DECENTRALIZATION AND THE WELFARE STATE: TERRITORIAL DISPARITIES, REGIONAL GOVERNMENTS AND POLITICAL PARTIES

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ABSTRACT

Hanna Kleider: Decentralization and the Welfare State:
Territorial Disparities, Regional Governments and Political Parties
(Under the direction of John D. Stephens)

This dissertation analyzes decentralization processes and their impact on the welfare state. I argue that decentralization processes amplify the impact of regional differences in partisanship and regional socio-economic disparities on social spending. Decentralized systems therefore exhibit significantly higher levels of within-country social program heterogeneity, which in turn can lead to higher levels of territorial inequality. By putting a spotlight on regional social expenditure, this dissertation departs from existing welfare state research, which predominantly focuses on the effects of decentralization on national social policy-making. Furthermore, the analysis moves beyond the unitary-federal dichotomy of earlier studies by relying on more nuanced measures of decentralization.

To understand regional social policy-making I develop a multi-level theory that conceptualizes regional governments as actors constrained both by regional context and the leverage of a superordinate level of government. I test hypotheses derived from this multi-level theory using a novel dataset on regional spending that I compiled for this purpose. The dataset combines data on regional spending for 14 OECD countries from 1990 to 2010 in three policy areas: social welfare, education, and healthcare.

Using a three-level model that accounts for the nested structure of regional spending data over time, I demonstrate that the ideological orientation of regional governments has the most consistent effect on regional social program generosity. Left-leaning regional governments tend to pursue more generous social programs than right-leaning governments. This finding contradicts earlier accounts of regional policy-making that have described it as non-political. My analysis also shows that context factors like regional GDP per capita and regional demographic factors strongly impact regional social policy expenditure. Regional social policy choices are however also impacted by the macro-institutional context, in particular by the level and quality of decentralization. Higher levels of decentralization amplify the effects of regional affluence and regional partisanship.

My analysis further shows that decentralization contributes to higher levels of within-country variation in social spending. This contradicts popular accounts of decentralization, which argue that the competitive pressures inherent in decentralized systems force regional governments to converge on similar and low levels of social spending. I do however find that policy coordination between regional governments counteracts the variation-increasing effect of decentralization. Fiscal equalization schemes seem to reduce within-country variation although their effect is weak and less consistent across countries.

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I. INTRODUCTION

The question of how changes in demographic and family structures, more flexible labor markets, and globalization processes have affected the welfare state has spurred a large body of research. Numerous studies analyze how these changes have transformed the welfare state and its ability to alleviate economic and social inequality. A development with important implications for the provision of welfare, which has been largely ignored by the welfare state literature, is the increasing decentralization of social policy authority to regional governments. In the last decades, a majority of countries in the OECD area has experienced an increase in the level of authority granted to regional governments (Hooghe, Marks & Schakel 2010). Regional governments are no longer a phenomenon limited to highly federalized countries but they do in fact represent the norm. Yet, only a handful of studies examine the effect of decentralization on the welfare state, which has prompted Obinger, Leibfried and Castles to call this area of research an academic "no-man's land" (Obinger, Leibfried & Castles 2005: 1)

This dissertation seeks to shed more light on decentralization processes and their impact on the welfare state. It asks: What role do regional governments play in the provision of welfare? What factors influence their social policy choices? How are regional governments' social policy choices influenced by the macro-institutional context? And lastly, what implications does decentralization have for national welfare outcomes, in particular for social program heterogeneity within countries?

Argument

The existing welfare state research assumes the national level to be the natural unit of analysis when examining the effect of decentralization on the welfare state. Welfare state scholars mostly focus on second legislative chambers that represent regional interests at the national level. They find that second legislative chambers disperse political power and therefore make it more difficult to reach political consensus on social policy expansion (Bonoli 2001; Swank 2001; Huber & Stephens 2001). The welfare state literature's focus on the national level has prevented it from appreciating the fact that decentralization introduces a set of new actors to the provision of welfare, namely regional governments. My theoretical approach therefore departs from earlier welfare state research on decentralization by focusing on the role of regional governments rather than on the role of national governments.

What complicates the analysis of regional social policies is the fact that regional governments are not only influenced by regional context factors but also subject to the oversight of a superordinate level of government. I therefore argue for a multi-level approach that takes into account both: how regional governments' social policy choices are influenced by regional context factors and how they are conditioned by the macro-institutional context. My results show that the regional context, in particular regional affluence and regional demographic factors, is crucial in determining regional social policy expenditure. Contradicting accounts of regional social policy-making that have described it as non-political, my results also show that the ideological orientation of regional governments has a strong effect on regional social program generosity. Left-leaning regional governments consistently pursue more generous social programs than right-leaning governments.

In my analysis, I further find that higher levels of decentralization amplify the effects of regional affluence and regional partisanship but not the effect of regional demographic factors. The effect of regional differences in affluence and in ideological orientation on social program generosity becomes more pronounced at higher levels of decentralization. This finding contradicts the popular convergence hypothesis, which predicts that the tax competition inherent in decentralized systems forces all regional governments to converge on similar and low levels of social expenditure.

The link between decentralization and higher within-country variation in social expenditure is however not direct. My results show that policy coordination between regional governments counteracts the variation-increasing effect of decentralization. In my qualitative analysis I find that policy coordination between lawmakers and between representatives of regional executives provide regional governments with the possibility to find common ground and commit to common policy positions. There is also some tentative evidence that fiscal equalization schemes, that transfer resources from richer to poorer regions, can reduce within-country variation in social programs. Overall however, I find their effect to be weaker and less consistent than the effect of policy coordination. The redistribution created by fiscal equalization schemes might be too small to counteract the centrifugal forces of high levels of decentralization.

This project enriches the previous welfare state literature on decentralization. It shows that decentralization increases within-country heterogeneity in social programs and leads to territorial inequalities in the level and quality of social services. This effect on the welfare state might be equally important or even more important than the relationship between decentralization and slower social policy expansion, on which so much of the previous welfare state literature has focused. I also make the case that there is only limited evidence for the convergence hypothesis, which suggests that decentralization fuels a downward spiral in regional social service provision.

To test my theoretical framework I examine both quantitative and qualitative evidence. My quantitative analysis is based on a novel dataset that I have specifically compiled for this research project. This dataset presents regional social expenditure data for 14 OECD countries from 1990 to 2010. Countries included in the dataset are Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Norway, Spain, Sweden, Switzerland, UK, and the US. The 14 countries included in the dataset are all established democracies, which typically form the basis of current welfare state research. I also examine the institutional characteristics of decentralized countries in a more qualitative and in-depth manner to assess the plausibility of my observed statistical correlations (Huber & Stephens 2001; Lieberman 2005). Since I am particularly interested in the degree of within-country heterogeneity, the qualitative analysis hones in on two institutions that have been identified by my quantitative analysis as crucial factors influencing within-country variation in social programs: the level of decentralization and policy coordination.

Outline

In *Chapter 2* I engage two key literatures that help to elucidate the relationship between decentralization and social policies: the literature on the welfare state and the decentralization literature. I then elaborate on my own theoretical framework and conclude with a discussion of methodology. In *Chapter 3* I briefly describe the role that regional governments play in the provision of welfare. I also present my regional social expenditure dataset and discuss key trends and developments in regional social spending over the last two decades. In *Chapter 4* I turn to the factors that explain regional governments' social policy choices. My results show that regional fiscal and demographic challenges have a major impact on regional governments' social expenditure. I also find that the ideological orientation of the regional government is a consistent predictor of regional social policy generosity. The macro-institutional context – most importantly the level of decentralization – conditions the effect of regional affluence and partisanship but not the effect of regional demographic factors. The more decentralized a country is, the more regional partisanship and affluence matter for regional social policy. In *Chapter 5* I examine the relationship between the level of decentralization on the one hand and within-country heterogeneity in social spending on the other hand. I find that decentralization is consistently related to larger within-country variation in social programs. Nevertheless my results also show that a number of institutions can cushion the variation-enhancing effect of decentralization. These institutions include policy coordination and fiscal equalization schemes. In *Chapter 6* I provide a qualitative comparative analysis of the processes that drive within-country variation in social programs. My analysis outlines the different degrees to which mechanisms of policy coordination balance high levels of decentralization. The chapter also offers some insights into the historical development of policy coordination mechanisms.

2. THEORETICAL FRAMEWORK AND METHODOLOGICAL APPROACH

In this chapter I briefly review two theories that help to elucidate the relationship between decentralization and social policies. I first review the welfare state literature to identify factors that determine social policy efforts more generally. I then turn to the decentralization literature, which sheds light on decentralization processes and how they impact social policy-making. In the second part of this chapter I elaborate on my own theoretical framework. What makes my theoretical approach distinctive from other approaches explaining the relationship between decentralization and the welfare state is that I focus on the role of regional governments rather than on the role of the national government. I ask: What is the role of regional governments in social policy-making? What factors influence their social program choices? How is their behavior moderated by the national context especially by the level and type of decentralization? And lastly, what are the implications of regional governments' social policy choices for national welfare outcomes? Here I focus on whether decentralization forces regional governments to converge on low levels of social expenditure or whether it increases within-country heterogeneity in social expenditure. I conclude with a discussion of methodology.

Review of main theories

Welfare State literature

The welfare state literature has yielded a wealth of insights into the causes of welfare state development and into the determinants of social policy effort at the national level. One of the literature's most important findings is that the expansion of social policy in the post-war era was a by-product of economic development (Wilensky 1975; Pampel & Williamson 1989; Myles & Quadango 2002; Pierson 2001; Swank 2001). High GDP growth during the golden age of the welfare state generated the public revenue necessary to finance the expansion of social policies. The rapid wage increases that accompanied GDP growth meant that workers saw their pay checks increase even as new taxes were levied to finance new and more generous social policies (Myles & Quadango 2002). When GDP growth decreased in the 1980s, the growth of wages and salaries on which public revenues depended also declined, generating serious problems for the welfare state (Swank 2001). This so-called "logic of industrialism" explanation falls short in explaining the tremendous cross-national variation in social policy generosity that exists among countries with very similar post-war economic growth rates.

A new strand of welfare state research emerged in response, which emphasized the centrality of societal and political actors in the post-war expansion of welfare. Proponents of this so-called "power resources" approach attribute cross-national variation in social policy generosity to differences in the organizational power of labor organizations and the incumbency of left-wing political parties (Stephens 1979; Korpi 1983, 1989; Esping-Andersen 1985, 1990; Hicks & Swank 1984). A wealth of empirical research supports the empirical relationship between left party incumbency and labor union power on the one hand and generous social policies on the other hand (Esping-Andersen 1985; Korpi 1980, 1983; Myles 1984; Stephens

1979; Huber & Stephens 2001). Today the "power resources" approach has achieved the status of a dominant paradigm within the welfare state literature (Orloff 1993).

While earlier "power resource" scholars predominantly focused on labor union pressures and left-leaning popular sentiments, more recent studies have honed in on the presence of leftist parties in government. Rather than downplaying the importance of societal factors like labor union strength, these studies argue that the presence of left parties in government is crucial for the translation of societal demands into actual policy (Huber & Stephens 2001). Recent studies have also found that the incumbency of Christian Democratic parties leads to higher levels of social spending than the presence of secular conservative or liberal parties, although the social programs promoted by Christian-Democratic parties tend to be less universalistic than those proposed by left-wing political parties (Huber & Stephens 2001; Van Kersbergen 1995).

In addition to economic affluence and left party incumbency need-based factors have been consistently found to affect governments' social policy effort. The level of unemployment, for example, is a need-based factor that tends to have a very strong impact on social spending (Huber & Stephens 2001). Higher unemployment causes higher expenditures for unemployment compensation and other types of social services for low-income groups. A higher percentage of elderly population has also been found to lead to higher social spending (Pampel & Williamson 1989).

A new strand of welfare state research emerged during the 1980s that focused on the role of political institutions. This strand emphasized the organization and structure of state institutions and called attention to the fact that political institutions play a crucial role in shaping the social forces identified by the power resources theory (Weir, Orloff & Skocpol 1988; Skocpol 1992; Immergut 1992; Maioni 1998; Amenta 1998). This "new institutionalism" strand argued that political institutions not only determine the rules of the game, but also the capacities and financial resources of political actors, thereby facilitating some policy outcomes rather than others (Pierson 1995). The new institutionalism literature placed a particular emphasis on institutions that enhance the dispersion of political power – for example weak party discipline and strong constitutional courts. Scholars argued that institutions, which disperse power, are associated with delayed welfare state development and with slower social policy change.

It is in the context of the new institutionalism debate, that the effect of decentralization on the welfare state attracted more scholarly attention. Decentralization was considered to be one of the main power-dispersing institutions. It was believed to encourage fragmentation and to complicate the policy-making process thereby delaying the expansion of the welfare state. Comparative empirical research largely supports this argument (Huber & Stephens 2001; Swank 2001; Bonoli 2001). Another group of institutionalist welfare scholars argued the contrary, namely that decentralization might in fact be favorable to policy change. More precisely these scholars called attention to the fact that regional governments are oftentimes the first to experiment with new social policies. Through a process of policy diffusion the national government might then adopt policies that have proven to be successful in a particular region (Maioni 1998; Immergut 1992). More recent research suggest that both arguments need not be considered contradictory since the effect of decentralization on welfare policies is not likely to be consistent across countries and time (Leibfried, Obinger & Castles 2005). Whether the decentralization has a dampening or an expansionist effect on social policies might depend on other institutional characteristics.

Overall the welfare state literature has however only paid relatively little attention to decentralization and its effect on social policies. As Obinger, Leibfried and Castles point out in their 2005 book "somewhere between the literatures of political science and social policy, there is an unexplored territory where federalism and the welfare state meet, a no man's land without even a conceptual map to guide us" (Obinger, Leibfried & Castles 2005: 1). An important downside of the few existing welfare state studies on decentralization is that they assume the national level to be the natural unit of analysis. The only institutional facet of decentralization that receives attention from welfare state scholars is the representation of regional interests in national-law-making through a second legislative chamber, which has the authority to veto social policy legislation proposed by other national level institutions. The welfare state literature's focus on the national level has prevented it from appreciating the fact that decentralization introduces a set of new actors to the provision of welfare, namely regional governments. In the course of decentralization reforms regional governments receive considerable authority over social programs and become important players in the provision of welfare (Hooghe, Marks & Schakel 2010; Pierson 1995). What is more, the welfare state literature has not yet fully recognized that regional governments with authority over social policy are not a phenomenon limited to federal countries but are in fact the norm in the OECD area.

Decentralization literature

Drawing on the insights of the decentralization literature might help us understand decentralization processes more generally and their potential effects on the welfare state. While earlier research on decentralization was mostly based on the unitary-federal dichotomy, more recent approaches have pointed out that most countries fail to fit either category (Hooghe, Marks & Schakel 2010). Today most OECD countries have devolved substantial authority to regional governments. In 23 out of 34 OECD countries, regional governments have some degree of institutional independence from the national government. Recent research also reveals that decentralization has numerous institutional facets, which might not always be connected to each other. For example decentralization involves an increasing institutional independence of regional governments, a larger range of policies for which regional governments are responsible, regional governments' capacity to tax and lastly the extent to which regional legislatures and executives are elected by the region's citizens rather than being appointed by national governments (Hooghe, Marks & Schakel 2010). These four aspects are considered crucial for a region's degree of self-rule, which is a region's capacity to rule its own territory (Hooghe, Marks & Schakel 2010). But decentralization also involves another dimension, namely the shared-rule dimension, which is the degree to which regional governments can "co-determine the exercise of authority for the country as a whole" (Hooghe, Marks & Schakel 2010: 6). Although both self-rule and shared-rule are key dimensions of decentralization, they do not always need to go together (Elazar 1987).

Most empirical research in political science has tended to focus on the causes of decentralization rather than its consequences, although some scholars have analyzed the effect of decentralization on democratic quality, arguing that in decentralized systems more people are inclined to engage in political activities (Montero & Samuels 2004; Diamond & Tsalik 1999; Eaton 2001; Samuels & Mainwaring 2004). A few studies also examine the conflict-reducing impact of decentralization in large multi-ethnic societies.

In contrast to political scientists, economists have created a wealth of research on the consequences of decentralization focusing in particular on the fiscal aspects of decentralization (Rodden 2006). The so-called fiscal decentralization research first emerged in economics in the late 1950s and has since produced a large body of theoretical literature although relatively little empirical testing. Fiscal decentralization scholars believe cross-regional competition to be the most important trait of decentralized systems. This cross-regional competition results from the fact that regional governments in a decentralized system have to deal with the mobility of households and businesses. Both households and businesses can "vote with their feet" and move into another region if they are unhappy with a regional government's policies (Rodden 2006). Faced with this mobility and wanting to keep residents and businesses as sources of tax revenue, regional governments are competing with each other.

The competition-enhancing effect of decentralization might have fundamental implications for the welfare state. Pierson was the first to recognize the relevance of this literature for welfare state research in his 1995 article "Fragmented Welfare States: federal institutions and the development of social policy" (Pierson 1995). One of the potential consequences of this cross-regional competition for the welfare state is that it might lead to less social policy expenditure (Weingast 1995; Brennan & Buchanan 1980; Persson & Tabellini 1994, 1996). Competition between regions, so the argument, incentivizes regional governments in decentralized systems to lower their taxes and to avoid spending sprees, since "only those restrictions that citizens are willing to pay for will survive" (Weingast 1995: 5). Faced with a common pressure to reduce taxes, regional governments will converge on similar and low levels of public spending, which might eventually lead to an under-provision of social services. Pierson suggested "In extreme scenarios, competitive deregulation in a decentralized system could fuel a downward spiral in social provision, eventually producing very rudimentary 'lowest common denominator' social policies" (Pierson 1995: 452).

Another strand of fiscal decentralization research has however pointed out that cross-regional competition in decentralized systems might not necessarily imply low taxes and low public spending levels (Blöchliger & Pinero-Campo 2011; Brueckner 2004; Tiebout 1956). Proponents of this strand call attention to the fact that regional governments not only compete for low taxes but may also decide to attract citizens and businesses by providing better quality services. The first one to have argued that sub-national governments also compete on the spending side is Tiebout (1956). These scholars tend to conceive of residents as consumers who choose the jurisdiction that best approximates their preferences for public goods. Tiebout, for example, thought of the possibility of moving to a different region as an important selection mechanism: "Moving or failing to move replaces the usual market test of willingness to buy a good and reveals the consumer-voter's demand for public goods. Thus each locality has a revenue and expenditure pattern that reflects the desires of its residents." (Tiebout 1956: 420). These scholars view the resulting within-country variation in the level and quality of public services as mostly positive since it increases citizen's choices and allows them to choose the jurisdiction that best approximates their preferences. As Oates pointed out: "Some individuals may prefer an expanded and high quality program of public services, while others may want less public output and the accompanying reduced level of taxes" (Oates 1972: 11). Tiebout's conjectures generated a large body of theoretical literature (Musgrave 1959; Oates 1972). While Tiebout primarily developed his theory for local governments, many scholars have since also applied it to the regional level (Sorens 2010; Pierson 1995).

A number of fiscal decentralization scholars have built on Tiebout's theory and highlighted the potentially negative consequences of increased within country variation (Tanzi 1995; Prud'homme 1995; Rodriguez-Pose & Gill 2003). While a larger range of output from which citizens may choose might be positive, it also undermines the goal of achieving homogeneous living conditions across a national territory (Tanzi 1995; Prud'homme 1995;

Rodriguez-Pose & Gill 2003). What is more, citizens may not voluntarily select into different jurisdictions based on their preferences. Instead, segregation processes could structure citizens' relocation patterns. The wealthy might congregate together and try to exclude the poorer population via processes like zoning. The resulting differences in the tax base would cause a vicious circle of richer jurisdictions collecting more revenue and providing more and better services than poorer jurisdictions, which has prompted some authors to argue that "Decentralization can therefore be the mother of segregation" (Prud'homme 1995: 203).

While there has been much theoretical debate about the relationship between decentralization and public service expenditure, there has been very little empirical research investigating this relationship. It is not clear whether the cross-regional competition induced by decentralization forces regional governments to converge on low levels of public service spending or whether decentralization increases within country variation in public service spending, dividing countries into high tax high service regions and low tax and low service regions. This is not only an empirical puzzle for studies examining decentralization's impact on the welfare state but it also has important practical implications for citizen's quality of life. While the first scenario would lead to overall low levels of public service spending the other would increase territorial inequalities within countries.

Theoretical framework

What makes my approach distinctive from earlier studies examining the impact of decentralization on the welfare state is that I look more closely at regional governments and the factors that influence their social policy choices. I ask: What role do regional governments play in the provision of welfare and what factors influence their social policy choices? What differentiates regional government from national governments is that their social policy choices are subject to the control and oversight of a hierarchically superordinate level of government. One might argue that the European Union represents a third, supranational level, that influences national social policies but with a few notable exceptions the European Union has not constrained national autonomy in the area of social policy. To analyze regional social policies we therefore also have to consider cross-level interactions between the national level and the regional level. The theoretical framework that guides my research is a multi-level approach that analyzes regional governments' social policy choices, how they are moderated by the national institutional context, and how regional choices in turn impact national welfare outcomes.

I expect decentralization to lead to more within-country variation in regional governments' social policy responses by increasing the institutional independence of regional governments vis-à-vis the national government. I am skeptical regarding the convergence hypothesis that predicts a common trend toward low regional social expenditure since citizens' relocation decisions seem to be influenced by a host of other factors aside from low regional tax levels, such as the quality of the regional labor market, the regional housing market and last but not least the regional social service provision (Blöchliger & Pinero-Campo 2011). Overall the fiscal decentralization literature only provides a limited understanding of the conditions under which regional governments might choose to respond with better quality services rather than with lower taxes. Taxes and spending levels of regional governments seem to be guided by the "invisible hand" of competitive pressures. There is great ambiguity about how the built-in competitive pressures of decentralized systems ultimately translate into policies. This process is miraculously absent in the fiscal decentralization literature. As Rodden aptly put it: "It is not difficult to identify politics as the missing component in the prevailing literature on decentralization" (Rodden 2003: 8).

To bring politics back in, I conceptualize regional social expenditure as a regional choice process influenced by the ideological orientation of the incumbent regional government, the regional economic context and lastly regional demographic factors. I expect higher levels of decentralization to amplify the effect of regional context on regional social expenditure to the extent that regional social policy choice processes ultimately approximate national level choice processes.

In fact, a number of studies have examined whether the factors that influence national social policy choices also predict regional choices in highly decentralized contexts. These studies have focused on the United States (Winters 1976), Canada (Kellermann 2006), Germany (Potrafke 2006), Italy (Vampa 2013), and Switzerland (Feld 2000). All of these studies find that regional affluence plays an important role. That is, wealthier regional governments seem to have a higher per capita expenditure on social policies than poorer regional governments. Most of these studies also find that need-based factors matter. The higher the regional unemployment and the higher the proportion of elderly population, the higher is the per capita spending on social services. Evidence on the effect of left party incumbency is mixed. Most studies find that left parties consistently lead to higher social spending (Kellermann 2006; Winters 1976) but some remain skeptical that left party incumbency at the regional level can have an effect on regional social policy effort (Vampa 2013; Putnam 1993). Indeed, the most influential study on regional governments, Putnam's "Making Democracy Work: Civic Traditions in Modern Italy" observes that the practical nature of regional policy-making and the hands-on face-to-face character of regional politics avoids partisan differences from becoming important (Putnam 1993: 36).

While these single case studies suggest that the factors which influence regional governments' social policy choices in highly decentralized countries are similar to the factors that influence national social policy choices, it is not clear whether these findings generalize to a larger set of countries. Perhaps more importantly, the focus on single countries does not allow an analysis of how different macro-institutional contexts condition regional social policy-making. I therefore seek to build on the insights of these single case studies and join them with a theory on how the macro-institutional context shapes regional level social policy-making.

There are several ways in which the macro-institutional context – most importantly the level of decentralization – interacts with regional policy-making. First, at higher levels of decentralization regional governments tend to receive less grants from national governments, which means that they have to rely on their own tax revenue (Hooghe, Marks & Schakel 2010). With regional governments being more dependent on their own tax revenue, a region's affluence is likely to have a stronger and more direct effect on regional social policy effort.

Second, regional governments are more independent from the national government at higher levels of decentralization and their social policy choices are subject to less oversight and control. The ideological orientation of the regional government should therefore have a stronger effect on regional social policy choices the more decentralized the country is.

Third, the link between a regional government and its voters should be more direct in highly decentralized countries. In less decentralized contexts, national government appointees will sometimes oversee the work of elected regional governments. By keeping this political influence over regional policy-making, national governments can constrain the decision-making leeway of the regional government and thereby reduce the effect of regional ideological orientations (Hooghe, Marks & Schakel 2010).

Lastly, higher levels of decentralization could also moderate the effect of regional need-based factors, such as higher regional unemployment or a higher proportion of elderly population. Yet, even in very centralized countries social expenditure is not uniform across the national territory and adjusts to regional differences in demand. National governments will disburse more funds in regions with a higher numbers of social welfare dependents than in regions with a smaller proportion of dependents. Therefore it is not clear whether need-based factors have a stronger effect at higher levels of decentralization.

If regional-level contextual factors, like regional affluence and regional government partisanship have a stronger impact on regional social policy choices at higher levels of decentralization, as my theoretical framework suggests, I would expect there to be a higher degree of social program heterogeneity in decentralized countries.

The figure below visualizes the hypothesized relationships derived from my theoretical framework. Building on the insights from single case studies in highly decentralized countries I expect left-party incumbency at the regional level, a higher regional GDP per capita and a higher regional demand for welfare to be positively associated with regional social expenditure. I further assume that the level of decentralization conditions the effect of left party incumbency and regional GDP per capita but not the effect of regional need-based factors. Left party incumbency and regional GDP per capita should have a more pronounced effect on regional social expenditure at higher levels of decentralization. The fact that regional context factors influence regional social expenditure at higher levels of decentralization is likely to lead to more social program heterogeneity within countries. We should therefore not only observe a relationship between decentralization and slower welfare state development, as assumed by the traditional welfare state literature, but also a relationship between decentralization and higher within-country variation in social programs. This prediction contradicts the convergence hypothesis, which expects regional governments to converge on similar and low levels of social expenditure at higher levels of decentralization.

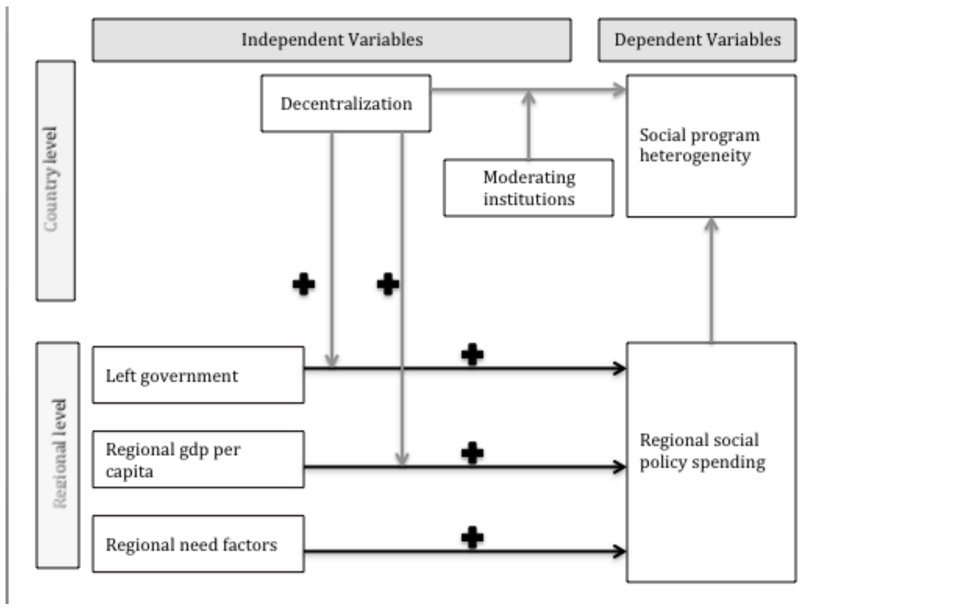

Figure 1: Theoretical Model

Even assuming that decentralization will lead to increased within country variation, the link between decentralized systems and increasing within-country variation is not likely to be direct. Other institutions, like for example fiscal equalization systems, can counteract the variation-increasing effects of decentralization. The figure above refers to these institutions as moderating institutions since they condition the effect of decentralization. It is equally likely that these institutions have an independent additive effect on the level of within-country variation. The decentralization literature points to a large number of institutions that may affect within-country variation. Here I theorize the effect of three institutions: policy coordination mechanisms, fiscal equalization schemes and lastly centralized political parties.

Decentralized systems have generally been thought to foster coordination and consensus in ethnically heterogeneous societies by allowing sub-state communities a certain degree of self-determination and thereby avoiding violent conflict (Lijphart 1999; Stepan 1999; Gurr 2000; Bermeo 2002). Some scholars have, however, pointed out that decentralized structures alone might not be sufficient in generating consensus and may in fact be counter-productive in that they generate demands for secession (Norris 2008; Nordlinger 1972). These scholars argued that decentralized systems need to be accompanied by additional institutions in order to achieve the desired consensus effect. Elazar for example pointed out that the constituent units' desire for self-determination has to be balanced by power-sharing institutions that commit all units to the maintenance of the system and guarantee peace and stability (Elazar 1994). He termed this latter dimension the shared-rule dimension.

Lijphart suggested a number of mechanisms that would commit the constituent units of a decentralized system to the maintenance of the system and help to establish consociational relationships (Lijphart 1969). However, as Andeweg points out, the consociational mechanisms described by Lijphart remain vague and mostly informal (Andeweg 2000). Building on Elazar's shared-rule dimension, Hooghe, Marks and Schakel identify mechanisms through which regional governments can be committed to the maintenance of the system and involved in the governance of a shared political sphere (Hooghe, Marks and Schakel 2010). They identify four institutions that are crucial to shared-rule: shared law-making, shared policy-making at the executive level, the consultation of regional governments over the distribution of national tax revenue and lastly the ability of regional governments to participate in decisions over constitutional change.

The first two institutions–shared law-making and shared policy-making– are particularly relevant since they directly influence within-country variation in social programs. Shared law-making refers to the extent to which regional governments participate in national law-making through the second legislative chamber. The more powerful the second legislative chamber is and the more directly regional governments are represented in this chamber, the stronger the impact that regional governments can have over national legislation. I conceptualize the process of shared law-making as crucial in helping regional governments define common policy positions vis-à-vis the national government.

Shared policy-making describes intergovernmental meetings between the national government and all of the regional governments. The more routinized these meetings and the more legally binding their decisions, the higher the commitment to shared rule. Germany for example is a country with very routinized meetings that yield authoritative decisions. Switzerland, on the other hand, is a country where these meetings are less routinized and where they almost never yield binding decisions (Hooghe, Marks & Schakel 2010). I expect shared policy-making to commit the constituent units of a federal system to common and legally binding decisions. Both shared law-making and shared policy-making are likely to decrease within-country variation in social services.

A second institution that could mediate the effect of decentralization is fiscal equalization. Fiscal equalization schemes transfer fiscal resources from richer to poorer regions. By transferring fiscal resources, they offset the effect of differences in wealth on the provision of social services (Blöchliger et al. 2007). In other words, fiscal equalization schemes allow regional governments to provide citizens with similar sets of public services *regardless* of their government's tax raising capacity. There is tremendous variation in the existence and scope of these regimes. In countries like Germany fiscal equalization is well institutionalized and incorporated into a constitution that mandates the "uniformity of living conditions". In the United States, by contrast, fiscal equalization is limited (Pierson 1995).

The organization of political parties within a country might be a third institution that could influence the within-country variation in social spending (Gibson 2004; Mainwaring & Samuels 2004; Wibbels 2005). As Riker and Ronald point out "The one agency that might be expected to harmonize the policies of central and constituent governments is a political party." (Riker & Shaps 1957: 277). Rather than providing a legal framework for coordination, a political party can set important political incentives for coordination. In a centralized party system voters tend to focus on the national party label and the value of national level co-partisans when electing regional-level legislators, which creates strong electoral externalities. In other words, the electoral success of regional-level legislators is driven by the value of the national party. This gives central party leaders an important leverage and allows them to commit regional government leaders to preferred policies. The leverage of the party leadership is enhanced if it has other tools with which it can incentivize regional-level legislators to support national policy positions – nominations, party lists, committee assignments, endorsements, or the allocation of campaign funds (Rodden 2006). It is therefore likely that a centralized party system could reduce the within country variation in social services.

Methodological approach

To test my theoretical framework I examine both quantitative and qualitative evidence. The quantitative analysis is based on a novel dataset that I have specifically compiled for this research project. It combines data on subnational social spending, subnational socio-economic conditions and partisanship of subnational governments for 14 OECD countries from 1990-2010.

Countries included in the dataset are Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Norway, Spain, Sweden, Switzerland, UK, US.[1] The 14 countries included in the dataset are all established democracies, which typically form the basis of welfare state research. Countries included in the sample further must have a regional level that is not hierarchically subordinate to the national level government, regional assemblies and regional executives must be elected by the region's citizens, and thirdly, regional governments must have some authority over social policies.

I examine three different policy areas: education, healthcare and social welfare (minimum income schemes and personal social services). Social policies that are primarily determined at the national level, like sickness and unemployment insurance, pension payments and healthcare are not included. Regional spending on each of these three policy areas serves as a proxy for regional social policy generosity. The focus on regional social spending variables as a proxy for regional social policy effort might be criticized since spending variables are sensitive to economic ups and downs. Yet, while there is a clear trend toward collecting more and better data below the country level, subnational indicators that can gauge the generosity via replacement rates (Scruggs 2004) do not exist.

Two different dependent variables are examined in the quantitative chapters: the social policy choice of individual regional governments and cross-regional variation in social policy choices. The units of analysis are different for the two dependent variables. The unit of analysis for analyzing regional social policy choices is region-years. The unit of analysis for examining cross-regional variation is country-years.

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[1] There is no data available on regional social welfare expenditure in Sweden, only on educational and healthcare expenditure. There is no data on regional education and healthcare expenditure in France, only on social welfare expenditure

I also examine the institutional characteristics of decentralized countries in a more qualitative and in-depth manner. The recent mixed-methods debate in political science yielded two main suggestions on how best to combine large-N statistical analysis and qualitative analysis. One suggestion is to use case studies to generate theoretical insights and measurement strategies, which could then serve as inputs for large-N analyses. The other suggestion is to use qualitative analyses to assess the plausibility of observed statistical correlations (Huber & Stephens 2001; Lieberman 2005). For the purpose of this project I opt for the latter strategy. Since I am particularly interested in the degree of within-country heterogeneity, the qualitative analysis hones in on two institutions that have been identified by my quantitative analysis as crucial factors influencing within-country variation in social programs: the level of decentralization and policy coordination mechanisms.

There is some debate as to whether the cases chosen for more in-depth research should be selected randomly from the sample of cases that formed the basis for the large-N research or whether these cases should be selected purposefully (Gerring 2008b; Fearon & Laitin 2008). Given the relatively small universe of 14 cases that form the basis of my quantitative analysis I can focus on all of these countries in my qualitative analysis. I do however categorize them into three groups of countries based on their values on two key independent variables: the level of decentralization and the existence of policy coordination mechanism. These two independent variables are likely to produce very different values on my dependent variable - the within-country heterogeneity in social programs. The three groups involve: countries with low levels of decentralization, countries that combine high levels of decentralization with policy coordination mechanisms, and lastly highly decentralized countries that lack effective mechanisms of policy coordination.

The qualitative analysis therefore examines multiple combinations of independent variables and qualifies as what Gerring refers to as typological theorizing: “Where multiple variables are under consideration, the logic of diverse-case analysis rests upon the logic of typological theorizing - where different combinations of variables are assumed to have effects on an outcome that vary across types” (Gerring 2008a: 651). The categorization into three groups of different institutional combinations helps me to abstract from individual country idiosyncrasies and highlights the commonalities although within each category identified there may still be some diversity.

3. REGIONAL SOCIAL EXPENDITURE: VARIATION OVER TIME AND ACROSS COUNTRIES

I now turn to the role that regional governments play in social policy-making. This chapter aims to provide a better understanding of the social programs for which regional governments are responsible. I will describe the means by which regional governments shape social policies and their funding responsibilities before delving deeper into each of the three policy areas: social welfare policies, education and healthcare. After having portrayed regional governments' role in regional social policy-making, I introduce my regional social spending dataset and give some insights into trends and developments in regional social spending over the last 20 years.

The role of regional governments in social policy-making

Regional governments tend to play a minor role in the provision of cash transfers. Cash transfers - such as unemployment insurance, pensions, or sickness insurance - are oftentimes disbursed by regional governments, but they rarely have the authority to decide over any of transfer details, like the amount, the duration during which the benefit is received or the qualifying conditions. These program details are primarily decided at the national level. Transfer payments also tend to be financed by national tax revenue and not by regional governments.

There are a number of notable exceptions. Minimum income schemes, for example, are legislated and implemented by regional governments in Italy, Spain and Switzerland (Obinger 1999; Marchal, Marx & Van Mechelen 2011; Arriba & Moreno 2005). In Austria and Germany minimum income schemes were also regionally managed until they where replaced by national schemes in 2010 (Bundesverfassungsgericht 2010; Bundesministerium für Arbeit, Soziales, und Konsumentenschutz 2010). As a result of regional legislation substantial within-country differences have emerged in these countries regarding the amount, length and qualifying conditions. Another cash transfer that is sometimes subject to regional legislation is health insurance. In Switzerland, for example, individual cantons provide tax-financed subsidies directly to those unable to afford basic health insurance premiums. The cost of health insurance therefore varies substantially between cantons (Herzlinger & Parsa-Parsi 2004).

In all of the above countries, however, regional cash transfers only account for a relatively small share of regional governments' social policy efforts. For example regional expenditure on minimum income schemes in Spain accounts for only 0.3 per cent of the regional budget (Arriba & Ibáñez 2002). This is partly due to the fact that regional transfer programs like minimum income schemes only target a very small share of the population unlike national transfer programs, such as pension schemes and unemployment insurance.

Although regional governments only play a minor role in the provision of cash transfers they are crucial to the provision of social services (Alber 1995; Anttonen & Sipilä 1996; De Mello 2003). The provision of education and healthcare is most often associated with the social services but in fact there is also a wide array of other personal social services that regional governments are responsible for. These personal social services tend to target society's most vulnerable groups including but not limited to the elderly, youth and children, and people with disabilities. For instance, services for the elderly include nursing homes, in-home care or mobility services. Services targeted at children and youth range from childcare and leisure facilities to foster homes and family counseling. Services for people with disabilities include in-home care and mobility services, but also a variety of services aimed at their integration into society like sheltered workshops. To establish definitional clarity I will refer to these personal social services as social welfare services. The term social services will be used to refer to all three services: social welfare services, education and healthcare. The welfare state literature's lack of attention to social services might also explain why they have overlooked regional governments as important actors in the provision of welfare.

In contrast to cash transfers social services do not tend to have a fixed set of program characteristics. In fact, they involve multiple areas of regulation like staff, facilities, training and equipment, all of which have to be adapted to the regional context. Social services also benefit from a more localized provision than transfer payments that can be administered at the national level (Ostrom & Ostrom 1971).

Only very rarely, however, do regional governments have the exclusive competence over social services. Primarily the Anglo-Saxon federations, especially Canada and the United States, tend to assign both legislative and executive power over a particular social policy area exclusively to the regional level (Thorlakson 2003). Being in charge of both legislation and implementation gives regional governments great authority over a social policy area but it also opens the door to significant policy variation within a country. Having exclusive legislative power over social programs also involves long-term financial obligations on the side of regional governments. Based on regional legislation residents can derive legal claims to the provision of particular services so that regional governments have to possess the fiscal resources to maintain the level and quality of services they promised.

Even in Canada and the United States the strict allocation of legislative and executive authority to only one level of government is rarely observed in practice (Bakvis & Brown 2010;

Thorlakson 2003). For instance, in both countries the national government has the right to a certain degree of co-decision if it subsidizes social services, which are formally assigned to the regional level. The provision of healthcare in Canada for example is formally assigned to the provincial level, but since the national government provides substantial subsidies it is allowed to legislate national minimum standards in the area of healthcare (Bakvis & Brown 2010; Graefe & Bourns 2009).

In most decentralized countries the distribution of responsibilities between the national and the regional level is not clear-cut and legislative competencies tend to be shared both formally and in practice (Thorlakson 2003). There are numerous ways to organize shared legislative competencies. Legislative authority in a policy area may be formally assigned to both the national and the regional level of government allowing either level to act. In this case most countries observe the rule that national law overrides regional law. The constitution may also provide each level with legislative authority over different aspects of a policy. Or more commonly, the national level is assigned the responsibility for setting national standards and drawing up a framework legislation leaving the regional level to legislate the more specific details of legislation.

National framework legislation tends to remain relatively abstract. Citizens can derive a right to a particular service from this framework legislation, but they cannot derive claims regarding the specific quality of the service. For example a national government law may stipulate a parent's right to public childcare but it may not specify the age range, the length of care (half day or full day), or the cost of daycare. The lack of specific national government legislation therefore leaves a gap, which is to be filled by regional governments. How regional governments interpret the national framework legislation also has costly consequences since they tend to shoulder the largest part of the financial burden associated with service provision.

Finally, shared competence can also mean that legislative power is exclusively allocated to the national level, leaving regional governments to implement laws (Thorlakson 2003). Although regional governments lack any legislative authority, they can still derive power from implementing social services, especially since they are responsible for funding their provision. Having the financial authority allows regional governments to increase or to decrease their funding for particular social services. The regional budgetary process also involves regional legislatures, which have to approve the budget prepared and proposed by regional governments, or more precisely by the region's treasury department.

Given the general context of austerity in most OECD countries, the most common way for regional governments to increase spending on social services is to shift resources from one government portfolio to another. Regional governments can however also decide to raise revenues in order to finance increased spending on social services. They can do so by either raising regional taxes or by borrowing on financial markets.

Regional governments' power to influence social services therefore ranges from exclusive legislative and executive authority over social policy to mere executive authority. Most countries discussed here do however have some authority to legislate within the broad limits of national framework legislation. Regional governments also have an array of other policy tools with which they can shape social policy. For example, regional governments can influence social programs via training the staff that provides these services, for example doctors and teachers. Regional governments can also set performance goals for service provision.

Implementation of regional social services

Although regional governments are responsible for implementing and funding social services in all of the countries discussed here, they rarely provide social services themselves. Depending on the country and region, services are provided by a mix of not-for profit, private or municipal service providers. While regional governments in Anglo-American countries tend to rely on private service providers, the majority of regional governments in Continental Europe depend on a multitude of mostly religious not-for-profit service providers. Especially the Catholic Church frequently operates schools, hospitals, childcare and elderly care institutions. In the Scandinavian countries, services either tend to be directly provided by regional government agencies or by the municipalities (Anttonen & Sipilä 1996). The precise mix of private, not-for profit, and public providers does however not only depend on the country, but also on the particular regional government and the policy area. For instance, due to Germany's history most Western German regions rely on religious not-for-profit service providers while most Eastern German regions rely on private providers.

Most commonly regional governments reimburse service providers, no matter whether they are private, not-for-profit or municipal although sometimes-regional governments also pay service providers up front. For example, regional governments reimburse all types of schools - public, not-for-profit or private - for providing education. In some countries regional governments share funding responsibilities with other actors. In Germany for example regional governments fund the hospital infrastructure, including buildings and equipment. This responsibility involves the task of planning the long-term regional needs for different types of hospitals and medical specialties. The hospital's medical staff, by contrast, is financed via health insurance payments. A similar division of funding responsibilities between infrastructure and staff resources exists in France, where regional governments fund investments into the school infrastructure, while teacher salaries are funded by the national government.

After having described the role regional governments play in social policy-making more generally, I will now turn to regional government involvement in each of the three policy areas: social welfare, education and healthcare.

Social welfare programs

Social welfare targets society's most vulnerable population groups, including the elderly, youth and children, and people with disabilities. A fourth and more heterogeneous recipient group includes people facing particularly difficult life circumstances. Services targeted at this group may include debtor counseling services, drug addiction counseling or psychological counseling (Naegele, Frerichs, & Reichert 2000)

Regional governments sometimes manage their own social welfare cash transfers in addition to legislating and implementing their own personal welfare services. For example, regional governments in Italy, Spain and Switzerland have exclusive competence over minimum income schemes (Obinger 1999; Marchal, Marx & Van Mechelen 2011).

In most countries, however, regional governments are only responsible for legislating and implementing personal welfare services. Regional governments often share legislative authority over personal welfare services with national governments. A common way of allocating legislative authority is for national governments to issue abstract framework legislation and for regional governments to legislate specific program details. In Germany, for example, national legislation stipulates public responsibility for long-term care patients. Regional governments, by contrast, legislate the program details and implement both in-home-care services and nursing care services (Naegele, Frerichs, & Reichert 2000). In contrast to the basic level of care services that most regional governments in Germany provide, the Northwestern region of Nordrhein-Westfalen has passed very generous regional legislation for long-term care patients. The Nordrhein-Westfalen law, *Wohn-und Teilhabegesetz NRW*, guarantees each in-home care or nursing care resident the right to a self-determined life; the right to participate to every degree possible in social life; and lastly the right to die in dignity. All care providers in Nordrhein-Westfalen, whether public or private, are thus obligated to make the necessary staffing and infrastructure arrangements in order to guarantee care patients' right in all of the above categories (Kassen et al. 2011).

Even when regional governments do not have any legislative authority over social welfare programs they still shape the provision of social welfare services via their budget bills. In Demark, for example, regional governments are responsible for funding and administering residential homes for children and young people and institutions for people with severe physical or mental disabilities (Danish Ministry of Interior 2002).

Education

In a number of countries – Belgium, Canada, Germany and Switzerland – regional governments have exclusive jurisdiction over educational policies. The German *Länder* governments, for example, have exclusive authority over schools, vocational schools, adult education and to a lesser degree over universities (Erk 2003; Wolf 2008). The German constitution not only grants regional governments exclusive legislative and executive authority over the educational realm, it also explicitly prohibits any type of national government involvement (*Kooperationsverbot*). Regional governments not only decide about curriculums, teachers' and university professors' pay, but also about the length of schooling and the type of educational system. Students can for instance obtain a high school diploma after 12 years in some regions while other regions require 13 years of schooling (Kultusministerkonferenz 2014). Some regions still maintain the division into three different types of educational institutions - *Gymnasium, Realschule, and Hauptschule* – while others promote one educational institution *Gesamtschule* (Kultusministerkonferenz 2014).

The high degree of regional autonomy over educational policy in Germany was a reaction to the totalitarian take-over of the education system under the Nazi regime (Erk 2003). The considerable degree of regional diversity that had existed under the Weimar Republic, was brought to an end in 1934 when the first law of "forcible-cooperation" (*Gleichschaltung*) brought education under the control of the national education ministry with the aim of instilling Nazi ideology and mobilizing the youth for war (Köster et al. 2007). Against the backdrop of this experience, the 1949 constitution constructed regional governments as a bulwark against a totalitarian takeover of public education.

Most countries discussed here do not share a totalitarian history. In the vast majority of countries regional authority over educational policy seems to be an expression of regional demands for a distinct identity. In fact, educational policy seems to be more sensitive to regional identity pressures than the other two policy areas (Schakel 2009). In countries where these regional identity pressures are absent, regional authority over educational policy is relatively small. In Denmark, Norway and Sweden, for example, national governments set the legislative framework for educational policy (Eurypedia 2014; Halász et al. 2011; Jang et al. 2011). Regional governments mostly are responsible for the funding and the implementation of upper secondary education.

Healthcare

In contrast to the other two policy areas – social welfare and education – the overall degree of regional government autonomy is not a good predictor for regional governments' responsibilities in the area of healthcare. The way the healthcare system is funded strongly influences how much regional governments are involved in the organization of healthcare. In countries where healthcare is funded by tax revenues – for example in Australia, Canada, Denmark, Italy, Norway, Spain Sweden and the UK - the degree of regional government involvement tends to be higher than in countries where healthcare is insurance-based (Wagstaff et al. 2000; Wagstaff et al. 1999)

In some tax-based systems, like in Denmark and Sweden, regional governments directly foot the bill for the provision of healthcare (Wagstaff 1999). In other countries, funding responsibilities are divided between the national government and the regional governments. In Canada, for example, the national government subsidizes regional government spending on healthcare (Bakvis & Brown 2010; Graefe & Bourns 2009). In yet a different set of countries, the national government provides regional government with grants to pay for the provision of healthcare. In the United Kingdom for example none of the regional governments has its own revenues (Hooghe, Marks & Schakel 2010). They all rely on grants by the UK government. Since these grants are, for the most part, not earmarked to specific policy areas, regional governments can still decide how much they allocate to their healthcare service (National Audit Office 2012). There are four separate healthcare services for each of the four UK regions: the National Health Service (in England), Health and Social Care in Northern Ireland, National Health Service in Scotland and the National Health Service in Wales. Before 1999 these services were only administratively separate but since 1999 each system is politically accountable to the relevant regional governments. This means that they operate under different management, rules, and political authority (National Audit Office 2012).

In contrast to tax-based systems, medical treatments in countries with insurance-based healthcare systems – Austria, Belgium, France, Germany, and Japan, Switzerland and the United States– are either directly paid for by the health-insurance or by patients who are reimbursed after having paid for the medical treatment first. Because health insurances act as an important intermediary, regional governments are comparatively less involved in the organization of healthcare. The Swiss healthcare system is a hybrid system in terms of funding since cantonal governments play an important role in offering tax-financed subsidies directly to those unable to afford basic insurance package premiums. According to the Federal Office of Public Health 32.7 percent of insured individuals require this financial assistance (Herzlinger & Parsa-Parsi 2004)

In insurance-based healthcare systems regional governments are mostly responsible for funding hospital equipment and infrastructure as well as for the long-term planning of hospital demand. In Belgium and Germany, for example, regional governments plan the long-term need for somatic specialties based on demographic projections. Regional governments then decide about their investments into hospital infrastructure and equipment. For example, in regions with an aging population, maternity clinics might be less needed in the future.

Regional spending data

I rely on regional social spending data to measure regional governments' social policy efforts. Social spending data is commonly used in welfare state research as a proxy for regional social policy generosity. Spending variables are often criticized for being very sensitive to short-term economic ups and downs that may be unrelated to social program generosity. While alternative measures for social policy effort, such as replacement rates are available for national level social policies they do not yet exist at the subnational level.

To my knowledge, the regional social spending dataset I collected is the first cross-national dataset of this sort. It includes data on regional social spending by policy area for 14 OECD countries. Countries included are Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Norway, Spain, Sweden, Switzerland, UK, US.[2] The comparability of regional spending data was simplified by the introduction of the "Classification of the Functions of Government" (COFOG) in 1993.[3] The "COFOG" system, which is also used to classify national spending, is a procedure of standardizing the bookkeeping of governments. The system splits government expenditure into 10 functional groups, three of which are social welfare, education and healthcare. Each of these 10 functional groups can be further divided into nine subgroups. Expenditure within each functional group is roughly comparable.

The regional spending data included in the dataset only refers to expenditure that is decided at the regional level. It excludes expenditure that is only disbursed at the regional level but decided at the national level. This means that spending on most social transfer programs, like unemployment insurance schemes, has been extracted from the data.

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[2] These are fifteen countries but in each spending category there are only 14 countries. There is no data available on regional social welfare expenditure in Sweden and there is no data on regional education and healthcare expenditure in France.

[3] Many countries have applied the COFOG system retroactively to expenditure data before 1993.

Trends in regional social spending over time

Before examining the determinants of regional social policy choices (Chapter four) and the effects of decentralization on social program heterogeneity within countries (Chapter five), I briefly describe the main trends in regional social spending. I answer a number of important questions. How much do regional governments spend on social welfare programs, education and healthcare? Has regional spending increased over the last 20 years? And, has social program heterogeneity within countries increased over the last few years?

The graphs below show how much the average regional government spends on social welfare, education, and healthcare in a particular country in a given year. To correct for inflation, regional expenditure is presented as a share of regional GDP. Overall regional governments tend to spend more on education and healthcare than on social welfare. The average regional government expenditure on education is about 3.65 per cent of the regional GDP during the period from 1990 to 2010. Regional spending on education ranges from 8.77 per cent of regional GDP in Germany to 0.4 per cent of regional GDP in Sweden. The average regional government spends 971 International Dollars per capita each year on education. The two regional governments with the highest education expenditure are the Canadian Northwest Territories (7314 $) and Alaska (3071 $). Their high education expenditure is partly explained by the challenge of maintaining a high quality education system in a very vast but sparsely populated area.

The average regional expenditure on healthcare for the observed period is 3.6 per cent of regional GDP. It ranges from an average regional expenditure of 11.5 percent of regional GDP in the United Kingdom to 0.4 per cent of regional GDP in Japan. The average regional government spends 938 International Dollars per capita per year on healthcare. The regional government with the highest per capita spending is again the Northwest Territories in Canada.

The average regional expenditure on social welfare between 1990 and 2010 is 2.61 per cent of regional GDP. It ranges from an average of 12.1 percent of regional GDP in Spain to close to 1 per cent in Italy. The average regional government spends up to 719 International Dollars per capita per year on social welfare.

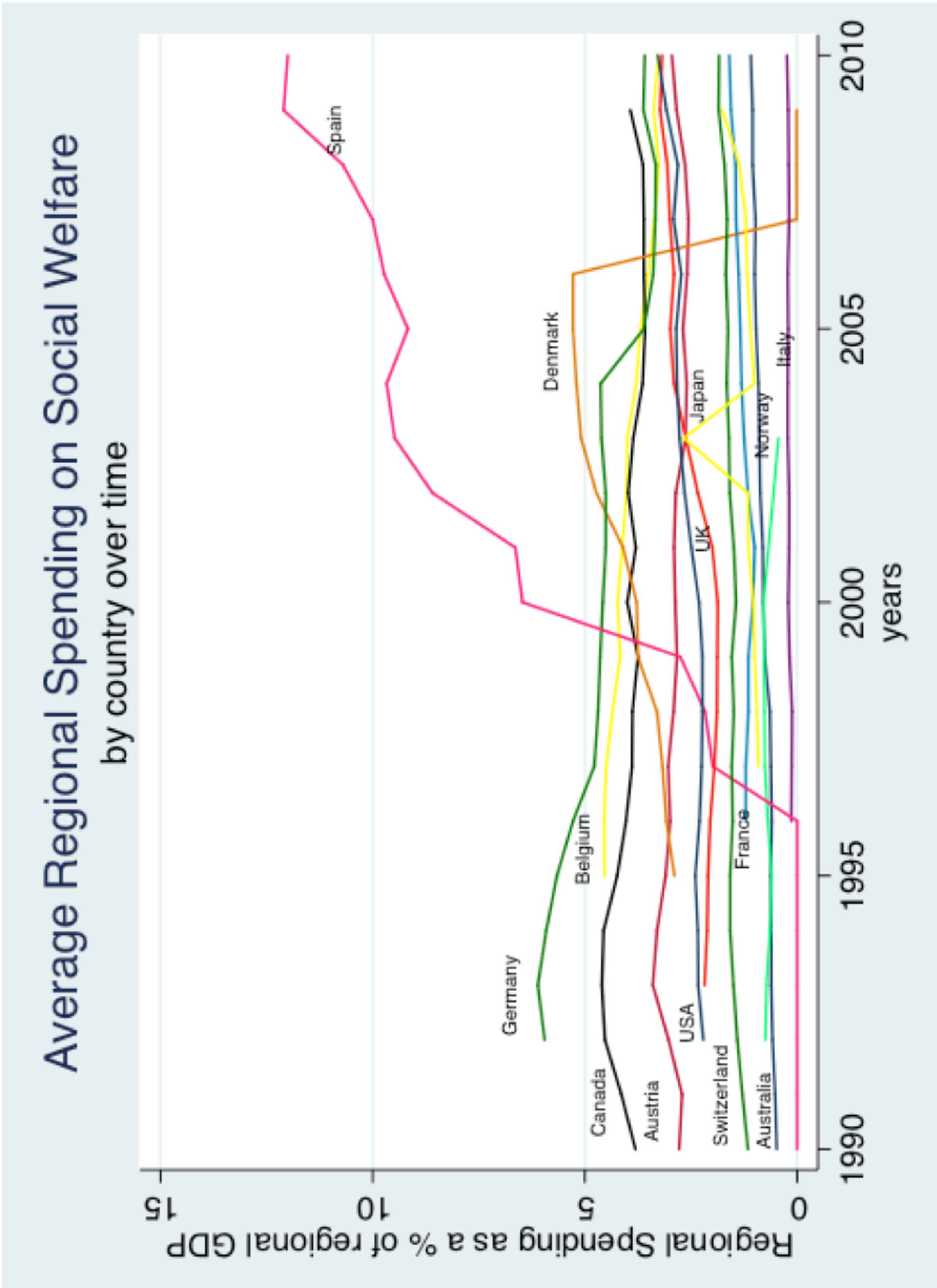

Figure 2: Average regional spending on social welfare

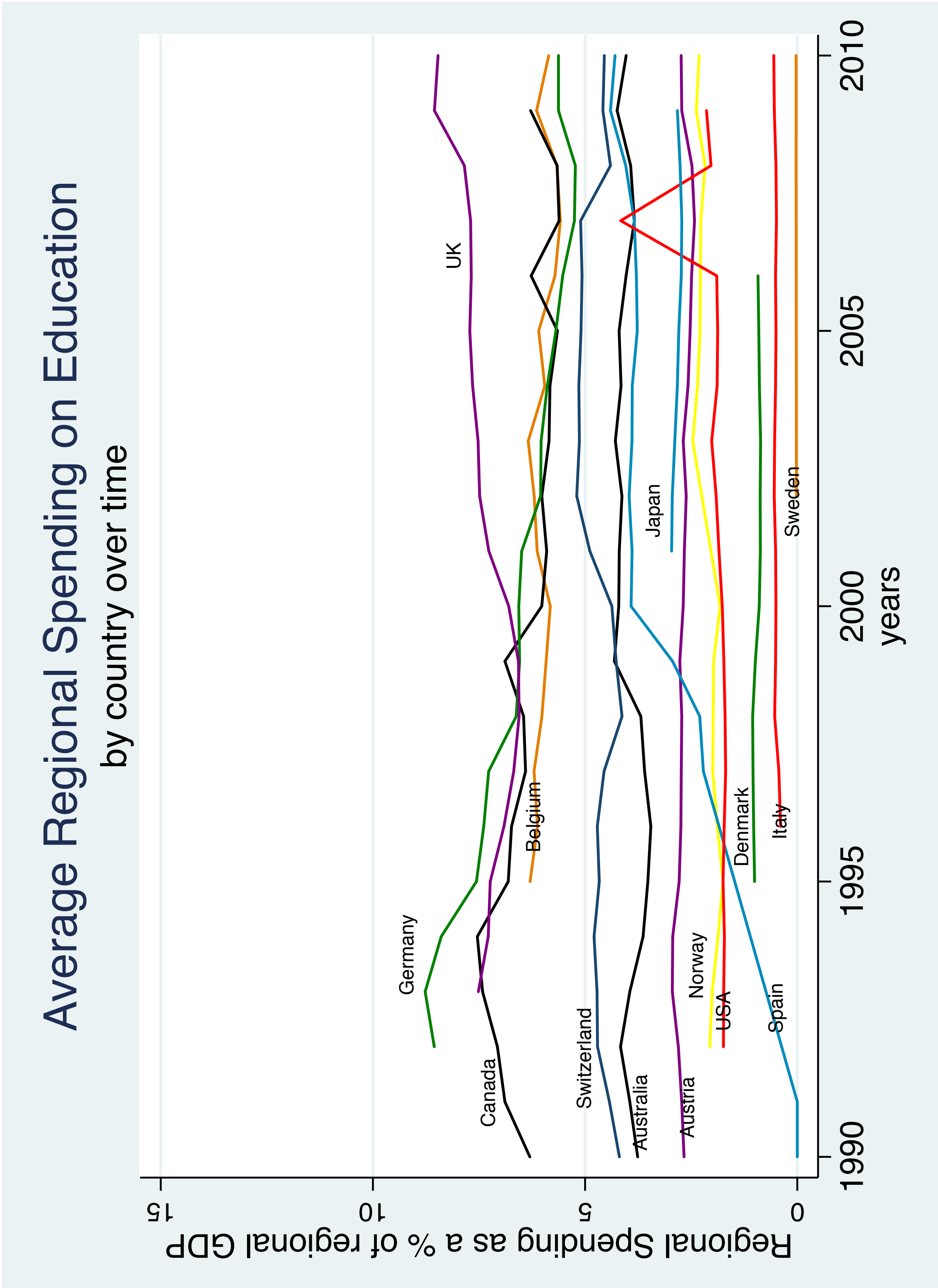

Figure 3: Average regional spending on education

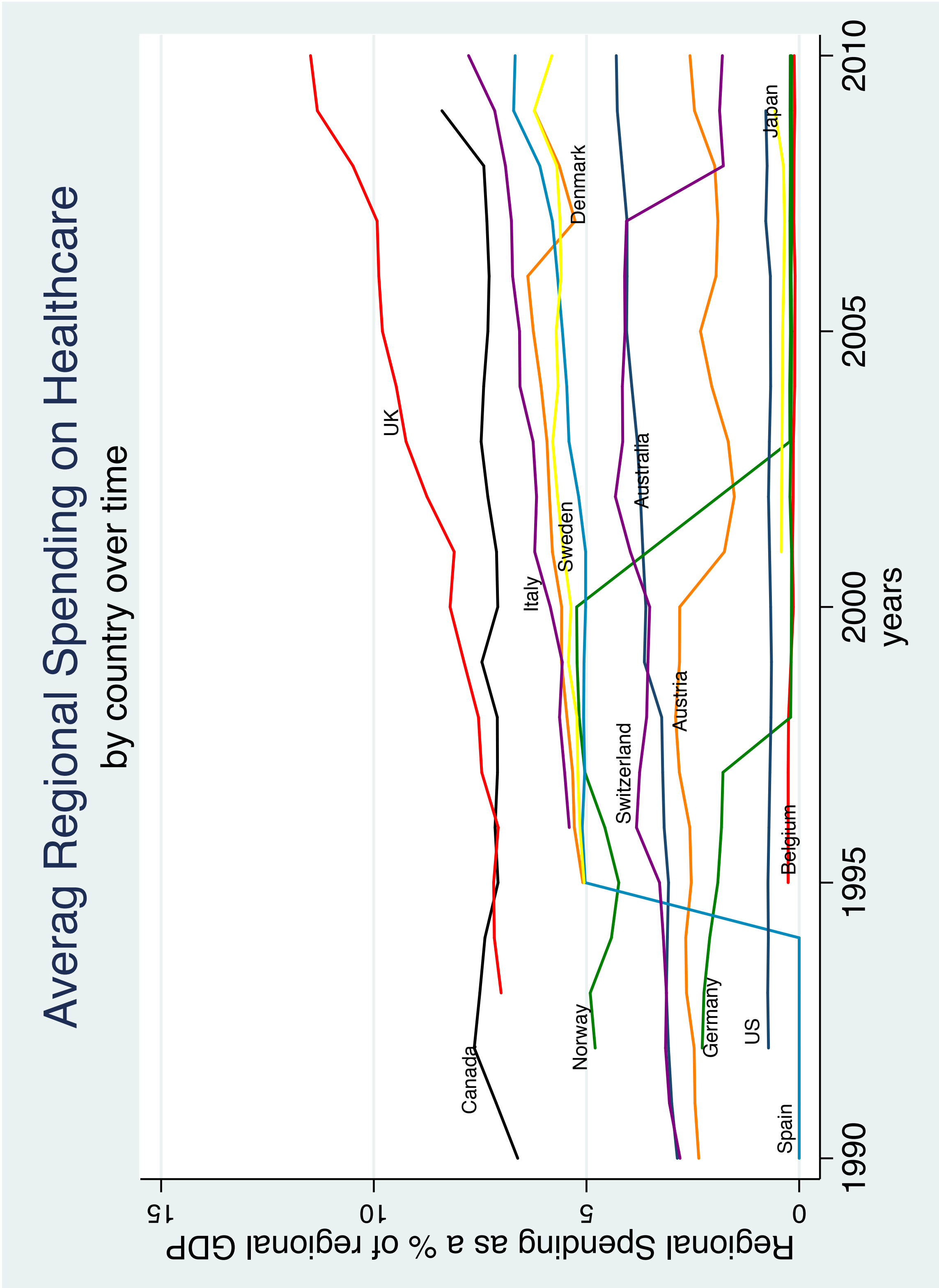

Figure 4: Average regional spending on healthcare

Average regional spending on social welfare and healthcare increased slightly over the period from 1990-2010, whereas the average regional spending on education has decreased slightly over the same period, but the experiences of individual countries differ vastly. For example, regional spending on social welfare has dropped drastically in Denmark as a result of re-centralization reforms. Regional social welfare spending in Spain, by contrast, has increased dramatically. While the educational spending of Germany's *Länder* governments has gradually declined over the last couple of years, the Spanish Autonomous Communities now spend more on education then ever before. Regional healthcare spending in the UK has gradually increased from 1990 to 2010 while regional governments in Norway and Germany now spend less on healthcare than they did 20 years ago.

Chapter five will analyze the conditions under which decentralization increases within - country variation in social policy generosity but this chapter will provide some initial insights. The graphs below represent within country variation in spending on social welfare, education and healthcare. I use the coefficient of variation to measure the degree of variation. The coefficient of variation is computed by dividing the standard deviation by the mean. It is commonly used as a normalized measure of dispersion and has the advantage of being insensitive to differences in average spending (Abdi 2010).

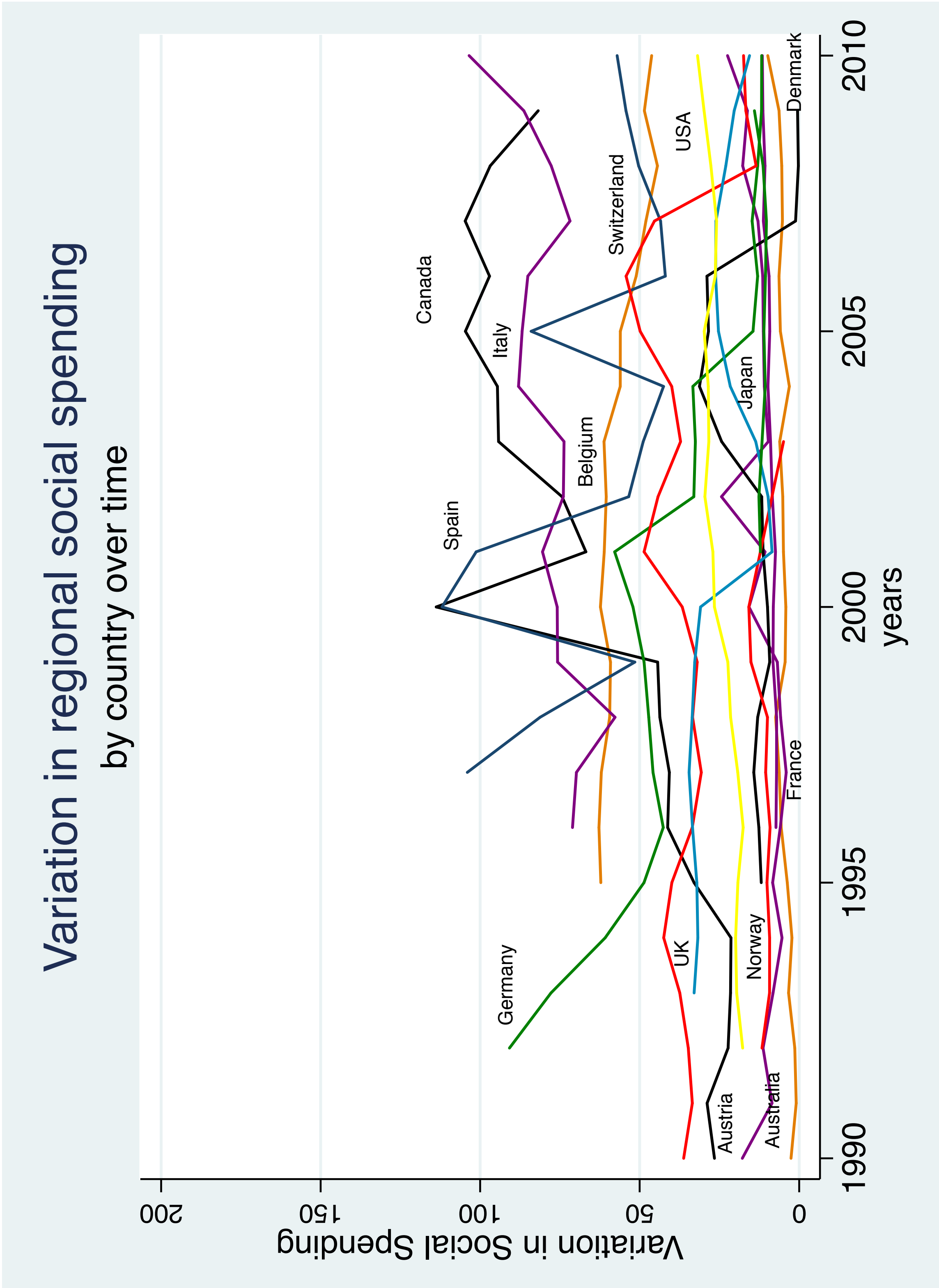

Figure 5: Variation in regional social welfare spending

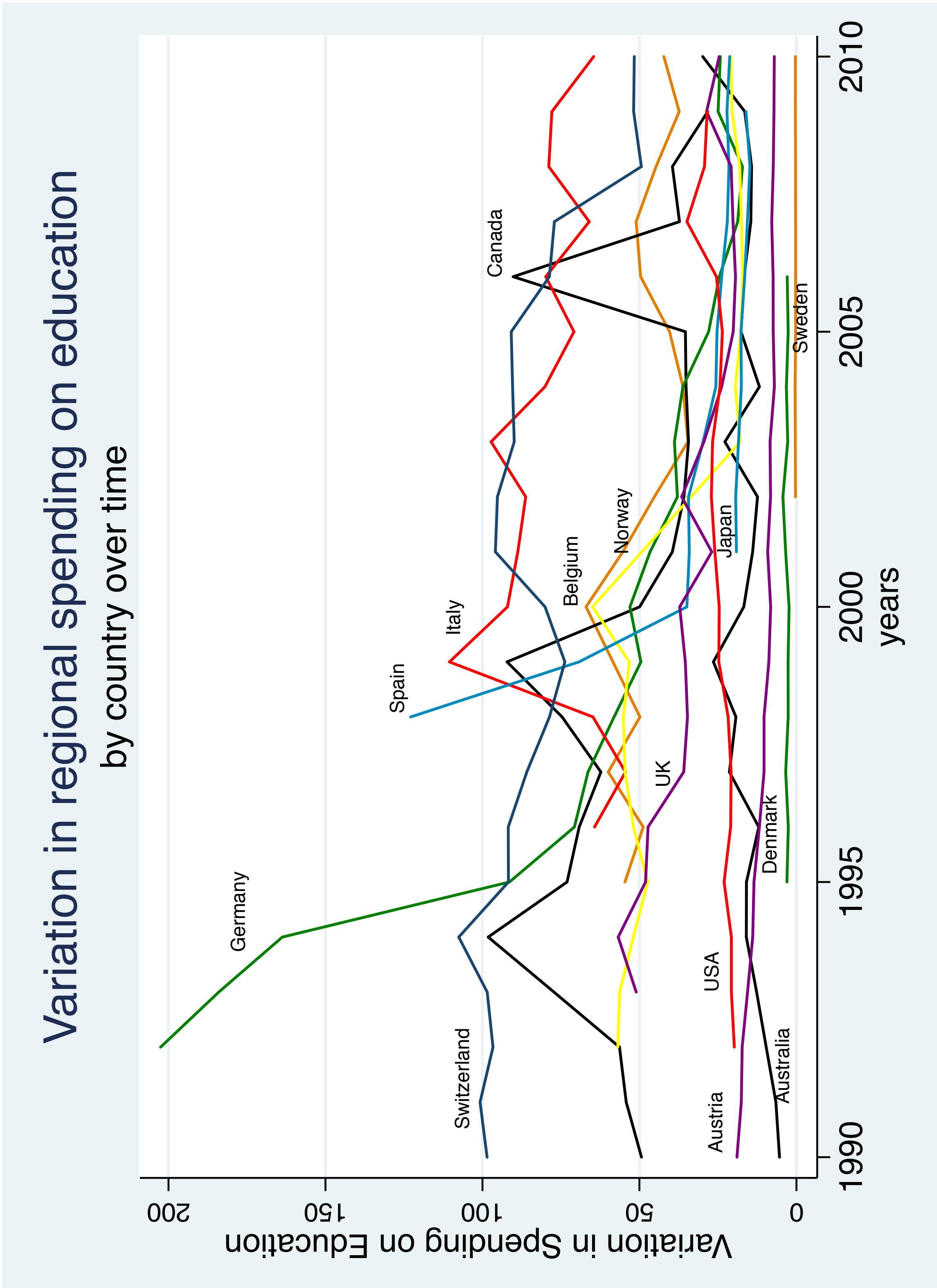

Figure 6: Variation on regional spending on education

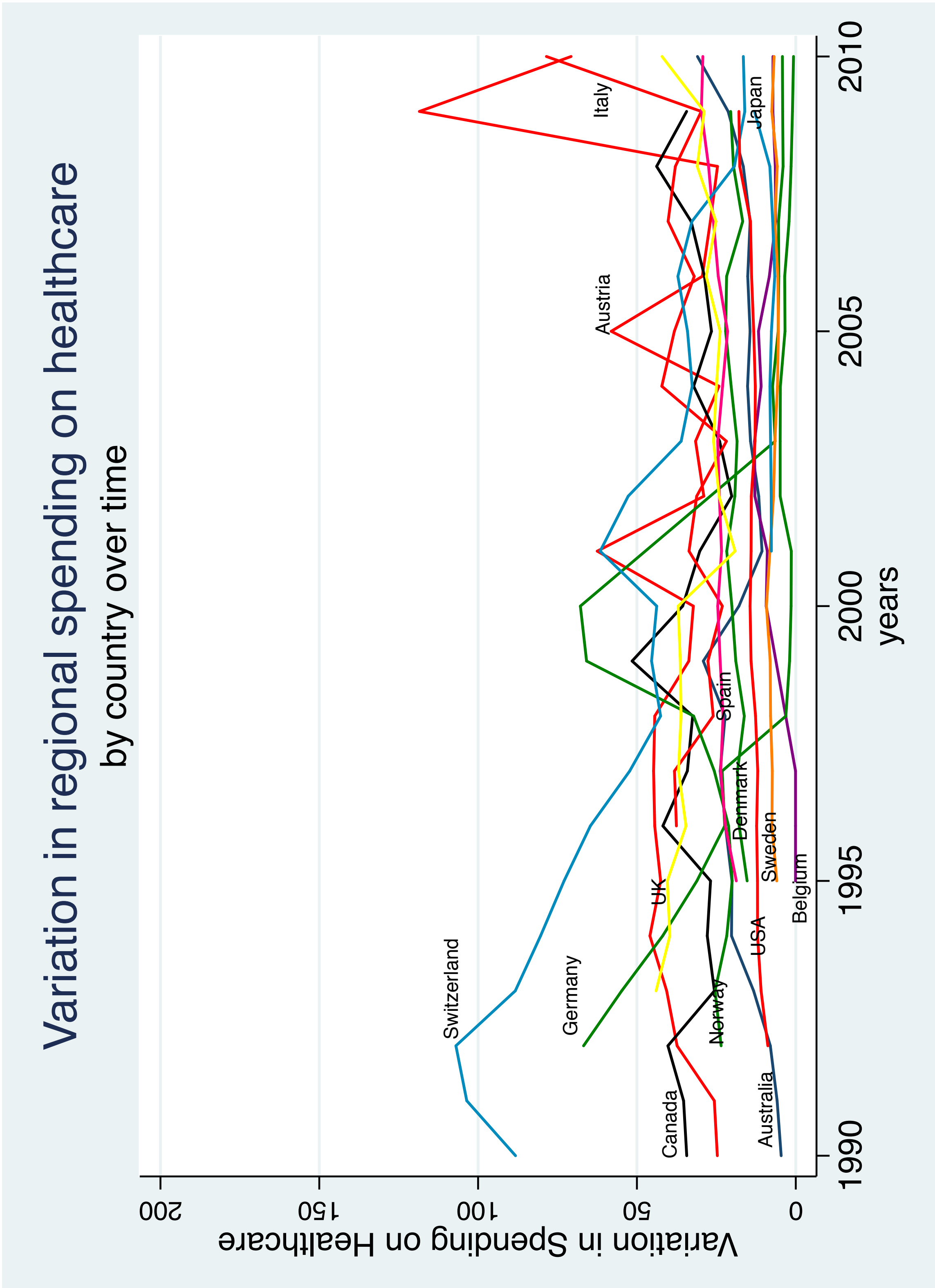

Figure 7: Variation in regional spending on healthcare

In the area of regional spending on social welfare, there has been a slight increase in the within country variation over the last 20 years, while variation in spending on education and healthcare seem to have decreased. Again, there is no unified trend across all countries. In Germany for example, within-country variation in regional spending in all three policy areas peaked in the early 1990s as a result of unification but slowly decreased thereafter. A decreasing trend in within-country variation can also be observed in Denmark and Norway. The heterogeneity in regional spending on social welfare services declined drastically in Denmark and Norway in the mid 2000s, due to recentralization reforms. In contrast, within-country variation increased in Italy in all but one policy area.

Conclusion

This chapter described the role regional governments play in social policy-making. It also explored some cross-national variation in the degree of regional government involvement in the organization and management of social welfare, education, and healthcare. The descriptive statistics, presented in this chapter, show that there is quite considerable variation in how much regional governments spend on social welfare, education and healthcare. There is no uniform trend toward higher regional spending in any of the there areas. The next chapter will explore in more detail the determinants of regional spending in each of these three areas and how these determinants are conditioned by the macro-institutional context.

This chapter also presented some descriptive statistics on the degree of within-country variation in regional spending. A higher degree of within-country variation could be one of the consequences of transferring more authority to regional governments. The data do however not show a uniform trend towards higher within-country variation in social spending. On the contrary, in some countries within-country variation declined over the period from 1990 to 2010. Chapter four will explore in more detail the conditions under which decentralization leads to higher within-country variation in regional spending on social services

4. PUTTING A SPOTLIGHT ON REGIONAL GOVERNMENTS: EXPLAINING REGIONAL SOCIAL POLICY GENEROSITY

The previous chapter described the role that regional governments play in the legislation and implementation of social policy. In this chapter I look more closely at the factors that influence regional governments' social policy choices. I seek to explain when regional governments decide on social programs that are more generous than those of other regional governments within the same country. In addition to examining the effect of regional context I also draw attention to the macro-institutional context – namely the level of decentralization – and how it conditions regional social policy-making. This chapter's goal is to explore how macro-institutional context and regional level factors interact to shape regional social policy.

Hypotheses

In the theoretical framework chapter I have pointed out that the welfare state literature has produced a wealth on insights into the factors that influence national social policy generosity. Aside from economic development and demand factors, like unemployment and the share of elderly population, a consistent predictor of national social policy effort has been the ideological orientation of the national government. Left cabinet incumbency is the most consistent predictor of generous and redistributive social policies at the national level (Huber & Stephens 2001). A number of studies have found that the factors that explain social policy generosity at the national level also matter at the regional level. These studies that have mostly focused on single, highly decentralized countries like the United States (Winters 1976), Canada (Kellermann 2006), Germany (Potrafke 2006), Switzerland (Feld 2000) and Italy (Vampa 2013). The focus on single countries raises the question whether their findings are generalizable to a broader set of countries. Regional governments do not only exist in highly decentralized contexts but are in fact fairly ubiquitous. In 23 out of 34 OECD countries, regional governments are directly elected, enjoy some degree of institutional independence from the national government, and have authority over a number of policy areas. More importantly, however, by only focusing on single countries these studies are unable to examine how different macro-institutional contexts condition the effect of regional context factors like affluence and partisanship on regional social policy generosity. In other words they fall short in examining the scope conditions under which regional context matters for regional social policy generosity.

The decentralization literature helps us in understanding how the level of decentralization conditions the behavior of regional governments. Most importantly the decentralization literature assumes that decentralization leads to increased competition between regional governments for mobile residents and businesses. Some proponents of the fiscal decentralization literature believe that this competition incentivizes all regional governments to lower their taxes and social expenditure. Others have suggested that regional governments will not always engage in tax-competition but instead try to attract mobile residents with high quality services. Neither of the two strands explores how the regional socio-economic context or partisan ideology might affect regional governments' social policy choices. They remain apolitical in that they pay little attention or no attention at all to processes of regional policy-making. Instead decentralization scholars believe that regional policy choices are the result of invisible market forces. Either these market forces place a downward pressure on regional taxes and spending regardless of the regional context or they involve a sorting process whereby citizens with a preference for higher quality services end up in regions with higher quality services and citizens with a preference for lower taxes live in regions with lower tax levels. It remains unclear when regional governments respond with lower taxes and spending and when they decide to raise their taxes to provide more generous social policies.

This project seeks to combine the insights of both literatures in an effort to understand how the level of decentralization conditions the effect of regional context factors on regional social policy generosity. If decentralization leads to a downward pressure on regional taxes, we should see a common trend toward less social policy generosity regardless of the regional context. If instead decentralization allows regional governments to respond with either lower taxes or higher quality services we would expect regional context to matter. In, fact we would expect regional context factors to matter more with increasing levels of decentralization. In drawing on both the welfare state literature and the decentralization literature I derive the following hypotheses.

Regional Differences in Affluence

Regional differences in affluence are likely to influence the social policy choice of regional governments. The more affluent the region the higher the regional government's tax revenue will be. Higher tax revenue in turn means that the regional government is able to afford more generous social policies.

H1: A higher regional GDP per capita extends a region's tax revenue and hence increases social spending.

The effect of regional affluence is likely to be conditional on the level of decentralization. At higher levels of decentralization regional governments typically rely less on grants from the national government and more on their own tax revenue. When regional social programs are financed with the fiscal resources of the regional government, the region's affluence is likely to matter more. If national governments subsidize regional social programs with grants, as is the case in less decentralized contexts, regional differences in income should not have a noticeable effect.

H2: The more decentralized a country, the stronger the effect of regional GDP per capita on regional social spending.

Partisan Differences

Studies that have examined the effect of regional government partisanship on regional social spending have produced mixed evidence. While some have found that left-leaning regional governments tend to spend more on regional social programs than right-leaning regional governments, others have failed to find such a partisan effect (Vampa 2013). The latter often explain the absence of a partisan effect with the practical non-political nature of regional policy-making (Putnam 1993). Yet, the nature of regional policy-making seems to have changed over the last couple of decades (Hooghe, Marks & Schakel 2010). While regional governments used to be appointed by the national government in all but the most decentralized countries, almost all regional governments today are elected by regional residents. With regional governments now being accountable to voters, I expect partisanship differences to have become more important, especially in the case of policies that imply some sort of redistribution, like most social policies.

Left-leaning regional governments are likely to make more generous social policy choices than right-leaning regional governments.

H3: The presence of left-leaning parties in regional government leads to higher spending on social policy.

I also expect the level of decentralization to moderate the strength of the partisanship effect. That is, I expect partisanship differences to have a stronger effect on regional social policy choices at higher levels of decentralization. More institutional independence from the national government and more regional policy responsibility imply that regional social policy is less influenced by national policy positions and corresponds more to the ideological orientation of the regional government. Furthermore the link between the regional government and its voters should be more direct in highly decentralized countries. In less decentralized contexts, national government appointees will sometimes oversee the work of elected regional governments. By keeping this direct political influence over regional policy-making the national government can constrain the decision-making leeway of the regional government and thereby reduce the effect of regional ideological orientations.

H4: The effect of regional partisanship on regional social spending should be stronger at higher levels of decentralization.

It might not only be the partisanship of the regional government but also the partisanship of the national government that determines regional social policy generosity. By setting national minimum standards or by issuing framework legislation the national government may influence regional governments' social policy efforts. To think through the joint effect of regional and national partisanship we can imagine social policy-making as a bargaining process between both levels of government (Beramendi 2012). The process begins with the national government proposing a framework legislation that realizes its ideal point on a policy scale ranging from very generous social policies on the left to less generous social policies on the right. For a left-wing national government this ideal point involves more generous social policies. For a right-wing government, whose spending priorities are likely to be different, this ideal point might involve less generous social policies.

The regional government then decides how to translate the national-level framework into regional legislation. In putting forward its own policy a regional government has to consider both: its own preferences, or rather the preferences of its voters, and the policy framework proposed by the national government. A right-wing national government might propose a national policy framework (P) that is less generous than the preferred policy of the left-wing regional government (A). The regional government is constrained by the national framework legislation and can therefore not carry out its preferred policy. How much the policy space of the regional government is constrained does however depend on the level of decentralization. At low levels of regional autonomy, proposals made by regional governments are more in line with the policy proposals of the national government so hat the regional government's realized policy A_1 is further away from its own ideal point. Higher levels of institutionally granted regional autonomy are likely to enlarge the policy space available to the regional governments, so that the regional government's realized policy A_2 is close to its preferred policy A.

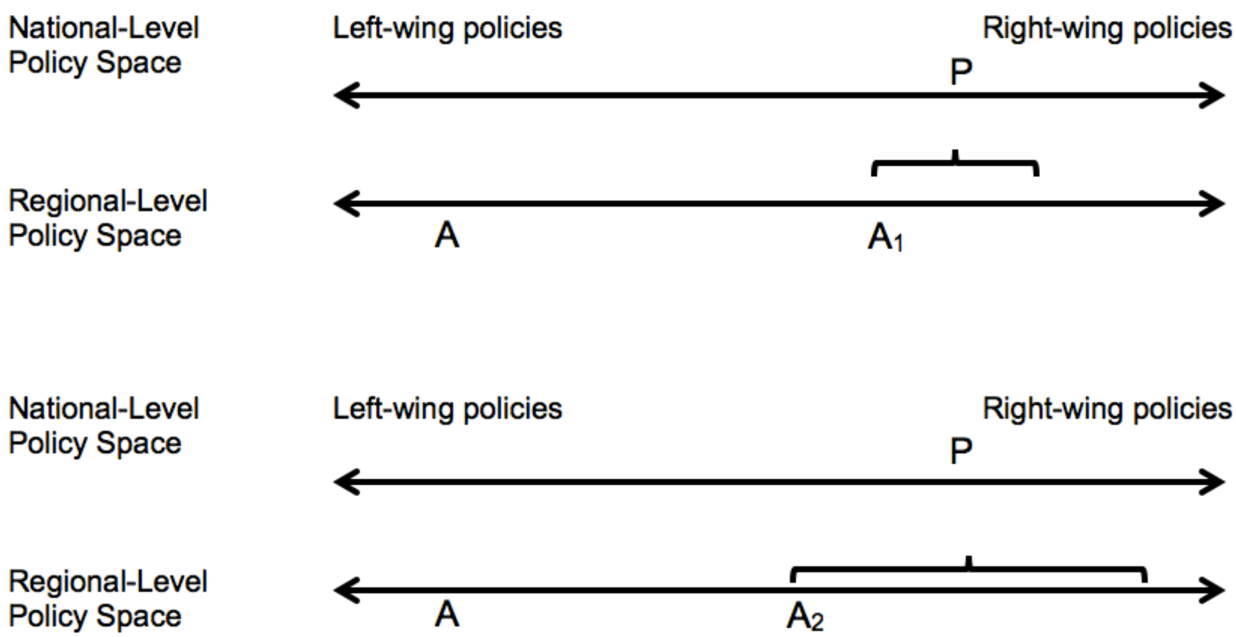

Figure 8: Policy space

Demand factors

Factors, such as higher unemployment rates or a higher proportion of elderly population, might not lead to more generous social policies but they drive up regional social spending by increasing the number of dependents. The effect of demand factors is not likely to be conditioned by the level of decentralization. In both centralized and highly decentralized contexts, regional spending should adjust to periods of higher demand. For example, even if national government frameworks closely regulate regional responsibility for the care of the elderly, a higher proportion of elderly population will still drive up social spending.

H 5: A higher demand for social spending, driven by unemployment rates and demographic factors, increases regional social spending.

Operationalization

The empirical analysis is based on the dataset described in chapter three, which brings together data on regional spending in three areas: social welfare, education, and healthcare. Two different measures of regional social spending are used. First, a region's social spending is measured as a percentage of its GDP. This measure captures a region's social spending relative to its affluence. Since I assume that inflation will equally affect public expenditure and GDP figures this percentage should not be sensitive to inflation. My second measure is regional social spending per capita. In contrast to the first measure this measure is not a percentage. It captures how much a regional government spends on each inhabitant. In contrast to the GDP related measure, it should be more sensitive to regional differences in affluence. To make regional per capita spending more comparable and to correct for inflation, the data are presented in constant International Dollars. National statistical institutions commonly use both measures, regional spending as a percentage of GDP and regional spending per capita. For example, while Italy typically presents regional spending as a percentage of regional GDP, Germany tends to provide regional spending per capita data.

Turning to my key independent variable, I code regional partisanship as "1" for each year a left-wing party was in government and "-1" for each year a right-wing party was in government. The coding of left- and right wing parties is based on the Chapel Hill Expert Survey (Bakker et al. 2012). When Chapel Hill expert survey data were not available, the self-ascribed ideological position of the party was used. Coalition governments are coded using parliamentary vote shares of the left parties in government. For instance, a coalition between a left-wing party that won 40 per cent of the vote and a right-wing party that won 15 per cent of the vote would receive a score of 0.45 (40/(15+40)*2)-1. When left-wing and right-wing government parties hold equal vote shares, the coalition is scored 0. A coalition between left-wing parties is coded "1" and a coalition between right-wing parties is coded "-1".

Divided governments that tend to occur when regional executives and regional legislatures are elected in separate elections – like in the United States - are coded following a coding rule by Winters (1976). If the left wing-parties hold the regional executive and have a majority in the upper regional assembly as well as in the lower regional assembly, the regional government receives a score of 1. If one of the two regional assemblies has a right-wing majority, the executive receives a score of 0.5. If both regional assemblies have a right-wing majority, the executive receives a score of 0 indicating a gridlock between the executive governor and the majority in both houses, which is able to veto the executive's more left-wing social policies. Vice versa, if all three institutions are held by a right-wing party, the government receives a score of -1. If one of the two houses has a left-wing majority the executive receives a score of -0.5 and if both houses have a left-wing majority, the executive receives a score of 0.

There are two countries, which fail to fit either government system. The system for choosing regional executives in Austria is essentially a parliamentary one. However in six of the nine *Länder* the party who holds the majority of seats in the regional assembly does not form the executive. Instead all the major parties represented in the regional assembly will receive cabinet seats. For the purpose of this study these so-called *Proporz* governments are coded using the vote shares of all the major left-wing political parties represented in parliament. The second atypical case is Switzerland. In Switzerland the regional executive is directly elected. However, not just the president of the regional executive, but all of its members (typically 7) are directly elected. I used the vote shares of the simultaneous parliamentary elections as a proxy for the composition of the regional executive.

The partisanship of the national government is coded using the left cabinet variable of the Comparative Welfare States Dataset (Brady, Huber & Stephens 2014). Left cabinet refers to the number of left seats held by the left government party as a share of all the seats held by the government parties.

The other independent regional-level variables – regional GDP per capita, regional unemployment levels, regional population, regional population density, share of population over 65 (for health spending) and share of population under 14 (for spending on education) follow convention. They were taken from the OECD regional database and from national statistical databases.

To capture the level of decentralization - which I expect to condition the effect of regional partisanship and regional affluence – I rely on the self-rule dimension of the Regional Authority Index (RAI) developed by Hooghe, Marks & Schakel (2010). In the most comprehensive measurement effort to date Hooghe, Marks and Schakel not only cover 41 countries and a period of 60 years but also multiple institutional facets of decentralization. The self-rule dimension refers to “the capacity of a regional government to exercise authority autonomously over those who live in its territory.” (Hooghe, Marks & Schakel 2010: 6). It consists of four sub-dimensions: a regional government’s autonomy from the national government, the range of policies for which it is responsible, the extent to which it can rely on independent sources of income and lastly the extent to which its legislature and executive are elected by the region’s citizens. All of these sub-dimensions are directly related to the causal mechanisms discussed here.

Table 1: Variable Definitions and Sources

Variables	*Description*
Dependent Variables	
Regional spending on social welfare	As a % of regional GDP and in constant International Dollars per capita.
Regional spending on education	As a % of regional GDP and in constant International Dollars per capita.
Regional spending on healthcare	As a % of regional GDP and in constant International Dollars per capita.
Independent Variables	
Regional government partisanship	Scored -1 if right-leaning, scored 1 if left-leaning, Coalition governments are coded using the parliamentary vote shares of the left parties in government.
Regional per capita	Log of constant International Dollars. [a]
Regional unemployment rates	As a % of the labor force unemployed. [a]
Regional population density	Log of population per square kilometer. [a]
Regional population	Log of number of residents. [a]
Regional population above 65	Population aged 65 years and older as a % of population aged 15-65. [a]
Regional population below 15	Population aged 15 and younger as a % of population 15-65. [a]
Level of decentralization	Self-rule dimension of the Regional Authority Index. [b]
National government partisanship	Coded using the number of left seats held by the government party as a share of all the seats held by the government party. [c]
Health-tax	Scored 1 if the healthcare system is tax financed, scored 0 if the healthcare system is insurance-based.

Sources: [a] OECD regional database [b] Hooghe, Marks & Schakel (2010); [c] Brady, Huber & Stephens (2014).

Model

The analysis of regional spending across 14 countries and a period of twenty years presents a modeling challenge. Yearly spending observations are nested within regions, which in turn are nested within countries. Observations belonging to the same cluster – repeated time observations within a region and regions within a country - are usually not independent of each other, which violates the independence assumption of OLS regression. Using OLS regression on clustered data yields consistent estimators but the standard errors and the corresponding p-values tend to be smaller than they should be (Rabe-Hesketh & Skrondal 2008). To account for this within-cluster correlation I use a multi-level model with three different levels. Observations at the first level are region-years, regions are the second level and the third level is the country level . The following three separate models are estimate in one step:

$Y_{ijk} = \pi_{oik} + e_{ijk}$ (years)

$\pi_{oik} = \beta_{00k} + r_{oik}$ (regions)

$\beta_{ook} = \gamma_{ooo} + u_{ook}$ (countries)

The model accounts for two main errors. First, it controls for the fact that time observations within a region are not independent of each other. Second, it controls for the fact that all regions within a country share similarities. In addition to accounting for the clustered structure of time observations I introduce a growth parameter to account for the fact that the observed spending of a particular regional government at time t is a function of a systematic growth trajectory. All independent regional level variables are group mean centered, that is they are centered on country means. This changes the structure of the data since a value no longer compares across countries but only relates to the group mean. All coefficients of regional variables therefore have to be interpreted only with respect to the country mean. For example, an unemployment rate coefficient of 0.04 means that if the unemployment rate in a particular region is one unit above its country mean, its social spending can be expected to increase by 0.04 percent of regional GDP. I therefore do not assume that regional spending is necessarily comparable across time and space. I do, however, assume that the mechanisms that explain whether a regional government spends more or less than the other regional governments within a country should be comparable across time and space.

Since group mean centering implies that the country average for each independent variable is 0, all cross-country variation in the independent variables is removed. In order to examine compositional effects, the same independent variable has to be added in its aggregate form at the country level. For example, a higher regional per capita might explain whether a regional government spends more than other regional governments within the same country. But if we believe that regional social expenditures will be higher in countries where regional governments are overall more prosperous than in countries where they are less prosperous we do need to add regional GDP per capita as a country-level variable.

Two interaction effects are estimated: (1) the interaction between the level of decentralization and regional GDP per capita as specified in hypothesis two and (2) the interaction between the level of decentralization and the partisanship of the regional government as specified in hypothesis four. The following equation describes the estimated three-level-model.

Regional spending on social policies per year $_{ijt}$ = partisanship of regional government $_{ijt}$

+ regional per capita $_{ijt}$

+ regional unemployment rate $_{ijt}$

+ regional population density $_{ijt}$

+ regional population $_{ijt}$

+ regional population above 65 $_{ijt}$

+ regional population below 15 $_{ijt}$

+ SELF RULE $_{jt}$

+ REGIONAL UNEMPLOYMENT $_{jt}$

+ REGIONAL GDP PER CAPITA $_{jt}$

+ NATIONAL GOVERNMENT PARTISANSHIP $_{jt}$

+ SELF RULE $_{jt}$ * partisanship of regional government ^{jt}

+ SELF RULE $_{jt}$ * regional GDP per capita $_{ijt}$

Results

Regional Social Welfare Spending

The first three columns of Table 1 represent the effects of all independent variables on regional social welfare spending measured as a percentage of regional GDP (models 1,2,3). The last two columns present the effect of all independent variables on regional spending per capita measured in constant International Dollars (Models 4,5). All regional level variables are group-mean centered. The country- level variables are presented in capital letters.

Table 2: Determinants of regional spending on social welfare, 1990-2010

	Spending as a % of GDP			Spending per capita	
	(1)	(2)	(3)	(4)	(5)
Regional level variables					
Left cabinet	0.147***	-0.327**	0.137***	35.83***	35.73***
	(0.022)	(0.114)	(0.025)	(6.669)	(6.674)
GDP per capita	-1.254***	-1.257***	-1.250***	-132.4	347.4***
	(0.168)	(0.168)	(0.168)	(242.9)	(54.44)
Unemployment rate	0.041***	0.039**	0.041***	2.343	1.681
	(0.012)	(0.012)	(0.012)	(3.772)	(3.772)
Population	-0.201***	-0.193***	-0.201***	-87.35***	-90.32***
	(0.048)	(0.048)	(0.048)	(17.22)	(17.34)
Population density	0.008	0.006	0.009	-2.197	-3.229
	(0.039)	(0.039)	(0.039)	(13.61)	(13.72)
Time	0.036***	0.036***	0.036***	14.12***	14.25***
	(0.005)	(0.005)	(0.005)	(1.551)	(1.549)
Country level variables					
DECENTRALIZATION	0.058**	0.0643**	0.058**	-0.730	-1.377
	(0.022)	(0.022)	(0.022)	(6.236)	(6.233)
LEFT CABINET	0.003***	0.003***	0.003***	1.503***	1.508***
	(0.001)	(0.001)	(0.001)	(0.125)	(0.125)
UNEMPLOYMENT	-0.049***	-0.049***	-0.049***	-2.314	-2.345
	(0.010)	(0.010)	(0.010)	(3.039)	(3.038)
GDP PER CAPITA	0.107	0.152	0.096	752.7***	746.6***
	(0.332)	(0.331)	(0.332)	(96.20)	(96.14)
DECENTRALIZATION* left cabinet		0.024***			
		(0.006)			
LEFT CABINET*left cabinet			0.001		
			(0.001)		
DECENTRALIZATION* GDP per capita				24.27*	
				(11.97)	
N	5258	5258	5258	5236	5236

Standard errors in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

The results indicate that left government at the regional level has a consistent and positive effect on regional social welfare spending. The interaction effect between the level of decentralization and regional partisanship (model 2) is highly statistical significant, indicating that the effect of regional partisanship is stronger the more decentralized the country is. This confirms my hypothesis that the effect of left partisanship at the regional level is conditional on the institutional context. The marginal effect plot below further visualizes the interaction between left government at the regional level and the level of decentralization. It shows that the higher the degree of decentralization the stronger the positive effect of left government.

A left-leaning national government also has a positive and statistically significant effect on regional social spending throughout all model specifications. In countries where left governments are in power at the national level, regional governments tend to spend more on social welfare programs. This might be the case because left-leaning governments implement more generous framework legislation or because they subsidize regional government spending more than right-leaning national governments. There is no cross-level interaction between a left-leaning government and a left-leaning regional government (Model 3). This means that the effect of left government at the regional level is not amplified by a left-leaning national government.

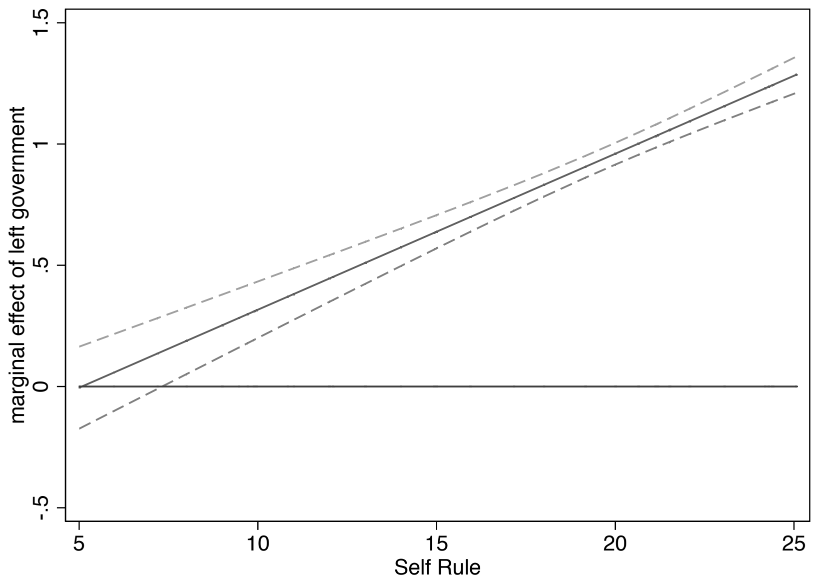

Figure 9: The marginal effect of left government on social welfare spending at different levels of decentralization

Regional GDP per capita has a negative and statistically significant effect when regional spending is measured as a percentage of regional GDP (Models 1,2,3). By contrast, it has a positive and statistically significant effect on regional per capita spending (Models 5). The positive effect of GDP per capita on regional per capita spending means that higher levels of regional income do provide regional governments with more revenue. Rich regional governments are therefore able to spend more on each citizen. The negative effect of GDP per capita on regional spending measured as a percentage of regional GDP means that the richer a regional government becomes, the smaller the share of regional welfare spending in regional GDP will be. In other words, richer regions have to spend a smaller share of their region's GDP on social welfare. The interaction effect between the level of decentralization and regional GDP per capita is also statistically significant (Model 4). This suggests that the effect of differences in regional affluence is stronger at higher levels of decentralization. The marginal effect plot below further illustrates this finding.

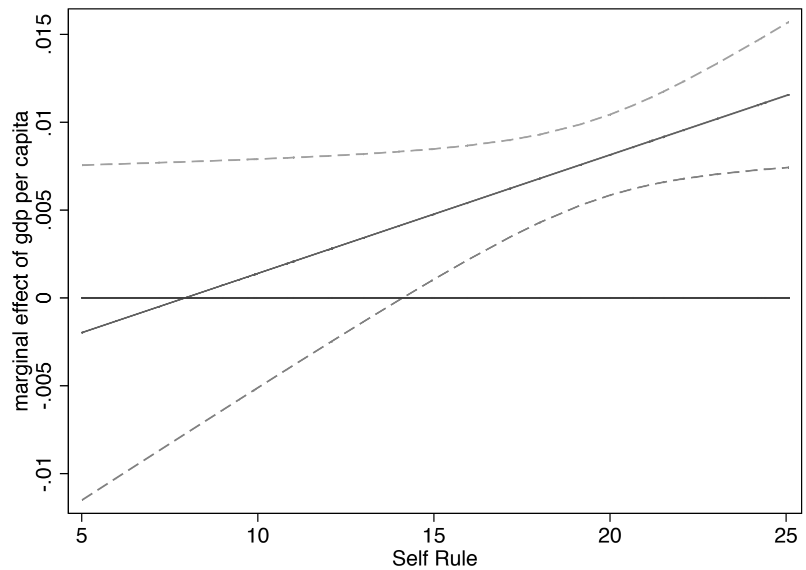

Figure 10: The marginal effect of regional GDP per capita on social welfare spending at different levels of decentralization

Higher regional unemployment rates also have a positive and statistically significant effect on regional spending, indicating that higher levels of unemployment in a region create a higher need for social welfare services. The absolute size of regional population has a negative and statistically significant effect on regional spending on social welfare services. This could be indicative of economies of scale effects. The larger the population that receives certain services, the lower the cost of providing the service to an individual resident. Population density does not have a statistically significant effect. The effect of time is positive and statistically significant indicating an overall upward trend in regional spending on social welfare programs.

A number of national level variables beyond the partisanship of the national government also affect the level of regional welfare spending. The level of decentralization has a positive and statistically significant effect on regional social welfare spending. The average regional unemployment rate in a country has a negative and statistically significant effect on regional per capita spending. The figure below represents the effect of a two standard deviation change in the independent variables on regional social welfare spending as a percentage of regional GDP.

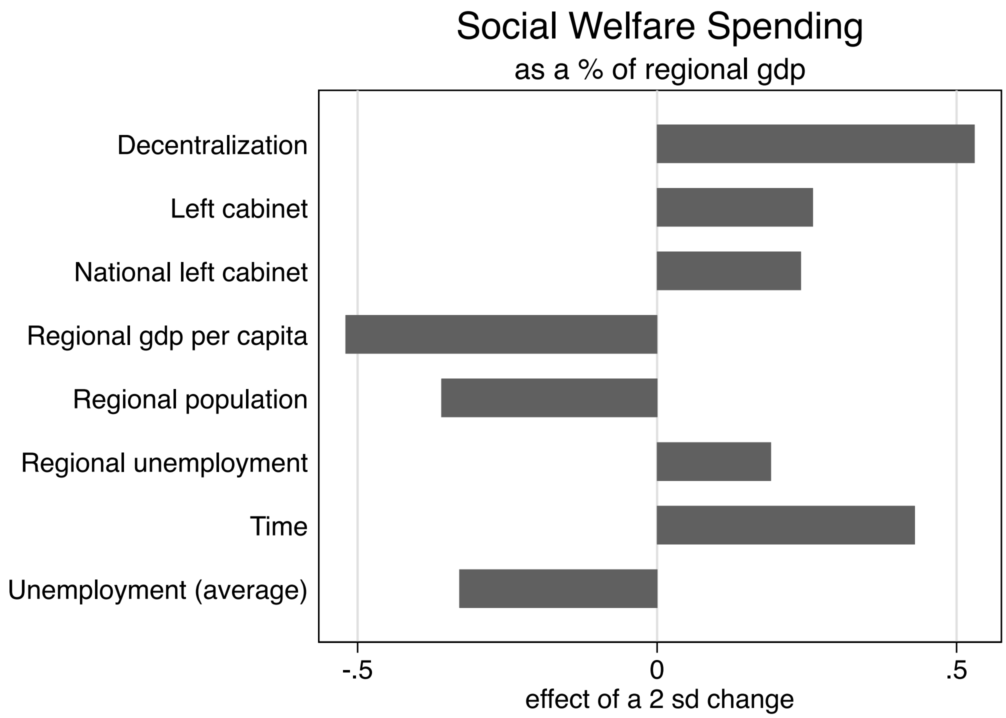

Figure 11: Effects of independent variables on regional welfare spending as a % of regional GDP

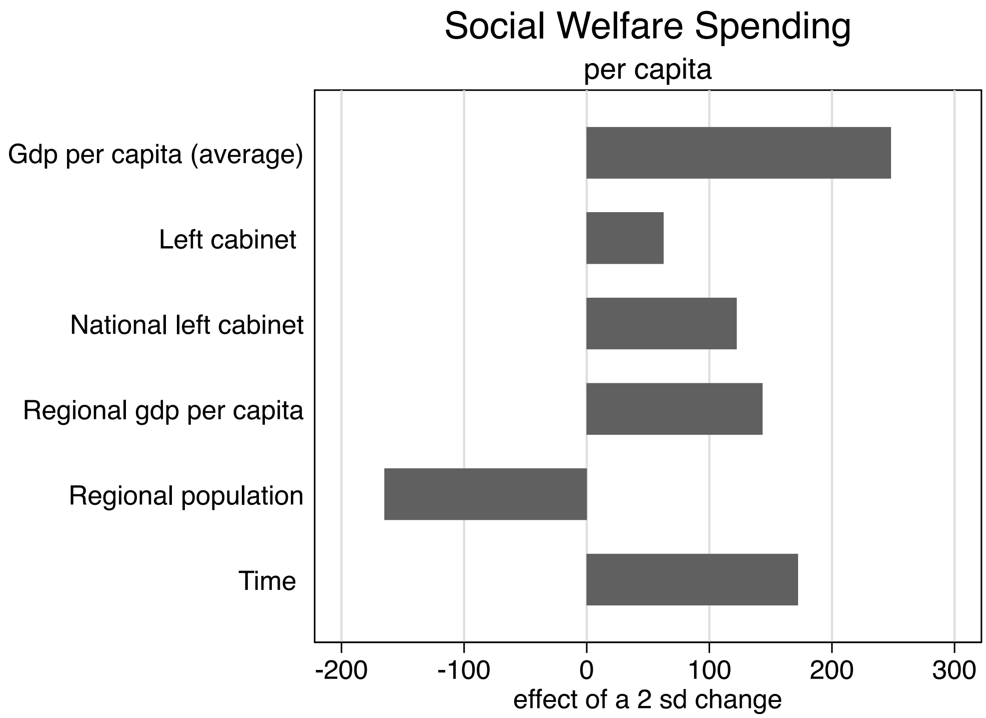

Figure 12: Effects of independent variables on regional social welfare spending per capita

Regional spending on education

The effects of most independent variables on educational spending are very similar to their effect on regional welfare spending (Table 3). Left government at the regional level has a positive effect on regional spending on education. The interaction effect between the level of decentralization and regional partisanship (model 2) is highly statistically significant, suggesting that the effect of regional partisanship on education spending is stronger the more decentralized the country is. The marginal effect plot below shows that the higher the degree of decentralization the stronger the positive effect of regional partisanship.

Table 3: Determinants of regional spending on education, 1990-2010

	Spending as a % of GDP			Spending per capita
	(1)	(2)	(3)	(4)
Regional level variables				
Left cabinet	0.192*	0.055	0.085***	14.05**
	(0.076)	(0.077)	(0.020)	(5.066)
GDP per capita	-3.392***	-3.404***	-3.397***	453.5***
	(0.168)	(0.170)	(0.170)	(52.54)
Unemployment rate	-0.036***	-0.033**	-0.032**	-4.137
	(0.010)	(0.010)	(0.010)	(3.143)
Population	-0.307***	-0.310***	-0.310***	-97.78***
	(0.069)	(0.072)	(0.071)	(24.10)
Population density	0.007	-0.005	-0.004	-22.57
	(0.055)	(0.056)	(0.056)	(18.88)
Population under 15	0.083***	0.080***	0.081***	23.23***
	(0.009)	(0.009)	(0.009)	(2.815)
Time	0.004	0.001	0.001	5.998***
	(0.004)	(0.004)	(0.004)	(1.233)
Country level variables				
DECENTRALIZATION	-0.006	0.001	0.001	-11.56*
	(0.017)	(0.017)	(0.017)	(5.198)
LEFT CABINET	-0.002***	-0.001***	-0.001***	0.383***
	(0.0003)	(0.0003)	(0.0003)	(0.102)
UNEMPLOYMENT	-0.003	-0.001	-0.001	6.289**
	(0.007)	(0.007)	(0.007)	(2.089)
GDP PER CAPITA	-0.051	0.113	0.109	1157.2***
	(0.227)	(0.225)	(0.225)	(68.05)
DECENTRALIZATION * left cabinet		0.002		
		(0.004)		
LEFT CABINET* left cabinet			0.001	
			(0.001)	
N	4264	4264	4264	4306

Standard errors in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

A left-leaning national government seems to have a negative and statistically significant effect on regional education spending across all model specifications. This means that in countries where left national governments are in power, regional governments tend to spend less on education. A possible explanation for this finding could be that left-leaning national governments have a tendency to recentralize education spending so that regional governments are responsible for a smaller share of education spending. There is no cross-level interaction between a left-leaning government and a left-leaning regional government (Model 3).

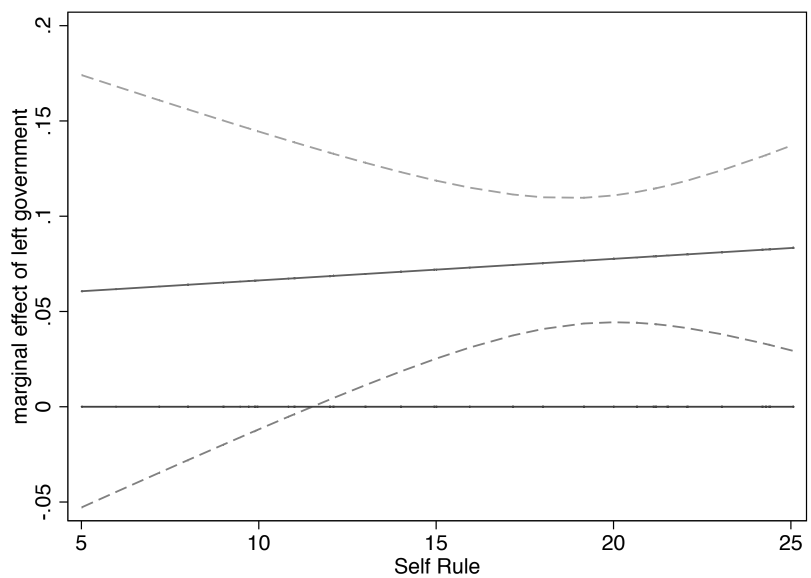

Figure 13: The marginal effect of left government on education spending at different levels of decentralization

Regional GDP per capita has a negative and statistically significant effect when regional spending is measured as a percentage of regional GDP (Models 1,2,3) and no statistically significant effect on per capita spending (Model 4). Again, this suggests, that richer regions spend a smaller share of their region's GDP on education. There is no cross-level interaction between the level of decentralization and regional GDP per capita. That is, regional GDP per capita does not have a stronger effect on regional education spending at higher levels of decentralization.

The absolute size of regional population has a negative and statistically significant effect on regional spending on education. Like in the case of social welfare provision, this could be indicative of economies of scale effects. The larger the population that receives education, the lower the per capita cost of providing it. Not surprisingly, a higher share of population under the age of 15 increases regional spending on education. Population density does not have a statistically significant effect. Regional unemployment has a negative and statistically significant effect on regional spending on education. The effect of time is positive but not statistically significant. The figure below represents the effect of a two standard deviation change in the independent variables on regional educational spending as a percentage of regional GDP.

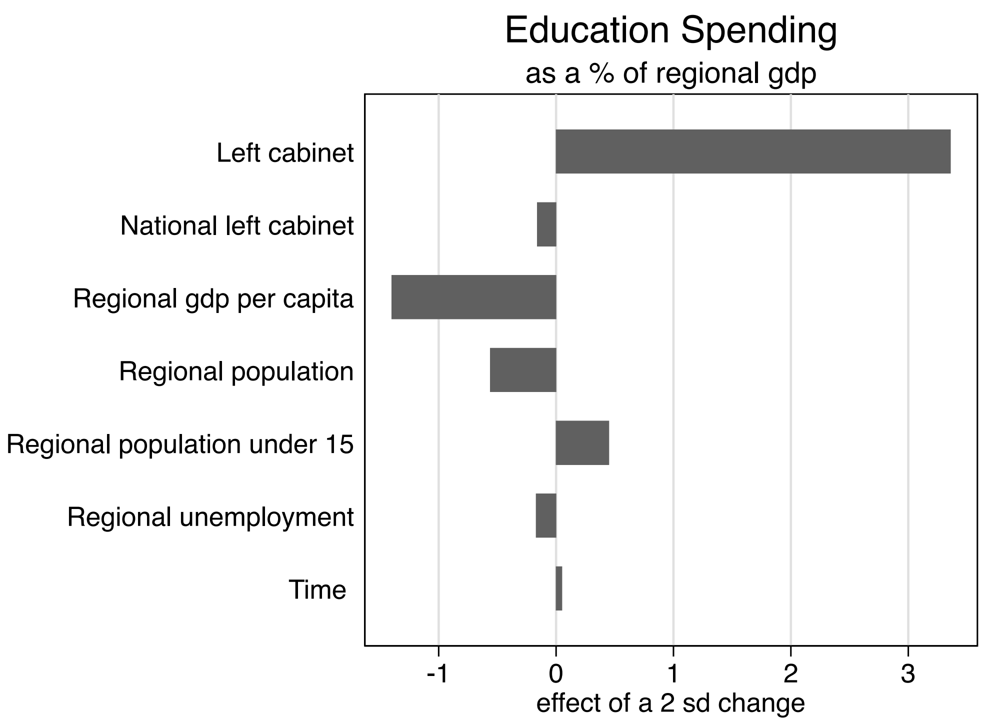

Figure 14: Effects of independent variables on regional education spending as a % of regional GDP

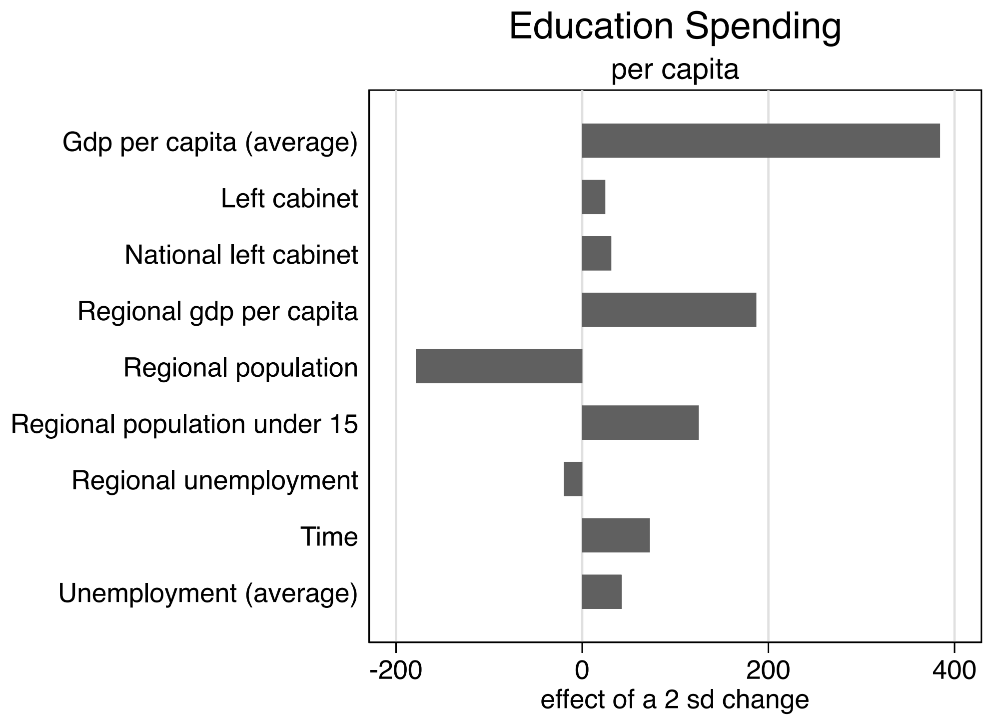

Figure 15: The effects of independent variables on regional education spending per capita

Regional spending on healthcare

With very few exceptions, the effects of all independent variables on regional healthcare spending (Table 4) are similar to their effects on regional social welfare spending and on regional education spending (Tables 2 and 3). Again, left government at the regional level has a positive and statistically significant effect. That is, left-leaning regional governments tend to spend more on healthcare than right-leaning governments. The interaction effect between self-rule and left government at the regional level (model 3) is highly statistically significant, suggesting that the effect of regional partisanship on healthcare spending is stronger the more decentralized the country is. The marginal effect plot provides further illustration of the interaction between self-rule and regional partisanship.

Regional healthcare spending seems to be negatively impacted by left-leaning national governments. As previously suggested, this negative effect could be due to the fact that left-leaning national governments have a tendency to centralize some areas of service provision, therefore reducing regional spending levels. There is no cross-level interaction between a left-leaning government and a left-leaning regional government (Model 4).

Table 4: Determinants of regional healthcare spending, 1990-2010

	Spending as a % of GDP			Spending per capita
	(1)	(2)	(3)	(4)
Regional level variables				
Left cabinet	0.080***	0.080***	-0.086	22.48**
	(0.020)	(0.020)	(0.087)	(6.864)
GDP per capita	-2.890***	-2.890***	-2.907***	33.75
	(0.170)	(0.170)	(0.170)	(62.72)
Unemployment rate	0.022	0.022	0.021	-0.104
	(0.011)	(0.011)	(0.011)	(4.034)
Population	-0.173***	-0.173***	-0.171**	-33.62
	(0.052)	(0.052)	(0.052)	(22.59)
Population density	0.201***	0.201***	0.200***	46.01**
	(0.042)	(0.042)	(0.0420)	(17.84)
Population above 65	0.009	0.010	0.009	11.75***
	(0.009)	(0.009)	(0.009)	(3.350)
Time	0.055***	0.055***	0.055***	9.652***
	(0.005)	(0.005)	(0.005)	(1.670)
Country level variables				
DECENTRALIZATION	0.109***	0.111***	0.112***	38.16***
	(0.020)	(0.0201)	(0.020)	(6.649)
LEFT CABINET	-0.002***	-0.002***	-0.002***	-0.755***
	(0.0004)	(0.0004)	(0.0004)	(0.139)
UNEMPLOYMENT	-0.060***	-0.060***	-0.060***	-21.11***
	(0.008)	(0.008)	(0.008)	(2.799)
GDP PER CAPITA	-4.136***	-4.118***	-4.122***	55.71
	(0.272)	(0.271)	(0.271)	(90.26)
HEALTH TAX		4.117***	4.131***	1356.4***
		(0.984)	(0.989)	(310.4)
DECENTRALIZATION* Left cabinet			0.009*	
			(0.004)	
N	4376	4376	4376	4353

Standard errors in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

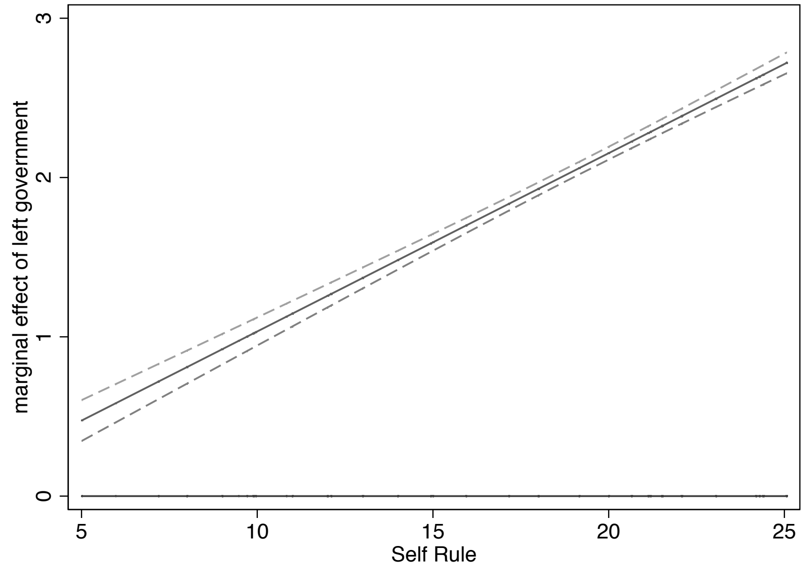

Figure 16: The marginal effect of left government on healthcare spending at different levels of decentralization

Regional GDP per capita has a negative and statistically significant effect when regional healthcare spending is measured as a percentage of regional GDP (Models 1,2,3), which suggests that richer regions spend a smaller share of their region's GDP on healthcare. It does not have a statistically significant impact on regional healthcare spending per capita.

The absolute size of regional population has a consistent negative and statistically significant effect on regional spending on healthcare. This suggest that the larger the population receiving healthcare the lower the per capita cost of providing healthcare. The effect of population density is also statistically significant unlike in the other two policy areas. Population density has a positive effect on healthcare spending, which suggests that densely populated regions spend more on healthcare than do sparsely populated regions. This effect could be due to the fact that densely populated metropolitan areas tend to provide healthcare services for the surrounding rural areas. Metropolitan areas not only attract medical staff, but they also have a higher share of hospitals. A higher share of elderly population has a positive effect on regional healthcare spending although the effect is only statistically significant on regional per capita spending.

The effect of time is positive and statistically significant indicating an overall upward trend in regional spending on healthcare. The nature of the healthcare system and the level of decentralization also matter for regional spending on healthcare. In tax-based healthcare systems and in decentralized countries regional governments tend to spend a higher share on healthcare than in insurance-based systems and in less decentralized countries. The average regional GDP per capita and the average regional unemployment have a negative and statistically significant impact on regional healthcare spending. The figure below shows the effect of a two standard deviation change in the independent variables on regional healthcare spending as a percentage of GDP.

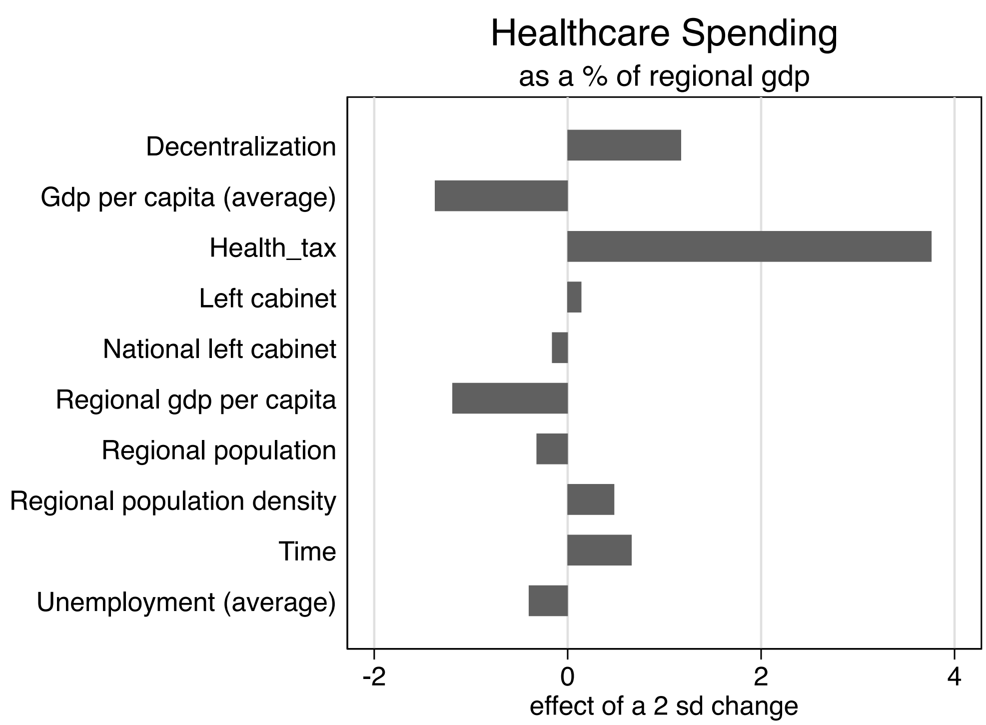

Figure 17: Effects of independent variables on regional healthcare spending as a % of regional GDP

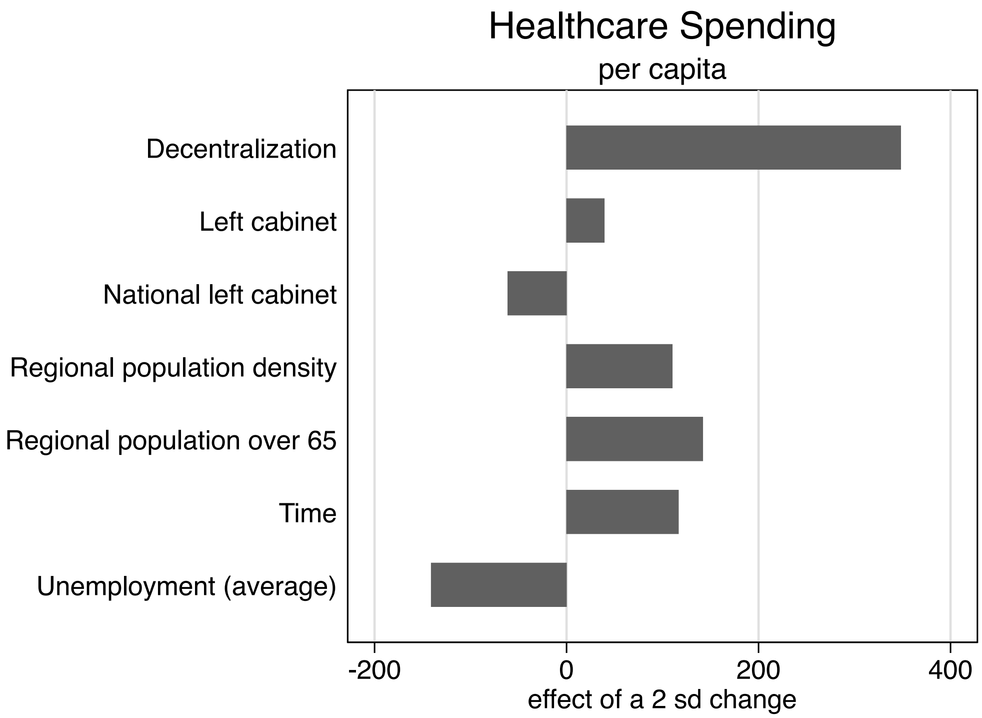

Figure 18: Effects of independent variables on regional healthcare spending per capita

Conclusion

This chapter explored the factors that influence regional social spending. It produced two key findings that support the hypotheses derived from my theoretical framework. First, regional government partisanship has a highly statistically significant effect on regional social spending. Left-leaning regional governments spend more on regional social programs than do right-leaning regional governments. This contradicts accounts of regional policy-making that have described it as non-political. Moreover, the effect of regional partisanship is conditioned by the macro-institutional context. A left-leaning regional government has a stronger positive effect on regional social spending the more decentralized the country is.

Second, regions with a higher GDP per capita will spend more on each citizen than regions with a lower GDP per capita. This means that the more affluent a region the higher the per capita spending on social welfare services. Again this effect is conditioned by the macro-institutional context. The more decentralized a country, the more regional differences in income will matter for regional per capita spending on social welfare services. At the same time however richer regions, while spending more on each individual citizen, will spend a smaller share of their GDP on social services.

Both key findings suggest that there will be a higher degree of variation in regional government expenditure in more decentralized countries. The next empirical chapter will examine in more detail the conditions under which decentralization leads to a higher degree of within-country variation in social programs.

5. TERRITORIAL INEQUALITIES: EXPLAINING LEVELS OF SOCIAL PROGRAM HETEROGENEITY OVER TIME AND ACROSS COUNTRIES

The previous chapter showed that decentralization amplifies the effect of regional context on regional social spending. This chapter explores whether decentralized systems exhibit a greater within-country variation in regional social spending. If regional context does indeed have a greater effect on regional social spending in decentralized systems, than we would expect there to be a greater degree of within-country variation. If decentralization does however increase tax competition between regional governments we would expect the resulting common downward pressure on regional social expenditure to reduce within-country variation. Since a greater within-country heterogeneity in social programs leads to greater divergences in citizens' quality of life, this research question has far-reaching policy implications. The welfare state literature has only paid limited attention to the relationship between decentralization and social program heterogeneity. There has been little theory development and only very few empirical studies on this issue. The lack of work on within-country variation in social programs can partly be explained by the welfare state literature's predominant concern with cross-national variation and by the sparseness of sub-national data on social programs. In this chapter I will rely on my regional social spending dataset to examine whether decentralization does indeed lead to greater social program heterogeneity.

Hypotheses

As mentioned in the theoretical framework chapter, the fiscal decentralization literature is divided between those who argue that cross-regional competition in decentralized systems leads to less variation in regional spending levels and those who argue that it causes increased variation in spending levels. Whether or not decentralization does indeed increase the within-country variation in social programs might however ultimately depend on the existence of other institutions that moderate the effects of decentralization. The broader literature on decentralization has discussed various institutions and their interaction with the level of decentralization, including centralized party systems, fiscal equalization schemes, or mechanisms of cross-regional coordination.

The level of decentralization

An important strand in the fiscal decentralization literature argues that cross-regional competition in decentralized systems forces regional governments to converge on similar levels of spending (Persson & Tabellini 1994; Brennan & Buchanan 1980). Proponents of this strand argue that regional governments risk loosing valuable tax revenue if they raise their taxes since citizens and businesses will move to another jurisdiction. As a consequence, all regional governments are expected to lower their taxes and their social expenditure respectively (Persson & Tabellini 1994; Weingast 1995; Brennan & Buchanan 1980; Hayek 1939). Since all regional governments are subject to the same downward pressures, regional context should not matter for regional social spending.

Another strand of fiscal decentralization literature has however argued that decentralization will lead to increased within-country variation in regional expenditure.

Proponents of this strand find that regional governments may also attract new residents and businesses by offering higher quality services rather than through lowering tax levels. Yet, fiscal decentralization scholars have not clarified when they expect regional governments to respond with lower taxes and when they believe regional governments will provide higher quality services. In the absence of any hypotheses about regional government policy choices, fiscal decentralization scholars tend to believe that this increased within-country variation is brought about by an invisible sorting process whereby citizens with a preference for higher quality services end up in regions with higher quality services and citizens with a preference for lower taxes all live in regions with lower tax levels (Tiebout 1956; Oates 1972).

H1: The more decentralized a country the higher the degree of within country social program heterogeneity.

Policy Competition

An argument frequently made by the fiscal decentralization literature is that competitive pressures in decentralized systems only unfold when the number of decentralized units is high. We should therefore only witness a convergence on low regional tax and expenditure levels at a very high number of jurisdictions (Crowley & Sobel 2011; Sorens 2010; DiLorenzo 1983; Epple & Zelenitz 1981; Tiebout 1956). The analogy between a decentralized system and the private market ruled by the laws of competition only works at a high number of participating units. At low numbers, coordination between the units is likely to be more dominant than tax competition. It is therefore no surprise that most empirical studies that find a downward pressure on regional taxes and social expenditure rely on data from countries with a high number of decentralized units, like the united States and Switzerland (Bailey 2007; Bailey & Rom 2004; Adamovich &

Hosp 2003). I therefore hypothesize that the greater the number of jurisdictions, the more intense the competition and as a consequence the smaller the within-country variation.

H2: The higher the number of decentralized units, the smaller the within-country variation in social programs.

Policy Coordination

The effect of decentralization on within-country variation in social spending is likely to depend on other political institutions. A key institution that may affect within-country variation is policy coordination among regional governments as well as between regional governments and the national government. Regional governments decide to coordinate their social policies for numerous reasons. They may want to avoid the negative externalities that their policies could have on other regions or they may seek to reduce territorial inequalities in the quality of social services. In some cases there are also efficiency gains to be reaped from achieving more homogeneous social policies, for example in the case of benchmarking high school diplomas. Regional governments may also want to prevent the migration of social policy recipients, which could result from unilaterally changing to more or less generous social policies.

In most cases policy coordination is therefore aimed at achieving policy convergence. In very rare cases however regional governments coordinate their policies to be different. This type of coordination happens when regional governments specialize in only very few social services while outsourcing other social services to neighboring regions. As will be discussed in the last chapter this occurs in Switzerland where the size of some cantons is too small to sustain the provision of certain social services. Overall this type of outsourcing rarely occurs as the provision of most social services crucially depends on a spatially close delivery. Policy coordination therefore most often results in the reduction of social program heterogeneity within a country.

Decentralized countries vary substantially in the degree to which they have institutions in place that foster this type of cross-regional policy coordination (Shah 1997; Keating 1997). Some countries have well-developed institutions that involve all constituent units in sharing the governance of a "common sphere" while other countries lack these institutions. The effect of these institutions on the functioning of decentralized systems extends far beyond the area of social policy. I fact, institutions of shared-rule have been found to help commit the constituent units of a decentralized system to the maintenance of this system in order to avoid fragmentation and demands for secession (Norris 2008; Nordlinger 1972).

Recent contributions to the study of decentralized systems have provided concrete insights as to which institutions might promote shared governance (Hooghe, Marks & Schakel 2010). Hooghe, Marks and Schakel identify four institutions that are crucial to shared-rule: shared law-making, shared policy-making at the executive level, the consultation of regional governments over the distribution of national tax revenue and lastly the ability of regional governments to participate in decisions over constitutional change. Especially the first two institutions affect policy coordination in the area of social policy.

The shared law-making dimension captures the extent to which regional governments participate in national law-making through the second legislative chamber. Regional governments tend to be more involved in national legislation the more directly they are represented in this chamber and the more powerful the second legislative chamber is in the law-making process. I argue that the process of shared law-making not only helps regional governments define a common ground with national governments but also allows them to define common policy positions among themselves. Shared policy-making at the executive level mostly takes place in intergovernmental meetings between the national government and regional governments (Hooghe, Marks & Schakel 2010). The more routinized these meetings and the more binding the decisions, the stronger the resulting policy coordination.

I assume that both shared law-making and shared policy-making are mechanisms that help policy coordination, which in turn reduces within-country variation in social programs.

H3: Mechanisms that facilitate policy coordination between regional governments reduce variation in regional spending on social services.

Centralized party systems

Political parties and their organization also affect within-country variation in social programs (Beramendi 2012). The more centralized a party system, the more citizens focus on the national party label when making vote choices about candidates during regional elections (Wibbels 2005; Gibson 2004; Mainwaring & Samuels 2004; Riker & Shaps 1957). In other words, the electoral success of regional-level legislators is driven by the value of the national party. In countries with centralized party systems the vote share at the national level is therefore a good predictor of the vote share at the regional level. In countries, where party systems are decentralized, like in Canada for example, national elections are not salient for regional-level voting decisions. The vote at the national level does therefore not predict the regional-level vote share and oftentimes there are separate regional parties, like for example in Catalonia or Quebec (Keating 1997)

National party elites in centralized party systems therefore tend to have more leverage over regional party positions given the strong link between national and regional elections

(Rodden 2006; Wibbels 2005; Gibson 2004; Keating 1997). Regional interests become subjugated under national level interests and regional policy choices tend to reflect the interests of the population subgroup that the national party is catering to rather than regional preferences (Beramendi 2012). The leverage of the national party elite is further enhanced when the national party leadership decides over nominations, party lists, committee assignments, endorsements, or allocation of campaign funds (Rodden 2006). I argue that this leverage of the national party leadership brings regional governments in line with national party positions. It is therefore likely to decrease variation in spending on social services among regional governments of the same partisanship. In a decentralized party system, by contrast, regional level politicians may have more room to experiment with different policies, which is likely to increase variation in spending on social services.

H4: A centralized party system reduces variation in regional spending on social services.

Fiscal Equalization

The existence of fiscal equalization schemes can also be expected to reduce within-country variation in social spending. Fiscal equalization schemes transfer fiscal resources from richer to poorer regions (Blöchliger et al. 2007). By transferring fiscal resources, they offset the effect of regional affluence on regional social spending. In other words, fiscal equalization schemes allow regional governments to provide citizens with similar sets of public services regardless of their government's tax raising capacity. The effect of fiscal equalization on within-country variation in social spending should become stronger as regional governments are responsible for a larger share of social spending. That is, fiscal equalization should matter more at higher levels of decentralization.

There is tremendous variation in the scope of fiscal equalization regimes. In countries like Germany fiscal equalization is well institutionalized and incorporated into the constitution. In the United States and Canada, by contrast, fiscal equalization is limited (Pierson 1995). A key characteristic of fiscal equalization systems is whether equalization is horizontal, that is between regional governments, or vertical, that is between the national government and regional governments. A number of studies have shown that horizontal equalization has a stronger equalization effect and tends to focus on equalizing regions' revenue raising capacities. Vertical equalization, by contrast, tends to support regions that have a higher par capita cost for certain services but does nor have a strong equalizing effect on regional revenues (Blöchliger et al. 2007).

H 5: Fiscal equalization schemes reduce within-country variation in regional spending on social services by offsetting the effect of regional differences in wealth on regional spending.

Operationalization

In examining within-country variation rather than individual regional spending this chapter shifts the focus from regional governments to the country-level. The degree of within-country variation in a given year is measured using the coefficient of variation. The coefficient of variation is computed in two steps. First the standard deviation of regional spending is calculated. The standard deviation measures how much each regional government's expenditure – expressed as a percentage of regional GDP– deviates from the mean regional government expenditure in that country in a given year. Deviations are squared and summed up. The sum of squared deviations is then divided by the number of regions in a particular country. The square root of this ratio is the standard deviation.

In a second step the standard deviation is divided by the average regional social expenditure in that particular country in a given year. This yields the coefficient of variation. Dividing by the average expenditure helps to correct for the fact that by construction the variation in regional spending is higher in countries where the average regional expenditure is higher. The coefficient of variation is therefore commonly used as a normalized measure of dispersion (Abdi 2010).

Turning to the independent variables, the level of decentralization is measured using the self-rule dimension of the Regional Authority Index (RAI) developed by Hooghe, Marks and Schakel (2010). The self-rule dimension refers to the degree of authority that a regional government can exercise over its own territory and consists of four sub-dimensions: the regional governments' autonomy from the national government, the range of policies for which they are responsible, the extent to which regional governments can rely on independent sources of income and lastly the extent to which regional legislatures and executives are elected by the region's citizens (Hooghe, Marks & Schakel). The self-rule operationalization directly relates to the key causal mechanism that links decentralization to increased within-country variation in social spending.

The degree of policy coordination between regional units is very difficult to measure since it is not directly observable. As a proxy for the degree of policy coordination in a decentralized system I rely on two sub-dimensions of the Regional Authority Index: the shared law-making dimension and the executive control dimension (Hooghe, Marks & Schakel 2010). The shared law-making dimension refers to the extent to which regional representatives can participate in national law-making. The executive control dimension captures the routinization of meetings between regional governments and the national government and the extent to which these meetings yield binding decisions. The executive control scores have been slightly altered for Belgium, Italy and Switzerland[4] to reflect the extent to which policy responsibilities are exclusive or shared. A strict separation of policy responsibilities with exclusively regional and exclusively national responsibilities will impact the efficacy of executive control mechanism. In other words even if intergovernmental meetings are very routinized and yield binding decisions they will not have a major effect on policy coordination since the majority of policy areas will not be subject to common decisions. This reduces the scores of Belgium, Italy and Switzerland. All three countries boast very routinized meetings but also a strict separation of policy responsibilities. The policy coordination variable is an additive index of both sub-dimensions. The additive index only correlates relatively weakly with the self-rule dimension (r= 0.37).

There are numerous ways to measure the extent of fiscal equalization. For example it is common to use the size of fiscal transfers between levels of government relative to a country's GDP (Blöchliger et al. 2007). This measure of fiscal equalization is however very sensitive to temporary ups and downs in socio-economic disparities. Higher degrees of socio-economic disparities fuel higher fiscal transfers. To find a less sensitive measure of fiscal equalization I rely on the differentiation between horizontal and vertical fiscal equalization schemes. Horizontal equalization tends to have a more redistributive effect (Blöchliger et al. 2007).

The centralization of a party system is measured using party nationalization scores developed by Schakel (Schakel 2013). Party nationalization scores measure the heterogeneity of vote shares across the territory. They represent a Gini-coefficient of vote shares and include

[4] The executive control score for Belgium was reduced from 2 to 0.5, the executive control score for Italy was reduced from 1 to 0.5, and the executive control score for Switzerland was also reduced from 1 to 0.5.

weights for the size and number of territorial units. A score of 1 indicates a perfectly nationalized party system in which a party will gain an equal vote share across the territory. In contrast, a score of 0 indicates a highly denationalized party system in which a party obtains all its votes in one region (Schakel 2013).

The level of within-country variation in regional spending might also depend on the socio-economic geography, that is the territorial distribution of socio-economic characteristics. In countries with a more unequal socio-economic geography, the within-country variation in social spending might be higher regardless of the level of decentralization. The control variables therefore include within country-variation in regional GDP per capita, regional population, and regional population density. Some control variables are particular to specific social spending areas. For example, variation in regional spending on social healthcare is particularly influenced by distribution of the elderly population and by the nature of the healthcare system, i.e. whether it is insurance-based or tax-based. Variation in regional spending on education, by contrast, depends on how the young population is distributed across the national territory. Variation in spending on social welfare crucially depends on territorial differences in unemployment rates but also on the distribution of the elderly population since many social welfare services are targeted at the elderly. These variables are provided by the OECD regional database. Again the coefficient of variation is used as a normalized measure of dispersion.

Table 5: Variable Definitions and Sources

Variables	*Description*
Dependent Variables	
Within-country variation in regional spending on social welfare	Coefficient of variation of regional spending on social welfare (measured as a % of regional GDP)
Within-country variation in regional spending on education	Coefficient of variation of regional spending on education (measured as a % of regional GDP)
Within-country variation in regional spending on healthcare	Coefficient of variation coefficient of regional spending on healthcare (measured as a % of regional GDP)
Independent Variables	
Level of decentralization	Self-rule dimension of the Regional Authority Index[a]
Policy Coordination	Additive index constructed from the shared law-making dimension and the executive control dimension of the Regional Authority Index.[a]
Fiscal Equalization	Scored 1 if horizontal equalization scheme, scored 0 if vertical equalization.[b]
Party Centralization	Scores range between 1 and 0. Score 1 when a party gains an equal vote share across the territory, scored 0 when a party obtains all its votes in one region. [c]
Number of regions	Number of regions within a country
Health-tax	Scored 1 if the healthcare system is tax financed, scored 0 if the heath care system is insurance-based
Within-country variation in regional GDP per capita	Coefficient of variation of regional GDP per capita (in constant international dollars). [e]
Within-country variation in regional unemployment rates	Coefficient of variation of regional unemployment rates (% of the labor force unemployed). [e]
Within-country variation in population density	Coefficient of variation of regional population density (log of population per square kilometer). [e]
Within-country variation in population	Coefficient of variation of regional population
Within-country variation in population above 65	Coefficient of variation of regional population above 65 (population aged 65 years and older as a % of population aged 14-65). [e]
Within-country variation in population below 14	Coefficient of variation of regional population below 14 (population aged 14 and younger as a % of population 14-65). [e]

Sources: [a] Hooghe, Marks & Schakel (2010); [b] OECD 2007; [c]Schakel (2013); [e] OECD regional database

Descriptive statistics

The graphs below plot each country's average within variation over the period 1990 - 2010 against its decentralization scores. To help visualize this bivariate relationship, variation coefficients have been multiplied by 100. Small variation coefficients on the y-axis indicate that there is not much within-country variation in social spending. Higher values on the y-axis mean that there is a greater degree of within-country variation. Small values on the self-rule dimension indicate low levels of decentralization whereas high values indicate substantial degrees of decentralization. These graphs—albeit only presenting a bivariate relationship—provide a first glance at the relationship between decentralization and within-country variation in regional social spending. They suggest that more decentralized countries exhibit a higher degree of within-country variation. Countries like Belgium, Canada, Germany, Italy and Switzerland have high degrees of within country variation, while countries like Denmark and Norway have low levels of within-country variation. The correlation seems to be strongest in the area of social welfare services and almost non-existent in the area of healthcare services. This is partly due to the fact that regional government involvement in the area of healthcare is so strongly influenced by the type of healthcare system, particularly whether it is tax-based or insurance-based.

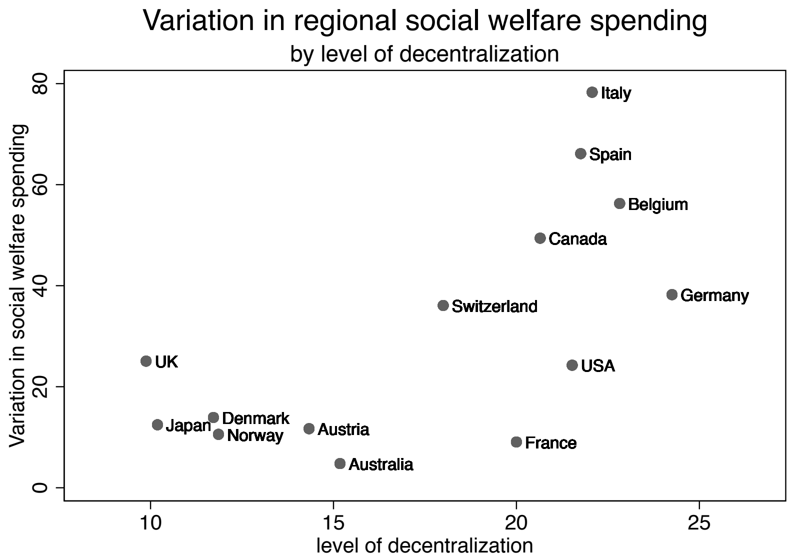

Figure 19: Variation in regional social welfare spending by level of decentralization

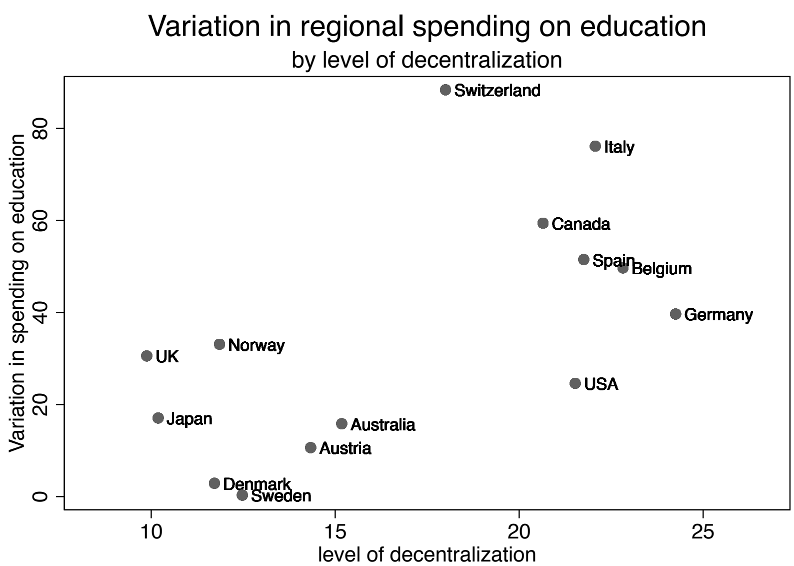

Figure 20: Variation in regional spending on education by level of decentralization

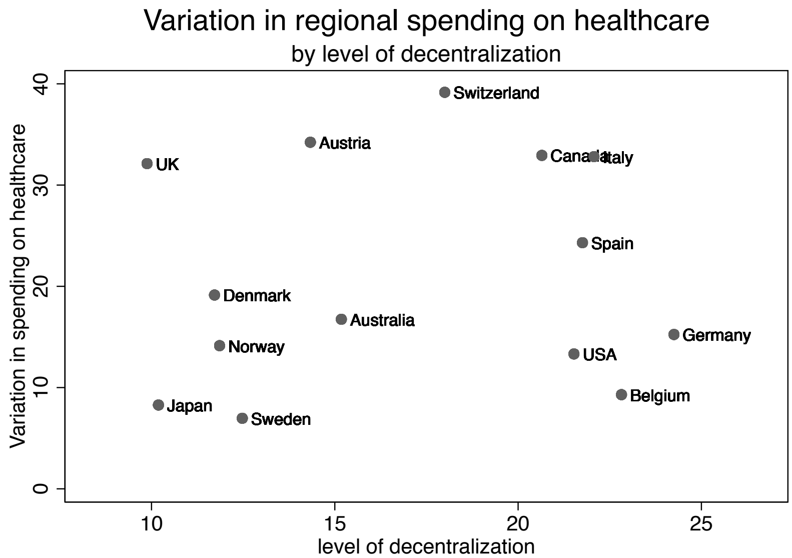

Figure 21: Variation on regional healthcare spending by level of decentralization

The relationship between the level of decentralization and within-country variation in social spending can also be observed across time. The two graphs below hone in on two particular cases. The first graph shows a drastic decrease in within country variation in spending on social welfare services in Denmark. The drop in within country variation in Denmark coincides with the 2007 reform that replaced the 16 former regional governments with five new regions and transferred some authority back to the national government. The second graph shows the gradual increase in within-country variation in Italy, which coincides with a number of reforms starting in the mid-1990s that increased the authority of regional governments. In 1997, regional governments in Italy were granted the authority to set the rate of personal income tax, and since 2001 they have also been able to set the rate on the value added taxes. Both cases, Denmark and Italy, seem to suggest that within-country variation is highly sensitive to the level of decentralization.

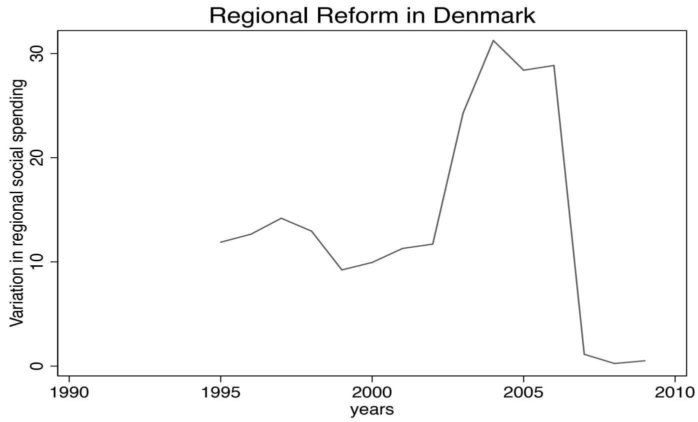

Figure 22: Effect of regional reform in Denmark

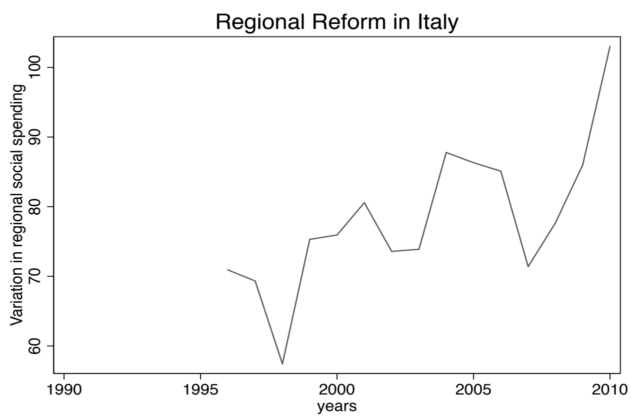

Figure 23: Effect of regional reform in Italy

Model and results

The unit of analysis is within-country variation in regional social spending over time. The time-series cross-section nature of the regional spending dataset introduces a number of estimation problems such as the serial correlation of time observations, unequal variances, the contemporaneous correlations of errors across all units and lastly unit effects. Unit effects arise from the fact that time observations within a unit, in this case a particular country, are not independent from each other and share commonalities that render them distinct from observations in other units (Hicks 1994). Unit effects are by far the most serious issue in time-series cross-section designs since leaving them unaddressed not only biases the estimation of standard errors but also the estimation of coefficients (Beck & Katz 1995).

Numerous methods have been proposed to address the issue of unit effects. Beck and Katz (1996) for example have suggested to solely focus on within-unit variation over time and to eliminate unit effects by introducing country dummies. As Plümper, Troeger and Manow point out, the use of country dummies also omits any variation in the dependent variable that arises from time-invariant institutional structures as well as any differences in the dependent variable that are due to differences that exist at the very outset of the time-series (Plümper, Troeger & Manow 2005). Another method suggested by Beck and Katz is the use of lagged dependent variables since they control for the distinctiveness of units without completely eliminating all between unit variation (Beck & Katz 1995). In most designs, however, the use of a lagged dependent variable inappropriately suppresses the power of other independent variables (Achen 2000).

Two methods that are relevant to researchers interested in the effect of time-invariant variables are panel-corrected standard errors and random-effects models. The use of panel-corrected standard errors not only corrects for a contemporaneous correlation of errors across all units at a certain point in time and but also for the correlation of errors within units thereby yielding more conservative standard error estimates. Panel corrected standard errors do however not address the bias in coefficient estimates that results from unit effects. To fully address unit effects, I use a random effects model, which treats unit effects as a separate part of the residual (Kropko 2011). It computes the between-variance and the within-variance as well as the ratio between the two and calculates regression coefficients as a weighted average of between and within effects. In addition I correct for serial correlation by combining the random effects model with controls for first order autocorrelation (Beck & Katz 2004)

Table 4 shows the effect of all independent variables on within-country variation in three spending areas: regional spending on social welfare, regional spending on education, and regional spending on healthcare. The effect of decentralization on within-country variation is positive and statistically significant in all three policy areas and across all model specifications. This suggests that within-country variation in regional social spending is higher in more decentralized countries, which supports my first hypothesis. The observed correlation between decentralization and high levels of within-country variation could be due to the nature of the operationalization. In countries with a larger degree of self-rule, regional governments are responsible for a larger share of the expenditure. This, by definition, increases the possible amount of variation. In other words the observed correlation could be a built-in property of the operationalization. Using the coefficient of variation, which scales the variation by the average expenditure in each country, avoids this problem.

The results also lend some support to the competition hypothesis. The number of regions has a negative and statistically significant effect in two policy areas. This means that the competitive pressures in decentralized systems that reduce within-country variation only take effect when the number of regional governments is very high.

Cross-regional policy coordination has a negative effect and statistically significant effect on variation in regional spending in all three policy areas and across all model specifications, except one. This means that higher levels of policy coordination decrease social program heterogeneity. This confirms my third hypothesis. Cross-regional policy coordination seems to be the only macro-level institution that consistently reduces the variation increasing effect of decentralization in all three policy areas.

Fiscal equalization also has a negative effect on within country variation in regional spending, although it is only significant in two of the three policy areas – social welfare and education (Models 2,5,8). The interaction between self-rule and fiscal equalization runs in a different direction as expected (figures 5 and 6). Rather than the effect of fiscal equalization being significant at high levels of decentralization, the effect is only statistically significant at lower levels of decentralization. This means that fiscal equalization only reduces within-country variation in social spending at lower levels of decentralization not at high levels of decentralization.

Table 6: Determinants of within-country variation in spending on social welfare, education, and healthcare

	Social Welfare			Education			Healthcare		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Decentralization	3.298***	2.336***	3.499***	3.452***	0.599	2.746**	0.887*	0.960	1.406**
	(0.546)	(0.648)	(0.582)	(0.992)	(1.404)	(0.919)	(0.443)	(0.792)	(0.466)
Policy coordination	-16.03***	-14.41***	-17.06***	-13.43*	-17.03*	-7.07	-7.828*	-8.734*	-11.71**
	(3.429)	(3.333)	(3.596)	(6.754)	(7.680)	(5.636)	(3.946)	(4.195)	(4.007)
Fiscal equalization	-	-37.39*	-	-	-136.2**	-	-	-2.533	-
		(18.31)			(47.14)			(22.93)	
Decentralization * Fiscal equalization	-	1.263	-	-	6.873*	-	-	0.401	-
		(1.070)			(2.944)			(1.231)	
Party nationalization	-	-	26.01	-	-	-92.23**	-	-	50.00*
			(24.14)			(33.64)			(19.45)
Number of regions	-0.425***	-0.589***	-0.432***	-0.290	-0.821*	-0.240	-0.439*	-0.412*	-0.586**
	(0.103)	(0.102)	(0.104)	(0.298)	(0.338)	(0.245)	(0.187)	(0.202)	(0.186)
Tax-based healthcare	-	-	-	-	-	-	-13.35*	-13.00	-19.39**
							(6.791)	(7.174)	(6.819)
Variation in GDP per capita	0.097	0.016	0.134	-0.172	-0.247	-0.258*	-0.096	-0.089	-0.079
	(0.077)	(0.068)	(0.083)	(0.131)	(0.130)	(0.128)	(0.074)	(0.076)	(0.073)
Variation in unemployment rates	5.870**	4.638*	6.032**	-	-	-	-	-	-
	(2.229)	(2.239)	(2.234)						
Variation in population density	0.263	-0.0622	0.286	0.0212	1.149	0.711	1.925	1.981	2.036
	(2.185)	(1.904)	(2.196)	(2.759)	(2.680)	(2.602)	(1.979)	(2.004)	(1.906)
Variation in population	0.0004	-0.0003	0.0004	0.00001	-0.0015*	0.00004	0.0004	0.0005	0.0004*
	(0.0002)	(0.0003)	(0.000)	(0.0005)	(0.0007)	(0.0004)	(0.0002)	(0.0004)	(0.0002)
Variation in population above 65	7.812*	6.651*	7.466	-	-	-	7.152	7.094	8.002
	(3.838)	(3.153)	(3.883)				(4.408)	(4.629)	(4.227)
Variation in population under 15	-	-	-	27.05*	18.65	28.08*	-	-	-
				(11.99)	(12.03)	(11.50)			
N	238	238	238	208	208	208	222	222	222
No. of countries	14	14	14	14	14	14	14	14	14
R-squared	0.70	0.74	0.71	0.44	0.50	0.56	0.26	0.26	0.30

Standard errors in parentheses: $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

This could mean that the redistribution created by fiscal equalization schemes is too small to counteract the centrifugal forces of high level of decentralization. Regional governments in highly decentralized countries are responsible for very large sums of expenditure so that redistributive effect of fiscal equalization might only be drop of water on the hot stone.

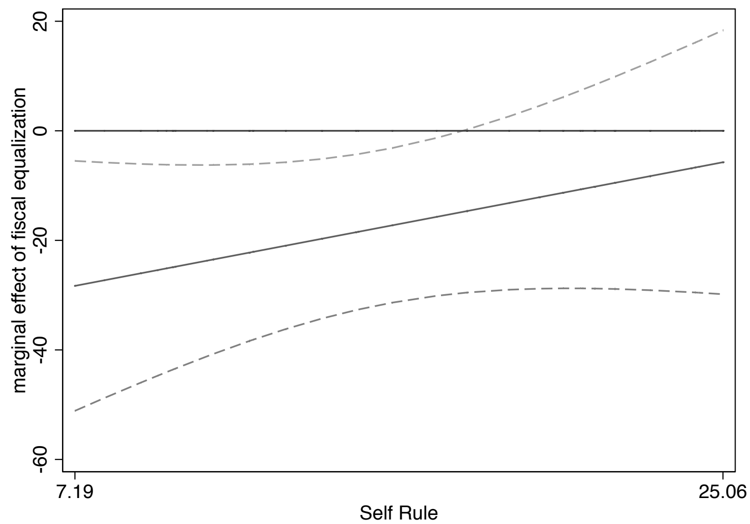

Figure 24: Marginal effect of fiscal equalization on within-country variation in spending on social welfare

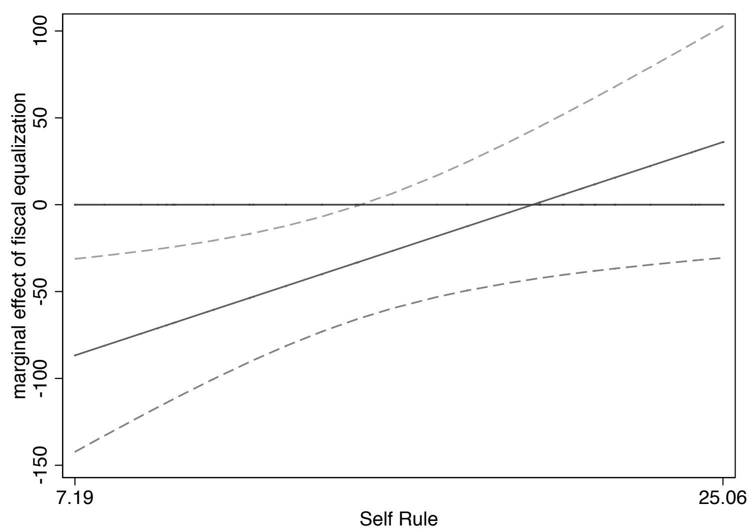

Figure 25: Marginal effect of fiscal equalization on within-country variation in spending on education

The effect of a centralized political party system is not consistent across all three policy areas (Model 3, 6, 9). A centralized political party system has no effect on within-country variation in social welfare spending. It has a negative and statistically significant effect on within country variation on spending on education and a positive and statistically significant effect on within country variation in healthcare spending. Regarding within-country variation in healthcare spending, countries with tax-financed healthcare systems seem to exhibit lower degrees variation than countries with insurance-based systems (Models 7 and 9). It could be the case that tax-based healthcare systems lend themselves to more national government intervention than insurance-based systems. Health insurances in the latter provide an important buffer between national government policy aims and regional government policy.

Turning to the socio-economic control variables, higher levels of within country variation in unemployment rates are positively correlated with high levels of within-country variation in spending on social welfare services (Models 1,2,3). The share of elderly population is the only other structural variable affecting within-country variation in social welfare spending is. Higher degrees of within-country variation in the share of elderly population are positively correlated with higher degrees of variation in social welfare spending. Within-country variation in education spending (Models 4,5,6) seems to be strongly correlated with variation in the share of population under the age of 15 years. The figures below show the effect of a two standard deviation change in the independent variables on the coefficients of variation.

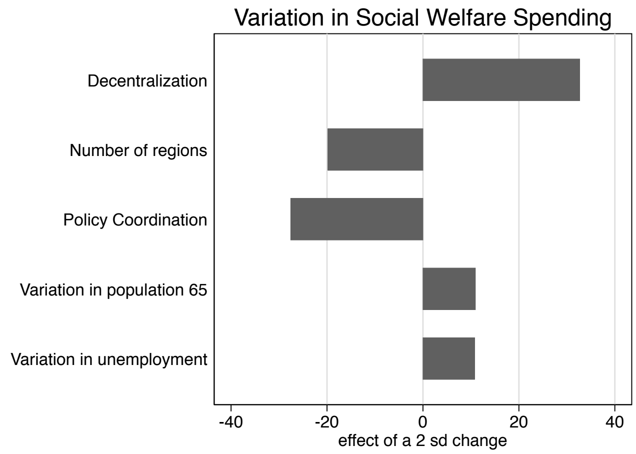

Figure 26: Effect of independent variables on regional variation in social welfare spending

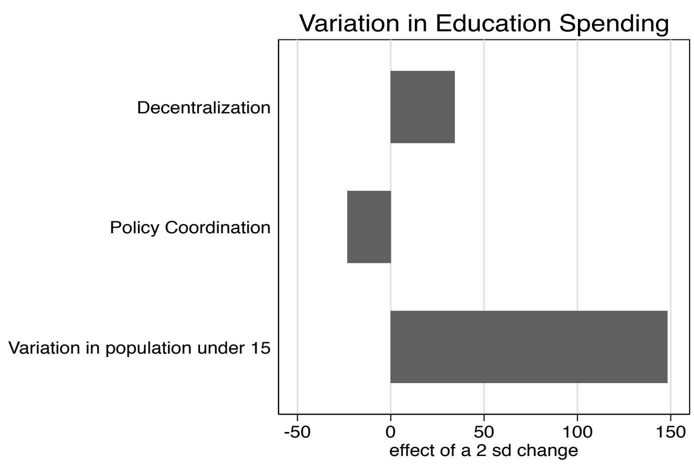

Figure 27: Effect of independent variables on regional variation in spending on education

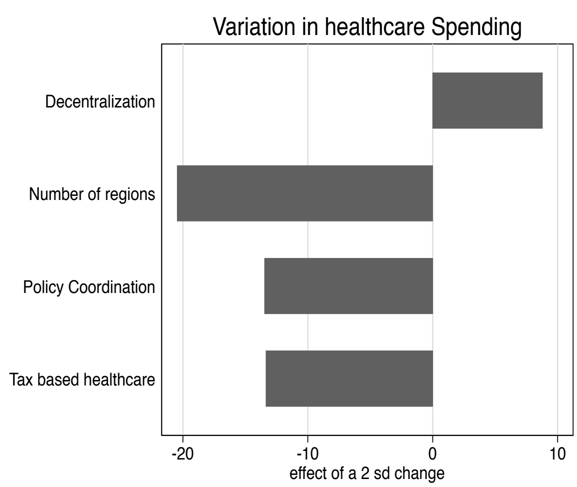

Figure 28: Effect of independent variables on regional variation in healthcare spending

Conclusion

This chapter tests the conditions under which decentralization increases within-country variation in spending on social welfare programs, healthcare and education. The analysis shows that decentralization increases within-country variation in regional spending in all three areas. There is limited evidence that decentralized systems can exhibit competitive pressures that lead to a convergence when the number of regional units is very high. There is also some evidence that policy coordination can counteract the variation-increasing effect of decentralization. These findings have important policy implications. Increasing regional disparities in the level of social service provision fly in the face of the declared policy goal of many established democracies to guarantee equal living conditions across their territory. To the extent that territorial disparities can be addressed by policy coordination mechanisms, even highly decentralized welfare states might be in the position to provide equal living conditions.

6. A QUALITATIVE COMPARATIVE ANALYSIS OF SOCIAL PROGRAM HETEROGENEITY

The previous empirical chapter showed that the institutional characteristics of a decentralized system affect the degree to which decentralization increases within-country variation in social programs. Decentralized systems that complement a high degree of decentralization with high levels of policy coordination seem to exhibit substantially lower levels of social program heterogeneity than do decentralized systems that lack effective mechanisms of policy coordination. This chapter examines the institutional characteristics of decentralized countries in a more qualitative and in-depth manner. First it categorizes decentralized systems into three types: countries with low levels of decentralization, countries that combine high levels of decentralization with policy coordination mechanisms and lastly highly decentralized countries that lack effective mechanisms of policy coordination. Second, this chapter describes the institutional processes and the interplay of these institutions in each of the countries included in the dataset. Lastly, this chapter explores the historical origins of policy coordination institutions and examines why they might have developed in some countries but not in others.

Three types of decentralized systems

Numerous typologies of decentralized systems have been developed that classify countries according to the extent to which they are prone to fragmentation and segmentation (McEwen & Moreno 2005; Obinger, Leibfried & Castles 2005; Swenden 2006). Building on these typologies and combining them with insights from my data analysis I propose a typology with regard to only one particular dimension, namely the expected degree of social program heterogeneity within decentralized countries. The typology I propose hinges on different combinations of two key institutions: the level of decentralization and the strength of policy coordination. As the previous chapter suggested, policy coordination mechanisms are the only institution that consistently reduces the amount of within-country variation in social programs. In fact highly decentralized systems that have policy coordination mechanisms do not seem to exhibit significantly higher levels of social program heterogeneity than countries with low levels of decentralization. I identify three types of decentralized systems: countries with low levels of decentralization, countries combining high levels of decentralization with policy coordination mechanisms and highly decentralized countries that lack effective mechanisms of policy coordination.

The first group of countries is comprised of a number of countries where the level of decentralization is comparatively low. These countries do not necessitate elaborate mechanisms of policy coordination since national governments still coordinate most of the regional policies (Hooghe, Marks & Schakel 2010). This group includes Denmark, Sweden, France, Japan, Norway and the UK, although the latter's system of government is rapidly changing towards a more decentralized one (Jeffery 2009; Ayres & Pearce 2004). In each of these countries regional governments possess some kind of independence from the national government, have authority over more than one policy area, and are able to generate some own revenue (Hooghe, Marks & Schakel 2010). Overall the autonomy of regional governments in these countries remains constrained by national government frameworks and oversight. Furthermore, in each of these countries, with the exception of Japan, national government appointees oversee the work of elected regional governments.

The second group consists of relatively decentralized countries that have developed routinized policy coordination mechanisms. Regional governments in these countries have a higher degree of independence from the national government than countries in the previous group. The have authority over multiple policy areas and generate some own revenue. They are also elected by regional citizens and their work is not overseen by a national government appointee (Hooghe, Marks & Schakel 2010). This group includes Australia, Austria, and Germany. At the same time, these countries have developed extensive policy coordination mechanisms.

The degree of policy coordination is higher in Germany than in the other three countries (Benz 2005; Scharpf 2006; Scharpf 1988). Regional governments in Germany cannot only influence national policies at the executive level through intergovernmental meetings. They also participate in national law-making through their direct representation in the second parliamentary chamber, the *Bundesrat*. In fact every national law that is implemented in one way or another by regional governments requires the approval of the *Bundesrat* (Scharpf 2006).

Although regional governments in the other three countries included in this group do not participate in national law-making to the same degree as the German *Länder*, they all participate in what Hooghe, Marks and Schakel call executive control (Hooghe, Marks & Schakel 2010). That is, they participate in routinized meetings between all regional governments and the national government and these meetings yield binding decisions.

Table 7: Self-rule and shared-rule

	Self-Rule Dimension					Shared-Rule-Dimension	
	Country	Institutional depth	Policy scope	Fiscal autonomy	Representation (executive)	Law-making	Executive control
Hierarchically constrained	Denmark	2	1	3	1	0	0
	France	2	2	1	1	0	0
	Norway	2	2	3	1	0	0
	Sweden	2	2	3	1	0	0
	UK[5]	3	2	0	1	0	0
	Japan	2	2	2	2	0	0
Coordinated	Australia	3	4	2	2	0.5	2
	Austria	3	3	2	2	0.5	1
	Germany	3	3	2	2	0.5	2
Unconstrained	Belgium	3	3	3	2	0.5	0.5
	Canada	3	4	4	2	0	1
	Italy	3	3	3	2	0	0.5
	Spain	3	3	3	2	0	1
	Switzerland	3	4	4	2	0.5	0.5
	USA	3	3	4	2	0.5	1

Scores taken from Hooghe, Marks and Schakel (2010), executive control scores for Belgium, Italy and Switzerland have been altered.

The third group consists of countries with high levels of decentralization where mechanisms of policy coordination do not exist or where existing policy coordination mechanism are not very effective in committing all regional governments to a common policy.

[5] Scores differ slightly for the three different regions Northern Ireland, Scotland and Wales.

This group includes Belgium, Canada, Switzerland, Italy, Spain and the United States. Belgium, Canada, Switzerland and the United States are federal systems whereas Italy and Spain have achieved high levels of decentralization without adopting a federal constitution (Fasone 2012; Swenden 2006). There is some debate as to whether both countries, albeit not being formally federal, are indistinguishable from federal countries in practice (Sala 2014; Agranoff 1996; Agranoff 1993). Yet, Italy and Spain — neither formally nor in practice —have established any routinized mechanisms for governing the common sphere (Fasone 2012; Moreno 2002). In Spain the primary mechanism of interaction is bilateral between a particular regional government and the national government (Gallego & Subirats 2012; OECD 2007). Some intergovernmental conferences exist that bring together all the regional governments and the national government, but they tend to be ad-hoc and informal in character and rarely reach binding agreements (Hooghe, Marks & Schakel 2010; Moreno 2002). In Italy intergovernmental meetings between the regions and the national government are more routinized than in Spain but they also do not tend to yield agreements (Fasone 2012; Hooghe, Marks & Schakel 2010).

The remaining four countries in the third group – Belgium, Canada, Switzerland and the United States – all have federal constitutions. That is, all of them specify mechanisms of shared rule in their constitutions. For a number of reasons, which shall be discussed in more detail in the second part of this chapter, these institutions of shared-rule are not very effective in committing regional governments to common policies. Most often common agreements are made by consensus, not majority rule. In addition, their constitutions define very few policy areas of concurrent rule (Popelier & Cantillon 2013; Bakvis & Brown 2010; Hooghe 2004). Since there are few policy areas that fall into the authority of both, regional governments and national governments, very little policy coordination is required (Swenden & Jans 2006; Hooghe 2004).

In all of these cases mechanisms of shared-rule do not bite although they formally exist.

The table above represents scores for the self-rule dimension and the shared-rule dimension taken from Hooghe, Marks and Schakel (2010). Four sub-dimensions of self-rule are presented: the degree of institutional independence from the national government, the number of policy areas regional governments are responsible for, the ability of regional governments to generate their own revenue and fourthly the degree to which regional governments are directly elected. The shared-rule dimension also has four separate sub-dimensions. This project has however primarily focused on the shared law-making and the executive rule sub-dimension, as they seem to be the shared-rule mechanisms that are most effective in reducing within-country variation. The table above only shows the scores for the higher regional government and excludes the lower regional level in four-tiered countries. It also does not present the country scores for the whole period from 1950 -2010 but only focuses on the period 1990-2010. The executive control scores for Belgium, Italy and Switzerland have been altered to account for the fact that there are few areas of concurrent competencies.

The scores reveal some commonalities between the countries in each of the there groups. In the first group the extent of decentralization is relatively low. None of these countries have any mechanism of policy coordination. In the second group of countries the degree of decentralization is higher than in the first group. At the same time, however, these countries have relatively developed mechanisms of executive control. The third group exhibits very high level of decentralization but very low levels of executive control. It is in this last group that within-country variation is highest.

Decentralization and policy coordination

The categorization of countries into three types of institutional combinations helps to abstract from the idiosyncrasies of individual countries and highlights commonalities between countries belonging to one type. In the following paragraphs I will discuss the interplay between the level of decentralization and policy coordination and I will describe in a more in-depth qualitative fashion how they affect social program heterogeneity in each of the countries included in the dataset.

Hierarchically constrained variation

Although decentralization processes have taken place in Denmark, France, Japan, Norway, Sweden and the United Kingdom, national governments have kept a firm grip over social policy-making through a variety of mechanisms.

First, national governments in these countries tend to issue framework legislation that constrains the provision of social services to a greater extent than legal frameworks in the two other groups (Hooghe, Marks & Schakel 2010). School curriculums, for instance, tend to be developed by the national government in all of these countries, leaving minimal room for regional governments to intervene (Eurypedia 2014, Halász et al. 2011, Jang et al. 2011). In Japan, for example, the prefecture governments can only decide about the choice of textbooks and the generosity of subsidies to secondary school students, who pay school fees (Education Encyclopedia 2014). Overall however, educational policy is orchestrated at the national level and regional governments are mainly charged with the implementation.

Second, national governments in all of these countries influence regional social policy-making through controlling regional government revenues. The extent to which national governments control regional government revenues ranges from not allowing regional governments to levy their own taxes to restricting the number of regionally levied taxes and the tax base. In the United Kingdom regional governments, with the exception of the Scottish government, cannot levy their own taxes and are therefore dependent on national government grants (Keating 2010). The Scottish government can vary the income tax rate to a minimal degree (HM Revenue and Customs 2012). In Japan the national government also keeps a tight control of regional government revenues. Regional governments can levy a number of minor taxes but they remain quite dependent on national government grants (Mochida 2008; Joumard & Yokoyama 2005; Ter-Minassian 1997). Regional governments in France and the Scandinavian countries tend to have slightly more authority over their revenues. For example, about 75 per cent of regional government revenues in Sweden come from the income tax for which regional governments can determine the rate within centrally determined limits (Charbit 2010). A similar arrangement is in place in Norway, France and Denmark. The relatively high degree of regional authority over taxation countries does however not translate into regional expenditure authority, since the latter is strongly constrained by national government frameworks (Hooghe, Marks & Schakel 2010; Blöchliger & King 2006)

A third means by which national governments control regional social policy-making in these countries is through directly overseeing the decision-making of regional executives. In five of the six countries the elected regional executives are overseen by an appointee from the national government, which effectively results in dual executives (Hooghe, Marks & Schakel 2010).

In Denmark the elected regional executive consists of a regional mayor aided by a regional executive committee. Their work is overseen by a centrally appointed *statsamtmand*

(World Statesmen Encyclopedia 2014).[6] In Norway, the directly elected *fylke* councils select their own executives but again the executives' work is overseen by a centrally appointed *fylkesmann* (Hooghe, Marks & Schakel 2010). In Sweden the directly elected regional *landsting* have to share authority with deconcentrated national government administrations called *länsstyrelser,* which are presided by centrally appointed governors (Hooghe, Marks & Schakel 2010). Dual regional executives also exist in France where the executive bodies of the *départments* and the *régions* are overseen by centrally appointed *préfects* (Hooghe, Marks & Schakel 2010).

To a certain degree, dual executives also exist in the United Kingdom. Previously all three regions —Northern Ireland, Scotland and Wales — were governed by national government departments headed by Secretaries of State (Jeffery 2009). Northern Ireland was governed by the Northern Ireland Office from 1972-99 and again from 2002-2007 (Hooghe, Marks & Schakel 2010). Although the authority of the Secretary for Northern Ireland has been greatly reduced since 2007, she still oversees the operation of the Northern Ireland executive (UK Government 2014; Hazell 2000). Scotland was governed by the Secretary of State for Scotland until 1999, when the Scottish assembly elected its own executive. The Scottish executive took over the majority of tasks formerly held by the Secretary of State for Scotland, but he continues to represent Scotland in the UK parliament (Keating 2010). Wales was governed by the Secretary of Wales until 2006. He was invested with executive authority, which he shared with the Welsh assembly (UK government 2014). Although the Secretary's authority has been reduced, he still oversees the operation of the Welsh government.

[6] The organizational structure of the five new regional governments that replaced the older 16 regional governments in 2007 is very similar.

This very direct involvement in regional politics is a key characteristic that differentiates this group from the other two groups. The authority of national government appointees has been gradually reduced over the last decades. Today, national government appointees are mainly responsible for checking the legal aspects of regional policies, rather than their policy content (Hooghe, Marks & Schakel 2010). That is, they examine whether regional policies are legally compatible with national government legislation. If policies are not compatible, the appointee has the power to veto them. The existence of national government appointees grants national governments a considerable degree of influence over regional politics.

Japan is the only country in this group where dual executives at the regional level do not exist. Until 1999, the national government did however maintain the ability to dispose of the directly elected regional governors if they felt that they did not rule their regions in the interest of the national government (Mochida 2008). Although the authority of regional governors in Japan has greatly increased since 1999, they still tend to maintain close ties with the national government. In fact, the majority of candidates running for regional governor have previously held positions in national government departments.

All of the above-described mechanisms— including national legislation, influence over regional revenues and political influence— help national governments maintain a close oversight over regional social policy-making. The high degree of national government involvement has an equalizing effect on social service provision, both by ensuring equal funding levels and by promoting similar legislation. The access to and the quality of social services in these countries tend to be more equal across the national territory than in the other two groups. The need for policy coordination among regional governments is low since coordination problems tend to be solved by the national government. At the same time, these countries forgo some of the benefits of having more regional autonomy, including having policies tailored to regional conditions, increasing civic involvement and allowing more room for policy experimentation.

The strong relationship between hierarchical oversight over social services and comparatively low heterogeneity in social programs is nowhere better observed than in Denmark and Norway. Both countries underwent processes of recentralization in the early 2000s. Substantial policy authority over education, health and social welfare was transferred back to national governments (Minas, Wright & van Berkel 2012; Saltman 2008; Feltenius 2007). In Denmark five regions were established in 2007, which replaced the 16 former counties (Saltman 2008). Unlike the former county governments, these newly established regional governments are no longer entitled to levy their own taxes and are therefore entirely dependent on national government funding and funding from the municipalities. In Norway a 2002 reform transferred the responsibility for hospitals, formerly held by the regional governments back to the national government. Furthermore the responsibility for child and family welfare, including counseling and advisory services were transferred back to the national government (Hörnström 2013; Saltman 2008). Sweden is the only Scandinavian country in which social services, in particular the provision of healthcare, remain relatively decentralized, albeit heavily regulated by the national government (Feltenius 2007).

A prime motivation of recentralization has been the belief, held by many political elites, that the decentralization process that began in the 1970s was responsible for the increases in within-country heterogeneity (Minas, Wright & van Berkel 2012; Saltman 2008; Feltenius 2007; Danish Ministry of Interior 2002). This in turn had been perceived by political elites as a threat to the central tenet of the Scandinavian welfare state, namely the provision of universal social rights. Decentralization was therefore rolled back with the aim of reducing territorial inequalities in the quality of social services (Gronlie 2006).

The relationship between the recent decentralization reforms and social program heterogeneity is less straightforward in the United Kingdom. About 84 percent of UK citizens live in England, which is directly governed by the UK's national government, while the remaining 16 percent live in the devolved territories, which are governed by regional executives. The majority of the population therefore lives under a relatively centralized government. In the devolved regions however the national government has gradually lost its former control (Ayres & Pearce 2004). The national government's remaining leverage is largely based on the fact that regional governments still lack the possibility to create their own revenue although even that stronghold is waning in Scotland. With the reduced influence of the national government the heterogeneity in social programs has also increased in the United Kingdom since the early 2000s (Andrews & Martin 2010). It remains to be seen, however, which route the United Kingdom will take in the face of further demands for decentralization (Jeffery 2009).

Coordinated variation

National governments in Austria, Australia, and Germany also try to maintain or gain influence over regional social policy-making, much like national governments in the first group. In fact, some observers have lamented that national governments in these countries are increasingly infringing upon regional government authority, be it through greater fiscal involvement or by passing stricter and more comprehensive legal frameworks in areas that were previously the exclusive competence of regional governments. In contrast to the countries in the first group, however, regional governments in the second group have substantially more authority to begin with. What is more, in all three countries the autonomy of regional governments is constitutionally guaranteed. Conflicts over the distribution of authority between the national and regional government are therefore often subject to constitutional court decisions. Higher levels of constitutionally guaranteed authority have provided regional governments in these countries with greater leverage and allowed them to rebut national government attempts to infringe on their autonomy.

National governments in these countries can therefore not control regional social policy-making to the same extent as national governments in the first group. Coordination therefore requires more horizontal and less coercive mechanisms. Both, shared law-making and policy-coordination at the executive level can provide more horizontal policy coordination mechanism. While the first describes extent to which regional representatives co-determine national legislation, the second refers to the extent to which regional governments co-determine policy-making (Hooghe, Marks & Schakel 2010). During these meetings but also during the elaborate preparation phase, regional governments, or rather their representatives, have the opportunity to develop common political standpoints, which they can then negotiate with representatives from the national government. These processes as well as the final decisions help regional governments commit to common policies. Both policy coordination mechanisms —shared law-making and coordination on the executive level—exist in Austria, Australia, and Germany.

In Germany shared law-making is very influential (Gunlicks 2007; Scharpf 2006; Benz 2005; Lehmbruch 2002). This is partly due to the fact that regional governments directly appoint the representatives of the second legislative chamber in contrast to most other countries where the representatives are either appointed by regional legislatures or elected by a region's citizens. This direct link ensures that the viewpoints of regional governments are taken into account in national legislation. Moreover, the German constitution stipulates that all policies that are implemented by regional governments have to gain approval from the second legislative chamber. Before the 2006 federalism reform which aimed to reduce the number laws the require approval of regional governments, over 50 percent of all law proposals were co-decided by both legislative chambers (Riescher, Russ & Haas 2010: 114). The high degree of interdependence between the national and the regional level involves extensive coordination. This coordination of policy positions takes place before law proposals are decided in the second legislative chamber. Typically, regional governments of the same partisanship first try to find a common standpoint before seeking coordination with other regional governments. In case a law fails to garner enough votes, policy coordination will take place in so-called arbitration committees (Lehmbruch 2002).

Policy coordination at the executive level also takes place in Germany, but it only tends to complement the somewhat more dominant policy coordination through shared law-making. Policy-coordination at the executive level is most important in the area of educational policy, since shared law-making is not possible given the regional governments' exclusive competence in this area (Erk 2003). A "Standing Conference of Ministers of Education" (*Kultusministerkonferenz),* meets three to four times a year. The conference has a permanent office that prepares and coordinates these meetings. Intergovernmental meetings in other policy areas are also relatively frequent and can yield binding decisions (Lehmbruch 2002; Scharpf 1988). Intergovernmental meetings do not only take place at the ministerial level, but pervade the whole civil service hierarchy. There are regular meetings of the permanent secretaries, department heads and even division heads, all of which ensure a significant degree of interchange and coordination. These meetings have frequently established common policy standards and helped to reduce social program heterogeneity. For example, in 1997 regional education ministers agreed to a set of common educational benchmarks to help evaluate, improve and eventually equalize educational outcomes in the 16 German regions (Kultusministerkonferenz 1997).

In Austria, the link between regional governments and the second legislative chamber is less direct. The representatives of the second legislative chamber are chosen by the regional assemblies rather than by the regional governments (Erk 2004). More importantly, the second legislative chamber in Austria is very weak and has little influence over national law-making (Hooghe, Marks & Schakel 2010). Policy coordination in Austria therefore mostly takes place at the executive level (Fallend 2003). Intergovernmental meetings (*Landeshauptleutekonferenz*) between the nine regional heads of government (*Landeshauptleute*) and a representative of the national government take place twice a year but meetings at lower levels of the civil service hierarchy take place even more frequently (Fallend 2003). The meeting of the regional heads of government is organized by a permanent secretariat and the respective regional civil service administrations (Fallend 2003). Common policy positions tend to be elaborated in extensive preparations that take place before these meetings. The meetings themselves therefore tend to yield unanimous decisions. Although decisions are not legally binding they tend to generate a strong political commitment (Erk 2004).

In Australia the regions' citizens elect representatives of the second legislative chamber. In each state 12 Senators are elected. Although Australia's second legislative chamber is strong it contributes little in terms of policy coordination since it does not directly represent regional governments or regional legislatures. Like in Austria, policy coordination at the executive level therefore plays a more important role. Initially intergovernmental meetings only took place between regional heads of government and representatives of the national government. Soon however, intergovernmental meetings also brought together regional ministers and the corresponding national government minister (Hooghe, Marks & Schakel 2010; Painter 1996). In 1992 all intergovernmental meetings were brought under the umbrella of the Council of Australian Governments (COAG) (Anderson 2008; Painter 1996). Today there are more than 40 councils that bring together regional heads of government, regional ministers, the Australian prime minister, federal government ministers, as well as the president of the association of local governments (Hooghe, Marks & Schakel 2010). Decisions in these councils are generally taken by consensus and are legally binding. The degree of policy coordination that originates from these meetings is quite considerable especially in the area of public service delivery (Commonwealth of Australia 2004). In fact the Australian government frequently uses the term "whole of government approach" to refer to the coordination between levels of government but also between different policy areas (Commonwealth of Australia 2004).

Mechanisms of policy coordination in these three countries take on different forms. Regardless of these differences however, these coordination mechanisms tend to be very effective in committing regional governments to common social policy positions. The levels of variation in social programs within these four countries are therefore relatively low, despite considerable socio-economic within-country differences.

Unconstrained variation

The third group of countries includes Belgium, Canada, Italy, Spain, Switzerland and the United States. All of these countries are highly decentralized but lack the successful policy coordination mechanisms of the second group. Policy mechanisms are either not well institutionalized or they are not effective in committing regional governments to common policies. All of these countries therefore share comparatively high levels of social program heterogeneity.

In contrast to Belgium, Canada, Switzerland and the United States neither Italy nor Spain are federal countries (Fasone 2012; Swenden & Maddens 2009; Swenden 2006; Amoretti 2002). The term “regionalized countries” has been used to describe the particular institutional features that have developed in both countries (Swenden & Maddens 2009). What differentiates both Italy and Spain from federal countries is the fact that substantial amounts of policy authority have been transferred to regional governments without the institutional architecture or the responsibilities of regional governments being incorporated into the constitution (Fasone 2012). In both countries there are a large number of regional statutes and national laws that stipulate the institutions and functions of regional governments, but they fall short of reaching constitutional status (Fasone 2012). The lacking federal set-up is not only a formality, it results in regions being excluded from participating in national law-making. The Italian Senate is not elected on a regional basis and the Spanish Senate is only partly elected on a regional basis and very weak compared to the first legislative chamber (Hooghe, Marks & Schakel 2010). Both legislative chambers can therefore not provide a venue for shared governance.

Mechanisms for shared policy-making are also weakly developed in both countries. In Italy intergovernmental conferences between regional governments and the national government take place twice a year (Hooghe, Marks & Schakel 2010; Swenden 2006). They rarely reach binding decisions or generate any type of political commitment. In Spain intergovernmental meetings tend to take place on an ad hoc basis and do not reach legally binding decisions. To date, much of Spain’s decentralized system is managed on the basis of bilateral co-operative agreements between the national government and the various regional governments rather than through routinized inter-governmental meetings (OECD 2007; Swenden 2006). Mechanisms that bring together the heads of regional governments and that have the potential of committing them to common policies are largely absent.

The lack of routinized mechanisms for governing the common sphere in both countries might have been caused by two factors: their relatively recent experience with decentralization and the asymmetric nature of decentralization. In Italy, the so-called ordinary statute regions were only created in 1972 (Swenden 2006; Putnam 1993). Although each of these 15 regions had directly elected governments, it was not until the early 1990s that they gained substantial policy authority and fiscal autonomy (Putnam 1993). Spain's decentralization efforts immediately followed Spain's transition to democracy in 1978 but it was not until the late 1980s that all autonomous communities were granted substantial degrees of authority (Hooghe, Marks & Schakel 2010). It is likely that policy coordination mechanisms only evolve slowly and only in response to dysfunctionalities so that these countries' relatively recent experiences with decentralization would explain the absence of those mechanisms.

The creation of policy coordination mechanisms might be further complicated by the asymmetric nature of decentralization in Italy and Spain (OECD 2007). Italy's five special statute regions - Sicily, Sardegna, the Aosta Valley, Friuli-Venezia-Giulia and South Tyrol – which preceded the creation of the 15 ordinary statute regions still enjoy a greater degree of regional authority. A similar situation exists in Spain were the four historical nationalities that gained autonomy early on in the decentralization process — the Basque Country, Catalonia, Galicia and Andalusia— continue to enjoy a different treatment from the other autonomous communities. The asymmetric nature of decentralization seems to have created a competition between regional governments for additional responsibilities and resources, particularly in Spain (OECD 2011; OECD 2007). This competition in turn has reduced regional governments' willingness to coordinate their policies.

Unconstrained decentralization in both countries has amplified the effect of regional socio-economic differences on social spending, which has contributed to comparatively high levels of social program heterogeneity (Kazepov et al. 2006; Lopez-Casasnovas, Costa-Font & Planas 2005). In Italy a great divide exists between the affluent Northern regions and the poorer Southern regions. The quality and coverage of the public services provided in the Northern Italian regions is a far cry above the public services provided in the South. In addition to differences in income, researchers have also pointed out the gaping divide in governance capacity between Italy's North and South to explain heterogeneous policy outcomes (Putnam 1993). But partisan differences also seem to explain part of the cross-regional variation in Italy. The central Italian regions, which tend to be governed by left-wing governments, provide more comprehensive and affordable services than the Northern regions, which are predominantly governed by Christian-Democratic and center-right governments (Francese & Romanelli 2011). Territorial inequalities in Italy have increased sharply since the late 1990s with each consecutive decentralization reform (Arriba & Moreno 2005; Giannoni & Hitiris 2002).

Given the absence of policy coordination mechanism, decentralization also had an unconstrained effect on social program heterogeneity in Spain. Regional differences in income play a major role in explaining differences in the accessibility and quality of social services. The richer regions, including the Basque country, Navarre and Catalonia do tend to offer more comprehensive and higher quality social services that the poorer regions (Lopez-Casasnovas, Costa-Font & Planas 2005). Partisan differences also play a role. The regions, which tend to be lead by left-wing governments like Andalusia and Extremadura, seem to provide more comprehensive social services (Chapman-Osterkatz 2013; Moreno & Trelles 2005).

Italy and Spain are two of the countries with the largest social program heterogeneity. What is more, both countries have experienced a steady increase in social program heterogeneity that has not yet come to a halt (Gallego & Subirats 2012, Fancese & Romanelli 2011)

Contrary to Italy and Spain, the other four countries included in the group —Belgium, Canada, Switzerland, and the United States—all share federal constitutions. That is, in all four countries the institutional structure and the policy responsibilities of regional governments are enshrined in the constitution. Partly as a result of sharing a federal set-up, the second legislative chamber in Belgium, Switzerland, the United States, and to a lesser extent in Canada serve to represent regional interests in the national law-making process. Routinized intergovernmental meetings also do take place in all four countries. Neither shared law-making institutions nor intergovernmental meeting are however very successful in committing regional governments in these countries to a common policy or they only do so on very few and minor issues. Reasons for the lacking effectiveness of policy coordination include the strict and constitutionally mandated separation between national and regional tasks in Belgium, Switzerland, the United States, and Canada on the one hand and the absence of majority rule for most intergovernmental decisions on the other hand.

The clear separation between tasks that are the exclusive responsibility of the national government and those tasks which are the exclusive competence of regional governments differentiates Belgium, Canada, Switzerland and the United States from the federal countries included in the second group. In Austria, Australia and Germany areas of shared competence have evolved. Shared-competences, by definition, require higher degrees of policy coordination whereas exclusive competencies are designed to avoid the necessity of policy coordination. The institutions of shared governance that exist in these four countries therefore only deal with very few policy areas in which policy competencies overlap. The absence of majority rule further complicates policy coordination since decisions that have to be taken unanimously tend to result in lowest common denominator policies. As will be discussed in the last section of this chapter, the clear separation of competencies and the lack of majority rule are often interpreted as resulting from the strong linguistic, cultural and economic fault lines in these four countries (Erk 2007; Béland & Lecours 2007, 2005).

The mismatch between the formal powers of shared governance institutions and their actual effectiveness in coordinating regional governments' policy decisions is particularly large in Belgium. Like in Canada, Switzerland and the United States, decisions concerning both levels of government in Belgium are taken by unanimity and national and regional competencies are strictly separated (Popelier & Cantillon 2013; Hooghe 2004; Hooghe 2003). Yet, what complicates policy coordination in Belgium even further is the intricate set-up of the Belgian federation that combines both territorially defined regions and culturally defined communities. The three territorially defined regions are the Wallon region in the South, the Flemish region in the North and the Brussels capital region. The three linguistically defined communities are the French-speaking community, the Flemish speaking community and the German-speaking community (Hooghe, Marks & Schakel 2010). Theoretically all three territorially defined regions and all three linguistically defined communities have their own assemblies and governments. The Flemish territorial region and the Flemish linguistic community did however merge, so that the Belgian federation officially consists of five units each of which have respective representative organs: the Flemish region, the Wallon region, the Brussels region, the French-speaking community and the German speaking community (Hooghe, Marks & Schakel 2010; Swenden & Jans 2006). The dual federal setup means that mechanisms of shared governance have to represent and account for the interest of the linguistically defined communities and the interests of territorially defined regions.

Since 1995, the majority of the representatives of Belgium's second legislative chamber are elected directly by the citizens of the two main linguistic communities, the French-speaking community and the Flemish-speaking community. The remaining representatives are either appointed by the parliaments of the linguistic communities or co-opted. The same reform that stipulated that representatives of the second legislative chamber were to be elected on a regional basis did however also strip the second chamber of some of its power in the national law-making process (Hooghe, Marks & Schakel 2010). The role of Belgium's second legislative chamber in coordinating the interests and responsibilities of regional governments and the national government is complicated by the fact that legislation, which directly impacts the authority of linguistic groups, requires a supermajority (Swenden & Jans 2006; Hooghe 2004). This essentially endows each linguistic community with a minority veto power.

Intergovernmental meetings have therefore been the main mechanism of policy coordination Belgium. The Deliberation Committee for the Government and the Executives (*Overlegorgaan/ Comité de concertation*) brings together representatives from the linguistically defined communities, the territorially defined regions and the federal government. Its decisions are taken by consensus. They are rarely legally binding but they tend to unfold a high degree of political commitment (Hooghe 2004). Aside from the deliberation committee there are Interministerial Conferences (IMCs) that bring together the functional ministers of the regional governments and the national government. Again most decisions require unanimity, which tends to result in lowest common denominator policies.

More importantly however, the Belgian constitution defines very few areas of shared competence (Popelier & Cantillon 2013; Hooghe 2004). As the overwhelming majority of policy areas fall in the exclusive competence of either the regional governments, the community governments or the federal governments, relatively little policy coordination is required. There is in fact a trend towards a further separation of policy competencies so as to avoid the necessity of policy coordination in any policy area (Swenden & Jans 2006; Hooghe 2004). While consensus rule and exclusive competencies have helped avoid violent conflict between the linguistic communities, they also seem to have led to a "gradual hollowing of the center" (Hooghe 2004). That is, as more and more policy competencies fall into the exclusive responsibility of regional governments, there are fewer opportunities for creating a shared political sphere. This, so Hooghe argues, has had the unintended effect of fuelling demands for segregation rather than stabilizing the federation (Hooghe 2004).

Given the strict separation of powers and the absence of simple majority rule, it comes as no surprise that policy coordination mechanisms in Belgium are not very effective in committing regional governments to a common policy and usually yield lowest common denominator policies. Combined with the existing socio-economic disparities in Belgium the inefficacy of policy coordination has resulted in high degrees of social program heterogeneity. The economically more prosperous Flemish-speaking North has had lower social program expenditures than the less prosperous French-speaking South of Belgium. The resulting redistribution of fiscal resources with the North being a net contributor and the South being a net receiver is partly at the origin of the existing tensions in Belgian politics (Popelier & Cantillon 2013; Cantillon, De Blust & Van den Heede 2010; Béland & Lecours 2007).

In Canada the second legislative chamber does not represent regional interests to the same extent as the Belgian second legislative chamber since its representatives are not chosen by regional governments nor by the regions' citizens but by the federal government. The federal government appoints representatives for life without prior consultation with the regional governments (Hooghe, Marks & Schakel 2010). Some have argued that the expansion of intergovernmental meetings, which began in the 1970s, was mainly a result of the lacking shared law-making institution (Cameron & Simeon 2002). Intergovernmental meetings between the national government and regional governments are very routinized and have pervaded most policy areas, but they rarely take binding decisions and only unfold a minimal degree of policy coordination (Bakvis & Brown 2010). When decisions are taken they usually require unanimity and allow individual provinces to opt out of agreements. More importantly, like in Belgium there is a clear division of competences between the regional and the federal level in Canada. Instances in which one level may influence the policy decisions of another are very rare, which limits the overall degree of policy coordination (Bakvis & Brown 2010; Cameron & Simeon 2002). Regional governments in Canada therefore rarely commit to a common policy regarding major issues. In the absence of strong policy coordination mechanisms, regional differences in income and partisanship are allowed to translate directly into social program differences. Although the high degree of social program heterogeneity in Canada is partly the result of large regional differences in income and other socio-economic factors like population density, regional government ideology has also played an important role. Especially the provincial governments of Saskatchewan and Quebec have repeatedly implemented more comprehensive and universal social services than other provincial governments in Canada (Allin 2008).

The Swiss federal system is very similar to the Canadian system although mechanisms of shared law-making are more developed. Unlike the Canadian second legislative chamber, the representatives of the Swiss second chamber (*Ständerat, Conseil des Etats, Consiglio degli Stati*) are elected on a regional basis by the citizens in each canton. Furthermore, there are routine meetings between the national government and the cantonal governments, but these do not tend to reach binding decisions (Hooghe, Marks & Schakel 2010). More importantly because of the strict division between national and cantonal competencies both coordination mechanisms, on the legislative as well as on the executive level, only take effect in very few policy areas (Linder & Vatter 2001).

In addition to the intergovernmental meetings between the Swiss national government and the cantonal governments, there are a number of mechanisms through which the cantonal governments coordinate policies for which they are exclusively responsible. The national government is not present at those meetings. Firstly, all cantonal governments consult regularly on a wide array of policy issues. These consultations reach binding decisions but since decisions have to be taken unanimously they tend to result in lowest common denominator policies. Secondly, a number of agreements exist between subsets of cantons, so-called concordats, which tend to regulate the provision of public services particularly in the areas of social welfare, education and healthcare. Most often they arrange for larger cantons to provide certain services for smaller cantons, in the exchange for financial support (Vatter 2004; Linder & Vatter 2001; Armingeon 2000; Wälti 1996). These agreements do however not aim at creating a more homogeneous provision of social services but rather represent a mechanism for outsourcing the provision of particular services to other cantons. Neither cantonal consultations nor cantonal concordats therefore provide the type of policy coordination seen in the second group of countries. Finding agreements that commit all cantonal governments to a common policy is further complicated by the existence of direct democracy in most of the Swiss cantons (Swenden 2006; Armingeon 2000). Many inter-cantonal agreements have to pass popular referendums before taking effect.

In the absence of policy coordination, there is a very high degree of social program heterogeneity in Switzerland but there also tends to be a greater acceptance for policy diversity (Armingeon, Bertozzi, & Bonoli, 2004; Armingeon 2000). This heterogeneity is caused by differences in socio-economic and cultural factors. The latter play a particularly important role in the area of education. For instance, the French- and Italian-speaking regions have subsidized educational policy to a much larger degree than the German speaking regions (Armingeon 2000). Some authors have however argued that cantonal policies also differ depending on the partisanship of the cantonal government. Cantons with left-wing governments – for instance Geneva – tend to provide more comprehensive and universal social services (Armingeon, Bertozzi, & Bonoli, 2004).

The United States, albeit sharing many of the institutional features with Belgium, Canada and Switzerland is an outlier in a number of other aspects. Like the other federal countries in this group, its constitution stipulates the separation of national and regional competencies. In contrast to the other three countries, the lines between the two levels have become increasingly blurred in the United States. Some scholars have argued that federal encroachment started in 1930s with Roosevelt's New Deal that required national economic policy programs to be implemented by the State governments (Bakvis & Brown 2010). Although a number of attempts have been made to reverse this trend, regional government autonomy in the United States has slowly become eroded. This partly explains the low levels of social program heterogeneity in the United States when compared to the other countries in the third group.

Low levels of social program heterogeneity have however not been achieved through shared law-making nor through intergovernmental meetings like in Austria, Australia and Germany. The U.S. Senate, albeit a very strong second chamber, does not serve as a venue for state policy coordination since its representatives are not elected by the regional governments nor by the assemblies but by the citizens in each region. In addition, policy coordination mechanisms at the executive level are not very well developed in the United States. Routinized meetings take place between regional government heads twice a year in form of the "National Governor's Association". Its decisions are however not legally binding and the level of policy coordination achieved in the National Governor's Association is limited (Bakvis & Brown 2010).

Instead of relying on a policy coordination that is more horizontal in character like countries in the second group, policy coordination mechanisms in the US have a hierarchical aspect (Bakvis & Brown 2010). Scholars have discerned two main mechanisms of coordination. The first mechanism consists in the national government providing financial incentives for regional governments to adopt certain policies (Rigby & Haselswerdt 2013; Krause & Melusky 2012; Bakvis & Brown 2010). These incentives take the form of conditional grants that reward regional governments for adopting certain nationally orchestrated policies. In fact the overwhelming majority of federal grants in the United States are conditional whereas conditional grants only make up a small proportion of federal grants in countries like Canada (Watts 2008). Regional governments can reject these grants, but the incentives to accept tend to be very strong (Shelly 2013).

Aside from setting financial incentives the U.S. federal government also achieves policy coordination by advancing national policies in areas where regional governments have failed to implement their own programs (Bakvis & Brown 2010). The programs proposed by the regional governments have to meet certain minimum standards if a take-over by the national government is to be avoided.

Both mechanisms, fiscal incentives and pre-emptive national government legislation, have been used frequently to coordinate regional policies in the areas of social welfare, education and healthcare. The “No Child Left Behind” policy proposed by the Bush administration in 2001 is an often-cited example of a federal encroachment on regional authority over educational policy. It involved conditional grants to regional governments and minimum standards to be met by regional governments. In the area of healthcare, the recent “Affordable Care Act” represents a good example of a national policy that requires regional governments to put forward regional proposals that meet certain minimum standards if they want to avoid national intrusion (Rigby & Haselswerdt 2013).

Lastly, the United States has a relatively large number of constituent units compared to other federal countries, which makes competition between regional governments more likely to emerge (Sorens 2010). A number of scholars have indeed suggested that policy convergence in the United States might be partly achieved through competition, which creates both, “races to the top and to the bottom” (Bailey & Rom 2004; Kenyon & Kincaid 1991). Indeed, the results of the last empirical chapter indicate that a higher number of constituent units is associated with lower within-country variation in social expenditure.

With the exception of the United States, the social program heterogeneity is very pronounced in all countries included in the third group. I have argued that high levels of decentralization in these countries have amplified the effect of regional contextual factors on social spending. It is not only regional differences in GDP per capita and unemployment levels that have a larger effect on social spending in decentralized countries. Ideological differences between regional governments also have a significantly stronger effect in a decentralized context leading to higher levels of program heterogeneity. In all of these countries, the types of policy coordination mechanisms that exist in the second group are either absent or ineffective and therefore provide little counterweight to the variation-increasing effect of decentralization.

Historical origins of policy coordination mechanisms

Thus far, I have implicitly assumed that policy coordination mechanisms are exogenous to the processes driving social program heterogeneity. What however, if there is a set of underlying factors that drives both, development of policy coordination mechanisms and social program heterogeneity? There is an argument to be made that policy coordination is in fact endogenous. Scholars have for example pointed out that inequalities in the territorial distribution of income might increase demands for decentralization and reduce regional governments' willingness for policy coordination (Beramendi 2012). To understand the more general relationship between policy coordination and social program heterogeneity we might therefore want to delve deeper into the institutional origins of decentralized systems of government.

In one of the very few scholarly pieces on the effects of decentralization on the welfare state Obinger, Leibfried and Castles argue that it was the time point at which today's federations democratized that explains how decentralization interacts with social program heterogeneity (Obinger, Leibfried & Castles 2005). While Austria and Germany were still monarchies in the early 20th century when many of the early social programs were developed, Canada and Switzerland had already established democratic institutions. For Austria and Germany this meant that the authority over social programs was going to be entrusted to the central state. In the other two countries, however, there was a struggle over the allocation of authority over social programs from the very outset of the welfare state (Obinger, Leibfried & Castles 2005). The centralist legacy in Austria and Germany could indeed explain why both countries developed decentralized systems with high degrees of policy coordination, which in turn preserved a low degree of social program heterogeneity.

Yet, this explanation has an important shortcoming. It does not explain the two country cases with the highest social program heterogeneity – Italy and Spain. As in Austria and Germany, social programs in both countries were mostly developed before democratic and decentralized structures were established. By the time Spain democratized in 1978, most social programs were already in place. One would have therefore expected the centralist legacy of the authoritarian Franco regime to constrain the centrifugal effects of decentralization. In Italy, the creation and expansion of social programs might not precede democratization but it predates the establishment of decentralized structures in 1972. Yet, the fact that decentralization occurred after social programs were already in place did not prevent social program heterogeneity from increasing drastically.

Rather than analyzing the timing of institutional development, an alternative explanation could draw on the factors that motivate and shape decentralization. Whereas some decentralized countries exhibit relatively homogenous societies, other countries are shaped by important linguistic, cultural or other territorial cleavages. Sub-state communities in the latter group of countries tend to resist national government rule as an encroachment upon their perceived distinctiveness (Hooghe & Marks 2013; Brancati 2006; Keating 1997). High degrees of decentralization in these countries can therefore mainly be understood as an attempt by national elites to cede toward regional demands for self-rule without risking these territories' secession (McEwen & Moreno 2005). These countries seem to provide a less fruitful ground for policy coordination mechanisms. To accommodate regional communities' concerns regarding their autonomy, decentralized structures in most countries with territorial cleavages feature a strict separation between national and regional responsibilities and consensus decisions.

Typical cases of countries in which linguistic or cultural cleavages are strong are Canada, Belgium, Spain, and Switzerland (McEwen & Moreno 2005). In the case of Italy and the United States, the extent to which the North-South cleavage in both countries is still culturally driven or economically defined is unclear. In cases where the structure of government remains unitary and territorial cleavages are not accommodated, violent conflict may evolve. In fact territorial conflict between the Dutch-speaking community and the French-speaking community in Belgium peaked in the 1970s before gradual concessions to both communities paved the way to a federal constitution that was adopted in 1993 (Béland & Lecours 2007; Hooghe 2004).

In all of these countries, territorial conflict does not only seem to be associated with high levels of constitutionally granted regional authority but also explains regional governments' reluctance to cede some of their autonomy in order to coordinate with other regional governments or with the national government. This reluctance combined with a greater appreciation of diversity is partly at the origin of the high degrees of social program heterogeneity observed in these countries.

Highly decentralized structures do however not necessarily need to be related to the absence of effective policy coordination. As described at the beginning of this chapter, a number of countries with higher levels of decentralization also exhibit high levels of policy coordination. Austria, Australia, and Germany all have very well developed policy coordination mechanisms that help constrain the degree of social program heterogeneity. All three countries also lack significant territorial cleavages (McEwen & Moreno 2005; Obinger, Leibfried & Castles 2005).

In fact, the lack of territorial cleavages facilitated the creation of federal states as a bottom-up association of previously distinctive territories (McEwen & Moreno 2005). They also facilitated the establishment of policy coordination mechanisms and ultimately they are connected to lower levels of social program heterogeneity.

Territorial cleavages are also absent in the Scandinavian countries, France and Japan. The establishment of a decentralized state in these countries was however not a bottom-up process as in Austria, Australia and Germany but rather an elite-driven top-down process (McEwen & Moreno 2005). Political elites and professional elites, such as health service providers, teachers and social workers believed the central level to be inappropriate for the delivery of certain public services and thought that a centralized delivery caused overregulation (De Vries 2000).

Policy outcomes in these countries are therefore much more homogenous than in Belgium, Canada, Italy or Switzerland. In fact, in light of the absence of significant territorial conflict some scholars have questioned the extent to which these countries can still be classified as federal countries (Erk 2004). They argue that territorial cleavages form the necessary base for federalism. Without any territorial distinctiveness countries would eventually trend towards a centralized unitary system. The extent to which territorial distinctiveness define a federal system is ambiguous, but territorial cleavages certainly influence the effect of decentralized structures on the welfare state.

Conclusion

In this chapter I have argued that there are three broad groups of countries with regard to the social program heterogeneity dimension. The first group consists of countries in which regional governments have some degree of authority over social policies. What distinguishes regional governments in this group from regional governments in the other two groups is that their social policy decisions remain subject to the oversight of national governments. National governments in these countries not only regulate most details of regional social programs. Nationally appointed governors also oversee the political decision-making process at the regional level. By keeping a national oversight, these countries forgo some of the benefits of decentralization. Social programs are not well tailored to the regional context nor does this system allow much room for regional policy experimentation. At the same time national government involvement has an equalizing effect and results in the social service quality being relatively homogeneous across the national territory.

Regional governments in the second group of countries have more independence from the national government. The work of regional legislatures and executives in these countries is not overseen by national government appointees and national legislative frameworks allow regional governments considerable leeway in the legislation and implementation of social policy. Intensive policy coordination between regional governments and the participation of regional representatives in national law-making help the formation of common regional standpoints and prevent the more pronounced degree of regional independence from translating into high degrees of within-country heterogeneity in social programs.

Levels of regional autonomy are very high in the third group of countries. In contrast to the second group, policy coordination mechanisms are either not yet developed like in Italy and Spain or the do exist but are ineffective in committing regional governments to a common standpoint like in Belgium, Canada, and Switzerland. In the latter three countries a strict separation of policy competencies guarantees that only very few policy areas are subject to common decision-making. This greatly reduces the need to coordinate policies but also opens the door to substantial social policy heterogeneity. What is more, in the few policy areas that are subject to common decision-making, agreements have to be taken by consensus, which tends to promote lowest-common-denominator solutions.

7. CONCLUSION

Summary of Arguments

In this dissertation I have made the case that a theory explaining the impact of decentralization on the welfare state needs to go beyond the national level and must examine the role of regional governments. The multi-level framework I proposed seeks to explain the factors that influence regional governments' social policy choices, how these factors are moderated by the national institutional context, and how regional choices in turn impact national welfare outcomes.

I demonstrate that regional governments play a crucial role in the provision of social services, but do not have much influence over social transfer payments. Social services for which regional governments are responsible include education and healthcare as well as a wide array of other social services that target society's most vulnerable groups. In the 14 OECD countries discussed here most regional governments have the exclusive executive control over the provision of social services, but share legislative power with national governments. They also tend to shoulder the largest financial burden associated with social service provision. During the period from 1990 to 2010 the average regional government spent around 3.65 per cent of regional GDP on education, 3.6 per cent on healthcare, and 2.61 per cent of social welfare. Yet, regional governments in highly decentralized countries spent up to 12 per cent of regional GDP on each policy area.

My quantitative analysis reveals that regional affluence and regional need-based factors have a strong effect on regional social expenditure. The more affluent a region and the higher the need for social welfare – driven by unemployment and a higher share of elderly population - the higher regional per capita spending on social services. At the same time richer regions, while spending more on each individual citizen, will spend a smaller share of their GDP on social services. My findings contradict earlier accounts of regional policy-making that have described it as non-political. I show that left-leaning regional governments place a stronger priority on social service provision and spend more on regional social programs than do right-leaning regional governments.

The level of decentralization strongly influences the impact of regional affluence and partisanship on regional social expenditure. It does however not condition the effect of need-based factors. At higher levels of decentralization regional governments increasingly rely on their own tax revenue, so that regional differences in income matter more for regional social expenditure. The ideological orientation of regional governments also has a stronger effect on regional social expenditure since regional governments enjoy more decision-making leeway at higher levels of decentralization.

The fact that regional context factors have a stronger influence on regional social expenditure at higher levels of decentralization leads to more social program heterogeneity within highly decentralized countries. My results do however also suggest that the link between decentralization and higher within-country variation in social expenditure is not direct. I demonstrate that policy coordination between regional governments counteracts the variation-increasing effect of decentralization. My qualitative analysis confirms the importance of policy coordination. Legislative and executive level coordination provide regional governments with the possibility to find common ground and commit to common policy positions. The qualitative analysis also explores the historical origins of policy coordination institutions. It is not the timing of decentralization and the development of initial social policies that explains the creation of policy coordination mechanisms, but rather whether decentralization processes were primarily driven by regional demands for self-rule.

The only other macro-level institution that can counteract the variation-increasing effect of decentralization is fiscal equalization, although its effect is weaker and less consistent than the effect of policy coordination. The redistribution created by fiscal equalization schemes might be too small to counteract the centrifugal forces of high levels of decentralization.

Theoretical contributions and potential policy implications

What are the boarder implications of my results for welfare state research? I have made the case that there is only limited evidence suggesting that decentralization fuels a downward spiral in regional social provision producing a common trend toward low social expenditure, as some welfare state scholars have feared. Based on the regional social expenditure dataset that I have collected, I show decentralization increases within-country heterogeneity in social expenditure and leads to territorial inequalities in the level and quality of social services. This effect on the welfare state might be equally important or even more important than the relationship between decentralization and slower welfare state development, on which so much of the previous welfare state literature has focused.

The issues touched upon in this dissertation are also politically relevant. They speak to the responsibility of the welfare state to provide welfare across its territory and its goal to avoid territorial inequalities. Increasing regional disparities in social expenditure –caused by differences in regional affluence or by differences in the ideological orientations of regional governments - have direct implications for citizen’s quality of live. Firstly, education, healthcare and social welfare outcomes tend to be better in regions that spend more on social services. How efficiently these funds are used and whether they are directed at policies that are effective in achieving results certainly also matters but most studies find that the overall social expenditure is a relatively good predictor of outcomes (Cooper 2009, Bradley et al. 2011)

Secondly, regional expenditure on social programs also has distributional consequences. A decrease in regional governments' spending on social services disproportionately affects the poor, who are particularly dependent on the public provision of social services. Higher levels of regional social expenditure therefore not only increase the overall quality, but also reduce inequity in education, healthcare and welfare outcomes (Allin 2008).

My qualitative analysis demonstrated that most Scandinavian countries have reacted to increases in within-country heterogeneity by recentralizing. Recentralization is not an option let alone a desirable one in most decentralized countries. Yet, to the extent that political decentralization can be molded by allowing regional governments to coordinate their policies to further rather than undermine equal living conditions, welfare states may be in a position to square the circle.

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