

# The Changing Role of Decentralization in Western European Health Care Systems

Richard B. Saltman, Ph. D.  
Prof. of Health Policy and Management  
Rollins School of Public Health  
Emory University

Research Director and Head  
European Observatory on Health  
Systems and Policies  
Madrid

Decentralization has been a strategic cornerstone of health policymaking in Europe since the 1960s

# In Nordic (tax-funded) countries:

Operating and/or funding responsibility was pushed

- from national to regional level

(Norway: hospitals in 1970)

- from regional to municipal level

(Sweden: elderly residential care in 1992)

- from national to municipal level

(Finland: hospitals in 1993)

In Southern European (tax-funded)  
Countries:

Operating (not funding) responsibility  
was taken from national government  
by regional governments

in Spain (1981 – 2003)

in Italy (1992 – 2000)

# In Continental Europe

(Social Health Insurance countries):

funding and operating decisions were  
officially delegated to  
private/not-for-profit bodies

(enforced self-regulation)  
(statutory responsibilities)

The strategic role of decentralization was reinforced in 1990s as central governments lost power:

- Upward to EU/Brussels
- Downward to regions  
(“A Europe of Regions”)

# Decentralization was seen as good for Health Care Systems:

- Progressive
- Democratic
- Efficient
- Effective

Key Strategic Question  
for Health Care Systems:

Still True?

# Counter-Indications:

- Norway: Re-Centralized  
Operation of Hospitals (2002)
- Denmark: Re-Centralizing  
Health Care Funding (2007)
- France: Partially Centralized  
SHI Premiums with state “Wealth Tax”  
(2001)
- Poland: Re-Centralized Health Insurance  
from Regions (2003)

# This Presentation:

- I. Conceptualizing Decentralization
- II. Re-thinking Decentralization:  
Country Cases
- III. Concluding Observations

# Part I: Conceptualizing Decentralization

Adopt a 3-part functional approach:

- Political
- Administrative  
(New Public Management - part of administrative)
- Fiscal  
(fiscal - part of administrative)

## Political decentralization:

“Democratic” arguments in favor:

- “closer to the people”
- “local democracy”
- “better reflects local will”

(fits with subsidiarity)

## Political decentralization:

“Economic” arguments in favor:

- Competition between different local authorities
- Greater citizen choice (can move)
- Greater efficiency (compete on price)
- Smaller local government  
(reduce bureaucratic empires)

## Political Decentralization

### Potential Problems:

- Equity – suffers from “lack of uniformity”  
(danger of “postcode rationing”)
- Contracting – requires “fully transparent” contracts  
(danger of “local favoritism”)

## Administrative decentralization:

- Reflects 20<sup>th</sup> Century organization theory  
(McGregor, 1954: Theory X/Theory Y)
- Reflects 20<sup>th</sup> Century sociology  
(Crozier, 1963: “permanent group strategies”)  
(Lipsky, 1980: “street level policymakers”)

## Administrative decentralization:

- Reflects 20<sup>th</sup> Century economics  
(Williamson, 1985: “make or buy”)  
(Hood, 1991: New Public Management)
  - Intra-public-sector competition
  - Purchaser-provider split
  - Performance measurement
  - benchmarking

## Administrative Decentralization

### Advantages

- **economically efficient**  
(less rigid/bureaucratic)  
(better use of local resources)

### Disadvantages

- **economically inefficient**  
(duplication of effort)  
(local fraud/deception)

## Fiscal decentralization:

- “Fiscal federalism” developed specifically in United States
  - Musgrove, 1954: “based on Madison”
- Only possible in Federal states
  - (Switzerland, Germany, Belgium, Canada)
  - (constitutional guarantees to regions)
- Not possible in unitary parliamentary states:
  - No constitutional guarantees for regional or municipal government
- Instead: intergovernmental relationships on financial and tax matters
  - Changeable by legislation
  - Changeable by state decree

## Fiscal decentralization:

### Advantages:

- Regional differences better taken into account
- Lower planning and administration costs  
(accommodates overlapping functions)
- Competition among local government favors organizational innovation
- Population mobility narrows gap between local government policy and local community preferences
- More efficient politics as citizens have more influence

(Timofeev)

(public choice theory)

Fiscal decentralization:

Disadvantages/Problems:

- Separates taxing and spending authority in different levels of government  
(bad management control)
- Creates “grants mentality”  
(bitter political disputes)
- Requires well-qualified personnel at local government level

## Summarizing:

- 3 types based on function:
  - political
  - administrative
  - fiscal
- Advantages of each are their disadvantages
  - policy tradeoffs
  - judgment/balance
  - values

# Part II: Re-thinking Decentralization

## – Country Cases

- Nordic
- Canada
- Spain

Case # 1:

A New Nordic Pattern:

Re-assertion of State Control  
over Health Sector

- Re-structured regional level (Norway, Denmark, Sweden)  
(political control)
- Re-centralized hospitals (Norway)  
(administrative control)
- Re-centralized funding (Denmark)  
(fiscal control)

Denmark (2007):

- State takeover of funding from regions
- State re-structuring of regional level from 14 to 5 (operate hospitals)
- New regional level cannot tax

Norway (2002):

- State takeover of hospital ownership
- State re-structuring of regional level from 14 to 5 (operate hospitals)
- Regional level mandated to re-structure hospitals as independent public firms
- Regional level cannot tax (true previously)

## Objectives of Norwegian/ Danish Governments:

- Better equity/access to services
  - reduce waiting lists
- Better cost control
- Re-positioning for
  - globalized economy
  - “Baby Boomer” retirement

## Sweden:

- Regional level combining into “super-regions”  
(3 exist)  
(voluntary)
- State control over “privatizing” hospitals:  
(State Commission)  
(New Legislation)  
(Prohibits Regional level actions)
- State Commission on regional structure  
(sitting)

## Note:

- Nordic States have Unitary Parliamentary Government
  - eg. State can create/eliminate/restrict regional level
- Could not happen in a “federal” state
  - eg. Belgium, Switzerland, Germany
- Hence Nordic States have “intergovernmental fiscal relations”
  - Not “fiscal federalism”

Case #2:

Canada (federal state) finally holds successful state/province negotiations over health funds (Sept. 2004)

- State share rises from 20% to 25% of provincial health expenditures
- 10 year agreement:
  - 14 billion increase over 6 years, plus
  - 6% annual increase for next 10 years

## The Faustian bargain:

Provinces must improve quality and add services

- Reduce waiting lists (greater efficiency)
- Add
  - Outpatient drug coverage
  - Home care coverage (Romanow Report)
- Prohibited from allowing for-profit hospitals

Objectives of Canadian Government:

- Better access/equity
- Better cost control
- New services (drugs, home care)

Case #3:

Spain (unitary parliamentary government) passes budget by avoiding all state/regional issues concerning health sector (Sept. 2004):

- Regional deficits – deferred to next budget
- Operating funds – 9% rise
- No “special section” of budget for Catalonia (as demanded)
- “runaway regional expenditures” on health (continues as before)
- National Cohesion Law (2003) under review (questioning national supervisory role)

Outcome: Deepening state/regional conflict

- National history  
(separate “countries”)
- Weak sitting government  
(coalition requirements)  
(political sympathies)  
(anti-Aznar reaction)

Next year: increasingly bitter dispute  
(?“grants mentality”)

Summary: More State Control

State taking control of funding from regions  
(Denmark, Poland)

State taking operating control over hospitals  
from regions (Norway)

State increasing controls/constraints on regions  
(Sweden, Canada)

State re-structuring regions  
(Denmark, Norway)

(Increased state role in SHI countries)

(Exception: Spain and Italy)

## Observation from Cases II:

- Political decentralization
  - being reversed?
  - equity disadvantages of “local democracy”?
- Fiscal decentralization
  - being reversed?
  - insufficient efficiency
    - “grants mentality” disadvantages of local financial control?
- Administrative decentralization
  - being retained (except Norway)
  - being restructured into large units under closer state supervision

# III: Concluding Observations

## Summing Up I:

What is the long-term institutional balance between decentralization and re-centralization?

Is only administrative decentralization sustainable over the long run?

Will political and fiscal functions inevitably be re-centralized by the state?

Is decentralization of political and fiscal functions no longer viable in health sector?

- Changing medical technologies
- Changing information technologies
- Growing national economic constraints (EU, euro, globalization)

## Summing Up III

Is Southern Europe pursuing political/fiscal decentralization just as Northern Europe re-centralizes political and fiscal control?

Different stage of the decentralization – re-centralization cycle?

An Extreme View:

Is Norway the “wave of the future”:  
re-uniting administrative with political  
and fiscal functions within the  
national government?

(?“tipping point”)

## Summing Up V:

Did Finland finally decentralize  
real authority to municipalities (1993)  
just in time to re-centralize?

Returning to the Key Question:

Is decentralization an end –  
the health policy solution?

Or is decentralization a stage –  
a phase in development  
leading back to political/  
fiscal re-centralization?