



# Decentralisation In Times Of Crisis

Edited by  
Gian Marco Bovenzi



# **DECENTRALISATION IN TIMES OF CRISIS**

Edited by

Gian Marco Bovenzi

Introduction by

Emma Galli

Conclusions by

Gabriele Pinto

## DECENTRALISATION IN TIMES OF CRISIS

---

Edited by Gian Marco Bovenzi, Fondazione Luigi Einaudi

Introduction by Emma Galli

Conclusions and policy recommendations by Gabriele Pinto

European Liberal Forum EUPF

Rue d'Idalie 11-13, boîte 6, 1050 Ixelles, Brussels (BE)

[info@liberalforum.eu](mailto:info@liberalforum.eu)

[www.liberalforum.eu](http://www.liberalforum.eu)

Fondazione Luigi Einaudi Onlus

Via della Conciliazione, 10, 00193 Roma

[info@fondazioneLuigieinaudi.it](mailto:info@fondazioneLuigieinaudi.it)

[www.fondazioneLuigieinaudi.it](http://www.fondazioneLuigieinaudi.it)

Graphic Design by Euracus s.r.l.

Printer Euracus s.r.l.

ISBN 978-2-39067-019-3

Published by the European Liberal Forum in cooperation with Fondazione Luigi Einaudi Onlus. Co-funded by the European Parliament. The views expressed herein are those of the author(s) alone. These views do not necessarily reflect those of the European Parliament and/or the European Liberal Forum asbl



## EUROPEAN LIBERAL FORUM (ELF)

The European Liberal Forum (ELF) is the official political foundation of the European Liberal Party, the ALDE Party. Together with 47 member organisations, we work all over Europe to bring new ideas into the political debate, to provide a platform for discussion, and to empower citizens to make their voices heard. ELF was founded in 2007 to strengthen the liberal and democrat movement in Europe. Our work is guided by liberal ideals and a belief in the principle of freedom. We stand for a future-oriented Europe that offers opportunities for every citizen. ELF is engaged on all political levels, from the local to the European. We bring together a diverse network of national foundations, think tanks and other experts. At the same time, we are also close to, but independent from, the ALDE Party and other Liberal actors in Europe. In this role, our forum serves as a space for an open and informed exchange of views between a wide range of different actors.

## FONDAZIONE LUIGI EINAUDI ONLUS

The Luigi Einaudi Foundation is a think tank promoting liberal ideas and liberal political thought. Founded in 1962 by Mr. Giovanni Malagodi, the Foundation promotes liberalism as an instrument to elaborate original responses to the complexity of the current issues related to globalisation and to the progressively increasing technological evolution, with the goal of fostering individual liberties and economic prosperity. The Foundation engages in guaranteeing to every citizen the conditions to grow as a human being, to live in wealth and thrive in peace, through the recognition of diversities, the safeguard of human liberties and freedoms, as well as through the promotion of constructive discussions on facts and ideas.



# CONTENTS

<b>INTRODUCTION</b>	<b>6</b>
Decentralisation in Europe in times of crisis Emma Galli	
<b>SECTION I – “DOCTRINA”: A DECENTRALISATION RATIONALE</b>	<b>10</b>
Chapter 1 Decentralisation after the crisis: why we need more, and more autonomous, local jurisdictions Fabio Padovano	12
Chapter 2 Trade-offs in policy centralisation and decentralisation - broadly contemplated in times of crisis Giampaolo Garzarelli	26
<b>SECTION II – “GESTA”: PRACTICAL APPROACH AND CASE-STUDIES</b>	<b>38</b>
Chapter 3 Federalism in Austria in time of crisis Dominik Hager	40
Chapter 4 Old problems meet new challenges: decentralised health care systems in the aftermath of COVID-19 Veronica Grembi	58
Chapter 5 The prospect for fiscal decentralisation in Bulgaria Nikola Apostolov	74
Chapter 6 The failure of recentralisation. How the COVID-19 pandemic dispelled the illusions of government omnipotence in Poland Pawel Rabiej	98
<b>CONCLUSIONS AND POLICY RECOMMENDATIONS</b>	<b>120</b>
Decentralisation in Europe in times of crisis Gabriele Pinto	
<b>BIBLIOGRAPHY</b>	<b>126</b>

## INTRODUCTION

# Decentralisation in Europe in times of crisis

The recent COVID-19 pandemic returned to center stage the debate about intergovernmental relations, within as well as across European countries. On the one hand, the management of the health and economic crisis has shown the importance of a unitary direction and coordination of public policies by central government, including the supranational one of Brussels; on the other hand, the variation of local situations and needs, and of information available only locally, have called for a differentiation in the responses of local governments at various levels (e.g., EU member states, regions, provinces, municipalities, counties). The tensions, and in some cases, conflicts that emerged during the pandemic, especially when the central government was run by political majorities different from the one at local level, risk to increase with the end of the pandemic, undermining the advantages of decentralisation (and not just for the health sector). The rediscovered centrality of intergovernmental relations created by the COVID-19 pandemic is therefore at the origin of a renewed debate about centralisation and decentralisation in situations of emergency.

The question of the choice between centralisation and decentralisation is addressed in the theoretical framework of fiscal federalism. Theories of fiscal federalism present some variation. Yet all are based on the idea that a decentralised government organisation increases the efficiency of the public sector, improves the quality of policy, and increases the welfare of citizens. (See the extensive survey of Oates, 2011.) This is

because sub-national governments are better informed about voters' needs and preferences for public goods and services and are able to differentiate the policies taking into account the specificities of different territories. Moreover, small and competing jurisdictions may transform the decentralised architecture into a laboratory of public policies where there is room for experimentation to discover novel ways of solving pressing policy problems (Garzarelli, 2006) and for competition in terms of selection of good politicians and policy outcomes (Besley and Coate, 2003; Lockwood, 2006). According to an opposite view (among others, Franzese, 2010), the greater the number of sub-national governments, the higher the politico-administrative, information and coordination costs required to adopt and implement public policies. The greater the overlap among different levels of government, the more difficult it is for the voters to monitor the incumbent politicians because of the multiplication of the relations among elected and electors.

Overall, the choice between centraliation and decentralisation depends on the trade-off between the uniform policies of the central government and the lack of coordination at local level (Tommasi and Weinschelbaum, 2007). The uncertainty associated with the pandemic (and, more generally, to all emergencies) renders, in principle, rational the central government's uniform and coordinated response versus the experimentation of different and innovative solutions of the sub-national governments (Bolton e Farrell, 1990; Kollman et al. 2000). And this is not surprising when the preferences are the same everywhere in the country, i.e. the need to be protected, and the reciprocal externalities among territories generated by the contagion are significant.

This book aims to contribute to the theoretical and empirical contributions about the role of decentralisation under uncommon uncertainty developing, exploring and suggesting new arguments in the classical liberal perspective and comparing experiences of different models of government in Europe (e.g., Austria, France, Italy, Poland). From the reading of the book, it emerges that in some decentralised countries the lack of coordination and communication between the central and the local governments created some severe problems



during the pandemic; at the same time, the differentiated responses by the regional governments according to the level of governance and timing of the pandemic waves represented in some cases an effective example of experimentation. The idea that the pandemic crisis is on the net less crucial for the arguments supporting the decentralisation of powers recurs in several contributions. There are situations where centralised public action is more effective and timely than a decentralised one in the efforts to respond to the crisis. However, uniformity weakens the role of decentralisation as an institutional device to counterbalance and limit, if necessary, the power of the Leviathan (Brennan and Buchanan, 1980), and also to protect civil liberties and economic freedom. The emergency situations may risk to favor an excessive centralisation of powers and a definition of institutional equilibria consistent with the values of liberal democracies is not easy. A book like this is precious as it questions, on theoretical and factual basis, the advocacy of centralisation as an absolute necessity in times of crisis in the spirit of a liberal support of decentralisation principles.

Emma Galli

## References

- Besley, T. E., Coate, S. (2003), "Centralized versus Decentralized Provision of Public Goods: A Political Economy Approach", *Journal of Public Economics*, 87, pp. 2611-2637.
- Bolton, P., Farrell, J. (1990), "Decentralization, Duplication, and Delay", *Journal of Political Economy*, 98 (4), pp. 803-826.
- Brennan, G. e Buchanan, J., 1980, *The Power to Tax: Analytical Foundations of a Fiscal Constitution*, Cambridge, Cambridge University Press.
- Franzese, R., J. (2010), "The Positive Political Economy of Public Debt: An Empirical Examination of the OECD Postwar Experience," Available at SSRN: <https://ssrn.com/abstract=1084130>
- Garzarelli, G. (2006), "Cognition, Incentives, and Public Governance: Laboratory Federalism from the Organizational Viewpoint", *Public Finance Review* 34(3), pp. 235-257.
- Kollman, K., Miller, J.H, Page, S.E. (2000), "Decentralization and the Search for Policy Solutions", *Journal of Law, Economics, and Organization*, 16(1), pp. 102-127.
- Lockwood, B. (2006), "The Political Economy of Decentralization", in Ahmad, E., Brosio, G. (a cura di), *Handbook of Fiscal Federalism*, Cheltenham, U.K., Edward Elgar, pp. 33-60.
- Oates, W.E. (2011), "On the Development of the Theory of Fiscal Federalism: An Essay in the History of (Recent) Economic Thought", *Journal of Public Finance and Public Choice*, 29(1/3), pp. 3-24.
- Tommasi, M., Weinschelbaum, F. (2007), "Centralization vs. Decentralization: A Principal-Agent Analysis", *Journal of Public Economic Theory*, 9(2), pp. 369-389.

# SECTION I

“DOCTRINA”:

A Decentralisation rationale



## Chapter 1

Decentralisation after the crisis: why we need more, and more autonomous, local jurisdictions

Fabio Padovano

## Chapter 2

Trade-offs in policy centralisation and decentralisation - broadly contemplated in times of crisis

Giampaolo Garzarelli

# Decentralisation after the crisis: why we need more, and more autonomous, local jurisdictions

## Fabio Padovano

Fabio Padovano is Professor of Public Finance at the University of Roma Tre (Italy) and Professeur (classe exceptionnelle) at the University of Rennes 1, where he directs the Centre Condorcet for Political Economy and the International Master in Public Finance. He has been Visiting Professor at the University of Western Ontario, University of Maryland, George Mason University, University of Fribourg and London School of Economics and Political Science. He holds a Ph.D in Economics at George Mason University, where he was research assistant to Nobel Laureate James Buchanan, and a Dottorato di Ricerca in Quantitative Methods at the Sapienza University of Rome. He has been recipient of the 1991 scholarship of the Fondazione Luigi Einaudi and of the 1995 Snavely Award as Best Student in Economics of George Mason University. He has served as President of the European Public Choice Society and as Board member of the Italian Society of Public Economics (SIEP). He has organized several interdisciplinary conferences of the Liberty Fund Inc. He serves in the Board of Editors of the journal Public Choice, Constitutional Political Economy and European Journal of Government and Economics. He is author of several dozen articles in journals such as Public Choice, European Journal of Political Economy, Economics of Governance, Economic Inquiry, Energy Economics, Kyklos, Constitutional Political Economy, as well as of two volumes: Italian Institutional Reforms: A Public Choice Perspective (New York, Springer, 2008 [with Roberto Ricciuti]) and Politics and Economics of Regional Transfers (Cheltenham, Edward Elgar, 2008). His current research interests are in the fields of public choice, political economy, local public finance, law and economics, environmental economics, economics of religion and economics of



# CHAPTER 1

## Chapter 1

# Decentralisation after the crisis: why we need more, and more autonomous, local jurisdictions

---

### Introduction

**Fabio Padovano**

Since its beginning, research in local public finance has addressed the following questions: How many local jurisdictions should there be in a country? How many government levels? How should financial responsibilities (i.e., the power to tax and to spend) be distributed among the various jurisdictions? In this chapter, we take a variation of these three questions, as we discuss whether the recent pandemic and the ensuing recovery policies should or will change the answers that researchers have so far given to them.

To anticipate the outcome, the answer is that it should not: the pandemic crisis is basically orthogonal to and irrelevant for the arguments

supporting the decentralisation of the powers of the State. The rationale for fiscal decentralisation is eminently to attain greater efficiency in the domain of the provision of public goods and services, of targeting redistribution towards specific groups, and of bringing the government “closer to the people”, thus achieving a better representation of the voters’ preferences, compared to a central government. After a major crisis, the demand for efficiency in the organisation of the state and in political governance becomes more compelling, because resources are scarcer, so they need to be more efficiently levied and spent. Moreover, any temporary relaxation of the state budget constraints, like those generated by the suspension of the Maastricht Treaty, does not alter the fundamental fact that resources are scarce; if not now, because of the debt, quite soon, because more debt today implies higher tax liabilities tomorrow. Hence the argument for achieving greater efficiency in the decision and administration of state resources remains valid; if anything, it becomes more compelling than ever, because of the stricter oversight of the EU commission on the implementation of the recovery plan. Therefore if, and to the extent that, fiscal decentralisation improves political efficiency and policy governance, there is no need to revise the efficiency arguments that support it.

Yet, as Winston Churchill used to say, “Never let a good crisis go waste”, and that brings us to the question whether the pandemic will produce changes to the territorial organisation

---

After a major crisis, the demand for efficiency in the organisation of the state and in political governance becomes more compelling



of the States. Many countries, and the EU Commission itself, perceive the pandemic recession as a window opportunity to introduce radical reforms to their governments and their governance systems. The territorial organisation of the State is likely to be affected by this wind of change. In the years immediately before the pandemic crisis, several countries, such as France, Greece and Italy, tried to reduce the number of local jurisdictions and of government levels in order to improve government efficiency in the domain of decentralisation. In 2016 France, for instance, reduced the number of regions from 22 to 13, after several unsuccessful attempts to curb down its extraordinary number of municipalities (some 37,000, more than 50% of the total number of municipalities of the entire EU). Italy has tried to eliminate its provinces, but that reform was rejected by referendum. It is quite possible that the pandemic crisis may refuel such attempts to “streamline” government.

The point of this chapter is that, to improve government efficiency, a reform must aim at establishing more and smaller local governments, not fewer, entrusted with more taxing powers, thus reducing the role played by intergovernmental transfers. In many ways, this is the opposite line of thinking to the one shaping the recent reforms. The motivations for such a U-turn are new results of the empirical research on the quality of politicians and political representation. There is evidence, drawn precisely from quasi experiments of local public finance, that voters quickly lose the ability to evaluate the performance of their representatives as the size of the jurisdiction becomes large.

This loss of efficiency in representation might counterbalance the gains due to economies of scale in quite an important way. Jurisdiction size has therefore opposite effects on government efficiency and both must be taken into account when shaping institutional reforms. Of course, research is not so advanced as to point out where the marginal values of these two functions intersect; but current reforms aimed at reducing the number of governments consider only the average cost function of the provision of public goods and services and neglect the adverse effects that larger jurisdictions have on voters’ ability to control their representatives. Let us therefore consider the progress made in exploring this other side of the equation.

## The trade-offs that shape the actual number of jurisdictions

Wallace Oates is widely recognised as the first scholar to provide a comprehensive theory explaining the determinants of government fragmentation. He probably deserved the Nobel prize for such achievement, but once more the Swedish Academy of Science proved to be too slow to meet him than his Maker. Oates' model envisages a trade-off between the efficiency gains attained from tailoring local public good provision to local preferences, which is likely to be enhanced by government fragmentation, and economies of scale in service delivery, which can be better exploited in larger jurisdictions, or by assigning that competence to a higher government level.

Hence, if we place an almost exclusive emphasis on the costs of the provision of public goods and services, as the debate surrounding the recent attempts to reform does, we should expect to reorganise local governments in fewer larger jurisdictions and more government tiers. This is precisely the pattern followed by France, for instance, with the reduction of the number of regions (but not of the far more numerous municipalities and départements) and the increase of the number of government levels, with the spread of the inter-municipalités, which is an additional tier placed between municipalities and departments. Especially after the fall of the Berlin Wall, other scholars, such as the Italians Alesina and Spolaore, have exploited Oates'

---

To improve government efficiency, a reform must aim at establishing more and smaller local governments

theoretical structure to explain the number and size of nations. There again, the crucial factor is a trade-off between the size of the country and the heterogeneity of its population.

Yet, when we move away from nations and consider subnational governments, empirical research lags behind theory. Most of the empirical tests of Oates-style models have been carried out on U.S. data, because they present the convenient institutional feature that special purpose districts (such as school districts) coexist with general purpose governments (counties, cities, municipalities, etc.). As special purpose districts are, in principle, less problematic to create and modify than general purpose governments, it should be easier to detect therein the impact that heterogeneity of local preferences and the costs of service provision exerts on the number of jurisdictions. As a matter of fact, this trade-off does emerge from the data. Several empirical studies find that the number of special purpose districts is positively correlated with the degree of heterogeneity of individual preferences, measured by income and age dispersion (yet, strangely, not by race, possibly because it is correlated with income). But once the elected general-purpose governments (counties, cities, municipalities, etc.) are included, the correlation is no longer significant. As two Spanish scholars leader in the field (Gomez-Reino and Martin-Vazquez) observe, jurisdictional fragmentation may be affected not only by “main economic arguments” à la Oates, but also by a “myriad of institutional features such as the form of the state (federal versus unitary), a history of decentralised government or secession of certain regions, cultural and ethnic issues, civil or armed conflicts, and so on”. Also, in the field of the number of local jurisdictions, history proves to be a mine deep of facts, of which econometric models have only examined the surface.

A second major trade-off critical in the definition of the “optimal” jurisdictional size is the one between administrative costs and local government accountability. In their famous book *The Power to Tax*, Geoffrey Brennan and James Buchanan were the first to set this point at the centre of the scientific debate, when they argued that government fragmentation and tax competition à la Tiebout were the most effective institutional response to limit the appetites of a Leviathan government.

In this context, the ensuing theoretical research has identified three channels through which smaller jurisdictions are able to exert improved control over their political representatives:

- First, they reduce the incentives to free-riding, which becomes more visible in smaller groups – a standard application of Olson’s logic of collective action;
- Second, for a given country size, a larger number of (smaller) jurisdictions improves the functioning of yardstick competition, as it increases the number of benchmarks available to evaluate political performances. In Italy, for instance, this type of comparative voting strategy appears to be more effective (and adopted) in a region like Piemonte, with the highest density of municipalities per inhabitants, than in Lazio, where the possibility of comparison is reduced by the overwhelming size of the municipality of Rome, which reduces municipality density to a national minimum. In a similar line of reasoning, policy diffusion models argue that incentives for local policy experimentation and the diffusion of best practices across jurisdictions increase with the number of jurisdictions;
- Third, the fact that physical proximity to local representatives allows easier access to them, via reduced transaction costs. Yet, as an argument, this is rather a double-edged sword, since insofar as physical proximity multiplies the number

---

The crucial factor is a trade-off between the size of the country and the heterogeneity of its population

of government tiers, information costs that voters must incur to effectively monitor their elected representatives increase, which reduces the efficiency in the agency relationship.

## Measuring politicians' accountability and voters' information

The trade-off between administrative costs and government accountability is the one that matters the most for our purposes, because research on the quality of representation fits into the issue of accountability. Yet there is little, if any, empirical research about the quality of politicians and of representation in a context of government decentralisation. While it is rather easy to evaluate the average cost of a public good or service as a function of the number of citizens demanding it, or of the size of the jurisdiction that supplies it, measuring to what extent citizens believe that their representative is accountable to their preferences is far more difficult. Estimating a cost is an objective evaluation, while assessing accountability and voters' satisfaction, being subjective concepts, is marred with obstacles in empirical analysis. Many scholars proxy voters' satisfaction with electoral results; yet, that just pushes the problem back one step, i.e., to the issue of identifying the information on which voters base their electoral choices. Specifically, does this set of information depend on the size of the jurisdiction? To put it more clearly: are voters better informed about the quality of policy and of administration in smaller jurisdictions or in larger ones?

Electoral accountability models concur that, in order to hold incumbent politicians accountable to them, voters must collect costly information about the policy choices that these politicians made while in office. The cost of this information depends either to the fact that it is not readily available, or that voters lack the time and the education needed to process it. To minimise these costs, voters take "information shortcuts" to infer the competence of incumbent politicians from readily available proxies. Politicians' personal, observable characteristics are the most readily available low-cost information that can serve this purpose. Typical information shortcuts are age, gender, professional background,

wealth, personal look and sympathy, trustworthiness and the like.

Quite worryingly for democracy, the literature on “politics as a beauty contest” for instance finds that the personal looks of candidates are a good predictor of how voters cast their vote. Be that as it may, the accuracy of information shortcuts might be low, since politicians’ personal characteristics do not necessarily capture their ability to govern. If voters’ incentives to gather costly information decrease as the size of the jurisdiction increases, then voters are more likely turn to information shortcuts in larger municipalities. In other words, voters may have access to more accurate and higher quality information in smaller municipalities. If it is so, the direct consequence is that politicians may still remain unaccountable to voters in larger jurisdiction. Possibly, if we want to think like Machiavelli, this might be a reason why some politicians favour reducing the number of jurisdictions. Verifying what type of information voters use when they cast their vote, and the extent to which the choice of the information set depends on the size of the jurisdiction is crucial for the argument of this chapter.

There are only a few papers that have investigated this issue. A recent and comprehensive study of French municipal elections has examined, using an ingenious econometric analysis, two types of information that voters may use to infer the competence of incumbent politicians. The first is called “high cost” information, as it involves an

---

Research on the quality of representation fits into the issue of accountability

econometrically estimated assessment of the mayor's past policy-making. The second set is called "low-cost" information (or "information shortcut"), since it is composed of politicians' observable personal characteristics, like the ones mentioned above. These two types of information are then correlated with the electoral results in the various municipalities, to verify which set has affected the elections most. This analysis first of all allows to observe:

- whether voters actually consider the competence of the mayor;
- if their choice instead solely relies on the information shortcuts offered by observable characteristics, or;
- if they use a combination of the two information sets.

What matters most for us, however, is the fact that these estimates allow checking whether the set of information that voters use differs between small and large jurisdictions, and if the costs and incentives to collect high quality information differ between the two. The results clearly indicate that, despite a noticeable disconnection between personal characteristics and competence of mayors, the first type of information plays an overall predominant role in voters' choices when they cast their vote; indeed, voters do take information shortcuts. Yet this behaviour is evident in large municipalities, especially in cities with more than 10,000 inhabitants. On the other hand, the estimated competence primarily affects the electoral outcomes in small-sized municipalities, below the 10,000-inhabitant threshold. There, voters use information of higher quality, i.e., they are better informed about the policy choices and type of administration of the incumbent, with virtuous consequences on the quality of representation, on the selection of candidates and the like. And this is not just theory; it is empirically tested theory.

## Recommendations for institutional reform

The policy suggestion or, more precisely, the recommendation for institutional reform that comes from this strand of literature is clear: to

ensure government efficiency in the domain of its territorial organisation, one must not only look at cost functions and how they evolve with the size and number of jurisdictions, but also at politicians' quality and accountability, and how these too are affected by the size and number of jurisdictions.

The relationship between the accountability and the size of jurisdictions is becoming empirically measurable; hence it can and must be used in shaping institutional reforms. Empirical studies of this relationship suggest to keep jurisdiction size small, even if that means having more government units and by that, which is not a very popular argument, more politicians; but also, better controlled and more accountable ones. Furthermore, as Tocqueville had noticed in his *Democracy in America*, the opportunity to actually control political decisions at the local level educates individuals to be more active citizens. This is an achievement of primary importance, in times of populism and poor judgment by voters in important referenda.

To sum up, while technological progress and nonrivalry in consumption push the minimum efficient scale in the provision of public goods and services towards larger and more populous jurisdictions, the consideration of the quality of accountability is likely to retract their optimal scale towards smaller sizes than the ones which minimise the average cost of the provision of the service. How much smaller? It is still difficult to say, but certainly we must revise our current thinking that

---

Two types of information are then correlated with the electoral results in the various municipalities, to verify which set has affected the elections most



suggests increasing the size of jurisdictions with respect to the current standards.

Size, of course, is not all that matters to improve government accountability at the local level. Both the theoretical and the empirical literature on local public finance concur that significant improvements in accountability come also from the reduction of the importance of intergovernmental transfers in financing local spending programs. Intergovernmental transfers, which abound in Italy as well as in many other decentralised countries, blur the responsibility for spending decisions by dispersing it among a potentially large number of levels of governments. Taxpayer-voters find it more difficult to tell whether the inefficiency of their local government in providing a given service depends on the incompetence of the local administrators (as the central government typically maintains) or on the insufficient funding from the central government (as local politicians instead claim).

Decentralising the power to tax makes the financial side of policy decision easier to read and evaluate for voters. Hence, reducing the size of jurisdictions, increasing their number and cutting down the percentage of local revenues represented by transfers from the central government are complementary reforms; all of them should significantly increase the ability of citizens to control their representatives.

Quite a libertarian reform, isn't it?



# Trade-offs in policy centralisation and decentralisation broadly contemplated in times of crisis

## Giampaolo Garzarelli

Giampaolo Garzarelli was educated at the American University, Washington, DC, Luiss-Guido Carli, Rome, the University of Connecticut, Storrs, and Sapienza – University of Rome. Professor Garzarelli's first research contributions lie in the field of the theory of the firm, modularity, and innovation, particularly in the co-evolution of technology and organization in voluntary open-source software production. More recently, he is trying to make time for older research interests, especially in the fields of the New Institutional Economics and Public Choice, that concern the Second-generation theory of fiscal federalism, particularly its laboratory aspect, and state formation through fission. He is the Editor of the Journal of Public Finance and Public Choice (Bristol University Press).



# CHAPTER 2

## Chapter 2

# Trade-offs in policy centralisation and decentralisation broadly contemplated in times of crisis

---

### Introduction

**Giampaolo Garzarelli**

The lingering COVID-19 pandemic from the daily-spread trends of the SARS-CoV-2 virus has been compared to a terrorist attack, to being dragged into war, and to a natural disaster. It is undeniable that the parallel has valid foundation. There have been disruptive social and economic effects (negative externalities) like those that manifest in these other times of crisis – casualties, drop in GDP, exacerbation of the gender gap, unemployment spike, etc. And the arsenal of public policy tools that has been harnessed to deal with the pandemic is basically the same as that of these comparable situations of emergency: curfews, dedicated hospital

facilities, limitations of many social activities, and payroll subsidies. In addition, we have also experienced a less familiar policy, especially for democracies: lockdown by fiat. Clearly, we live in times of crisis.

---

Clearly,  
we live in  
times of crisis

More generally, the pandemic returned to centre stage an important policy trade-off – the one between centralisation and decentralisation. Should there be a central, one-size fits all policy response in times of crisis? Or should there be a more grassroots, devolved policy response? The present contribution tackles the question positively rather than normatively, and points out, in telegraphic rather than in a full-blown missive form, how the answer to this question presents more facets than conventionally thought.<sup>1</sup> The key is to try to hold as clear a picture as possible about both the idiosyncratic context faced and the nature of the policy problem that one attempts to solve; while the former is usually considered, the latter is seldom. But both ought to be considered. Even though the key is cut with illustrations from the current pandemic, its insights can be applied to other crises.

## Hayek's lesson on decentralisation

If one thinks about the classical liberal legacy of Friedrich A. von Hayek in the context of

---

<sup>1</sup> For a less-telegraphic answer from a different starting point, but from which this paper still draws from, see Garzarelli, Keeton and Siteo (2021).

social planning, then arguably the first point that comes to mind in trying to answer our question is to consider why we would even list centralisation as a policy alternative. For Hayek taught us that decentralisation is the most efficient form of organising purposive human activity. The pith of Hayek's decentralisation argument is as follows. (See Hayek 1948, especially Chs. 2 and 4.)

Humans have cognitive limitations. Notwithstanding these cognitive limitations, we have a mechanism, often taken for granted, that spontaneously coordinates purposive human action: the market. The market is an unintentional social institution that solves the problems associated with our cognitive limitations without anyone's planning. Indeed, for Hayek, the genuine economic problem resides in the division of knowledge, which can only be capitalised – viz., optimally coordinated and employed – if left to its own devices.

Consequently, no one can completely substitute the spontaneous order of the market with an intentional organisation, such as a central planning board, because no one completely possesses the amount of knowledge that is present in the market. Attempts at doing so basically reduce the variety of knowledge present in society. They rarefy individual knowledge, and, as a result, stifle economic initiative, leading to misery for all. It is for this reason that the market is for Hayek a "marvel" (Hayek 1948, p. 87).

The market-as-marvel notion leads to the most general Hayekian – and perhaps the most classical liberal – lesson: decentralisation is a more effective way of coordinating human activity than centralisation. Only decentralisation guarantees maximum individual freedom, and that an individual directly pays the cost tied to their choice (responsibility is not separated from action). The lesson served classical liberal purposes well as Hayek was engaged in the defence of freedom against social planning, where 1989 in this sense represents a notable turning point.

Over the years, this lesson has been generalised by analogy. It has largely been interpreted to mean that decentralised public good supply – which encompasses our main concern, namely public policy supply –

enhances welfare more than its centralised alternative. Consequently, since the market is superior to alternatives, the public sector should emulate it.

So, the analogy suggests that the public sector should be organised as a market. This is in the main useful advice. However, as often happens, matters are not so facile. The type of problem is relevant as much as the problem setting. Both are constraining, and hence define viable options too (e.g., Bolton and Farrell 1990; Kollman, Miller and Page 2000; Galli and Garzarelli 2020).

Hayek (e.g., 1997[1939], p. 194; 1948, pp. 268–9) was well-aware of the difficulties associated with implementing a decentralised public sector, and of intentionally creating institutions mimicking the market more generally. In particular, he knew that such institutions could not replace the market or be just like the market. At best, such institutions could aid the role of the market. Those same cognitive limitations that bring about the market, suppress the intentional creation of market-like institutions. A market-like institution is not an Athena-like output that can spring full-blown from the head of Zeus.<sup>2</sup>

In the Hayekian view, moreover,

Decentralisation  
is a more  
effective  
way of  
coordinating  
human  
activity than  
centralisation

<sup>2</sup> Of course, Tiebout's voting with the feet model can be seen as an exception. However, as Tiebout himself admits, his exception works only because of the extreme – little realistic – assumptions of the model (Tiebout 1956).



decentralisation is not superior in absolute terms to centralisation. If one concedes that we live in a world of change, the point is that in a decentralised system people may more readily adapt to change that is familiar. But when change is unfamiliar – when, e.g., it doesn't involve just coordination of price and quantity but also that of the unexpected, such as change tied to a significant technological innovation or, closer to our times of crisis, to a pandemic – centralised organisation may be more appropriate. Nowhere is this view more evident than in Hayek's discussion of the "emergency powers" of a "model constitution" (Hayek 2013[1979], pp. 458-459).

"Though normally the individuals need be concerned only with their own concrete aims, and in pursuing them will best serve the common welfare, there may temporarily arise circumstances when the preservation of the overall order becomes the overruling common purpose, and when in consequence the spontaneous order, on a local or national scale, must for a time be converted into an organisation. When an external enemy threatens, when rebellion or lawless violence has broken out, or a natural catastrophe requires quick action by whatever means can be secured, powers of compulsory organisation, which normally nobody possesses, must be granted to somebody. Like an animal in flight from mortal danger society may in such situations have to suspend temporarily even vital functions on which in the long run its existence depends if it is to escape destruction."

Valuable insights can be gained by considering how this Hayekian prescription relates to our pandemic moment.

## Centralisation v. decentralisation in times of COVID-19 pandemic

COVID-19 is a problem that, recent vaccines notwithstanding, is still relatively little understood. For instance, while the elderly and those

with co-morbidity are universally identified as vulnerable categories, after all these months matters are still unclear about some types of infected (e.g., children) and the long-term effects on other types of categories (e.g., there is now medical debate about the consequences of COVID-19 on male fertility). Uncertainty moreover envelops other pressing issues too, such as the duration of immunity after recovery and the extent to which available vaccines will be effective against the mutant strains.

Even if COVID-19 is still relatively enigmatic, the daily-spread trends from it are an emergency that calls for urgent and necessary action. But we live in a world of constraints, and it is these constraints that often guide our decisions, including, we must not forget, policy actions. Additionally, because we also live in a world of change, it is important to keep in mind that, for a variety of reasons (growth of knowledge, legislation, politics, technology, etc.), constraints may change as well as correlate.

In representative democracy, pondered reasoning about a decentralised versus centralised policy response is particularly valid when there is sufficient time to reach political compromise and to try out various policy design options. An ill-defined problem usually is solved by running trials on its possible policy solutions, because gaps in cognition can be overcome through the mistake-ridden learning from decentralised policy experimentation (Garzarelli and Keeton 2018).

---

COVID-19  
is a problem  
that, recent  
vaccines not-  
withstanding,  
is still  
relatively little  
understood

Experimentation on vaccines as a pharmaceutical policy response instantly comes to mind. However, valid results from experimentation take time. In the case of COVID-19, many experiments were performed in parallel, and vaccines were developed and approved in record time. But production of vaccines and, especially, a vaccination campaign to reach herd immunity still take time. Meanwhile a pandemic does not stop, usually galloping at faster pace, and virus variants appear as well. One germane constraint is therefore time. Lack of time prevents an incremental, tailored non-pharmaceutical response from learning by distributed policy design. It prevents also long negotiations to reach political compromise for a multi-partisan policy solution. And in the immediate run both these favour a prompt – if less-refined – non-pharmaceutical response, such as a lockdown by executive decree.

The related constraint that is in operation is hospital capacity, which itself underwent change from the implementation of a policy of increased decentralisation stimulated by a constraint of its own known as the epidemiological transition (Omran 2005). The epidemiological transition is a phase that many countries, both developed and developing, have been undergoing from communicable to non-communicable diseases (e.g., cancer, diabetes, heart disease, mental illness). In the last decade or so, non-communicable diseases in fact accounted for 70 percent of all global deaths (Allen 2017). In terms of policy, this established transition put pressure on governments – especially those where health care is massively funded through the public sector with concomitant public access to the care perceived to be a fundamental individual right – to change priorities in healthcare service.

Consider Italy, where the right to health is constitutional.<sup>3</sup> Italian health care constraints in the face of the pandemic in part also mirror the earlier policy choice directed toward facility re-organisation and spending for non-communicable diseases from the epidemiological

3 See Article 32 of the Italian Constitution, available in official English translation at [https://www.senato.it/documenti/repository/istituzione/costituzione\\_inglese.pdf](https://www.senato.it/documenti/repository/istituzione/costituzione_inglese.pdf) (last accessed on July 20, 2021).

transition. That is, they reflect a policy that favours prevention rather than hospitalisation. Decisions about health coverage priorities and how to spend funds earmarked for health care shifted to where idiosyncratic health needs are, namely sub-nationally – to regions. Catering for non-communicable but well-identified morbidity requires the supply of ad hoc services locally, because that is where the relevant knowledge about the most pressing health issues usually is. Recent data indicate that regions ultimately maintained sufficient intensive care spots, but simultaneously reduced overall hospitalisation capacity.<sup>4</sup> Many other countries share a policy experience from the transition like the Italian one (something also reflected by the COVID-19 numbers and, almost always, by the COVID-19 policy choice – e.g., Spain).

Lack of time prevents an incremental, tailored non pharmaceutical response from learning by distributed policy design

In countries that have responded to the epidemiological transition, hospitals were mostly redesigned for non-contagious diseases (complex therapy, life-saving surgery, life-support, specialised diagnostic test, trauma, etc.). This constrained situation from the sensible policy response to the transition entails that a lockdown is seen as a political choice of self-preservation. Under a pandemic,

4 See Angelici, Berta, Moscone and Turati (2020). One estimate reports that before COVID-19 Italy could rely on 5,324 intensive care hospital spots, and 2,974 spots in infectious disease hospital wards. These are small numbers if one considers a population of more than sixty million, with a very high share of elderly people – 23 per cent of Italians are aged 65 and over (2nd oldest population after Japan) with a median age of 45.5 (3rd highest after Japan and Germany). (The target, slowly being achieved, is to increase the total intensive care hospital spots by 50 percent). [https://www.corriere.it/cronache/20\\_marzo\\_16/coronavirus-quantita-posti-terapia-intensiva-ci-sono-italia-quantita-ne-arriveranno-0fbafa76-678a-11ea-93a4-da8ab3a8afb1.shtml](https://www.corriere.it/cronache/20_marzo_16/coronavirus-quantita-posti-terapia-intensiva-ci-sono-italia-quantita-ne-arriveranno-0fbafa76-678a-11ea-93a4-da8ab3a8afb1.shtml) (last accessed May 2, 2021).

the failure of the health care system could be disastrous, because it would also generate negative externalities for individuals in need of care from non-communicable diseases; that is, hospital congestion from a pandemic impacts those who need unrelated medical attention as well.

Thus, a decentralised policy response toward a well-defined problem later militated in favour of a centralised policy response toward an ill-defined problem. The substantive implication: when it comes to policymaking, problem faced matters as much as idiosyncratic context.

A lockdown by decree is a manifestation of policymaking under urgency and necessity – or, if you prefer, emergency – that can be reconcilable with representative democracy if checks and balances remain intact and the centralisation of executive power for policymaking, like the policy itself, has an explicit expiration date. Hungary under COVID-19 is in this sense the most obvious negative heuristic. (Also compare the classic Higgs 1992.) To say the same thing differently: without passing judgement about fairness or justice (Rawls 1999), there can be cases when a fiat response may be pursued in a liberal society. And this may be an underexplored role for the state-as-a-nightwatchman (Nozick 1974).



# SECTION II

“GESTA”:

Practical approach and  
case-studies



## Chapter 3

Federalism in Austria in time of crisis

Dominik Hager

## Chapter 4

Old problems meet new challenges: decentralised health care systems in the aftermath of COVID-19

Veronica Grembi

## Chapter 5

The prospect for fiscal decentralisation in Bulgaria

Nikola Apostolov

## Chapter 6

The failure of recentralisation. How the COVID-19 pandemic dispelled the illusions of government omnipotence in Poland

Pawel Rabiej



# Federalism in Austria in time of crisis

## **Dominik Hager**

Dominik Hager (30) studied Economics in Vienna and has spent four years working as a Policy Advisor to NEOS at the Austrian Parliament.



# CHAPTER 3

## Chapter 3

# Federalism in Austria in time of crisis

**Dominik Hager**

### Introduction<sup>1</sup>

Many countries around the world have been hit hard by Covid-19. The pandemic is a great challenge, not only to governments and their leaders, but also to a particular form of state organisation – federalism. Although the virus hits federal states as well as centralised ones similarly, respective solutions differ. The way a country is handling the disaster highly depends on its state organisation. The scientific discourse has therefore raised an interesting, yet controversial, question of whether a central or federal state is more successful in dealing with the pandemic.

This chapter's main focus lies on the (cooperative) federal system in Austria and how the different levels of government coped with this state of emergency. As in many other countries, Austrian policymakers had to balance health rights with priority - to defend the human rights of health and of life itself - in the face of other fundamental rights.

---

1 This chapter draws heavily on Peter Bussjäger and Mathias Eller – The impact of COVID-19 on the Austrian federal system and "Föderalismus und Corona-Krise. Auch eine Krise des föderalen Systems?" (not published yet)

Inevitably, these public health considerations have led to a trade-off in rights and freedoms, particularly those associated with free circulation and the exercise of economic activities to an extent rarely experienced in peacetime. Understandably, this has created tensions in society, as many have been unable to return to work and continue their lives as usual. It also (again) raised questions of how power should be divided between the national government and other governmental units.

To this end, the first part of this chapter provides an overview of political developments in Austria since the outbreak of the pandemic, including measures to combat the disaster, and illustrates how the crisis unfolded. Legislative and administrative activities on all levels of government, as well as intergovernmental relations, will be examined. The next section focuses on the role of federalism in coping with Covid-19 and, following general considerations about opportunities and obstacles of certain degrees of federalism, the distribution of competences between the Federation (Bund) and the states (Länder) in health matters is outlined. The subsequent analysis will concentrate on fiscal federalism and how an innovative development process in terms of fiscal relations can be created. By uncovering strengths and weaknesses of the Austrian state organisation, this chapter concludes with an assessment of the policy measures taken so far and provides policy recommendations for the next steps ahead.

---

The pandemic is a great challenge, not only to governments and their leaders, but also to a particular form of state organisation: federalism

## The Austrian Response to Covid-19 – Chronological Overview

### “First wave”

The first wave of infection hit Austria with full force in March 2020 after it became apparent that a major infection cluster had been active in the Tyrolean ski resort town of Ischgl from late February onward. Without doubt, mistakes have been made in addressing the outbreak early on. When rapid and targeted action, on both federal and provincial level, were required, policy-makers – in particular regional authorities in Landeck – were not able to handle the situation adequately<sup>2</sup>.

In this initial phase, which was characterised by a high degree of uncertainty and suboptimal preparation for such a health crisis, the new government at federal level – a coalition of the conservative’s Peoples’ party (ÖVP) and the Greens (Die Grünen) – was only a few weeks into its term. Moreover, the legal basis that was supposed to counter a crisis of this magnitude turned out to be antiquated. The Epidemics Act 1950 (“Epidemiegesetz”), enacted in 1913, was completely ill-suited to deal with the current challenge. Hence, an attempt was made to get the crisis under control with the hastily adopted Covid-19 measures act (“Covid-19-Maßnahmengesetz”), which came into force on March 16. On the basis of this law, the first lockdown in Austria was finally implemented by issuing several ordinances. This included shelter-in-place orders with few exceptions, a mandatory 1-meter distance to non-household members and closures of restaurants and nonessential retail. Furthermore, some severely affected municipalities (including Ischgl) were put under curfew<sup>3</sup>. By the end of the month, the requirement to wear facemasks in stores (and later also in public transport) was announced<sup>4</sup>.

At this stage, the sceptre was clearly taken over by the federal

---

2 Please note: The executing authorities are acting under the responsibility of the Federal Government. Hence, mistakes have been made not only on the regional level.

3 Ausgangsbeschränkungen: Was nun erlaubt ist und was nicht (2020, March 16). <https://orf.at/stories/3158055>

4 Habimana, K., Neubauer, S., Schmidt, A., Haindl, A., & Bachner, F. (2020, July 19). COVID-19 health system response monitor: Austria. WHO Europe/EuropeanCommission/European Observatory on Health Systems and Policies. <https://www.covid19healthsystem.org/countries/austria/countrypage.aspx>

government. During this period Austria somewhat transitioned from a federal into a decentralised unitary state. Both fear and respect for the novel virus and the horror images that reached the Austrian population from northern Italy were probably the main reasons why the citizens and the public largely accepted the first lockdown and the associated massive restrictions on fundamental rights.

As of mid-April, the favourable development of infection rates allowed Austria to begin lifting lockdown measures mostly at two-week intervals<sup>5</sup>. Once the first wave has subsided, the initial restrictions were largely relaxed again (such as the restrictions on free movement at the end of May and the re-opening of national borders in June). Despite the relatively good performance in controlling infection rates during the first wave of the pandemic, the Austrian economy was hit heavily by the virus control measures as tax revenues were falling considerably, while expenditures were increasing to mitigate the economic impact of the crisis<sup>6</sup>.

During this period Austria somewhat transitioned from a federal into a decentralised unitary state

### **“Second wave” – winter is coming**

While the Austrian government’s reactions during the first wave of Covid-19 in spring 2020 are considered to have been relatively successful, disillusionment followed in the fall

5 Coronavirus: Ausgangsbeschränkungen laufen aus. (2020, April 28). orf.at. <https://orf.at/stories/3163548/>

6 Christoph Badelt: Austria’s Economic Policy in the Time of COVID-19 and Beyond. An Assessment at the Turn of the Year 2020-21. WIFO Reports on Austria, 2021

2020 with a second wave, for which the government did not seem to be prepared properly. By the end of summer, a traffic light system was introduced. It was supposed to determine the requirement for a regional reintroduction of containment measures based on a set of indicators (although the legal basis for this was only subsequently created in the epidemic act 1950 and the 2nd covid-19 measures act). It basically stipulates that the least necessary precaution must be taken with green while the strictest must be taken with red.

With the introduction of the traffic light system, federalism was upgraded, as decision-makers at federal and state level considered it sensible to counteract different pandemic developments by means of different measures. The measures to be taken will be decided by the commission composed of representatives of the federal ministry of health, experts from the agency and food safety, medical experts from universities and representatives of the states. The commission advises the federal minister for health and makes recommendations. On the basis of its recommendations, the federal minister can issue instructions to the provincial governors, who have to implement the instructions by means of decrease for the province concerned or instruct the district governors to carry out such measures in their respective areas.

The implementation of the traffic light system is undoubtedly meaningful, however, cooperation between the federal government and the states (Länder) suffered even in the relaxation phase, mainly due to the partly unclear legal basis for combating the pandemic and regulations based on it and the lack of transparency in the decision-making process. The states and municipalities demanded clearer guidelines and pointed out that they were understaffed (even more on the regional level). On top of that, a lot of controversies arouse around the constitutionality of the measures taken (e.g., the Constitutional Court ruled that the legislation was partly unlawful<sup>7</sup>).

In November 2020 the number of infections increased sharply, thus the

---

7 VfGH: Betretungsverbote teilweise rechtswidrig. (2020, July 22). orf.at. <https://orf.at/stories/3174524/>

contact tracing practices by the health authorities in Austria was ultimately doomed to failure due to their personnel capacities. As a further consequence, the corona traffic light system has been switched to red for the whole country. A second lockdown in November and in the first days of December was set to get the situation under control again. Despite the restrictive nationwide measures, regional differentiation was still possible during the second lockdown, albeit only in one direction - additional measures could be imposed by means of a regulation, but nationwide measures couldn't be relaxed.

With the introduction of the traffic light system, federalism was upgraded

### **"Third wave"**

Consolidating the first Covid-19 year in Austria, the cumulative number of confirmed deaths stood at approx. 10,000 persons (dying infected with Covid-19) with more than 600,000 officially registered infections by mid-April 2021. As the Austrian population is about 9 million people, this is equivalent to more than 67,000 confirmed cases per million people<sup>8</sup>. The overall governmental performance from January to April 2021 led to the return to lockdowns, which, however, have been step-by-step as well as regionalised and localised (after attempts of regionalisation and localisation basically failed in spring and fall 2020, the time was ripe for a decentralised approach).

While on the one hand, local shutdowns of

<sup>8</sup> <https://ourworldindata.org/coronavirus/country/austria?country=~AUT>



villages and towns in the east (e.g., Wiener Neustadt) were implemented, on the other, the most Western state of Austria – Vorarlberg – was declared as a model of region in mid-March and restaurants, cultural institutions as well as sports facilities were opened. At the same time, restaurants, shops and schools closed in eastern Austria (Lower Austria, Vienna, Burgenland) from Easter until the end of April. While the first vaccination took place by the end of the year (27 December 2020), the vaccination campaign faced various struggles<sup>9</sup> in the first months of 2021. Moreover, the vaccine rollout turned out to be decentralised, more because of pragmatic reasons, rather than because of legal ones<sup>10</sup>. While a law-and-order approach re-appeared in different forms, the vaccination campaign relieved after a struggling start the overall tight situation. The first year of the Covid-19 crisis was concluded by the resignation of the Minister of Health Rudolf Anschober on 13 April 2021 due to physical exhaustion<sup>11</sup>.

## The role of federalism in coping with the pandemic in Austria

As mentioned above, whether a central or federal state is more successful in dealing with the pandemic is not a trivial question. On the one hand, as the virus spread unevenly and public health capacities can vary by region, a decentralised response allows the states tailored prevention approaches and targeted responses depending on their individual situation and can therefore prevent disproportionate lockdowns of a whole country. Furthermore, competition among regional authorities allows for testing different policy approaches and subsequently adopting the ones that prove to work best in other regions as well. On the other hand, however, a centralist approach allows for fast responses, because it does not require extensive negotiations and coordination efforts. Moreover, a lack of coordination

9 Such as delivery failures, misinformation about vaccines and questions of prioritisation

10 According to Art 10, B-VG the federation would be responsible for legislation in terms of vaccination

11 Lachmayer, Konrad: Muddling through Mutation Times or the Return of Federalism in Austria: From Covid-19 Response to the Vaccination Campaign, VerfBlog, 2021/5/08, <https://verfassungsblog.de/muddling-through-mutation-times-or-the-return-of-federalism-in-austria>

and the resulting regional differences in regulations can create undesired incentives<sup>12</sup> (e.g., “tourism” to regions with stricter or less strict regulations).<sup>13</sup> Unsurprisingly, there is a tendency to call for comprehensive and uniform solutions in times of crisis<sup>14</sup>. In Austria too, voices were raised that tight controls and hierarchical chain of command was needed<sup>15</sup>. Yet, no general answer can be given to the question of whether a federalist or centralist organisation of the pandemic response yields better results<sup>16</sup>.

### Austria's Cooperative Federalism

Following these general considerations, we now take a closer look at the case of Austria and the distribution of competencies in health matters. Therefore, some information about the state structure is inevitable.

Austria is a federal state consisting of 9 states (Länder). The competencies between the federation (Bund) and the states are laid down

The vaccine rollout turned out to be decentralised, more because of pragmatic reasons, rather than because of legal ones

12 This is a classical case of spillovers, which is why e.g. healthcare should be provided at a higher tier than e.g. waste collection. The optimal level were indeed the districts with some exceptions for “commuters” such as around Vienna (which is why a lockdown in the east was appropriate)

13 Cypionka, Thomas and Reiss, Miriam (2021) Three Approaches to Handling the COVID-19 Crisis in Federal Countries: Germany, Austria, and Switzerland. In: Greer, Scott L.; King, Elizabeth J.; Massard da Fonseca, Elize and Peralta-Santos, André, (eds.) *Coronavirus Politics: The Comparative Politics and Policy of COVID-19*. Ann Arbor: University of Michigan Press, pp. 296-320.

14 Gamper, Austrian Federalism and the Corona Pandemic: [https://www.foederalismus.at/blog/austrian-federalism-and-the-corona-pandemic\\_237.php](https://www.foederalismus.at/blog/austrian-federalism-and-the-corona-pandemic_237.php)

15 <https://www.derstandard.at/story/2000125389758/sanitaetsratschef-mueller-foederalies-prinzip-reicht-fuer-die-pandemie-nicht> on March 27, 2021.

16 Of the many federations around the world today, no two systems are alike. In the “first wave” countries such as Germany, Switzerland and Austria have reacted relatively quickly to the challenges that have emerged and performed relatively well. In the U.S. and Brazil – also federal states – one had to observe the opposite. France on the other hand – a prime example of a centrally organized state – did not perform well in comparison either.

mainly in the Austrian Federal Constitution (B-VG). To put it simply, in some fields the federation has the authority to adopt as well as to execute laws. In terms of execution the federation often uses the authorities of the states. This phenomenon is called indirect federal administration (*mittelbare Bundesverwaltung*). It is a peculiarity of the Austrian federal system. In other fields, the states have the right to enact and execute laws by themselves. On top of that, there are shared competencies between the federation and the states in which the federation is responsible for legislation and the states for implementation.

Although the states are generally predominant in the field of disaster control, the control of epidemics and pandemics is an exception to this rule. Hence, the federal government is responsible for the area of health care in legislation and enforcement in wide parts. It has the competence to pass and execute laws concerning public health, except for those concerning the organisation of hospitals and municipal sanitation. They are the business of the Federation with respect to basic legislation, while legislation on implementation and enforcement is the business of the states. Public hospitals are managed (in most cases) by states or municipalities and financed by a very complicated system of social insurance and financial equalisation (Art 12).

According to the system of indirect federal administration, public health has to be executed by the (state) Governors and the subordinated district authorities of the states. Governors are bound to the instructions of the Federal Government and individual Federal Ministers (Art. 20). In the case of the pandemic, they are bound to those of the Federal Minister for Health (from the Green Party).

### **Communication is the key**

Hence, the Federal Government, on the one hand, is legally in a position to enforce its will to the governors; while on the other, the action taken also depends on the capacities of the states and their commitment to confronting the crisis. Consequently, the system of indirect federal administration and its effectiveness require a willingness to communicate and a culture of cooperation between decision-making

levels, as respective authorities are dependent on each other<sup>17</sup>.

In this context, the characteristics of crisis communication was problematic, not only between levels of government, but also on how the general public was informed about the epidemiological situation and the measures taken. While in Germany, for instance, the federal government played a less prominent role in communication (Chancellor Merkel left the stage mainly to medical experts), in Austria, the federal government took the lead in nearly all aspects of communication. Leaked protocols revealed that Chancellor Kurz had aimed for a strategy driven by fear<sup>18</sup>. He repeatedly drew lines to the disturbing footage from Italian hospitals and famously said in an interview, that “soon, everyone will know someone who has died from coronavirus,” although at that time daily new infections had already been decreasing<sup>19</sup>.

Moreover, recommendations of the “Taskforce Corona” at the Ministry of Health (including experts in various medical fields), who argued for a decentralised and more targeted lockdown to contain social and economic impacts, have fallen on deaf ears. On top of that, at multiple occasions, it was implied in press conferences that certain activities were

The system of indirect federal administration and its effectiveness require a willingness to communicate and a culture of cooperation between decision making levels

17 Peter Bussjäger, not published yet

18 Regierungsprotokoll: Angst vor Infektion offenbar erwünscht. (2020, April 27). orf.at. <https://orf.at/stories/3163435/>

19 Regierungskommunikation: Aufregung über kolportierte Angststrategie. (2020, April 27). orf.at. <https://orf.at/stories/3163480/>

prohibited, whereas this was in fact not in line with the actual legislation<sup>20</sup>. Also, municipalities – the lowest territorial level in Austria – were, in many cases, only informed via media about the next steps they had to implement<sup>21</sup>. This kind of communication has led to finger pointing across different units of government and left citizens confused<sup>22</sup>.

As this section has pointed out, the governance structure in Austria has significant governance gaps. As the pandemic has shown, neither are responsibilities with regards to the indirect federal administration defined clearly, nor do the exchange of information or external communication correspond to standards that guarantee efficient and good governance in a crisis.

### **Austria's Fiscal Federalism**

Another crucial aspect - in terms of fiscal relations in the context of the pandemic - is fiscal federalism. The various levels of government (central, state, local) not only have their own expenditure structure, but also different abilities to collect revenues. The ability of sub-central levels to collect these revenues depends on the degree of fiscal federalism.

There is no doubt that the measures taken will have serious budgetary consequences for all units of government. Consequently, it is hardly surprising that public awareness for reform in federal fiscal relations have increased considerably since the outbreak of the pandemic, as reforming this area is key to implementing expenditure saving and efficiency enhancing reforms in central policy areas such as health.

Currently, sub-central levels in Austria have limited abilities to collect taxes; their main source of revenues comes from central government

20 Corona-Verbote: Es ist mehr erlaubt, als wir glauben. (2020, July 22). Addendum. <https://www.addendum.org/coronavirus/was-ist-erlaubt/>

21 The closure of schools, kindergartens and after-school care centers is under municipal responsibility and required very rapid response.

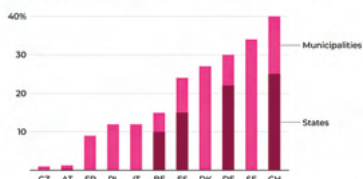
22 Czipionka, Thomas and Reiss, Miriam (2021) Three Approaches to Handling the COVID-19 Crisis in Federal Countries: Germany, Austria, and Switzerland. In: Greer, Scott L.; King, Elizabeth J.; Massard da Fonseca, Elize and Peralta-Santos, André, (eds.) Coronavirus Politics: The Comparative Politics and Policy of COVID-19. Ann Arbor: University of Michigan Press, pp. 296-320.

transfers. Own taxes make up for less than two percent of overall revenues of the states and about twenty percent of overall revenues of municipalities. Hereby, it is remarkable that most of these own taxes accruing to the subnational levels cannot be varied by these, as tax rates and bases are determined by the central level<sup>23</sup> (Figure 1).

This kind of communication has led to finger pointing across different units of government and left citizens confused

#### States and municipalities have no fiscal autonomy

Share of total revenues for which tax rates and bases are determined by states/municipalities



Quelle: Eurostat 2020, Health System Intelligence

neOSLAB

On the other hand, 17% or €32bn were spent on the state level and 16% or €30bn on the local level in 2019. Therefore, with de-facto no fiscal autonomy, states and municipalities spend 32% of total government expenditure (€192bn) in 2019 (Figure 2).

#### state/local expenditures as a share of total government expenditures

States Municipalities

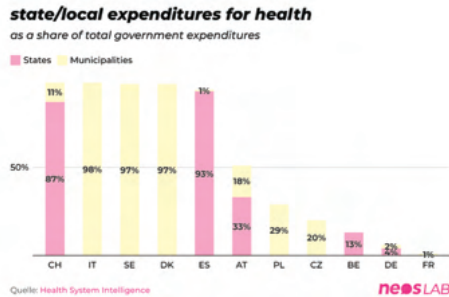


Quelle: Health System Intelligence

neOSLAB

23 The only significant exception is the real estate tax (Grundsteuer) accruing to the municipalities, for which these can vary the tax rate up to an upper limit.

In terms of health expenditures, states and local governments play an even more important role as they have spent 51% of total health expenditures (Figure 3).



We can thus state that subnational governments do not have adequate resources to pursue their activities, especially in health matters. If revenues of sub-central governments do not equal or exceed their expenditures, then fiscal vertical imbalances arise. The downside is that they can lead to soft budget constraints and more generally moral hazard problems<sup>24</sup>. Another feature that can trigger poor financial management – in particular during the context of the current crisis – is the expectation of a bail out either directly, but especially indirectly, through fiscal equalisation mechanisms. Therefore, one can expect that the next fiscal equalisation negotiations (which are already postponed) are going to be tough if not explosive.

### Subnational tax autonomy should be extended

Considering all this, one can see that the Austrian system of federalism is facing a significant fiscal imbalance resulting from expenditures being decentralised, while revenues are collected (primarily) on the national level. Up to now, changes have been restricted only to single reforms in detail. Recent OECD research has found that decentralising government

24 Hofmarcher, M. M., Singhuber, C. (2021): Federalismus im Gesundheitswesen: Schwächen des COVID-19 Krisenmanagements. HS&I Policy Brief, Juni 2021, Wien. <http://www.healthSystemIntelligence.eu>

spending and revenue collection tend to boost economic growth when both are decentralised to a similar extent and for economies that have a relatively higher level of integration to global markets<sup>25</sup>.

Therefore, in order to cope with deficits and be able to work off the excessive debts already accumulated by all units of government more rapidly, subnational tax autonomy should be extended. By giving states and municipalities the right to levy surcharges on federal taxes (e.g., on the income tax as proposed by NEOS<sup>26</sup>), a moderate increase of yardstick competition between the states and local authorities (to support political decisions, which match citizens' preferences as closely as possible) would be enabled<sup>27</sup>.

In addition, with a clear distribution of tasks, competencies and expenditures, and by the possibility to compare benefit-cost-relations, the prerequisites for an innovative development process can be created. By contrasting public goods and services and outcomes/performance on the one hand and the financial burden they imply for users on the other hand, citizens should be enabled to discern "good" from "bad" governance<sup>28</sup>. This

If revenues of sub-central governments do not equal or exceed their expenditures, then fiscal vertical imbalances arise

25 Kim, J. and S. Dougherty (eds.) (2018), *Fiscal Decentralization and Inclusive Growth*, OECD Fiscal Federalism Studies, OECD publishing, Paris/KIPF, Seoul. <https://doi.org/10.1787/9789264302488-en>.

26 [https://parlament.neos.eu/\\_Resources/Persistent/0bcabd607cce3c3488367be7d7f88d798e0e3cb1/20190820\\_PK-Unterlage%20CO2%20Steuer.pdf](https://parlament.neos.eu/_Resources/Persistent/0bcabd607cce3c3488367be7d7f88d798e0e3cb1/20190820_PK-Unterlage%20CO2%20Steuer.pdf)

27 Please note that implementing this measurement should not increase the overall size of the public sector.

28 Schratzenstaller, M. (2015), *Reforming Austrian Fiscal Federalism: Options, Obstacles, and Pitfalls*. In Bischof G. & Karlhofer F. (Eds.), *Austrian Federalism in Comparative Perspective* (pp. 54-69). New Orleans: University of New Orleans Press.



aspect became even more important during the pandemic.

## Conclusions

At first glance, Austria seems to be a highly centralised federation with unitary features. Yet, given a closer look, it became clear that the political role of the states is stronger than their limited constitutional powers might initially suggest (this became even more obvious in the course of the crisis). Intergovernmental relations and the Austrian form of cooperative federalism are closely connected and interdependent. Therefore, good communication and a culture of cooperation between all levels of government are of utmost importance. As we have seen, this has not always been the case as considerable communication problems have arisen.

The communication strategy adopted by Chancellor Kurz and the Federal Government's inability to inform the public and other units of government about the next measures in an adequate way and the fact that they were not able to elaborate the necessary laws required for the system, led to finger pointing across all levels of government. However, cooperative federalism as such was certainly not the problem. It was rather this policy approach driven by fear and unclear communication (via a flurry of hastily organised press conferences) that has proven to be problematic. We have also seen that Austria is facing tremendous imbalances in terms of fiscal relations and decision-makers (especially on the state level), who determine tasks and expenditures, do not have the revenues required to finance these.

Looking forward, the right conclusions must be drawn from past mistakes. Consequently, it is in the best interest of all units of government to finally establish a long-lasting concept to live with Covid-19 and use the existing information channels in order to be able to exploit the advantages of indirect federal administration by coordinating and communicating the next steps in the right time. Such a concept is still missing. On top of that, significant advantages can be

expected from renewing the system of federal fiscal relations, including sufficient fiscal autonomy for municipalities and states.

---

Looking forward, the right conclusions must be drawn from past mistakes

# Old Problems Meet New Challenges: Decentralised Health Care Systems in the Aftermath of COVID-19

## Veronica Grembi

Veronica Grembi is an Associate Professor of Economics at Sapienza University of Rome, Department of Social Science and Economics. Prior to joining Sapienza, she was a faculty at the University of Milan, the Catholic University of Milan, the Copenhagen Business School, and the Mediterranean University of Reggio Calabria. She spent periods of visiting at Yale University, Harvard University, Pompeu Fabra University, and Princeton University, for which she was granted a Fulbright Scholarship. Her main research interest is public economics, with a special focus on political economy and health economics.



# CHAPTER

# 4

## Chapter 4

# Old Problems Meet New Challenges: Decentralised Health Care Systems in the Aftermath of COVID-19

---

### Introduction

**Veronica Grembi**

The COVID-19 pandemic has stressed the shortcomings (and their relevance) of some of the characteristics of decentralised institutional settings as far as individual health is concerned.

In this chapter we will deepen the role of the political cycle (defined as the term in which a politician is in office and might seek for re-election) at different levels of government – e.g., regional, municipal, and so on – in the context of the health system. Additionally, we address the potential distortions on healthcare expenditures due to the role of interest groups within the local political arena in a

decentralised setting. In both cases, we refer to the empirical evidence produced with reference to the case study of Italy.

### The Italian healthcare system

There exists a remarkable political economic literature on how multiple layers of government can affect the level of taxation, the performance and quality of the public sector, and the level of a country's deficit. However, little attention has been devoted to how politicians and their incentives affect the health care sector and through it, even if not "only" through it, the health status of their voters. Political interests play a crucial role in the health care arena, and a case study in the UK uses the margin of victory in UK districts as a proxy for hospital competition at the local level.<sup>1</sup> The lower the margin of victory of the incumbent party, the less likely a hospital would be shut down in that district, that is, because politicians do not wish to upset their constituents. This means that electoral concerns can hurt the sound health of their voters since, for instance, small hospitals are often associated to low quality treatments. A learning by doing process positively affects the quality in health, and since it cannot be properly exploited by small hospitals with low volumes, these should be closed – although

Electoral concerns can hurt the sound health of their voters since, for instance, small hospitals are often associated to low quality treatments

1 Bloom, N., C. Propper, S. Seiler, and J. Van Reenen (2015). The impact of competition on management quality: evidence from public hospitals. *The Review of Economic Studies* 82 (2), 457(489).

this is rarely the case, because of local interest to re-election.

For instance, since 2010 in Italy the national government has been trying to close birth centres managing less than 500 deliveries per year, given that they are regarded as dangerous for the health of both the mothers and the new-borns. However, in 2016, the Ministry of Health had to re-affirm the importance to comply with such a threshold, since local politicians, especially those mayors who did not want to disappoint their constituencies, firmly opposed the closure of small birth-centres once located in their municipalities. This, even in the circumstance that such an approach meant to put the life of the mothers and the new-borns in danger in certain contexts.

As far as healthcare expenditures are concerned, there is barely evidence on the role of interest groups within the allocation of public expenditures in a decentralised setting. Interest groups might more easily capture the regulatory activities at a local level, especially when the part of the public sector at stake is one in which concurrent responsibilities by several layers of government exist – where each layer can put on the other the blame for the inefficiencies of the system. For instance, if healthcare personnel are represented within the local government by their own deputies, we expect that they will tend to allocate more money to the healthcare sector rather than, all things equal, to education. In principle, although such an approach could improve the quality of the healthcare sector and its accessibility, and thus the health status of the voters, it could also generate waste and inefficiencies. This empirical problem deserves attention.

Finally, concurrent responsibilities of different layers of government in the health care system pose serious challenges on “who” should be held accountable for the unequal allocation of the healthcare personnel within a decentralised country. Although there is a lack of scientific evidence on how exactly such allocation should be set, several international rankings consider the higher number of physicians per resident population (i.e., rates of physicians out of the resident population) as a proxy for a more accessible healthcare system. In recent years, this dimension of accessibility has indeed been the focus

of the policy makers since a general shortage of physicians and medical personnel has been denounced. The European Commission estimated an overall lack of 1,000,000 health professionals in the European Union by 2020 – and this, way before the outbreak of the COVID-19 pandemic. However, the so-called emergency of healthcare personnel is a twofold problem. There might be an overall lack of professionals, or/and there might be an inequality in their distribution.

Overall, an unequal accessibility to the healthcare system is expected to reinforce the link of inequalities and avoidable mortality within the population, especially in the aftermath of the COVID-19 pandemic. In fact, the access to the healthcare system has been basically prevented, for instance, to people suffering of chronic conditions. This shows a less likely accessibility for people needing treatment for other diseases, compared to those infected by the Covid-19 virus. What are the clear liabilities of local and central governments on this, it is still to be understood with proper data.

All in all, although decentralisation is supposed to improve the quality of the service provided at the local level and the efficiency at which they are provided, the case of health raises problems that need to be put at the centre of the public debate. The emergency triggered by the COVID-19 pandemic has stressed once again the importance to address these issues.

---

Although decentralisation is supposed to improve the quality of the service provided at the local level and the efficiency at which they are provided, the case of health raises problems that need to be put at the centre of the public debate



## Institutional background

Italy counts 20 regions, of which 5 are considered of “special statute”: Sardegna, Sicilia, Valle d’Aosta, Friuli-Venezia-Giulia and Trentino Alto Adige, the latter including the two Autonomous Provinces of Trento and Bolzano. Each region is responsible for providing medical assistance to their residents. Local governments must comply with national standards<sup>2</sup>, but they can freely choose how to regulate and structure health care delivery within their territory. As a result, there are multiple micro-health care systems in the country that rely on different mixes of local health authorities (LHAs), independent hospitals (e.g., teaching hospitals) and private institutions<sup>3</sup>. Patients are covered by health plans provided by LHAs according to their place of residence, but both intra- and inter-regional mobility is still possible and tolerated.

Since 1995, the financing of all the hospitals operating within the Italian NHS works through a Diagnosis Related Groups (DRG)-based system, which is enforced for every patient<sup>4</sup>. DRGs are a common mechanism to group procedures by similar medical conditions and resource utilisation to express hospital activity in standardised units comparable across providers. Based on cost data usually related to a set of chosen hospitals, a fixed (average) rate is assigned to each DRG and this is meant to cover average expenses incurred in treating patients within each DRG. Therefore, DRG tariffs are not connected to the actual costs sustained for a given case by a specific hospital, and the goal of their introduction is to reduce the waste in health care<sup>5</sup>. The national government releases and updates a list of tariffs that serves as a benchmark; on the basis of this, regions are free to decide their own rates, as well as to differentiate them by type of providers.

At the regional level, DRG tariffs need to be approved by the regional

2 Lisac, M., K. Blum, S. Schlette, H. Maarse, Y. Bartholom\_ee, D. McDaid, A. Oliver, I. Ab\_asolo, B. G. Lopez-Valcarcel, G. Fiorentini, et al. (2008). Health systems and health reform in Europe. *Intereconomics* 43 (4), 184(218).

3 Anessi-Pessina, E., E. Cantu, and C. Jommi(2004). Phasing out market mechanisms in the Italian national health service. *Public Money and Management* 24 (5), 309(316).

4 Cavalieri, M., L. Gitto, and C. Guccio (2013). Reimbursement systems and quality of hospital care: an empirical analysis for Italy. *Health Policy* 111 (3), 273(289).

5 Kimberly, J. and G. De Pouvourville (2008). *The globalization of managerial innovation in health care*. Cambridge University Press.

government before being implemented. The regional government is composed of a fixed number of members that depends on the census population of the region. These members are chosen and assigned to a specific area of competence by the governor of the region (i.e., “Presidente della regione”), who is elected by regional universal suffrage. Elections take place every 5 years.

Although not directly involved in the planning of the health care system, municipal governments (about 8,000 units) do provide services related to personal wellbeing (e.g., childcare, services to the elders, and others). Hospitals and healthcare facilities, even when ran by regional governments, are located in a municipal area. Mayors generally struggle to get services paid by other layers of the government – for which they might get credits from their voters.

Since 1993, Italian mayors have been directly elected through a runoff system in cities with more than 15,000 inhabitants and through a single-round plurality rule in those with fewer than 15,000 inhabitants. Mayoral elections are held jointly with elections of municipal councils (i.e., “Consigli Comunali”). Moreover, under the Law n. 182, 7 June 199, elections must be held on a Sunday between April 15 and June 15 in the cases the mayor’s mandate ends in the first half of the year, or in the same period of the following year if the mandate ends in the second semester. Hence, elections are held in a staggered way across municipalities.

---

Mayors generally struggle to get services paid by other layers of the government for which they might get credits from their voters

Mayors used to serve a 4-year term (extended to 5 years in 2001) and currently face a two-terms maximum limit. However, several exceptions to this two-terms limit have been implemented over time for municipalities with less than 3,000 inhabitants, where exceptions are allowed as finding suitable candidates is not always simple. The most recent change was introduced in 2014 (Law 56/2014), when the term limit was extended to 3 consecutive terms.

## Electoral Incentives and Health

There is a rich strand of economic literature addressing strategic behaviours of politicians throughout an electoral cycle. If “year 0” is the electoral year and the term in office lasts, for instance, 5 years, these studies address how with the proximity of the election the decisions of politicians change. Main evidence has especially been provided on the link between the political cycle and fiscal policy,<sup>6</sup> while scant attention has been spent on whether the incumbent’s strategic behaviours are spilled over other domains of public policies especially at the local level.

Other studies instead, find for instance that lending policies strategically respond to the local election at county levels, or provide evidence of an electoral cycle in the electricity service provision in some states<sup>7</sup>. Studies focusing on the physicians’ employment in public hospitals (which increases in municipal election years) in several countries, are also closely related to the analysis of the public policy cycle at the local level and connected to the impact on health.<sup>8</sup>

Regarding the Italian case, a case-study uses budget data from all Italian municipalities to show that in the electoral year, captured in the data by a dummy for the election year and the year before the election, road

6 Persson, T. and G. Tabellini, 2002. “Do Electoral Cycles Differ Across Political Systems?” working paper, IIES, Stockholm University; see also Shi, M., and J. Svensson. 2000. “Political business cycles in developed and developing countries.” The World Bank. Working Paper.

7 Baskaran, T. Min, B., and Y. Uppal. 2015. “Election cycles and electricity provision: Evidence from a quasi-experiment with Indian special elections.” *Journal of Public Economics*. 126: 64-73.

8 Takako, R., and S. Bessho, 2018. “Political Cycles in Physician Employment: A Case of Japanese Local Public Hospitals.” *Social Science and Medicine*, 216: 97-106.

traffic tickets decrease<sup>9</sup>. However, this case-study does not connect the cycle to traffic accidents and to their consequences as instead other studies do<sup>10</sup>. Road traffic accidents are the main cause of mortality among people under age 45 and the leading cause for those between 15 and 29 (Eurostat, 2015)<sup>11</sup>. While there are more than 1.25 million deaths each year on the roads, between 20 and 50 million more people suffer nonfatal injuries, which can result in temporary or permanent disabilities (WHO, 2015)<sup>12</sup>. Economic losses are substantial, both individually and nationwide: most countries worldwide are estimated to lose approximately 3% of their GDP in lost productivity and medical expenditures (WHO, 2015) – and this does not even include the costs of traffic congestion and fuel waste associated with traffic accidents. As a result, reducing traffic accidents should be a pivotal issue for the policy makers: the 2030 United Nations Agenda for Sustainable Development includes halving the global number of road accidents among its targets.

Different levels of government can play crucial roles in promoting this ambitious plan, which requires both effective traffic safety regulations and enforcement. Where the national governments are often responsible for regulating the consumption of alcohol and the use of seat belts, child restraints, and helmets, the local governments and the authorities play instead a tremendous role in road maintenance and direct law enforcement. Although the literature is rich on the impact of general safety measures on traffic accidents and fatalities<sup>13</sup>, evidence on the role of local governments is scant and based primarily on the channel of corruption in developing countries<sup>14</sup>.

Bertoli and Grembi (see footnote 10) use municipal 1995–2016 data from two Italian regions, Lombardy and Veneto, counting 26.10% of all

9 Bracco E. 2018. "A Fine Collection: The Political Budget Cycle of Traffic Enforcement". *Economics Letters*. 164: 117–120.

10 Barili, E., Bertoli, P., Grembi, V. (2021), Fee equalization and appropriate health care. *Economics & Human Biology*, Volume 41

11 [https://ec.europa.eu/transport/road\\_safety/sites/default/files/pdf/statistics/dacota/bfs2015\\_main\\_figures.pdf](https://ec.europa.eu/transport/road_safety/sites/default/files/pdf/statistics/dacota/bfs2015_main_figures.pdf)

12 [https://www.who.int/violence\\_injury\\_prevention/road\\_safety\\_status/2015/GSRRS2015\\_Summary\\_EN\\_final.pdf](https://www.who.int/violence_injury_prevention/road_safety_status/2015/GSRRS2015_Summary_EN_final.pdf)

13 <https://web.stanford.edu/~leinau/pubs/RESTAT2003.pdf>; see also R. Abouk, S. Adams, *American Economic Journal: Applied Economics*, Vol. 5, No. 2 (April 2013), pp. 179–199 (21 pages), Published By: American Economic Association and J.M. Bourgeon, P. Picard, *Journal of Public Economics*, Elsevier, 2007, 91 (1–2), pp.235–258. [10.1016/j.jpubeco.2006.05.007](https://doi.org/10.1016/j.jpubeco.2006.05.007)

14 [https://www.researchgate.net/publication/5021481\\_Public\\_Sector\\_Corruption\\_and\\_Natural\\_Disasters\\_A\\_Potentially\\_Deadly\\_Interaction](https://www.researchgate.net/publication/5021481_Public_Sector_Corruption_and_Natural_Disasters_A_Potentially_Deadly_Interaction); see also <http://www.libraweb.net/articoli3.php?chiave=201706702&rivista=67&articolo=201706702008>

Italian municipalities and 15,000,000 inhabitants, to show that as a consequence of the decrease in road traffic tickets, electoral years are associated to an increase in road traffic accidents with at least one victim injured. Nevertheless, although an increase of injured people exists, there is no variation in the fatality rate of accidents. The intuition behind these results, as proved by some anecdotal evidence in the paper, is that while tickets for small violation of the road safety code do decrease, tickets for major violations do not. In this setting tickets for road safety violations represent a sort of local taxation, which decrease because of the electoral year and, therefore, of electoral concerns. Overall, the study shows a behavioural response by voters that end up taking less precautions, whose behaviours affect in a negative way their health status. All in all, the “desire” to please voters during an electoral year ends up deteriorating their health, as in the case of hospital closures.

While these are cases in which the health of voters is deteriorated by local politicians’ incentives, other abovementioned cases (see footnote 8) stress how the increase of physicians’ employment in municipal election years provides exactly the opposite example: here, there is a potential improvement of the health of voters. The net effect is hard to predict, and it deserves attention as well as the consideration of the specific institutional setting. For instance, not in all institutional contexts the employment of physicians might be affected by the municipal government, and not always the mayor is in charge for the local police (in relation to road traffic accidents); but it is quite common instead that local politicians, even in different institutional settings, will oppose to the closure of small hospitals. Hence, it is crucial to underline that minimum quality standards in health have to be established at the national level and enforced by the same level.

## Interest Groups and Health – A Case Study

For local politicians, the concern of pleasing the voters goes hand by hand with that of pleasing specific interest groups. When it comes to

allocate taxpayers' money, this can mean to privilege some sectors over others, generating distortions in the welfare system. A recent study conducted by Bertoli and Grembi in 2017<sup>15</sup> exploits the fact that in Italy regional governments can adopt levels of DRGs that are different from those adopted by the national governments. This shows the role played in this regard by the component of the regional government, here considered to be the politicians with a medical background (i.e., healthcare workers).

National DRGs were calculated on the basis of data gathered from eight hospitals located in the Northern and Central regions (without differentiating among hospital types)<sup>16</sup>. Hence, teaching hospitals were assumed to have the same production function as non-teaching hospitals. The 1994 list was updated in 1997 (Legislative Decree n. 178/1997), 2006 (Decree of the Ministry of Health 12/09/ 2006), and 2012 (Decrees of the Ministry of Health 18/10/ 2012). Sixteen regions implemented DRG systems soon after the release of the national list, while Emilia-Romagna, Abruzzo, and the Autonomous Province of Bolzen followed in 1996. Basilicata and the Autonomous Province of Trento were the last to do so in 1997. However, national tariffs only represented a benchmark, and regional governments could

Minimum  
quality  
standards  
in health  
have to be  
established at  
the national  
level and  
enforced by  
the same  
level

15 Paola Bertoli, P., & Grembi, V. (2017). The political economy of diagnosis-related groups. *Social Science & Medicine*, 190, 38-47.

16 Fattore, Giovanni; Torbica, A. (2006). Health Service Benefit Catalogues in Europe. Country Report: Italy, Health Basket Project.

set their own rates and adjust them by hospital type. Consequently, the DRG-based funding mechanism was characterised by extensive differences across regions, which persist to the present<sup>17</sup>.

The majority of the regions have developed their own tariffs based on some type of cost assessment related to their own hospitals, whereas only a few have conformed with national tariffs (6 in 2000 and 2013). The differences between national and regional rates can be substantial. Let us consider two medical DRGs, the DRG for a vaginal delivery without complications and the DRG for a new-born: between 2010 and 2018, vaginal deliveries without complications were paid in a range between -20% up to +56% relative to the national rate, and the span was between -26% and +20% for payments related to a new-born. These huge variations cannot be explained by different technologies, since these DRGs should not be substantially affected by the progress of medical science. Perhaps the adoption of different degrees of technologies might explain regional variations in the reimbursement of other types of treatment, but not the aforementioned.

The study highlights the relationship between political characteristics and the average levels of diagnosis-related groups (DRGs). Particularly, 6 obstetric DRGs covering the vast majority of obstetric procedures, 4 of which related to deliveries (caesarean and vaginal with and without complications) and 2 related to new-borns (severely premature and normal new-borns). Obstetric DRGs offer several benefits for the empirical analysis. First, they are characterised by very low patient mobility across regions. Second, they refer only to inpatient treatments since the practice of home delivery is not common in Italy. Nevertheless, the differences in DRG prices across regions can be substantial. Although there might be territorial differences in the costs of providing a procedure, for which we can control, the costs of certain inputs, such as personnel, do not vary across regions to an extent that would justify these differences.

<sup>17</sup> Assobiomedica (2002). I sistemi tariffari per le prestazioni di assistenza ospedaliera. Un esame della normativa Nazionale e regionale in vigore.

Using panel data at the region-year level, the relevance of 5 features of regional governments to the variations in the DRGs outcomes is tested. The characteristics are:

- the percentage of politicians with a medical degree;
- the percentage of politicians with college degrees;
- the percentage of people seated on the regional council but not elected through regional elections;
- a given dummy for political alignment between the regional and national governments (i.e., same political coalition);
- the number of parties represented in the regional council.

Exploiting 10 regional elections between 2000 and 2013 (i.e., 66 ballots), the research in object estimates the impact of these variables on DRG prices. The expectations are intuitive. If the tariffs are not manipulated and are properly based on an objective analysis of the production functions of hospitals, these variables should not have any effect. However, the results show that the higher the proportion of doctors, the higher the average DRG tariffs for vaginal deliveries and normal new-borns. This implies that the procedures requiring less technological investment are the most common in birth centres.

Yet, there are at least two possible explanations for this effect. A first effect could be a distortion relative to the optimal DRG price (i.e., waste) or an improvement toward the optimal DRG price. For instance, an individual with a medical degree could be better skilled and have a better understanding of the implications of the use of standardised tariffs in the health care system. Consequently, the presence of more doctors could affect the tariffs in a desirable way. If physicians in the regional government play a positive role in the assessment of the true DRG value, then it is difficult to understand why this effect is detected only in the most used and least technologically driven DRGs. To assess the type of manipulation in place, two strategies are followed by the authors of the study.

The first exploits a policy plan introduced in Italy in 2006 requiring



regions with health care deficits to engage in a repayment plan. The goal of a repayment plan is to reduce the deficit through a general re-organisation of the health care system. Since only some regions had to adopt a plan, the analysis of the effect of the repayment plan shows stronger reductions for obstetric DRGs due to a repayment plan, compared to the regions with a lower share of medical doctors among regional politicians or the regions where regional and national governments are not politically aligned. Hence, where pressure groups are stronger and fiscal discipline is more difficult to enforce, the effect of a repayment plan is lower.

The second strategy exploits a unique dataset based on 6,500,000 patient discharge records related to a delivery released by the Italian Ministry of Health. Such records are then collapsed at the regional level to generate 9 proxies for obstetric quality: 4 inpatient quality indicators (2 related to vaginal deliveries, 2 to c-sections), 4 measures of the incidence of complications in vaginal and caesarean deliveries (2 for the mothers and 2 for new-borns), and a measure of the incidence of resuscitation attempts on new-borns. The work shows that neither higher percentages of physicians nor any other characteristics of the local government are capable to increase the quality of the obstetric system. However, a larger share of physicians among regional politicians is associated with higher average DRG prices.

These results shed new lights on the idea that the introduction of standardised prices can improve the efficiency of the public expenditures, in the context of a decentralised setting when more levels of government have a concurrent competence on a specific expenditure item. Manipulation attempts that can be made by local politicians shows that there is still margin for waste, even when introducing the so-called objective criteria. Empirical challenges are still open. For instance, it is not clear if the higher level of reimbursement might make it more likely for voters to be treated differently due to differentials in prices.

## Conclusions

The impact of the political cycle on health in a decentralised system deserves more attention and more evidence; on the other hand, although evidence is still scanty, the literature on the relevance of the interest groups in the context of the efficiency and equity of the healthcare system is at least more theoretically developed. Coordination problems are the most dangerous when it comes to health, and they would deserve more attention. Watchdogs and independent think tanks should be more active in pointing out to the general public the dangerousness of pleasing voters in this field.

---

The introduction of standardised prices can improve the efficiency of the public expenditures, in the context of a decentralised setting when more levels of government have a concurrent competence on a specific expenditure item

# The prospect for fiscal decentralisation in Bulgaria

## Nikola Apostolov

Nikola Apostolov was born in 1991 in Havana, Cuba. He was raised in Sofia, Bulgaria where he obtains a French Baccalaureate in Social and Economic sciences. Later, he completed his undergraduate studies in Economics at the University of Amsterdam. Besides his interest in Economics and Business, Nikola is also passionate about international relations and has completed internships at the Bulgarian representation to the EU in Brussels and at UNESCO's HQ in Paris. He then pursued a CEMS (Global Community in Management Education) double degree in International Management in HEC Paris and ESADE Business School (Barcelona) where he was accepted with a merit-based scholarship. During his studies Nikola was involved in various student initiatives and became the President of the CEMS Club Barcelona. After graduating, Nikola worked as a business consultant and is currently a digital strategy consultant in Paris.



# CHAPTER 5

## Chapter 5

# The prospect for fiscal decentralisation in Bulgaria

---

**Nikola Apostolov**

### Introduction

As a former centrally planned economy, Bulgaria has a history of absolute fiscal and administrative centralisation since about 45 years and, thus, a very different administrative and fiscal management legacy compared to many Western European countries. Since its economic transition, this tradition has not been fully overcome and compared to European standards the country remains relatively fiscally centralised.

Financial accountability of local governments is a key part of government decentralisation and it represents a critical aspect for an independent economic policy at a regional or municipal level. While the topic of fiscal decentralisation has been overlooked in the public space for years, it came to the forefront of the country's public attention during the summer of 2021. During the 2021 caretaker

government, the Deputy Prime Minister for EU Funds Management Atanas Pekanov highlighted that the largest capital expenditure projects in the capital Sofia are financed by EU funding and not through self-financing, despite a GDP per capital of more than twice the national average. Pekanov argued that such a phenomenon shows that the capital and the country as a whole have not established a sustainable financing model for large infrastructure projects and are excessively reliant on EU funding for critical projects such as the Sofia metro line.

The objective of this analytical essay is to discuss the potential for fiscal decentralisation in Bulgaria, as well as to evaluate the advantages and the drawbacks of deepening the country's fiscal decentralisation. The structure of the paper will be the following: a brief definition of fiscal decentralisation will be followed by a broader overview of the degree of decentralisation of Bulgaria and the recent policy trends in the area. Subsequently, an advantages/risks analysis of fiscal decentralisation in the literature will be discussed. It is worth noting that this paper has no ambition to provide an exhaustive overview of the literature on the topic. Last but not least, the paper will conclude with a discussion of the desirability of fiscal decentralisation and the potential for future reforms.

---

As a former centrally planned economy, Bulgaria has a history of absolute fiscal and administrative centralisation since about 45 years

## Defining fiscal decentralisation

Fiscal decentralisation is the delegation of public expenditures and revenue collection functions to local levels of government. The term covers two different functions of the public sector, namely, taxation and spending. According to a World Bank definition<sup>1</sup>, decentralisation can take various forms including:

- “self-financing or cost recovery through user charges;
- co-financing or co-production arrangements through which the users participate in providing services and infrastructure through monetary or labor contributions;
- expansion of local revenues through property or sales taxes, or indirect charges;
- intergovernmental transfers that shift general revenues from taxes collected by the central government to local governments for general or specific uses; and
- authorisation of municipal borrowing and the mobilisation of either national or local government resources through loan guarantees”.

This definition provided by the World Bank also notes that in many developing countries local governments do possess fiscal powers, but the tax base is often insufficient. This leads to a large dependence on the central government – a central claim stressed by this paper.

## State of play of administrative and fiscal decentralisation in Bulgaria

As of 2018, Bulgaria was divided into 28 regions and 265 municipalities. Given the absence of any type of federal governance in the country,

---

<sup>1</sup> World Bank Group.: Public sector decentralization definition.  
<http://www1.worldbank.org/publicsector/decentralization/fiscal.htm> . Accessed on July 5, 2021

municipalities are the main mechanism for local self-governance, mayors and municipal assemblies being elected at a local level.

The average size of Bulgarian municipalities was 26.604 inhabitants in 2018, larger than the EU average (standing 5.867). Moreover, Bulgaria ranks somewhere in the median of the Union members in terms of number of municipalities per capita (3.8 municipalities per 100.000 inhabitants): in this measure, on one extreme the UK and Ireland rank the lowest (respectively 0.6 and 0.7), on the other the Czech Republic and France rank the highest (respectively 59.2 and 53.1)<sup>2</sup>.

Figure 1: Municipalities size in the EU (Source: OECD, 2015-2016)

	Average number of inhabitants	Average number of municipalities per 100 inhabitants	Median municipal population
Austria	4 166	24	1 790
Bulgaria	26 604	3.8	19 326
Croatia	7 742	13.4	2 865
Czech Republic	1 688	59.2	420
Cyprus	2 250	44.4	n.a
Denmark	58 459	1.7	42 850
Estonia	16 557	6	7 707
France	1 885	53.1	435
Finland	17 670	5.7	6 990
Germany	7 449	13.4	1 710
Greece	33 181	3	21 062
Hungary	3 088	32.4	815
Ireland	151 078	0.7	122 900
Italy	7 617	13.1	2 430
Latvia	16 476	6.1	6 595
Lithuania	47 465	2.1	28 342
Luxembourg	5 727	17.5	2 520
Malta	4 477	13.6	4 083
Netherlands	44 816	2.2	26 515
Poland	15 507	6.4	7 540
Portugal	33 525	3	14 380
Romania	6 986	14.3	3 110
Slovenia	9 739	10.3	4 730
Slovak Republic	1 854	54	655
Sweden	34 218	2.9	15 435
UK	167 898	0.6	132 240
EU 28	5 867	17	n.a

In many developing countries local governments do possess fiscal powers, but the tax base is often insufficient

2 OECD and EU Commission. 'Key Data On Local And Regional Governments', 2018. <<https://www.oecd.org/regional/EU-Local-government-key-data.pdf>> accessed 15 July 2021.



## Decentralisation efforts and pace of reform in Bulgaria

Bulgaria's transition from centralised to market economy was initiated by an abrupt period of transition in the 1990s. The process of decentralisation and delegation of competences from the central to local authorities in Bulgaria started with its first Constitution in post-communism in 1991 and with the ratification of the European Charter of Local Self-Government in 1995. The country took major steps towards decentralisation in 2006 with the introduction of the "Strategy for decentralisation" and in 2007 with the amendment of the constitution which paved the way for municipalities to claim broader taxation competences. Municipalities are now responsible for collecting patent taxes (since 2008), tourism taxes (since 2011), and taxi licenses (since 2017).

Nevertheless, despite the various legal and strategic commitments made by different cabinets, there have not been any substantial steps allowing local governments to collect part of the corporate or personal income taxes in their jurisdictions. According to the 2006-2015 Decentralization strategy, less than 40% of the decentralisation objectives set out in the strategy were actually achieved. Moreover, the current framework set out by the central government informally suggests that municipalities could be given a discretion to collect local taxes but only on top of the existing government levies. This arrangement is sub-optimal as it would force municipalities to implement unpopular measures by increasing the total effective tax rate and could cause them to lose competitiveness.

Furthermore, since Bulgaria's EU accession in 2007 and particularly in the last several years, the share of central government transfers in municipal revenues is rising, mainly due to the increase in EU funding, which is channelled through the central government and the relevant Ministries. According to the Institute for Market Economics in Sofia (IME)<sup>3</sup>, EU funding plays a key role in the budget balance of

<sup>3</sup> Ganey, P. Aleksiev, Y., Nikolova, D. ПЪТЯТ КЪМ ФИСКАЛНА ДЕЦЕНТРАЛИЗАЦИЯ: Споделяне на данък общ доход с общините. Institute for Market Economics, 2018.

municipalities. A large majority of capital expenditures is financed with EU funding, highlighting the fact that municipalities are unable to find sustainable financing models for their capital expenditure. The clear downside of such a funding scheme is that the funds are allocated for specific projects and forces local authorities to create projects that fit the Ministry requirements without necessarily being adapted to local priorities. According to the Law for Public Finances, each municipality is entitled to a central government subsidy for the delegated central or local government activities, which further decreases the incentive to collect local taxes in order to finance capital expenditures.

---

Such an approach is also conducive to corruption

Such an approach is also conducive to corruption and there is ample evidence in local media on EU funding being inappropriately used for sports facilities in municipalities with a predominantly elderly population. Some of the most conspicuous examples of such misuse are captured in the yearly edition of "The Black Book of government embezzlement"<sup>4</sup>. While it is important to be noted that the evidence presented in such publications is anecdotal and cannot prove the exact magnitude of the misuse of public funds, it does illustrate that some local municipalities chose to implement large capital expenditures without a discernible public policy objective.

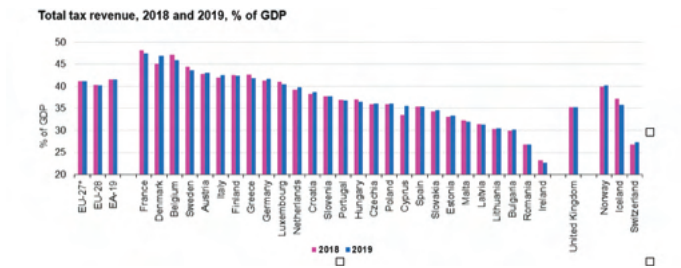
---

4 Friedrich Naumann foundation. Чорна книга про використання бюджетних коштів, 2021. <https://chernakniga.bg/> (Accessed on July 3).

## The Bulgarian tax system and measuring fiscal decentralisation

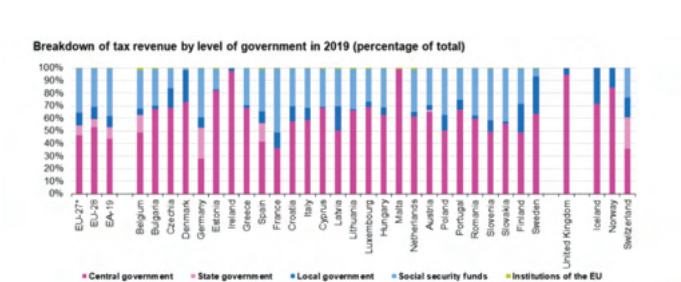
Bulgaria has a 10% tax rate on corporate and personal income, making it one of the lowest-tax countries in the European Union. Direct taxes on consumption (e.g., gasoline and alcohol) and indirect ones (VAT) are however higher and in line with the EU average. Overall, in Bulgaria tax revenue still represents a relatively small share of the economy and stands at about 30%, compared to a level of about 41% for the EU-27 average.

Figure 2: Total tax revenues in the EU, 2018 and 2019 (Source: Eurostat)



Tax collection in Bulgaria is relatively centralised: as it can be observed below in Figure 3, central government receipts, which represent almost 70% of the total, dominate government revenues in Bulgaria. In comparison, central government revenues represent about 45% of total in the EU 27. Bulgaria is therefore more centralised compared to the EU average but also compared to some of the newer EU members such as Latvia, Slovenia and Poland.

Figure 3: Tax revenues by level of government (Source: Eurostat)



In order to measure more precisely the degree of fiscal decentralisation we will focus on two main indicators, suggested by the reviewed literature in order to measure the degree of decentralisation: 1) the decentralisation of expenses and; 2) the relative size of local expenditure as percentage of GDP.

### **The coefficient of expense decentralisation**

The coefficient of budgetary expense decentralisation measures the ratio between local and total government expenditures. A low ratio indicates that most public expenditures are financed through the central government, suggesting a low level of decentralisation.

According to research by Pavlova-Banova<sup>5</sup> in 2018 about 88% of the total budgetary expenses of Bulgarian municipalities were covered by non-tax related sources such as government transfers, EU funding or non-tax revenues. Thus, in Bulgaria only 12% of expenses are covered by local funding sources, well below the 35% average in the EU.

Therefore, according to this measure, the decentralisation in Bulgaria is recording a negative trend since in 2008 it stood at 19.9% and in 2015 – at 13.3%<sup>6</sup>. The main explanation for this trend is the substantial increase in EU funding available to municipalities that was

A low ratio indicates that most public expenditures are financed through the central government, suggesting a low level of decentralisation

5 Pavlova-Banova, M. 'Фискална позиция на общините в условията на децентрализация в публичния сектор – актуални проблеми и възможности за растеж', 2021.

6 Pavlova, M. 'Фискалната децентрализация в Р България - финансови ефекти и регионални аспекти', 2015.

gradually rising since the country's accession in the Union.

### The size of local expenditures as a percentage of the country's GDP

This indicator shows the relative size of local expenditure in the country's economy. The indicator allows measuring the degree of resource reallocation that is taking place from the local economy via municipal budgets. As demonstrated in the table below, in Bulgaria the coefficient is much lower than the EU average. Nevertheless, a positive trend can be observed in the last several years as the gap between Bulgaria and the EU average is closing, mainly due to an increase in the size of municipal spending in Bulgaria.

Figure 4: Local government expenditure as % of GDP<sup>7</sup> (Source: Eurostat)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Bulgaria</b>	6.6%	6.6%	7.9%	8.9%	10.4%	6.9%	7.1%	7.3%	7.4%
<b>EU 27</b>	11.4%	11.4%	11.4%	11.3%	11.1%	10.9%	10.8%	10.8%	10.9%

### Pros and cons of fiscal decentralisation

There is a large amount of theoretical and empirical literature examining the effects of fiscal decentralisation on governance and economic and political development. In the following brief overview, we will focus on four areas of interest: macroeconomic and fiscal stability, corruption, quality of public services and income inequality.

#### Fiscal decentralisation and macroeconomic stability and fiscal discipline

The impact of fiscal decentralisation on macroeconomic stability and fiscal discipline is not unambiguous. More decentralisation could potentially lead to a looser control from the central government and unleash higher spending. A 2009 ECB paper<sup>8</sup> finds that increasing the

<sup>7</sup> Does not include federal government expenditure

<sup>8</sup> Afonso, António & Hauptmeier, Sebastian, 2009. «Fiscal behaviour in the European Union: rules, fiscal decentralization and government indebtedness.» Working Paper Series 1054, European Central Bank.

ratio of state plus local spending over central government spending contributes to an increase in the total primary spending on a local level. This association appears to be more pronounced for higher levels of government indebtedness.

On the other hand, fiscal decentralisation could also strengthen the accountability of local governments on the way public funds are spent. A 2012 IMF working<sup>9</sup> suggests that spending decentralisation has been associated with better fiscal performance, particularly when sub-national governments are not highly dependent on fiscal transfers from the central budget. However, the study also shows that fiscal rules are difficult to maintain at a subnational level, highlighting the risk of excessive debt accumulation at the local level.

Another IMF research paper from 2017<sup>10</sup> reiterates that fiscal decentralisation could stimulate a better fiscal discipline. The findings also suggest that countries that “have already established strong accountability and budget management capacity at the local level can benefit from fiscal decentralisation”. Nevertheless, in more unstable and crisis-prone economies, “the central government may need to retain a sufficient share of expenditure and revenue to conduct counter-cyclical policies”.

More decentralisation could potentially lead to a looser control from the central government and unleash higher spending

9 Escolano J. et al. 'Performance, Institutional Design and Decentralization in European Union Countries', 2016.

10 Sow, M., Razafimahefa, I. 'Fiscal Decentralization and Fiscal Policy Performance'. IMF Working Paper WP/17/64, 2017.

Based on these studies, it appears that fiscal decentralisation could have divergent macroeconomic and fiscal consequences depending on country-specific economic and institutional factors. Countries that are economically stable and mature may be better fitted for decentralisation, while more unstable countries with fragile institutions may be at risk. All in all, some degree of fiscal decentralisation might be desirable if the right mechanisms for controlling expenses and maintaining a fiscally prudent non-partisan framework are put in place.

### **Fiscal decentralisation and corruption**

Fiscal decentralisation could theoretically increase the risk of corruption since it allows for a higher degree of policy discretion for local officials. On the other hand, local governments are intuitively more accountable to their citizens than the central government because of the implied proximity to citizens. A 2002 paper<sup>11</sup> that uses cross-country data indicates a negative relationship between fiscal decentralisation in government spending and corruption, suggesting a link between centralised spending and rent seeking.

Other research indicates that the impact of fiscal decentralisation on corruption is again dependent on the specific institutional environment. An empirical analysis from the United States<sup>12</sup> demonstrates that fiscal decentralisation does not necessarily decrease corruption and the exact type of decentralisation design applied remains a crucial factor. The results of their analysis show that general-purpose decentralised government entities (e.g., municipalities or general districts) are more prone to corruption than specific-purpose entities (e.g., school or water districts), although the exact effect of the latter are mixed.

As a general note it is important to stress the fact that economic models such as Principal-Agent theory suggest that corruption is prone to arise as long as the economic incentives of the local officials (Agents) diverge from those of the ultimate “owners” of the public resource (i.e., citizens

11 Fisman R., Gatti, R. 'Decentralization and corruption: evidence across countries, Journal of Public Economics, Volume 83, Issue 3, 2002.

12 Goel, R.K., Nelson, M.A. Government fragmentation versus fiscal decentralization and corruption. Public Choice n148, 2011, pp. 471–490.

or alternatively, elected central government). In that sense, it may be naïve to expect decentralisation to constitute a panacea to corruption by itself, since it does not automatically remove the divergent incentives. Therefore, the design of the local institutions and the mechanisms for accountability and control, together with a specific incentive structure are crucial elements to improve the levels of corruption and rent seeking in public spending.

### **Fiscal decentralisation and quality of public services**

The relationship between fiscal decentralisation and the quality of public services is tightly linked to corruption, as higher levels of corruption tend to erode the quality of public service due to inefficient procurement procedures. Rent seeking and lack of efficient competition in the procurement of public services or public goods naturally deteriorates the overall quality. The results of Goel and Nelson<sup>13</sup> extend to public services and show that the quality does not improve with fiscal decentralisation in the case of general-purpose governments, but ameliorate in the case of specific-purpose entities.

A 2015 IMF paper<sup>14</sup> examining the link between fiscal decentralisation and public service

Rent seeking and lack of efficient competition in the procurement of public services or public goods naturally deteriorates the overall quality

13 Goel, R.K., Nelson, M.A. Government fragmentation versus fiscal decentralization and corruption. *Public Choice* n148, 2011, pp. 471–490.

14 Sow, M., Razafimahefa, I. 'Fiscal Decentralization and the Efficiency of Public Service Delivery.' IMF Working Paper WP/15/59, 2015.



delivery provides some empirical insights on the topic. The results suggest that fiscal decentralisation can increase the efficiency of public service delivery only in a specific institutional environment, with a sufficient level of decentralisation of both expenditures and revenues. The paper shows that without these conditions, decentralisation would actually deteriorate the quality of public services.

### **Fiscal decentralisation and inequality**

One of the main roles of governments is the redistribution of wealth that is done through taxation either at a state or at local level. The size and effectiveness of redistributive policies can have a large impact on income inequality, as they are one of the most important mechanisms to close the income gaps within a country. According to a 2014 IMF research paper<sup>15</sup> across a large sample of countries, decentralised government expenditure can lead to a more equal income distribution but only under certain conditions. First, the government sector needs to be sufficiently large (at least 40% of GDP). Second, the decentralisation should be comprehensive, implying a large redistributive capacity of the government and finally yet importantly, a decentralisation of taxation and revenues should be matched with a decentralisation of government spending, meaning that local governments must have the capacity to carry out public services at a local level.

Another piece of empirical research across OECD countries<sup>16</sup> suggests that decentralisation can reduce inequality as a whole, as measured by the Gini coefficient. However, the results show that the effect varies across the income distribution: fiscal decentralisation is negatively correlated with inequality between the high and median levels of income, but could lead to an increase in inequality between the low-income parts of society and the middle class.

In another OECD paper,<sup>17</sup> the authors suggest that the decentralisation

15 Goertl C-A., Seiferling, M. 'Income Inequality, Fiscal Decentralization and Transfer Dependency'. IMF Working paper WP/14/61, 2014.

16 Stossberg, S. and Blöchliger, H.. 'Fiscal Decentralisation and Income Inequality: Empirical Evidence from OECD Countries' Jahrbücher für Nationalökonomie und Statistik, vol. 237, no. 3, 2017, pp. 225-273.

17 Blöchliger, H., D. Bartolini and S. Stossberg, 'Does Fiscal Decentralisation Foster Regional Convergence?', OECD Economic Policy Papers,

of own-resource revenues and taxation power to local governments can lead to an improved inter-regional convergence in terms of GDP per capita. The paper also finds that fiscal transfers from the central government are generally associated with an economic divergence. Finally, the study also suggests that poorer regions benefit more from decentralisation than richer ones.

Therefore, based on the academic studies discussed above, we can state that while some of the empirical evidence suggests that decentralisation can reduce income inequality within countries, policymakers need to exert caution since the specific effects across the income distribution are difficult to predict and can diverge from the desired ones.

### **Conclusion on the impact of fiscal decentralisation**

A 2019 OECD report<sup>18</sup> focusing on current trends in the decentralisation makes the case that decentralisation cannot be regarded as a policy goal by itself and that different outcomes in terms of democracy, efficiency, accountability and economic development are a function of the policy design and implementation. According to the report, decentralisation should only be carried out in order to implement clear policy objectives but is not a goal in itself.

Decentralised government expenditure can lead to a more equal income distribution but only under certain conditions

No. 17, 2016.

18 OECD Making Decentralisation Work: A Handbook for Policy-Makers, OECD Multi-level Governance Studies, OECD Publishing, 2019.

Thus, based on the brief literature review provided, we could say that fiscal decentralisation can potentially have a positive impact on the macroeconomic stability, public services, corruption and inequality. However, the desired effect can only be achieved through a set of carefully calibrated policies and an inadequate policy mix can lead to the opposite effects.

## Is fiscal decentralisation desirable in the Bulgarian context?

Having provided four channels through which fiscal decentralisation can have a significant public policy impact (macroeconomic and fiscal stability, corruption, quality of public services and income inequality) in the previous section, we can now explore whether fiscal decentralisation would be an appropriate policy in the Bulgarian institutional and socio-economic context by basing our analysis on some of these factors.

### Macroeconomic stability

For more than two decades, Bulgaria has maintained a conservative and prudent fiscal policy at the government level and had the third lowest debt to GDP in the EU at about 25% of GDP in 2020<sup>19</sup>. The country is relatively stable macroeconomically and enjoys an investment grade on its government debt.

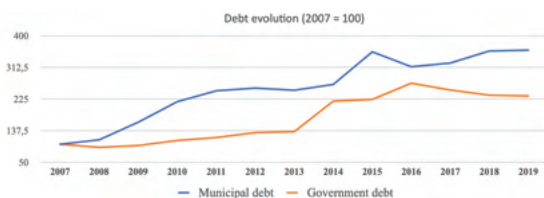
However, the level of municipal debt has grown disproportionately since 2007, increasing 3.5 times since then. A further degree of fiscal decentralisation on the expenditure side can also be related to the accumulation of debt at the local level and carries risks for the central government if appropriate mechanisms for control are not put in place. Fiscal rules at the municipal level can be such mechanisms since they can allow the government to introduce legislation requiring

<sup>19</sup> Eurostat data visualisations.

[https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:General\\_government\\_debt,\\_2019\\_and\\_2020\\_\(%C2%B9\)\\_\(General\\_government\\_consolidated\\_gross\\_debt\\_%25\\_of\\_GDP\).png](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:General_government_debt,_2019_and_2020_(%C2%B9)_(General_government_consolidated_gross_debt_%25_of_GDP).png). Accessed on July 5, 2021.

municipalities to remain fiscally prudent even if they have a larger degree of discretion in their spending. Such rules would fit the Bulgarian institutional setting and macroeconomic tradition in the last decades since the country has adhered to a Currency Board Agreement (CBA). The CBA can be regarded as an indirect fiscal rule since it limits the central government's ability for deficit financing.

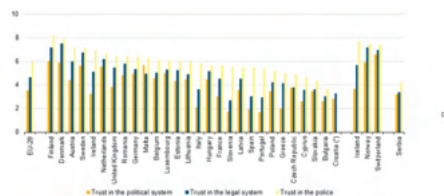
Figure 5: Evolution of municipal and total government debt (Source: Ministry of Finance, author's calculations)



### Trust in institutions

The general level of trust in institutions in Bulgaria is the second lowest in the EU 28 according to a Eurostat study<sup>20</sup>.

Figure 6: EU citizens trust in national institutions (Source: Eurostat)



<sup>20</sup> Eurostat data visualisations.

[https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Trust\\_in\\_institutions\\_by\\_country\\_2013.png](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Trust_in_institutions_by_country_2013.png) Accessed on July 5, 2021.

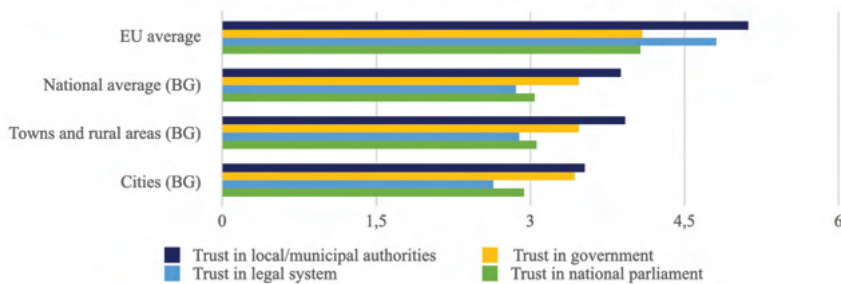
Fiscal decentralisation can potentially have a positive impact on the macro-economic stability, public services, corruption and inequality

This low level of trust from Bulgaria citizens can be related to high levels of corruption perception, numerous examples of embezzlement and misuse of public funds and a lack of major convictions of politicians or other public figures, suggesting a lack of an effective judicial system and an absence of accountability.

Using granular data from a 2015 study<sup>21</sup>, we can observe that across the Union but specifically in Bulgaria, local institutions enjoy a higher level of trust than the national parliaments or the judiciary. The study corroborates the fact that Bulgarians generally trust their institutions much less than the EU average. However, the trust in small municipalities is generally higher than in larger ones, implying that people in small municipalities appear to trust their local institutions much more than the ones in larger cities.

These findings potentially suggest that citizens in Bulgaria could be comfortable with more fiscal decentralisation, although this inference cannot be proved with the available data.

Figure 7: Trust in institutions (Source: Weziak-Bialowoska and Dijkstram, 2015)

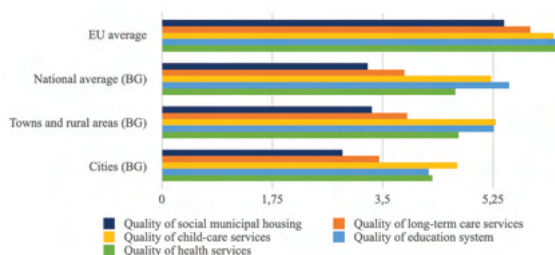


Taking a look at the quality of public services, the perception of quality of public services in Bulgaria is again well below the EU average. The

21. Wlziak-Bialowoska, D., Dijkstra, L. 'Trust, local governance and quality of public service in EU regions and cities', EU Commission Joint Research Center, 2015.

gap is particularly wide in services such as municipal housing and long-term care services and relatively small for education. Towns and small municipalities in Bulgaria score better than cities again. While it is difficult to judge the absolute level of quality, these results suggest a relatively high level of satisfaction among citizens in smaller municipalities compared to the ones in cities.

Figure 8: Perception of quality of public services (Source: Weziak-Bialowoska and Dijkstram, 2015)



### Inequality and growth

Bulgaria is the most economically unequal country in the EU with a Gini coefficient of 41.7 in 2019, compared to 30.2 for the EU-27 average. The country is also very unequal within regions, with the capital Sofia contributing to 42.8% of the nation's GDP. Moreover, all of Bulgaria's regions except the capital are among the poorest in the EU: Sofia's GDP per capita is 38 603 BGN compared to a mere 16 340 BGN for Varna, the second wealthiest city/region<sup>22</sup>.

This low level of trust from Bulgaria citizens can be related to high levels of corruption perception, numerous examples of embezzlement and misuse of public funds and a lack of major convictions of politicians or other public figures

<sup>22</sup> Ignatova, Ignatova, Ignatova, L. 'Икономическата пропаст между София и остана-

Given the magnitude of country's interregional inequality, the challenge of closing the income gap across regions is a major policy issue that could be potentially addressed by fiscal decentralisation. As previously discussed, an OECD paper shows that decentralisation can be instrumental in accelerating economic convergence, particularly in poorer regions. In the case of Bulgaria, this can be imagined through a stronger competition among regions that will benefit from increased economic policy toolbox to incentivise investments and job creation.

### **Discussion: route ahead and obstacles to future reform**

Bulgaria's administrative structure remains relatively centralised by European standards. The country also remains relatively centralised by most measures of fiscal decentralisation. As discussed, the pace of decentralisation reform has lost momentum in the last decade and has even somewhat reversed due to the large inflow of EU funding towards regional development and small municipalities.

The Bulgarian political landscape is evolving rapidly in the last months as the incumbent GERB party is likely to be out of the government for the first time in 8 years and new anti-establishment parties have entered the parliament. Bulgarian authorities should now make steps to approach towards the EU average in terms of local government revenues and local expenses.

Nevertheless, while the political environment is potentially more conducive to continue the fiscal decentralisation ambitions that were previously set, major obstacles remain. One of the major obstacles will be whether the central government will be willing to concede more taxation competences to local authorities without increasing the effective tax rate. As previously mentioned, this was until now the implied stance of the government, which seemed unwilling to reduce its receipts from the regions, leaving local authorities with the only option to increase taxes in order to collect additional revenues.

---

лата част от страната нараства'. Capital daily, 2021

From a revenue side, the best EU practice shows that fiscal decentralisation is to focus on personal income tax, corporate income tax and VAT (in a decreasing order). However, in order to avoid “tax arbitrage” the central government should aim to not increase the total tax but rather give local authorities a share of existing taxes. This would incentivise local authorities to optimise the tax burden of their constituents rather than increase it. Moreover, giving local authorities increased control over local taxation can lead to an improved tax collection, which is a prevalent issue in the Bulgarian economy.

---

The country also remains relatively centralised by most measures of fiscal decentralisation

From a macroeconomic perspective, given the rapidly increasing local government debt, decentralisation of expenses could lead to a better fiscal discipline by increasing accountability and transparency of expenses. However, given the alarming levels of local debt being accumulated and a relatively immature institutional environment, strict mechanisms need to be put in place in order to reduce the risks of corruption or overspending.

From an institutional perspective, as previously discussed, Bulgarian citizens appear to place a higher trust in their local institutions than in the central authorities, which could also provide a basis for further fiscal decentralisation. Satisfaction with public services and the quality of the infrastructure is well below the EU average, which shows that there is a significant room for improvement in the way public money is spent. Moving



towards a larger degree of self-reliance can also encourage local officials to develop projects that are better adapted to the needs of their constituents instead rather than “reverse engineer” projects that are eligible for EU funding. Furthermore, the current levels of excessive reliance on transfers from the central government budget for capital expenditures but also for human capital investment create an unsustainable development model.

Based on the analysis in the paper, we would therefore welcome some degree of further fiscal decentralisation in Bulgaria. Still, risks of corruption and rent seeking will persist even in a more decentralised system since local business groups and lobbies will have an even more direct access to relevant decision makers in the public administration. Therefore, strict rules that limit the opportunity for bribery and embezzlement are imperative in order to ensure adequate management of public funds. Such mechanisms can include fiscal rules for municipalities introduced into the national legislation and stricter and more transparent procurement processes in order to ensure sufficient competition for public contracts. Furthermore, better and systemic accountability rules are also necessary such as regular independent audits and quality controls.

## Concluding remarks

Bulgaria is among the least fiscally decentralised countries in the EU according to two of the standard measures we have evaluated. The country can benefit by a larger degree of fiscal decentralisation, which would reduce the dependence on the central government and the political cyclicity of EU and other government funding towards the local authorities. A larger degree of autonomy on taxing and spending could also stimulate local authorities to better adapt to the needs and expectations of their constituents rather than “reverse engineer” projects that are eligible for EU funding. This could in turn improve the quality of the infrastructure and public services in the long run.

Furthermore, fiscal decentralisation can be beneficial in solving some of Bulgaria's structural problems such as a deepening interregional inequality by giving regions that are lagging behind a larger freedom in determining their economic policy through taxation and public investments. It will also allow regions to become more independent from government transfers that could ultimately have a positive impact on the democratic process in the country.

Nevertheless, fiscal decentralisation is not a panacea for corruption and low quality of public services but rather a tool for achieving certain objectives. Fiscal decentralisation that is not accompanied by the appropriate mechanisms for accountability and control can result in excessive indebtedness, a trend that is already visible in Bulgaria, as municipal debt significantly outgrows total government debt in the recent years. The exact mix of mechanisms is a topic for further discussion; however, the mechanisms could be a combination of structural and accountability rules that provide a limit to the downside risks of fiscal decentralisation.

---

Fiscal decentralisation is not a panacea for corruption and low quality of public services but rather a tool for achieving certain objectives

# The failure of recentralisation. How the COVID-19 pandemic dispelled the illusions of government omnipotence in Poland

**Pawel Rabiej**

Paweł Rabiej (born 1971), co-founder and Board Member of Nowoczesna liberal party, Deputy Mayor of Warsaw (2018-2020), CEO of THINKTANK Analytical Center (2009 – 2015). He specializes in the areas of strategic management and leadership in the public sector, innovative social services, and public health.



# CHAPTER 6

## Chapter 6

# The failure of recentralisation. How the COVID-19 pandemic dispelled the illusions of government omnipotence in Poland

---

### Introduction

**Pawel Rabiej**

For several years, Poland has been undergoing a rapid process of “new centralisation” and the limitation of democratic control over institutions. Yet, the pandemic proved that concentrating power in time of crisis and uncertainty simply does not work. The government failed to deal with new challenges, while local networks of power were operating effectively. Time for more decentralised governance had come.

In the spring of 2020, almost on the eve of the pandemic, three decades of Polish self-

government have passed. The local government reform, initiated in 1990 as part of the “great Polish transformation”, is unanimously considered one of the greatest achievements of Polish changes, with strong, efficient and respected local authorities. At the same time, it was the fifth year of recentralisation crusade, carried out by the populist United Right government. After more than two decades, triumphant “new centralism” slowly replaced smooth co-governance of central and local administration.

---

The pandemic proved that concentrating power in time of crisis and uncertainty simply does not work

### Four ways to crush local government's power

The ruling camp has consistently weakened local authorities, depriving them of the possibility of shaping their own policies, including in the fields of education, environment, health and taxation. Although the constitutional separation of powers is maintained (local elections are free and won in 2018 by representatives of the opposition, local authorities are not formally subordinated to the government), local authorities are not treated as a co-governance partner, but as a political rival that must be weakened and taken over. Recentralisation accelerated just before the pandemic, becoming one of the key political goals of Law and Justice. The ruling party impairs local government in four ways:<sup>1</sup>

<sup>1</sup> D. Szelcillo, “Local government – center. Balance sheet after thirty years since the rebirth of self-government and five years of new centralism”, Batory Foundation, Warsaw 2020

- Reducing incomes and imposing new tasks (self-government starving). On one hand, new regulations are introduced that deprive local governments of financial revenues, including tax reliefs and exemptions in the personal income tax (which is the main source of income for cities and municipalities). On the other hand, central government delegates more public tasks to the local government without securing their financing. As the Association of Polish Cities indicates, the solutions recently proposed in government's post-pandemic stimulus plan "New Deal" may reduce the financial income of local communities by up to 20 %, and threaten the liquidity of up to 1/3 of them.
- Introducing clientelist relationship model. Local authorities are limited by the central administration to the position of "petitioner". Those polite enough, or loyal to the ruling party, get more money from the central budget or facilities enabling them to carry out investments. The Local Government Road Fund is one of the "new centralism" emblems: subsidies for the construction or renovation of local roads are allocated by commissions established by the government administration, on a discretionary basis and without the possibility of independent verification of their decisions. Fund is one of many convenient tools for buying loyalty, and punishing those regions where the opposition rules.
- Ignoring local authorities in relations with local communities. Violating the principle of subsidiarity, the government creates different central funds, bypassing local governments and supporting local initiatives or institutions directly. Thus, it puts itself in the role of a «distributor of gifts» and undermines trust in local authorities.
- Attacking self-government openly. Ruling party politicians and the media subordinate to the government create a false image of an ineffective, contradictory self-government that puts a spanner in government work. Warsaw, whose mayor Rafał Trzaskowski ran in the 2020 presidential election, challenging the incumbent president Andrzej Duda, is under particularly fierce attack. Central authorities, on the other hand, are portrayed as well organised, effective

rescuers of poorly managed local communities.

### Local government is still holding tight

Nevertheless, for three reasons, the Polish self-government still remains an important centre of governance and makes a real counterweight to the central government. It distinguishes Poland from Hungary, where the ruling camp made significant progress in dismantling self-governance.

First, local governments are strongly supported by citizens. In the 2018 elections, many newly elected officials received 65-70% support. Local authorities are efficient and trustworthy. According to CBOS research from March 2020, 74% of Poles express confidence in local government - this is the highest level of trust in the history of this research. The long-term trend indicates a systematic decline in negative ratings, which do not exceed 20%.<sup>2</sup>

Second, strong and efficient government sounds for many Poles like a fairy tale rather than reality, due to many unrealised plans and broken promises. Unrealistic announcements of Prime Minister Mateusz Morawiecki in his «Strategy for Responsible Development», such as «a million electric cars» or «a million apartments», have already become a national joke. The government has wasted five years

---

Fund  
is one  
of many  
convenient  
tools for  
buying  
loyalty

<sup>2</sup> CBOS Public Opinion Research Center, Social Trust, 4/2020, p. 3



trying to pursue own apartment rental program, rather than leaving it to local governments and providing funding to them. Out of a million electric cars made by government, not one has ever hit the road.

Third, distrust of the central government and the practice of macro-management of micro-problems. The dodgy ruling party plays a good master-protector who cares about people's problems. But recent decades have shown that local problems need to be dealt with locally, not at distant headquarters. Warsaw is not the right place to make decisions concerning municipal roads, and citizens know it well.

The outbreak of the pandemic could have led centralisation to go a few steps further. The pandemic has been exploited by local strongmen and authoritarians to consolidate their power and justify human rights' violations all over the world, as strong-handed rule is more accepted in emergency, unpredictable and threatening times. It did not happen in Poland, however. The reason is that local authorities passed the test, while the central government failed it. The civil resistance against organisation of the presidential elections in pandemic time, and the attempts of limitation of civil rights and freedoms, including imposition of controversial, near-total abortion ban at the end of 2020, were important factors, too.

## How the mighty fall

The United Right government fell victim to its own propaganda. In the face of the pandemic, the illusion of its omnipotence and effectiveness dissipated quickly. Government handled the public health crisis relatively well early on, ordering a tight lockdown from March to the end of May 2020 (closing parks and forests including), and lifting severe restrictions in June and July in the final weeks of the presidential election campaign. But its response to the second and third phases was chaotic and erratic, both in terms of decision-making and public messaging. Serious management shortcomings of the centralised power occurred.

### State preparedness deficit

The pandemic surprised many governments, but in Poland it has clearly shown the lack of contingency plans and risk analysis. Institutions were paralysed, with no will to react. Central institutions turned out to be unprepared for securing resources, creating emergency, reporting and response procedures, developing and implementing high-quality command, based on a clear division of competences and excellent team management. The state's readiness to react was low in the first phase, but it did not increase in the second and third phases of the pandemic either – tremendous difficulties in creating new, provisional hospitals for COVID-19 patients or organising vaccination process were good examples of it.

It resulted in ill-considered, chaotic, inconsistent and frequently changed decisions. The government's «Strategy for Combating the COVID-19 Autumn Pandemic», as one of the experts pointed out, «will remain a monument to the incompetence and disregarding the most serious threat to the health and life of Poles since World War II».<sup>3</sup>

Central government inertia was clearly visible when compared with more smooth actions of Taiwan, Korea or Germany governments.

Recent decades have shown that local problems need to be dealt with locally, not at distant headquarters

<sup>3</sup> D. Szelić, „COVID-19 exposes PiS. Fatal consequences of centralization of power and marginalization of provinces”, OKO Press, <https://oko.press/pandemia-ujawnia-fatalne-skutki-centralizacji/>

## **Data mismanagement**

In no other EU country, the epidemic statistics were as opaque as in Poland, and data collecting and processing so unprofessional. It is ironic that a 19-year-old student and data analysis enthusiast from Toruń embarrassed the government from behind his home desk, creating with the help of his colleagues from all over Poland a nationwide database on diseases. It was only on its basis the government and scientists developed models of the pandemic spread and the response to the crisis.

The lack of reliable data created a sense of chaos, and the government was accused of under-counting cases of infections and deaths linked to the virus, which strengthened coronavirus sceptics. Reluctant of cooperation and distrustful of science sector, the government did not use the potential and knowledge of experts. During the pandemic, no central advisory body of public health, epidemiology, education and social care experts has been established to develop the best response methods. Consultations with local authorities and cooperation with them were façade, and none at all with non-governmental organisations - a key partner in social welfare policy. Thus, the opportunity to mobilise resources and knowledge, to cooperate and to use the collective experience of various levels of administration in combating the pandemic was irretrievably lost.

## **Neglected lower-level government administration**

The pandemic highlighted the previously unseen weakness of the central government representatives in provinces - it turned out to be the most neglected area of public administration. Firstly, because of the substantive weakness and negative selection of staff, and secondly - because of insufficient funding. The local level of government administration, bringing together various services (including, for example, the sanitary inspection and emergency services) was not able to perform crisis management coordination.

Voivodes (representants of government in regions) got stuck in competing with local authorities, while losing the ability to manage crisis situations. This calls into question the existence of this office in this form. While in Italy or France, in the last dozen years, reforms strengthen the integration of regional government institutions around the voivode (prefect), in Poland, attempts are being made to make voivodes political supervisors of local self-authorities.

### **Profligacy and financial abuses**

Government procurement during pandemic was far from transparent and it has resulted in numerous fraudulent activities. In the spring of 2020, the Ministry of Health signed a contract with a company owned - as it turned out - by an arms dealer without a tender. It was supposed to deliver 1241 respirators in a short time. Only 200 was delivered, despite the fact that the government had paid over EUR 33 million (the entire contract was worth over EUR 43 million). A year after transaction, only half of the amount was recovered.

The purchase of face masks for 30 million EUR by the state-owned copper giant KGHM, on behalf of government, was another example. It was bought in a small Chinese company, and transported by the world's largest plane, the Antonov An-225 Mrija, with Byzantine style propaganda show. It was quickly revealed however, that PPE just bought doesn't have certificates guaranteeing any protection for users.

---

No central advisory body of public health, epidemiology, education and social care experts has been established to develop the best response methods

Serious allegations of corruption have also surfaced. Even before the pandemic, the ruling party significantly widened the field of abuses, laying the ground for a “great corruption” by embedding corruption in the state system.<sup>4</sup> As part of the special law to combat the COVID-19 pandemic, the government introduced a rule exonerating public officials from responsibility for abusing their administrative power or causing a financial loss in business transactions. “Most of the pandemic-related medical procurement was handled without transparent procedures or public tenders, and instead relied on murky transactions based on the personal connections of government members” – “The Freedom House” report states.<sup>5</sup>

### **The «propaganda of success» trap**

The uncertainty and fear associated with the pandemic called for clear and honest communication. Meanwhile, the government was unable to go beyond its propaganda habits, reassuring citizens on a daily basis that «the battle is almost won», regardless of the situation. Instead of consistent messages and clear instructions, citizens were fed with a mantra of slogans and propaganda performances.

While German Chancellor Angela Merkel encouraged citizens to «patience, discipline and solidarity» – the three basic aspects of an effective response to the pandemic – Prime Minister Mateusz Morawiecki announced during presidential rally that «the virus was in retreat” and Poles no longer had to fear it. The government did a little communicate fairly and clearly, nor did it want to fight rumors and distrust by sharing information with the public broadly and openly - just as Finland has done through the experiences of the media literacy program, enlisting social influencers in the government’s efforts to contain the coronavirus pandemic.

---

4 G. Markowski, “Laying the groundwork for great corruption: the Polish government’s (anti-)corruption activities in 2015-2019”, Batory Foundation, 2019

5 Freedom House Report Poland 2021, <https://freedomhouse.org/country/poland/freedom-world/2021>

## Smaller is much smarter

Different approach was adopted by local authorities. They were also surprised by the situation, but were much better prepared for crisis, as they had to deal with local crisis - floods, breakdowns and natural disasters - more often. By nature, they are also more sensitive to local needs and open to inclusion. The quick and efficient response of local authorities was the result of a combination of several factors.

### Crisis management first

Crisis teams responsible for coordinating activities in the field of social policy, health and safety have been established in many cities, to define priorities quickly and ensure safety in the first line - hospitals and medical centres. Only in Warsaw, 10 hospitals run by the city and numerous health centres were instantly supported with the necessary equipment, including respirators and PPE, at a cost of approx. EUR 5 million. When the government sounded like a notorious boaster, local governments secured hospitals and social welfare homes to ensure frontline workers - doctors, nurses, paramedics and citizens - a sense of security and stability.

### Flexible, networked approach

Local crisis management teams made extensive use of experts and involved many stakeholders, including representatives of the government administration, in their activities; ensuring a quick flow of information between them. It was the level of cities, less often

---

The  
uncertainty  
and fear  
associated  
with the  
pandemic  
called for clear  
and honest  
communication

regions, that became a field for the exchange of real data, information and ideas, and for strategic decisions.

Exchange of information by local leaders and openness to diverse options and opinions were a key in effective deciding how local institutions - hospitals, nurseries, schools - are to operate in new conditions, such as where to create new beds for COVID-19 patients in hospitals, how to ensure effective remote learning for school students or the operation of nurseries. Each of these areas required dozens of decisions and consultations, and resilience was achieved through a wide network of co-decision makers, consultations and collaboration.

### **Caring for the most vulnerable groups**

The socially vulnerable groups that needed to be given special attention were quickly identified. Local authorities focused, inter alia, on the homeless, seniors and people with disabilities. In Warsaw, a special program to help people in the crisis of homelessness was established: additional temporary isolation and accommodation facilities were built for them within a month. Dedicated social bus was also introduced in cooperation with NGO's, supplying several hundred people with food and cleaning products every day.

The city authorities purchased 8,000 food rations sufficient for a week board, and with "Food Bank" help, the warehouse was opened to supply people in need or those who lost their incomes in the lockdown. Other efforts targeted seniors in home isolation and in nursing homes, reducing the risk of outbreaks was the key challenge there.

### **Chains of solidarity**

At the local level, self-organisation of citizens on a massive scale was observed, to help people who have been isolated or quarantined. The neighbourly assistance services were created, and the activities of non-governmental organisations developed, supported then by local authorities.

In Warsaw, in the first weeks of the pandemic, the «Warsaw Supports» network, consisting of representatives of the city's districts and

volunteers, started – with aim to help people who found themselves in isolation or in quarantine. More than a thousand people were involved, shopping for food and cleaning products for people stuck in their homes, helping them take out the rubbish or walk the dog. Help-lines of psychological counselling were also launched for people in depression and for crisis interventions. Similar actions in other cities were taken.

Social service in Poland is decentralised and conducted at the local level, with a large share of non-governmental organisations receiving grants for this purpose. The potential of these support networks allowed for a quick response. The private sector has also reacted swiftly, making significant donations to institutions or supporting NGOs directly. The model of supporting vulnerable groups of citizens during a pandemic was built with a vast multi-dimensional and multi-sectoral approach in many local governments. Local authorities, NGOs and the private sector were jointly managing the network-coordinated aid activities.

### **Leading by example**

While the pandemic information campaign was led by central government, many local leaders were active in warning of risks and epidemic related rules reminding, communicating regularly with citizens via social media. They had also set a personal example, being often on the front line, visiting hospitals and community facilities. During the pandemic, local leaders have become more resilient, and their empathy, innovation and courage have even grown.

When comparing the actions of central and local authorities, two different approaches can be noticed. The government decided that its method to fight the pandemic would be a classic war, mobilising all resources and competences in a centralised command and making all decisions top-down. At the local level, cooperation, bottom-up identification of challenges, flexibility and dialogue were of key importance.

Central government activities during the pandemic challenged the myth that radical centralisation is indispensable in crisis situations. Many Poles



felt misled by the government's earlier optimistic statements, and United Right government reputation for competence was severely undermined, as the administration often appeared rudderless in the face of an escalating crisis. As the Open Eyes Economy Summit report pointed out, the pandemic "highlighted deficiencies in coherent communication and operation of the central and local government. The standard behaviour of the central (political) government can be characterised as omitting social consultations (including the lack of talks with local governments) and disregarding the social and financial consequences of the actions taken".<sup>6</sup>

Citizens evaluate local government approach higher in research. According to the Eurobarometer survey, only 36% of Poles are overall satisfied with the actions taken by the government during the pandemic (the EU average is 43%). 51% Poles (the EU average) are satisfied with the actions of local authorities.<sup>7</sup> The pandemic was not combated with the classic "war", and many resources and social trust were squandered due top-down approach. The division of tasks between central and local government and «localisation» of decision-making competences and resources (e.g., in vaccination planning and implementation) proved to be much more effective.

### Three lessons from crucible experience

The pandemic has been a test of the effectiveness of the state and public leadership, and the experiences we had may become a source of inspiration to improve the quality of public administration and quality of democracy. Three conclusions seem to be the most relevant.

#### **More focus on management and leadership skills.**

Professional reflection on management is developing for over one

---

<sup>6</sup> "Between extraordinary tasks and limited possibilities. Local government during the pandemic". Open Eyes Economy Summit Report, Kraków 2020

<sup>7</sup> Standard Eurobarometer 94, Winter 2020-2021, National Report Poland, p. 3

hundred years, dozens of proven practices and management ideas were created, a useful toolbox for leaders in all areas. Public leaders could make use of them more often. In the first weeks of the pandemic, the Bloomberg Harvard City Leadership Initiative – created by Bloomberg Philanthropies, Harvard Kennedy School and Harvard Business School – helped many mayors of global cities by creating a platform for exchange views, collaboration and discussion; improving thereby the quality leaders' decisions in a crucible pandemic experience.

All this, was a significant source of managerial inspirations and up-to-date knowledge. More such initiatives are needed on European level. The public management and the development of leaders - in politics, administration, NGOs (to become a fully-fledged partner of power) - must be taken seriously as part of the EU agenda for the future. Leadership matters - great organisations always "have the right people on the bus", as Jim Collins put it. We don't need narcissist or autocratic leaders, but leaders who can encourage, engage, develop trust and empower people to work together. Leaders who can navigate efficiently between different leadership styles - forcing and engaging, strategic, and tactical.

### **More "networked governance".**

The state is by its nature a complex network structure, a web of relations and interdependencies. Modern states operate in more than ever volatile and uncertain

---

We don't need narcissist or autocratic leaders, but leaders who can encourage, engage, develop trust and empower people to work together

environment - and that will not change in the future. To be effective, they should draw strength from the knowledge, experience and commitment of all stakeholders, and master the art of dialogue and partnership. "Networked governance" model underlines the importance of the external network for effective governance in the public sector. Effective governance networks consist of central authorities, local government, social and economic groups, interest groups, non-governmental and commercial organisations.

Public governance should be about «orchestrating» these networks rather than subordinating them. Local authorities in Poland followed this path, undertaking effective social interventions in the pandemic with its many stakeholders. European governments could develop local multi-sectoral activities – using volunteering, citizens' energy and skilful cooperation with local entrepreneurs. There is a room for developing local community leaders and local support networks, including by investing in digital community-based collaborative platforms that allow people to organise and act.

Public institutions are reluctant to cooperate even with each other, which creates «development loops» and hinders social development. Co-management, co-decision making and «decision-making competition» should become, to a greater extent than today, the daily practice of public institutions. Participation needs more time to make decisions. But it makes institutions more resilient, and consensus-based decisions are more deliberate and accurate. "Networked Governance" is more engaging, increases the ability to cooperate and trust between organisations, develops citizens and stakeholders, strengthens democracy and civil society. It also ensures more rule of law and transparency - and perhaps better protects citizens against discouragement and the feeling that they have no influence on matters important to them.

### **Multi-level decentralisation.**

The pandemic has shown the faith in Leviathan and the central government in many countries was excessive, although the game is not over yet. Many governments are tempted to take more power and

curtail civil rights. However, the citizens could feel deceived – the efficient, centralised state ensuring social and health security turned out to be a myth. In the end, responsibility for their fate fell on the supposedly undisciplined and irresponsible citizens. A centralised state, which is constantly vigilant and acting, like the «eye of Sauron», is a dangerous delusion worth dispelling. Political, economic and social decentralisation should become the most important point of the liberal and democratic agenda in the 21st century.

The creeping recentralisation affects various activities of the state, destroying institutional and local competition. Thus, decentralisation should be multi-level: it should apply not only to the central government - local government relations, but also to each of these levels separately (transferring competences lower, empowering subordinate units within the framework of bureaucracy). Local authorities should also be decentralised, as they succumb to centralisation pathologies, often imitating central institutions. More of their activities could be transferred to NGOs, and some to the private sector, which will perform these tasks more efficiently, more effectively and often cheaper.

Based on the personal experience of the Author, the habit of centralisation destroys initiative even at the self-government level, which should be open and participatory by definition – as an example, in Warsaw there have been serious difficulties faced to overcome the “centralistic hubris” and to

---

Political,  
economic  
and social  
decentralisation  
should  
become  
the most  
important  
point of the  
liberal and  
democratic  
agenda in the  
21st century

implement, together with the private sector, the largest program in Europe of free nurseries for families raising small children. Almost 6000 new seats were created by private sector in just few months and bought by a city in tenders as a high-quality service; total number of nursery services offered to the citizens for free was doubled without any investment. The homeless care system was also decentralised and ran by a dozen or so non-governmental organisations, according to the standard set by local authorities. Decentralisation and coordination were much better solution than years of bureaucracy efforts, but it needed courage and determination to force it.

### **Decentralisation needed more than before**

Centralisation has gone too far, and the crucial role of governments should be to restore a climate of trust and independence rather than to strengthen their own control. The European Union and its member states need again a lively discussion about the right balance between centralisation and recentralisation; without such reflection, the quality of public services will deteriorate, and governments will degenerate.

As Velimir Lonje and Kristijan Kotarski noted in their book “Corona Economics”, the pandemic has reminded of the latent presence of authoritarian economic and political “sleeping ideas” in democracies, ready to wake up by external shock.<sup>8</sup> Helicopter money, discredited EU, self-sufficiency, nanny-state, alleged superiority of undemocratic societies, need of recentralisation and a few more – all of those ideas already crawled out of the Pandora’s Box, being offered as solutions for social problems.

However, governments failures during pandemic have shown citizens – partly at least – that such solutions are based on dangerous misconceptions. No one central government was able to cope with such a complex situation alone, without self-government or the involvement of citizens. In Poland, resistance to recentralisation and abuse of power by government during pandemic arose in many circles

---

<sup>8</sup> V. Lonje, K. Kotarski, *Coronaeconomics: The Five Horsemen of Apocalypse*, ELF, 2021

– from liberal to left-wing and even populist. The government push for unconstitutional «envelope elections» (postal election of the president in spring 2020) contributed to this, which raised widespread fears of disrupting the electoral system and election rigging. Chaotic lockdowns and leaky “crisis shields” sparked off numerous social protests, as did the violation of civil rights, especially concerning LGBTQ + society, and the tightening of the abortion law. The protests of the «Women’s Strike» related to the restriction of the right to choose have become the largest civil protests in Poland for last three decades, with brutal and ruthless response of police.

The fewer political and economic decisions are made at the top of the government, the healthier it is for citizens. The lower levels of government these decisions are made, the easier it is for citizens to control them. The stronger civil society is against power, the less abuses there will be. The more of the national income is privately owned, the less waste there will be to the economy and social trust.

From the state management perspective, the regional self-government should gain greater competences in the field of health, education and social policy. In terms of the availability and quality of healthcare, Poland is at the lower end of the OECD countries (including low availability of diagnostics, long waiting times for treatments, lower chances of curing cancer patients, regional differences in access to services). Excessive centralisation is to blame here, as in other countries of the CEE

---

The European Union and its member states need again a lively discussion about the right balance between centralisation and recentralisation

region. All relevant financial resources and competences are concentrated in the government administration, the Ministry of Health (strategic decisions) and the National Health Fund (financing). Both of these institutions have 96% of public expenditure on health at their disposal, and only 4% remain for local government health policy - for example, preventive health care, which is crucial for citizens' health and welfare. Hence the postulate of self-governance and reconstruction of the public health service at the local level, so that the regions could better adjust health priorities to their needs.

In countries affected by a wave of populism and centralism, the challenge is also to maintain the independence of local government, NGOs and civic society organisations. The local government in Poland will be under attack in the coming years, and the government will not change its policy of weakening it. The most vulnerable municipalities will be those whose budgets account for 80-90% of transfers from the state budget - they may be completely dependent on the government. Efficient and professional state public administration is a still important challenge in Poland. For many years we have seen how helpless it is in the face of challenges and how it suffers from a lack of strategic imagination, formalistic legalism, low-quality governance and imperfect mechanisms of enforcing the accountability of managers.

It's hard to predict how the situation will turn out. In a few years, self-government may be just a sweet memory in Poland. The concentration of power, the lack of a partnership approach to local authorities, and the statist attitude of the rulers threaten self-government and individual freedom. They weaken also the ability to economic recovery after pandemic, significantly lowering the state-capacity (ability to act).

The hope is, that the pandemic experience will make the myth of recentralisation considerably less attractive for citizens. As Ivan Krastev observed, "COVID-19 has put democracy on hold, at least in Europe, with many countries enacting a state of emergency; but by doing so, it

limited people's desire for more authoritarian government".<sup>9</sup> Will be a rejection rather than an embrace of authoritarianism a consequence of civil rights and liberties being frozen? The pendulum seems already to swing that way.

---

The concentration of power, the lack of a partnership approach to local authorities, and the statist attitude of the rulers threaten self government and individual freedom

---

9 Krastev I., "Is It Tomorrow Yet? Paradoxes of the Pandemic", <https://www.oecd-forum.org/posts/is-it-tomorrow-yet-paradoxes-of-the-pandemic-by-ivan-krastev>



## CONCLUSIONS AND POLICY RECOMMENDATIONS

# Decentralisation in Europe in times of crisis

Gabriele Pinto, Sapienza University, Department of Social Sciences and Economics

Centralisation – a moribund idea till a few years ago – resurrected all over Europe thanks to the COVID-19 pandemic. In almost all countries, irrespective of their prior degree of decentralisation, the central governments managed the crucial policy decisions (e.g., lockdown), erasing any residual of local autonomy power. Central ruling permeated the management of the pandemic with substantially no obstacles in the name of the emergency. This book offers a critical review of this new wave of centralisation, highlighting the risk and the potential of centralisation with a liberal thinking approach.

At a first glance, the intrinsic public good and emergency nature of a pandemic can justify the ratio for centralisation. When problems are ill-defined and the time needed for coordination falls short, local policy response might be ineffective and latecomer. To avoid that, a centralised, top-down policy response, a decree of lockdown by the central government, can be acceptable in the short run, even from a liberal perspective.

For instance, in the Hayekian view, decentralisation is not superior in absolute terms to centralisation. In a world of change, where changes can be immediate and unfamiliar: radical technological innovation, war, or, closer to our times of crisis, a pandemic. In all these cases, a decentralised system might take longer and be less effective to adapt.

There can be cases where a centralised response can be more effective, and where a fiat response may be pursued in a liberal society. This may be an underexplored role for the central state-as-a-nightwatchman<sup>1</sup>.

If we read pandemic as a war, exceptional and temporary centralisation is thus – theoretically – acceptable. Nevertheless, the chronicles from Europe, including those recorded in this book, go far beyond any acceptable temporary centralisation aimed to face an emergency.

The virus spread unevenly, and the public health capacities varied by region. Thus, a decentralised response could allow tailored prevention approaches and targeted responses depending on local-specific situations in order to prevent disproportionate lockdowns of a whole country.

The traffic-light system adopted in some countries mimicked this approach but left the control of the lights in the hand of the central government. This system was entirely designed and executed at the central level. When the differences in testing, measuring and the difficulties in exchanging data emerged, the central traffic-light-system showed its weaknesses<sup>2</sup>.

Take another case: the capacity of the health system. In Italy, as in many other countries, the health system is decentralised at the regional level. In the past years, the decentralisation of the Italian health system spurred inequalities, that, in principle, are natural consequences of the decentralisation process itself. The health service of some Italian regions became more effective and more efficient than others, matching local preferences and resources, and bringing out fragilities and strengths of local governments. When the pandemic hit Italy, the health system of one region previously considered as a symbol of excellence - Lombardy - became the target of fierce attacks because of

1 See the article of Giampaolo Garzarelli in this book.

2 See for example the case of Lombardy in Italy ([https://www.corriere.it/cronache/21\\_gennaio\\_24/dati-lombardia-zona-rossa-chi-ha-sbagliato-errore-regione-il-calcolo-rt-ecco-perche-9bb48f8a-5e3b-11eb-9d4d-6cce1a220c09.shtml](https://www.corriere.it/cronache/21_gennaio_24/dati-lombardia-zona-rossa-chi-ha-sbagliato-errore-regione-il-calcolo-rt-ecco-perche-9bb48f8a-5e3b-11eb-9d4d-6cce1a220c09.shtml)), or the difficulties that the Central Government in Poland had in collecting local data on the number of infections in the article of Paweł.

its unpreparedness in contrasting the pandemic. Using this argument, Italian politicians scapegoated decentralisation and launched a wake-up call for bringing the management of the health system back to the central state<sup>3</sup>.

As explained in some of the articles of this book, the difficulties experienced by the Italian health system are better explained by motivations that are far from the debate on federalism. Firstly, the rising health demand of the last decades for non-communicable diseases in place of communicable ones (the epidemiological transition)<sup>4</sup>. Secondly, the lack of coordination and the absence of watchdogs and independent think-tanks at the local level (in place of central monitoring)<sup>5</sup>. Centralisation fans should thus look somewhere else to explain the weaknesses of the Italian health system and its unpreparedness for a pandemic crisis.

If we look at other cases, such as the Polish one, we can challenge the myth that radical centralisation is indispensable in crises. Local authorities were surprised by the situation, but they were much better prepared as they had to deal with other local crises such as floods, breakdowns, and other natural disasters more often. By nature, local authorities are more sensitive to local needs and open to inclusion. The quick and efficient response of local authorities was the result of a combination of several factors. In Poland, citizens self-organised themselves on a massive scale at the local level to help people who had been isolated or quarantined. Neighbourly assistance services were created autonomously, and activities of non-governmental organisations developed first, then local authorities intervened to support them. Local authorities have been able to leverage effectively on “local support networks” because of the low cost of coordination at the local level, the knowledge of the needs of their citizens, and strong accountability relationships. Those are the typical rationales for

---

3 Bordinon M. and Turati G. Adesso c'è chi vuole riportare la sanità al centro, Lavoce.info <https://www.lavoce.info/archives/65386/adesso-ce-chi-vuole-riportare-la-sanita-al-centro/> (last access 21-10-2021)

4 see the articles of Giampaolo Garzarelli.

5 See the article of Veronica Grembi.

decentralisation that, as we see, always matter, even in a time of the pandemic.

These events were not circumscribed to Poland. In all countries, we heard of stories of massive activation of the local population into several organisations that took the form of food banks, neighbour-assistance, and other volunteer activities. That is the power of social capital, which takes its nourishment from real, local, close relationships that fails to exist on a large centralised scale.

No central government was or would ever be able to cope with such a complex situation alone, without self-government or the involvement of the local population and local authorities. There is no such a thing as a Mr. Wolf central government here to solve problems<sup>6</sup>.

The first lesson that these events suggest is that believing that radical centralisation is indispensable in times of crisis can lead us to a dangerous misconception.

The second lesson is that even in those countries that, in principle, enjoy a sufficient level of local autonomy (e.g., Poland, Italy, and Austria), the lack of coordination and communication between the centre and the periphery of the institutional system created frictions (that eventually favoured central intervention).

Eventually, despite the pandemic crisis should be orthogonal and irrelevant to any arguments in favour or against decentralisation, the wind of change that is likely to invest EU countries in the post-pandemic years (e.g., Recovery Plan) will likely also affect the governance system of many countries.

In light of this, what should Liberals consider in their strategy in support of decentralisation principles? Some possible directions emerge from

---

<sup>6</sup> Mr. Wolf is the fictional character of Quentin Tarantino movie's Pulp Fiction. In a legendary scene of the movie, Mr. Wolf (Harvey Keitel) is called by Vincent Vega (John Travolta) and Jules (Samuel L. Jackson) to clean the evidence of a murder. The recording of the scene is available here: <https://www.youtube.com/watch?v=oPoh2OpbyGs>

the reading of this book. Enhancing the potential of local networks and the ability for self-organisation of different groups of citizens, which have been proven to be extremely effective and efficient in contrasting complex problems. Strengthening the point-of-contact between central and local governments will improve the resilience of decentralised governments in times of crisis. And, lastly, supporting the pro-active role of local watchdogs and the activity of local and independent think-tanks as a horizontal action within the main strategy.

All things considered, the motivation and the evidence supporting reforms towards a more decentralised form of government are still robust, even in times of pandemics.



## BIBLIOGRAPHY

- Abouk, R., Adams, S. "American Economic Journal: Applied Economics", Vol. 5, No. 2 (April 2013), Published By: American Economic Association, 2013
- Afonso, A. & Hauptmeier, S., «Fiscal behaviour in the European Union: rules, fiscal decentralization and government indebtedness», 2009.
- Alesina, A. and Paradisi, M. "Political budget cycles: Evidence from Italian cities." *Economics & Politics* 29(2):57-177., 2017
- Allen, L., "Are We Facing a Noncommunicable Disease Pandemic?", *Journal of Epidemiology and Global Health* 7(1): 5-9(March), 2017
- Anessi-Pessina, E., E. Cantu, and C. Jommi "Phasing out market mechanisms in the Italian national health service". *Public Money and Management*. 2004
- Angelici, M., Berta, P., Moscone F. and Turati G., "Ospedali, dove e perché si è tagliato [Hospitals, where and why the cuts]," *Lavoce.info*, available online <https://www.lavoce.info/archives/64538/ospedali-dove-e-perche-si-e-tagliato/>, 2020 (last accessed 28 May, 2021).
- Assobiomedica, "I sistemi sanitari per le prestazioni di assistenza ospedaliera. Un esame della normativa Nazionale e regionale in vigore". 2002
- Barili, E., Bertoli, P., Grembi, V., "Fee equalization and appropriate health care". *Economics & Human Biology*, Volume 41, 2021
- Baskaran, T, Min, B., and Y. Uppal, "Election cycles and electricity provision: Evidence from a a quasi-experiment with Indian special elections." *Journal of Public Economics*. 2015
- Bertoli, P., & Grembi, V., "The political economy of diagnosis-related groups. *Social Science & Medicine*", 190, 38-47. 2017

# A liberal future in a united Europe



ISBN: 97



- Besley, T. and I. Preston, "Electoral Bias and Policy Choice: Theory and Evidence", *Quarterly Journal of Economics*. 122(4): 1473-1510. 2007
- Blöchliger, H., Bartolini, D. and Stossberg, S., "Does Fiscal Decentralisation Foster Regional Convergence?" *OECD Economic Policy Papers*, No. 17, 2016.
- Bloom, N., C. Propper, S. Seiler, and J. van Reenen, "The impact of competition on management quality: evidence from public hospitals". *The Review of Economic Studies*. 2015
- Bolton, P. and Farrell J., "Decentralization, Duplication, and Delay", *Journal of Political Economy* 98(4), 1990
- Bordignon M. and Turati G., "Adesso c'è chi vuole riportare la sanità al centro", *Lavoce.info*  
<https://www.lavoce.info/archives/65386/adesso-ce-chi-vuole-riportare-la-sanita-al-centro/> (last access 21-10-2021)
- Bourgeon, J.M. P. Picard, *Journal of Public Economics*, Elsevier, 2007, 91 (1-2), pp.235-258. 10.1016/j.jpubeco.2006.05.007
- Bracco E., "A Fine Collection: The Political Budget Cycle of Traffic Enforcement". *Economics Letters*. 164: 117-120. 2018
- Busse, R., A. Geissler, and W. Quentin, "Diagnosis-Related Groups in Europe: Moving Towards Transparency, Efficiency and Quality In Hospitals." *Diagnosis-related Groups in Europe*. 2011
- Cavalieri, M., L. Gitto, and C. Guccio (2013). Reimbursement systems and quality of hospital care: an empirical analysis for Italy. *Health Policy*. 2013
- CBOS Public Opinion Research Center, Social Trust, 4/2020, p. 3
- Fattore, G., Torbica, A., "Health Service Benefit Catalogues in Europe". 2006
- Freedom House Report Poland 2021,  
<https://freedomhouse.org/country/poland/freedom-world/2021>
- Friedrich Naumann foundation. "Черна книга на правителственото

- разхищение", 2021. <https://chernakniga.bg/> (Accessed on July 3).
- Galli, E. and Garzarelli, G., "From Goods to Orders and Rules of Governance: A Preliminary", In *Cultural Commons and Urban Dynamics* (edited by E. Macrì, V. Morea and M. Trimarchi). Springer Nature Switzerland AG, Cham. 2020
  - Ganev, P. Aleksiev, Y., Nikolova, D. "ПЪТЯТ КЪМ ФИСКАЛНА ДЕЦЕНТРАЛИЗАЦИЯ: Споделяне на данък общ доход с общините" Government fragmentation versus fiscal decentralization and corruption. *Public Choice* n148, 2011, pp. 471–490.
  - Garzarelli, G. and Keeton L., "Laboratory Federalism and Intergovernmental Grants," *Journal of Institutional Economics* 14(5): 949-974(October). 2018
  - Garzarelli, G. and Keeton L., and Aldo A. Sitoe, "Rights Redistribution and COVID-19 Lockdown Policy", unpublished paper. 2021
  - Goerl C-A., Seiferling, M. "Income Inequality, Fiscal Decentralization and Transfer Dependency". IMF Working paper WP/14/61, 2014.
  - Hayek, Friedrich A. von, "Individualism and Economic Order". Chicago: Chicago University Press. 1948.
  - Hayek, Friedrich A. von, "Freedom and the Economic System." In *Socialism and War: Essays, Documents, Reviews* (Vol. 10 of The Collected Works of F. A. Hayek, edited by B. Caldwell). University of Chicago Press, Chicago. First published, 1939. 1997
  - Hayek, Friedrich A. von 2013. *Law, Legislation and Liberty: A New Statement of the Liberal Principles of Justice and Political Economy* London: Routledge. Originally published in 1979.
  - Higgs, R., "Wartime Prosperity? A Reassessment of the U.S. Economy in the 1940s," *Journal of Economic History* 52(1): 41-60(March). 1992
  - Ignatova, L. "Икономическата пропаст между София и останалата част от страната нараства". *Capital daily*, 2021.
  - Kimberly, J. and G. De Pouvourville. "The globalization of managerial innovation in health care". Cambridge University Press. 2008



- Kollman, K., Miller, J.H. and Page S.E. "Decentralization and the Search for Policy Solutions," *Journal of Law, Economics, & Organization* 16(1): 102-128(April). 2000
- Krastev I., "Is It Tomorrow Yet? Paradoxes of the Pandemic", <https://www.oecd-forum.org/posts/is-it-tomorrow-yet-paradoxes-of-the-pandemic-by-ivan-krastev>
- Standard Eurobarometer 94, Winter 2020-2021, National Report Poland, p. 3
- Lisac, M., K. Blum, S. Schlette, H. Maarse, Y. Bartholom\_ee, D. McDaid, A. Oliver, Ab\_asolo, B. G. Lopez-Valcarcel, G. Fiorentini, et al., "Health systems and health reform in Europe". Intereconomics. 2008
- Markowski, G., "Laying the groundwork for great corruption: the Polish government's (anti-) corruption activities in 2015-2019", Batory Foundation, 2019
- Nozick, R., "Anarchy, State, and Utopia". New York: Basic Books. 1974
- OECD and EU Commission. "Key Data on Local and Regional Governments", 2018. <<https://www.oecd.org/regional/EU-Local-government-key-data.pdf>> accessed 15 July 2021
- OECD Making Decentralisation Work: A Handbook for Policy-Makers, OECD Multi-level Governance Studies, OECD Publishing, 2019.
- Omran, A. R., "The Epidemiological Transition: A Theory of the Epidemiology of Population Change," *Milbank Quarterly* 83(4). 2005
- Open Eyes Economy Summit Report, "Between extraordinary tasks and limited possibilities. Local government during the pandemic", Kraków 2020
- Paris, V., M. Devaux, and L. Wei, "Health systems institutional characteristics". 2010
- Pavlova-Banova, M. "Фискална позиция на общините в условията на децентрализация в публичния сектор – актуални проблеми и възможности за растеж", 2021.

- Pavlova, M. "Фискалната децентрализация в Р България - финансови ефекти и регионални аспекти", 2015.
- Persson, T. and G. Tabellini, "Do Electoral Cycles Differ Across Political Systems?" working paper, IIES, Stockholm University. 2002
- Rawls, J., "A Theory of Justice". Cambridge: The Belknap Press of Harvard University Press. First published 1971. 1999
- Shi, M., and J. Svensson, "Political business cycles in developed and developing countries." The World Bank. Working Paper. 2000

# A liberal future in a united Europe



ISBN: 978-2-39067-019-3

 /europeanliberalforum  
 @eurliberalforum  
#ELFevent

**liberalforum.eu**

Copyright 2021 /  
European Liberal Forum EUPF

This publication was co-financed by the  
European Parliament. The European  
Parliament is not responsible for the  
content of this publication, or for any  
use that may be made of it.