

Centralization vs. decentralization: The case of public health-care.

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Introduction

National politico-administrative systems are more or less centralized. External relations, tax collecting and legal institutions, to name a few, seem to always be state-level activities while welfare services are usually produced closer to the citizens (Dodds 2013). In many other activities the criteria are not that obvious. It may be that national or regional level is the optimal, but other grounds can be stated as well. Hence the question of division of labor, or the balance between centralizing and decentralizing often remains a dilemma. The European Union has 28 members, and the degree of decentralization varies a great deal between the members. Strong municipalities are traditionally found in the north of Europe (Kuhlmann & Wollmann 2014).

The arguments in favor of centralization have to do mostly with economy. Strong local governments may compete with each other and bring along excessive and overlapping service provision, inefficient infrastructure and insufficient organizations to carry out the welfare obligations. On the other hand, local governments are close to the citizens, and can adjust services according to the needs. In order to be capable of doing this, local governments may need to have a sufficient size and resources at hand. The choice may not be merely between small and large municipalities, but small municipalities can unite and form inter-municipal organizations in order to compensate for the smallness.

There are various criteria how to define this balance, and the paper will discuss these. In addition, empirical examples are presented. It seems that there is a centralizing process going on in Europe. The reasons deal with economics, globalization, demographic changes and changing values. On the other hand, local communities are still important for many as giving identity, bringing the decision-makers close to the people and enhancing social capital (Burns et al. 1994). After all, in the grassroots level we witness often other forms of collective action than public services. According to Sandberg (2013) a potential explanation of the success of the Danish government to diminish the number of local governments was local power to resist the radical change

The paper uses health care in Scandinavia as an example. Health care represents a professionally dominated service, which also, when it comes to hospitals, demands some level of centralization. Still, one may discuss the choices between local level health care and state level health care, and the various mixes between the two. In Finland, for example, according to a recent reform agenda, hospital care will be restructured in five areas. However it is still

open how the areas shall solve the actual production of health care, and how to reach a cost-effective system which serves the citizens too. Arguments in this reform will be used as an example of centralization- decentralization debate in the paper. The organization of welfare services forms one aspect of the debate, a specific one. We can however argue that service production is not an apolitical issue but contains value considerations and political elements as well. Hence service organization may reveal very fundamental issues about decentralization.

Decentralization: some theoretical aspects

Centralization and decentralization are classical themes in political science. In the following the focus is on unitary states as federal states are different in many respects. One of the common arguments for restricting the choices local governments is coordination. Modern societies need coordination (Peters 2007). Also, as the basis public choice literature argues, some issues have to be decided in concert (Laver 1986). Coordination in this debate is opposite to competition. It is seen negative that local governments compete for well-to-do tax payers, enterprises and try to avoid unpleasant things (not in my backyard). However, how can either the beneficial or adverse decisions made fairly? In any case, an airport, major highway or factory may need to be located somewhere.

Decentralization can be defined as power handed over to the local level of government. On the other hand, one way is to make a distinction between different mechanism of decentralization; financial, organizational and political (Robinson 2007). In any case, decentralized politico-administrative systems show autonomy at local level, the right to make decisions according to the local preferences, and not merely implementing orders given at the national level. Proponents of decentralization base their assumptions on widely differing criteria, ranging from expected improvements in allocative efficiency, welfare and equity, through to increased participation, accountability and responsiveness on the part of local authorities (Blair 2000).

Kuhlmann and Wollmann (2014, 135) present a summarized account of the advantages and disadvantages of decentralization:

- Effectiveness can increase because of the proximity to users, and local knowledge, but at the same time it can lead to insufficient specialization

- Efficiency can increase because of competition between small units, but it can also bring about decreasing economies of scale
- Horizontal coordination can improve, multi-purpose benefits, but also, insufficient territorial coordination undersized territorial units
- Vertical coordination can improve because of vertical balance of power functioning as counterweight to central power, but it can also lead to lack of congruence between revenue and spending responsibility
- Democratic control may enjoy greater participation, but it can also lead to susceptibility to corruption
- Finally uniformity, and equality may enjoy adaptability to local problem situations and preferences but, as a disadvantage, suffer from legal uncertainty due to different application of law.

It seems that the advantages and disadvantages can be the opposite sides of the same coin. Hence the impact of decentralization is contextual, or dependent on the circumstances. It may work better in some policies than in others, require a certain type of local government structure, or depend on the dynamics of the system, the incentives of the actors. In addition, whether decentralization is appreciated may be a question of values, for example that regional equality (of services) is seen as important.

All these aspects, in different ways, can be found in the Finnish debate. Hence, it is more a question of finding a correct balance in a continuum, rather than selecting either or. The fact that all the above characteristics can be either an advantage or disadvantage make the assessment and design of power distribution tricky. This also suggests that empirical testing will not solve the case as, say in the case of democracy, we probably find both successful and less successful cases. However, some of the above points are more value issues, for example, is it seen important to let the local inhabitants decide, or not.

Put in a different way, we can focus on the state local government relationship and thus argue that it is a continuum rather than a dichotomous question. Local governments have more or less discretion in their tasks, or financial autonomy, or organizational freedom. What kind of criteria would then either support or reject decentralization? First, it depends on the municipalities. Do they have the capacity, resources, knowledge, personnel to carry responsibility? If so, would more powers be defended on the basis of democracy. Furthermore, the decision would also depend on the relationships between municipalities,

whether they compete with each other, or rather cooperate, and what kinds of effects and side-effects this leads to.

Modern societies need coordination. But which is the best balance between the two? Does it vary depending on the policy sector, issue or reform? There may also be historical and cultural explanations of country differences, say a long history of local governance enabling decentralization of tasks. Nordic countries have traditionally had strong local autonomy, but the welfare state development, starting in the late 1960s, has added a strong central government factor in the picture as well (Pesonen & Riihinen 2002).

The main question here is criteria. These may be explicit or hidden. Centralizing or decentralizing may be based on economy, finding an optimal balance between the two. Also, democracy as a stand point is common, trying to find a good and functioning balance between the coordinating, state level activities and the grassroots activities close to the people. There seems to be a growing contradiction between the local autonomy and central government. The globalizing world is more and more competitive and this means that economic values get a strong hold. Also, regional policy seems to be changing from redistribution and supporting the remote areas, to competitions and supporting the successful areas. We witness as well centralization in responses to the economic crisis. One of the responses is coordination. More scarce resources need to be coordinated more firmly than earlier.

Further on, we do not have to limit ourselves to analyzing the phenomenon in simple terms. In effect, centralization and decentralization can go hand in hand. Federal constitutions show how the upper levels define frames within which the lower levels are allowed to function. Alternatively the local government can in principle have free hands, but in reality their hands are tight by specific legislation. The scientific debate concerning decentralization is vast. After all, the basics of politico-administrative architecture belong to the classical themes of public administration and politics. All in all, the theory of decentralization suggests that optimal balances are difficult to define. More likely the national arrangements can be explained by path-dependency. We can also conclude that centralization vs. decentralization comprises of a number of perspectives and analytic frameworks.

In the following the focus is more on services than politics. Here the main argumentation is what level of government should decide, how to make a service structure dynamic, and how to guarantee the equality of the citizens. In other words, what needs to be decided at the national level and what can remain in the hands of local governments. In order to answer this

there may have to be a minimum size of municipality. It is difficult to imagine that a municipality with say less than one thousand inhabitants would be capable of providing high-quality services. So this seems to be a dilemma.

The case: health-care in Finland

Finland belongs to the North-European type of local government profile, which refers to large welfare state related tasks and high degree of autonomy. The Finnish municipalities are in charge of large share of the public expenses, and of the public sector employees (Pesonen & Riihinen 2002). The social and health services in Europe tend to vary a lot concerning who is in charge. There is some literature concerning the public private continuum. But to what extent do health and other welfare services fit into the issue? Scandinavian countries are fairly similar, but even they are different (Kettunen & Sandberg 2014). Finland has not had a major territorial reform (such as Denmark or Sweden) and hence the share of small municipalities is high. It seems that within Europe the north is more prone to apply municipal amalgamations to reform the welfare state, while in the south the municipalities are smaller, have less tasks, and there is no such a need to merge them (Heinelt & Bertrana 2011, Kuhlmann & Wollmann 2014).

Finland has traditionally had a mixed healthcare system. Hospitals were built in the late 1940's and 1950s using compulsory joint municipal organizations, and this has been the model of organizing major hospitals since that time until now. Beyond this level (constituting of 12 hospitals) there are minor hospitals in regions, and major cities, and municipal or joint municipal health centers. In larger cities there as well private doctors and hospitals, the usage of which the state supports. Municipal public-health work is the foundation of the Finnish health system. Local authorities run about 172 health centers; 106 of these are municipal health centers, and the rest 36 belong to joint municipal authorities made up of several local authorities.

In 2006 however the government proposed a reform in order to increase the size of municipalities. The small size, connected to weak economy, was considered to be a problem. The reform was mostly rhetorical without compulsory means, however municipalities were obliged to reorganize their social and health care so that it would serve at least 20 000 inhabitants. In the years following the proposal the number of municipalities decreased so that

while in 2006 there were 431 municipalities, and in 2014 their number was 317. However, in 2014 there were still about ten percent municipalities with less than 2000 inhabitants and the structure of the health care was very fragmented.

There was a leap in the amalgamations in the years 2009 to 2013, thanks to government subsidies and encouragement. However, small rural municipalities are still plenty. For the small municipalities it is a question of either not providing the service, or cooperating with others. Health is one of the areas in which municipal cooperation is common. In brief, municipalities are in charge of health care, and the small ones fulfil this obligation in concert with other municipalities. By and large this has led to a situation with many small units, a service covering the whole of the country.

During the last years the national government has emphasized that the health care system ought to be more rational, from the viewpoint of costs. The proposed solution has been fewer units, centralizing the system. The 2006 reform urged the municipalities to reorganize their health care services so that they serve at least 20 000 inhabitants. This led to amalgamations but also a number of ways the municipalities cooperated with others to fulfil the demand (Kettunen 2008). In spring 2015 the government proposed to introduce five health districts which would have an organ coordinating all services, and making agreements with health care providers what services are needed and how much resources are allocated. This proposal would have meant that small municipalities would not have been allowed to deal with health care, a radical proposal contradicting with the existing policy principles.

The health care reform has very much been a question of rational organization. Rational from the professional viewpoint means such organization which is sufficient to provide the necessary services. This can mean that for rare operations one hospital for the 5.6 million population is sufficient. A contrary argumentation says that services need to be close to the citizens. Public services may be loathed by some citizens, and if the threshold becomes too high, the service is skipped. Nothing prevents the health care system to provide close-to-citizens services, through mobile services etc. However, their development has been lacking. This gap between the well-to-do and less-well-to do municipalities will probably grow in the future. There is an unfavorable demographic development, working place development, and only the southern regions are growing in terms of population.

The balance between central and local levels can also be affected by from which perspective we look at the situation. When considering the incentives of the actors, may offer a new way

of designing the system. In a nutshell the Finnish debate is about the capability of the local governments to be in charge of health care. According to the government the current system has led to a fragmentation of health services, and overlap, inefficiency. They thus proposed a centralization of the system, so that only five districts (each constituting about one million citizens) would be the basic structure. The main line of argument is the **national government vs local government argumentation**. For the local governments the most important value is the self-governance, and find out solutions which fit to the local circumstances. The national level argumentation has been more diffuse. The main content is professional one, reflecting the wishes and preferences of health professionals. In terms of party politics the governments parties were all committed to the proposals, although the local organizations of the same parties not necessarily agreed.

When judging how to organize health care, the number of criteria is numerous. On the other hand one can say that a good service system is one which responds to the needs, in this case, of health. The case is however not that simple. From the national viewpoint a good health system provides services in a cost-efficient way, and if (as it seems) the local governments are not able to make such decisions, a centralization of the service system is a solution.

This could be something Drechsler (2013) describes as rational management. On the other hand the debate can also be seen from a critical viewpoint: is health an apolitical issue? The debate also resembles other policy areas where the options from centralized to decentralized are available. Education, innovation policy, culture are just few examples of the cases. Planning the service network on the basis of costs only does not necessarily serve the best interests of the citizens.

Public health care system is a complicated one to decentralize. Medical technology and highly specialized staff mean that there has to be some scale when organizing the activity. This does not prevent having a hierarchy of health care services, from simple every-day services to highly technical ones. The Finnish debate has blocked itself in not being able to find a way to organize health care and maintain local government autonomy. In other Scandinavian countries this has been solved in a different way: in Norway the nation state is in charge of hospitals. In Denmark and Sweden the counties or regions are responsible for social and health care. The Finnish politico-administrative system lacks the regional level, and hence if the choice would be regional level services, those have to be created. Hence we can say that the Finnish system is peculiar.

At the end of the day the Finnish reform ended up abruptly. The Finnish parliament discussed the proposal, and as it dealt with the Constitution, it was sent to the constitutional committee of the parliament. The committee concluded that the GP was not congruent with the constitution, and thus rejected it. The reason was that the local government autonomy is protected by the Constitution. Hence the dilemma remains how to organize a cost-effective system on the basis of municipal responsibility with 317 municipalities of vastly different characteristics.

Conclusions

The benefits and disadvantages of decentralization are typical collective action problems. Put all power in municipalities and they will all make their individual decisions, and not appreciate others. On the other hand centralizing all power would be detrimental too. One option is to have larger questions deal by inter-municipal cooperation. This would enable municipalities to engage in regional activities and negotiate solutions, which would satisfy them. Inter-municipal cooperation, however, suffers from a number of problems as well. First, it can treat the members unequally. Second, it can be distant for the inhabitants. Third, it can be rigid in decision-making (Pollitt 2003, Teles & Kettunen 2015).

Whether or centralize or decentralize seems to be, at the end of day, a political decision. Evidence-based decisions are rare, and this particular theme is particularly politicized. For the research, it is only possible to list the pros and cons, but hardly say that a specific option is the right one. Economists tend to calculate numeric values. For political scientist democracy is often the most important criteria. Such argumentations as the above one always have a power aspect as well (Goverde et al. 2000). The above analysis shows that arguments about decentralization are many, partly they contradict.

Arguments for and against decentralization are often filtered through politics, zealots, elections, and private interests. A researcher has to try to be objective and consider the issue from a number of angles. The centralization vs decentralization debate includes a number of perspectives. In addition, the scientific means to find evidence-based solutions are scarce. Lately there has been discussion on evidence demanding that governments ought to be able to decide on the basis of firm, empirical evidence. The above delineation suggests that evidence cannot be brought into all decisions. The health system design question represents a

complicated and multi-faceted issue which cannot be decided only on the basis of, say, economy. In addition, designing ideal models and the reality do not always fit together. Local governments can be made responsible for the wellbeing of their inhabitants. This is the practice in the Northern Europe. However, if they are not able to comply with the responsibility, the state has to intervene. Alternatively the incentives of local governments have to be sufficient to enable a dynamic development.

What makes this difficult is that local governments are not the same. Urban centers have much better chances to take the responsibility than small rural municipalities. As Kuhlmann and Wollmann (2014) argue the North-European municipalities are obliged to provide services and hence there is more interest in their capacity, whereas in the south of Europe small municipalities do not have similar tasks.

Drechsler (2013) proposes a radical view of democracy, let the people decide themselves. In a similar way Bogason (2000, 3) argues that the model of evaluation based on generalized goals and command-control implementation does not fit in general any more, as we need models that take diversity into account, going across formal organizational boundaries, and developing an understanding for problematics of people such as field workers and clients.

Returning to the pros and cons of decentralization presented in the introduction we can see that there are no definite answers in these. Furthermore as some issues may be the two opposite sides of the coin, they always have to be discussed in a specific context. In other words, is this or that perspective argument relevant in this context? Democracy however seems to represent a more definite criterion.

Local knowledge is hence a concept which feeds into the decentralization discussion as well. Locally-blind programs do not take into consideration local specificities and serve mechanical, one size fits all solutions. A good example of this is the Finnish local government reform which was based on one kind of problem identification and failing to see variation. After all public policy-making is not making decisions in a vacuum but puzzling (Hoppe 2011).

All in all, the debate also tells about the characteristics of the modern society, where unified structures and coordination rise in the forefront. However, health care services are not merely a professional issue, but have a political nature too. In the worst case, the meaning of “local responsibility for the wellbeing of the inhabitants” gets eroded. This has also been the

interpretation of the Constitution, local governments do play a role in the Finnish system. Health care reform seems also to pave the way for a territorial reform in general. For the national government the best solution would be a unified local government structure with strong and viable municipalities. At current, the dilemma remains.

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