentralization needs to be regarded as an instrument aimed at preserving and promoting local identity
- ▶ And at delivering better public goods and services
- ▶ If this happens, this would lead to more satisfied and happier citizens
- ▶ And this seems, by and large, to be the main benefit of political and fiscal decentralization

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and  
IMDEA Social Sciences*

**More information in**

<http://personal.lse.ac.uk/rodrigu1/>

**More working papers in**

<http://repec.imdea.org/>

