Chapter 1

Introduction

This dissertation provides an analysis of some important consequences of multilevel governance. The concept of multilevel governance refers to the dispersion of political power away from the central state to the supranational (international governmental organizations) and subnational level (regional and local governments) (see Marks et al., 1996). In this doctoral thesis, I explicitly focus on the subnational side of multilevel governance. This provides a conceptually coherent and—given the temporal constraints of a dissertation project—practical frame.

Decentralization has been on the rise for several decades.[1] Today, many countries world-wide have introduced substantial subnational decision-making. For instance, "(...) 13,000 units of local government in Latin America are now elected, compared to 3,000 in 1973 (...)."[2] This process of decentralization has been acknowledged and promoted by international organizations such as the Organization for Economic Co-operation and Development, the World Bank or the European Union as a way to improve the quality of government.[3] Reform programs have introduced and extended multilevel subnational authority in numerous countries over the past decades. Scholars and institutions have engaged in the challenge of measuring and explaining (aspects of) decentralization or federalism.[4]

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[1]http://www.oecd.org/gov/regional-policy/multi-levelgovernance.htm, accessed July 28th 2014.

[2]http://www1.worldbank.org/publicsector/decentralization/political.htm, accessed July 28th 2014.

[3]According to the Vice-President of the European Commission and Commissioner for Inter-Institutional Relations and Administration, Maroš Šefčovič, "Multi-level Governance is a key principle for the good functioning of the European Union (. . .) it's about subsidiarity, which means sharing competences between the EU institutions, the Member states and the regional and local authorities." (http://ec.europa.eu/commission_2010-2014/sefcovic/documents/speeches/2010_10_04_cor_bureau_en.pdf, accessed July 28th 2014). See also the *White Paper on Multilevel Governance* by the European Union Committee of the Regions (http://cor.europa.eu/de/activities/governance/Pages/white-pape-on-multilevel-governance.aspx, accessed July 28th 2014), or http://www1.worldbank.org/publicsector/decentralization/political.htm.

[4]Measures range from dummy variables on the existence of autonomous regions (see, for example, Beck et al., 2001) to the coding of countries along few categories (see, for example, Lijphart, 1999) to detailed information on fiscal decentralization (see the Government Finance Statistics of the International Monetary Fund) and detailed codings of various dimensions of decentralization (see Hooghe et al., 2010, forthcoming).

Yet, until recently, quantitative indicators have been a) partial in their conceptualization of decentralization; b) crude in their measurement and distinction between seemingly similar cases; c) often limited to a small sample of countries; d) limited to the national level. This is where the Regional Authority Index (RAI) by Hooghe et al. (2010) and, updated and extend, Hooghe et al. (forthcoming) greatly improves our understanding of and possibilities for exploring subnational governments: a) the RAI is an encompassing measure capturing fiscal, political, and administrative decentralization which makes it an arguably more valid operationalization of decentralization than other, partial measures; b) because it distinguishes 10 dimensions of regional authority on two domains, it is fine-grained and able to capture even small differences between cases coded identically by other indexes; c) in its updated version, the RAI covers 80 countries between 1950 and 2010 and detects temporal variation that other, constant measures cannot show; d) next to the country-level information, the RAI is also available at the regional level.

Hooghe et al. (forthcoming) and, previously, Hooghe et al. (2010) identify two domains of regional authority: self-rule and shared rule. Self-rule can be broken down into the dimensions of institutional depth, policy scope, fiscal autonomy, borrowing autonomy, and representation. Shared rule manifests itself in the process of lawmaking, executive control, fiscal control, borrowing control, and constitutional reform. Altogether, these dimensions mirror the conceptual distinction of fiscal, administrative, and political decentralization.

Now that such efforts have been undertaken to conceptualize, trace, and explain cross-sectional and temporal variation in regional authority (see Hooghe et al., 2010, forthcoming), one should revisit whether decentralization is indeed as beneficial as advocated and whether this is the case under all circumstances.

1.1   The Consequences of Multilevel Governance and the Methodological Approach

This thesis has an x-centered research design in that it focuses on the effects of regional authority for various outcomes. The chapters provide analyses of the consequences of regional authority for the process of policy-making, the quality of its implementation, and the quality and generosity of its output. Particularly, here, the *process of policy-making* refers to the question whether political decisions are more corrupt in a decentralized setting (chapters 2, 3, and 4). *Quality of implementation* focuses on the extent to which regional self-government affects whether policies are carried out in an impartial manner (chapter 4). The *Output quality* focuses on citizens' perceived quality of government services (chapter 4).[5] *Output generosity* addresses the question whether and how levels of decentralization affect changes in the generosity of (welfare) policies.

The purpose of the articles presented in this dissertation is to apply the Regional Authority Index and to exploit its wealth of information (such as the disaggregation into self-rule and shared rule or the availability of both national-level and regional-level data) in the study of the consequences of subnational multilevel governance. Accordingly, the methodological approach of the following chapters is quantitative, supplemented by real-world examples and stylized facts. I analyze national-level (chapters 2, 3, and 5) and regional-level data (chapter 4), cross-sectional (chapter 4) and pooled time-series cross-section data (chapters 2, 3, and 5). Further, I use linear ordinary least squares (OLS) regression (all chapters) and maximum likelihood estimation (MLE) (chapters 2 and 3), as well as coarsened exact matching (CEM) (chapter 4). More details are outlined in the respective chapters.

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[5]I mention chapter 4 with respect to process, implementation, and output because the pillars of the respective variable on quality of government can be associated accordingly: corruption refers to the process of policy-making, impartiality refers to the quality of policy-implementation, the perceived quality of goods and services provided by the government refers to the quality of the output.

1.2 Outline

The unifying theme of this dissertation is the question how the institutional design of a subnational multilevel system shapes government performance regarding the *process of policy-making* (corruption), its *implementation* (impartiality), and *its output* (quality and generosity of public services). My dissertation addresses this topic following a cumulative model. Each of the chapters represents a self-contained article that has been written as part of my Ph.D. project and that follows the typical structure of a journal article: next to an introductory and concluding section, each chapter offers a review of the literature, outlines a theoretical argument, the research design to test the hypotheses, and presents the results of the empirical analysis.

Chapter 2 (co-authored with Natascha S. Neudorfer) addresses the yet inconclusive debate whether decentralization worsens or contributes to controlling corruption levels. We argue that countries with strong regional self-rule offer more incentives and opportunities to form networks of local collusion leading to higher corruption levels. In contrast, shared rule allows for more oversight on the national level which reduces political corruption. Using a recent dataset on regional authority we test our hypotheses on a sample of up to thirty-six countries between 1984 and 2006 and find robust empirical support for the predicted contrasting effects of regional authority: self-rule enhances and shared rule limits political corruption.

The following chapter 3 (again, co-authored with Natascha S. Neudorfer) takes the argument on the effect of shared rule a step further. We suggest that the effect of regional shared rule on political corruption is conditional on a country's type of political system. Presidentialism requires deal-making and impedes accountability. We argue that under these conditions regional representatives serve as access points for private interests and rent-seeking. Parliamentarism does not provide favorable conditions for corruption. Instead, in countries with a parliamentary system, shared rule contributes to controlling the government. This deters corrupt interactions. The results from a cross-section time-series analysis (69 countries, 1984-2010) support our expectations.

The third of my projects, chapter 4, looks into the nexus between regional self-rule and the quality of government more in general. Quality of government comprises procedural aspects (corruption) as well as the quality of implementation (impartiality) and an assessment of the output (perceived quality of government services). Hence, this change of focus marks the transition from looking at the quality of the policy-making *process* (corrupt or not) to studying its *implementation* (impartiality) and the quality of government *output*. Whereas the two previous chapters analyzed country-level data, here, the level of analysis are *regions* in Europe. Some regions in Europe have a higher quality of government (QoG) than others. I argue that subnational authority, and in particular self-rule, is an important determinant of variation in regional QoG but that its effect is conditional on a regions preconditions: self-rule strengthens the quality of government in regions with a professional administration, little incentives for corruption and functioning anti-corruption mechanisms, while self-rule depresses the quality of government in regions that lack these favorable conditions. I provide empirical evidence (196 regions from 21 countries in 2013) for the conditionality of the effect of regional self-rule on the QoG depending on a region's preconditions.

Finally, after having analyzed the process of policy-making, its implementation, and the quality of its output more in general, chapter 5 focuses on the output of public policy-making in one of the arguably most relevant policy areas: the generosity of a country's welfare provisions. I argue that regional shared rule on the national level provides access points for interest groups to block welfare reform which reduces the size of changes in welfare generosity. Regional governments in states governed by shared rule between the national and the subnational level can exercise considerable influence on national decision-making with regard to law-making, executive control, fiscal control, and constitutional reform. The shared rule of regions on the national level, thus, goes far beyond the distinction between federal and unitary constitutions. This paper argues that countries with strong regional shared rule provide institutional access points to limit welfare policy change on the national level. Additionally, the

multilevel dispersion of authority within states facilitates blame avoidance and, thereby, increases incentives for regional governments to act as veto points. The empirical analysis of data from 18 countries between 1971 and 2002 supports the hypothesis that absolute changes in welfare generosity are smaller in countries with strong regional shared rule. The results are robust to various model specifications.

1.3 The Bigger Picture

Altogether, the research presented in this dissertation corroborates the significance of regional authority for the policy-making process (corruption, chapters 2 to 4) as well as its implementation (chapter 4) and the output from this process (quality, and generosity of public services, chapters 4 and 5).[6] Particularly, the results of all chapters demonstrate that it is essential to disaggregate decentralization (as done in the RAI by Hooghe et al. 2010, forthcoming) rather than to treat it as a unidimensional concept. The distinction between regional self-rule and shared rule is crucial when studying the consequences of regional authority as the two domains can have divergent effects (see especially chapters 2 to 4). Not unpacking regional authority into its domains can lead to confounding results.

The oppositional effects of self-rule and shared rule are robust across the analyses presented in this dissertation and across levels of analysis (national and regional). Yet, the dissertation also demonstrates that the context can decisively change the direction of the effect of a multilevel institutional design on the process (chapters 3 and 4) and output (chapter 4) of policy-making. This, in turn, has significant implications for institutional design and policy-making: regional self-rule can improve a region's quality of government but only when a competent, well-equipped, and controlled administration is in place. Similarly, regional shared rule can reduce a country's

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[6]In order not to overstate these conclusions, I explicitly acknowledge that chapter 4 analyzes the quality of government as a whole and does not separately look at its corruption, impartiality, and quality pillars. Hence, although the dependent variable captures impartiality, I cannot draw firm conclusions with respect to what I have labeled 'implementation' above. Further disaggregating the analysis remains a task for an extension of this chapter or future research.

corruption levels, but it also introduces strong veto-points that can lead to gridlock. Yet, under the conditions of a presidential system, the role of regional representatives as access points for vetoing legislation can induce corruption.