

## Decentralization, Subjective Well-Being, and the Perception of Institutions

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### I. INTRODUCTION

The potential implications of processes of decentralization, devolution, and/or federalism have attracted considerable academic and political attention. This is no surprise in a world which has experienced a significant drive towards decentralization in recent decades and where people living in countries with a higher or lower degree of political or fiscal decentralization now clearly outnumber those living in centralised countries.

Most of this interest has been centred on the economic implications of the transfers of powers and resources to subnational tiers of government. Macroeconomic studies have predominated. Whether decentralization has led to greater economic efficiency (Davoodi and Zou, 1998; Thießen, 2003; Rodríguez-Pose and Ezcurra, 2011) or resulted in greater or lower territorial inequality (Gil Canaleta et al., 2004; Ezcurra and Pascual, 2008; Lessmann, 2009; Rodríguez-Pose and Ezcurra, 2010) have been the object of detailed cross-country and country-based empirical analyses. Other studies have looked at the link between subnational autonomy and the European Structural Funds (Bähr, 2008) and between direct democracy and economic performance (Feld and Savioz 1997). Microanalyses on the impact of decentralization have also been on the rise. Sepúlveda and Martínez-Vázquez (2011) have analysed how decentralization

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affects levels of poverty and inequality in a cross-section of countries, while Tselios et al. (2012) have examined its implications for interpersonal inequality across European regions. De Mello (2011) has looked at how decentralization influences social capital.

However, it may be the case that focusing on the implications of decentralization for overall economic growth and territorial disparities, as well as for poverty, interpersonal inequality and social capital could be somewhat missing the point. Decentralization is first and foremost about improving the delivery of public policies and, as a consequence, the level of subjective well-being (SWB) or satisfaction of the population with government. However, the studies dealing with these issues are few and far between. (e.g. Frey and Stutzer, 2000, 2002; Bjørnskov et al., 2008; Voigt and Blume, 2009). To the extent of our knowledge, no paper has analysed how having decision-making and implementation of policies conducted at scales closer to the people affects citizens' satisfaction with democracy, government and the economic situation. The aim of this paper is to cover this important gap in the literature by looking not only at how different levels of decentralization across European countries influence overall life satisfaction, but also at whether decentralization affects the perception of political and economic institutions.

With the goals mentioned above in mind, the remainder of the paper is structured as follows. Section 2 looks at the theoretical links between decentralization and subjective well-being. Section 3 presents the empirical framework and data, while section 4 explains the results of the econometric analysis. Section 5 concludes and raises a number of issues for further research.

## II. DECENTRALIZATION AND SUBJECTIVE WELL-BEING

Frey and Stutzer (2000) differentiate between three sets of sources of individual well-being:<sup>1</sup> a) personality and demographic factors, such as age, gender, level of education, political and religious orientation, size of household, marital or civil status, and level of health; b) micro- and macroeconomic factors, such as income, unemployment and inflation; and c) institutional or constitutional conditions, with democracy and level of subnational autonomy being two of the most important institutional factors.

The vast majority of studies have concentrated on a) personality and socio-demographic traits as determinants of SWB, reconciling psychology with economics (Diener et al, 1999) or on b) economic factors. In contrast, the number of studies concerned with c) how institutional factors affect SWB is extremely

1. These three sources were later expanded to six: personality, contextual, demographic, environmental, economics and institutional factors (Frey and Stutzer, 2002).

limited. The handful of studies devoted to these topics tend to agree that institutions matter for SWB and that life satisfaction is strongly determined by the institutional context (Frey and Stutzer, 2000, 2002; Frey, 2008; Bjørnskov et al., 2008, 2010).<sup>2</sup> Other studies, such as Radcliff (2001), uncover a positive relation between the ideological complexion of government and some features of the welfare state and levels of SWB, while Veenhoven (2000) finds that political and private freedom exert a positive effect on SWB, but only in rich countries. This literature has also underlined that the type of institutions that determine life satisfaction may be influenced by the level of development of a country. Bjørnskov et al. (2010) indicate that while in the case of low-income countries economic and judicial institutions have a greater influence on individual happiness, in medium- and high-income countries political institutions may be more relevant. But beyond these general factors little is known about how institutions actually affect individual life satisfaction.

Given the dearth of institutional analyses of SWB, it comes as no surprise that the link between decentralization and life satisfaction has attracted virtually no attention. Among the less than a handful of authors who have delved into this topic, three studies stand out. First, Frey and Stutzer (2000) carried out a cross-regional analysis for Switzerland. Their analysis found a positive and highly statistically significant effect of institutional factors, such as government initiatives and referenda and local autonomy, on individuals' well-being. Their interpretation was that decentralization led to a closer match between political outcomes and voters' preferences, thus raising SWB. Our paper builds on the research of Frey and Stutzer (2000), by expanding the analysis to the whole of Europe and focusing on the effect of fiscal and political decentralization through specific cross-country measures. Another important addition is that we expand the analysis beyond life satisfaction<sup>3</sup> and consider how decentralization affects the perception of institutions, in general, and satisfaction with democracy, government and the economic situation, in particular.

Bjørnskov et al. (2008) used the world values survey for 66 countries in order to estimate the impact of fiscal and political decentralization on subjective well-being. Their results showed that local budgets and their size mattered for well-being. More recently, Voigt and Blume (2009) find a positive correlation between happiness and federalism in a cross-country assessment.

One of the problems with these analyses is that they make an important leap from decentralization to SWB, without a clear theoretical justification. Although there is no doubt that better-functioning institutions may have an impact on overall individual life satisfaction, the effect is bound to be indirect

2. Frey (2008) reviews and discusses the role of institutions, such as representative and direct democracy and federalism on happiness in considerable detail.
3. In this literature, the terms life satisfaction, happiness or SWB are usually interchangeable.

rather than direct: if local and regional governments are more responsive to the needs of local citizens than national governments, they will deliver public goods and services more efficiently, leaving citizens more satisfied with public policies and thus with their governments and with their level of democracy. And greater satisfaction with these aspects may result in greater happiness. That is, SWB may be an indirect cause of decentralization, with better policies and the resulting greater citizen satisfaction with policies being the direct consequence. Yet, whether decentralization leads to greater individual satisfaction with aspects that are directly related to the effectiveness, or lack of it, of the policies implemented by decentralized governments has been completely overlooked by the literature.

The reasons for this absence are twofold. First, while the information of SWB has kept on improving in recent years, similar information on individual satisfaction with political institutions and the effectiveness of policies has been more limited. Second, the theoretical links between local autonomy, satisfaction with political institutions and SWB are still underdeveloped. We address the former issue by resorting to information on personal satisfaction with policy and politics and life satisfaction from the European Social Survey (ESS). But before jumping into the analysis, the latter shortcoming needs to be discussed.

As highlighted by Bjørnskov et al. (2008: 147), the arguments about whether local autonomy leads to greater satisfaction with public policies, in particular, and political and economic institutions, in general, are closely related to the general arguments for and against decentralization. Both positive and negative arguments are linked with the fundamental change in scale for the delivery of policies that greater local autonomy entails (Eichenberger, 1994). Changing the scale leads to a better matching of the delivery public goods and services to the needs of citizens and, *ceteris paribus*, to greater satisfaction with policy (Tiebout, 1956; Klugman, 1994). It also engenders greater competition among local governments to deliver better goods and services (Hayek, 1939; Tiebout, 1956). The possibility of people 'voting with their feet' (Tiebout, 1956) and the lower cost of migration across local and regional jurisdictions within a country act as an incentive for governments to both respond better to the demands of citizens and to improve the policy delivery. Local governments, in their quest to be more responsive, are bound to be more creative and innovative in pursuing policies that satisfy the needs of their citizens (Oates, 1972; Donahue, 1997). Successful innovations in one territory can then be transferred and adapted to the needs of local citizens in other locations (Donahue, 1997).

Last but not least, enhancing local autonomy implies greater accountability and transparency of government. It also gives individuals voice and a greater chance to participate and influence the design and implementation of policies. Citizens can interact more with governments and better scrutinize their actions,

bringing governments and those governed closer to one another (Putnam 1993). Decentralization also reduces transaction costs and, provided well-functioning institutions, it may also reduce the risk of elite capture of rents (Inman and Rubinfeld 2000; Storper 2005).

The other side of the coin is, however, that while decentralization may set free a number of mechanisms likely to enhance citizen satisfaction, it may also trigger other processes that could undermine satisfaction with politics and policy it aims to achieve. As Prud'homme (1995) underlines, the supposedly greater capacity by local governments to adapt their policies to local needs may just simply be a pipe dream. Two reasons are behind this potential incapacity of local governments to better respond to citizens' demands. First, individual needs and wants may not vary significantly from one place to another. As Prud'homme underlines, local governments may end up having to satisfy basic needs "which are – at least in principle – quite well known" (1995: 208). The needs of access to food, a decent education, adequate health care, basic infrastructure and basic services are universal and unlikely to change across territories. Hence, in trying to satisfy these needs, local governments may be at a disadvantage with respect to national governments, as they may lack the economies of scale, the resources or the capacity – or, often all three of them – to address all basic needs adequately, resulting in lower satisfaction with decentralized governments.

Local governments in lagging regions may also suffer from capacity constraints. Poorly trained decision-makers and officials may undermine the capacity of local governments (Prud'homme, 1995). Capacity constraints will thus not only reduce the potential satisfaction with the policies local governments deliver, but may also contribute to facilitate special-interest capture by local elites, further limiting the potential of local policies to reach as wide a section of the local population as possible (Inman and Rubinfeld, 2000; Storper, 2005).

Whether the positive or negative mechanisms which affect a citizen's level of satisfaction with policy and political institutions in a decentralized setting prevail depends on one key additional factor: whether the resources of local governments match their needs. The frequent mismatch between the powers of local governments and the resources at their disposal, especially in cases where decentralization has been promoted 'from above' – that is by the central government, rather than by local demand – will contribute to an inadequate delivery of goods and services. 'Unfunded mandates' are likely to dent the levels of citizen satisfaction with local governments. It is therefore important to distinguish between the political powers of decentralized governments (political decentralization) and the funds to implement independent policies (fiscal decentralization), as they are not always correlated and have important implications for the level of satisfaction with decentralization.

### III. EMPIRICAL FRAMEWORK AND DATA

In order to determine whether decentralization leads to a greater or lower citizens' satisfaction, our analysis examines how cross-country differences in political and fiscal decentralization (key independent variables) affect the level of satisfaction of individuals with democracy, government, the economic situation and life satisfaction (dependent variables).

#### *1. The dependent variables: life satisfaction and satisfaction with institutions and policy*

Our dependent variables stem from the four available waves (2002, 2004, 2006 and 2008) of the European Social Survey (ESS). This cross-national survey aims to create a standard methodology for cross-national attitude surveys. Its main focus are people's attitudes and underlying values, but it also contains a number of social background variables on individuals, as well as on their partners and parents. The ESS consists of regular 'rounds' of data collection, with each round involving an independent cross-sectional sample in each nation. The target population for each participating nation is defined as all adults (15 years or older) resident in private households within the borders of the nation, regardless of nationality or citizenship. The ESS covers 30 (mostly) European countries. We pool the four available waves of the ESS in order to maximize the number of observations by country and introduce also a temporal dimension to the data.

Among other information, the ESS includes basic socio-economic and demographic background information, as well as some questions regarding satisfaction in different domains. We use these variables to measure the impact of government decentralization on individual SWB. More specifically our outcome variables regard the following satisfaction domains: life satisfaction, present state of the economy, satisfaction with government and satisfaction with democracy. Elicited individuals' responses are based on an eleven-point scale where 0 means extremely bad/dissatisfied and 10 means extremely good/satisfied.

A descriptive analysis of the satisfaction variables reveals that the five Nordic countries plus Switzerland report the highest levels of SWB. There is a significant number of countries with a low level of SWB, i.e. average scores below seven. These countries are in Southern – with the exception of Spain – and Eastern Europe. Looking at the satisfaction with government and other institutional domains, we can distinguish between two groups of countries. One group is made of countries where citizens exhibit a high degree of satisfaction with institutions. This group encompasses, once again, the Nordic and Western European countries. At the opposite end, we find Eastern European countries, plus Portugal.

## 2. Main independent variables: decentralization

The decentralization variables are divided, following the theoretical discussion, into political and fiscal decentralization variables. They stem from two different sources. Political decentralization indicators are taken from Hooghe et al.'s (2008) Regional authority index (RAI). The data cover 42 countries for the period 1950–2006. The RAI is measured along eight dimensions, covering different aspects of decentralization. The two variables used in this paper are *self-rule* and *shared-rule*. The first captures the authority exercised by regional governments over those who live in the region, while the second measures their authority over national politics and policy as a whole.

Fiscal decentralization data consist of indicators calculated as the ratio between subcentral and general economic magnitudes. These are yearly indicators for the period 1972–2005. The source of these variables is the Government Finance Statistics of the International Monetary Fund. We use five indicators covering the following economic dimensions at a subnational level: total expenditure, current expenditure, capital expenditure, total revenues and tax revenues. In order to test the impact of decentralization on an individual's subjective well-being (SWB), we match the ESS with the decentralization variables.

## 3. Empirical framework

In our econometric analysis we resort to the use of pooled cross-sections referring to different years. This approach allows us to introduce a temporal dimension in the empirical model. An economic or institutional shock in a country in a given period of time may cause a change in the self-perception of an individual's well-being or of the state of public institutions. This shock will remain unobservable and may bias the estimated effects of the country level indicators on the outcome variables, turning statistically significant effects into insignificant ones. One way to take into account these changes in the self-perception of an individual's well-being, and hence of smoothing the potential bias they may cause on the estimated parameters, consists of including the temporal dimension in the model. This implies introducing not only specific country effects, but also specific time effects, making the decentralization measures vary by country and year.

We thus consider that the propensity in a period  $t$  of individual  $i$  residing in country  $c$  to report a specific SWB status or self-perceived state of an institution is determined by the following linear relationship:

$$S_{ict}^* = \beta' X_{ict} + \gamma' Z_{ct} + u_{cr} + d_t + \varepsilon_{ict} \quad (1)$$

where  $S_{ict}^*$  is a latent outcome,  $X_{ict}$  are a set of individual's characteristics,  $Z_{ct}$  are the country-specific variables,  $u_{cr}$  are country-region specific effects and  $d_t$  are time specific effects,  $\varepsilon_{ict}$  is a random error term, and  $\beta$  and  $\gamma$  are a set of parameters to be estimated.  $u_{cr}$  is necessary not only to identify the effect of the specific-country variables,  $Z_{ct}$ , but also to control for unobservable factors that are correlated with the variables included in the regression. We prefer country-region rather than country-specific effects, since the former also take into account intra-country variation. Given the ordinal nature of our dependent variables, a natural candidate to estimate equation (1) is the ordinal probit/logit model. However, we believe that moving to a linear framework by using the Probit Ordinary Least Squares model (POLS) is more convenient,<sup>4</sup> as we are not interested in a precise estimation of the size of the effect, but in its existence, statistical significance and direction (positive or negative). Furthermore, a linear framework, rather than an ordinal one, allows us to obtain consistent estimates of equation (1) by allowing the consideration of country-region fixed-effect.<sup>5</sup>

In order to get efficient estimates, we cluster at the country-region level, which takes account of intra-group correlation, but equally corrects for heteroscedasticity. In equation (1), the covariates contained in matrix  $X_{ict}$  are a set of individual characteristics, including the squared polynomial of age, gender, education level, citizenship, self-reported health, religiosity, left-right political position, marital status, feeling about household income, employment situation and household size. The country-specific variables in  $Z_{ct}$  are the decentralization measures described previously plus a set of variables picking up the economic and political environment of the country. These include GDP per capita, inflation rate, aggregated unemployment rate, position of the country in the corruption ranking, and total government spending. The latter variable is considered as a proxy of public sector size. The decentralization variables enter equation (1) separately one by one.

#### IV. RESULTS OF THE ANALYSIS

Table 1 reports the results of the estimation of equation (1) for our four outcome variables: life satisfaction on the one hand, and satisfaction with the overall economic situation, government and democracy, on the other. Individual controls, which are not displayed in table 1, are virtually all statistically significant

4. This framework involves the transformation of the observed ordinal outcome  $S_{ict}=j$  as  $\ln(Z_{ict}) = [\phi(\mu_{j-1,ict}) - \phi(\mu_{j,ict})] / [\Phi(\mu_{j,ict}) - \Phi(\mu_{j-1,ict})]$ , where  $\phi(\bullet)$  and  $\Phi(\bullet)$  are the normal density function and the cumulative normal distribution, respectively. This approach enables moving from the ordinal probit framework to the simple linear OLS approach without any loss of efficiency (Van Praag and Ferrer-i-Carbonell, 2006).
5. We use the 'within' estimator, which subtracts group averages from the dependent and explanatory variables.



and, by and large, reproduce those of previous empirical analyses, underlining the robustness of the exercise. Therefore, in this section we will focus on the effect of the country level variables, i.e. economic and decentralization variables.

Concerning the country-level macroeconomic indicators, our estimations show that total government expenditure does not have a statistically significant effect on SWB. This result contrasts with Bjørnskov et al (2008), who found a negative impact on happiness, and with Hessami (2010), who, by contrast, reported a positive effect.<sup>6</sup> Government expenditure has, however, a significant negative impact on satisfaction with the economic situation, government, and democracy. The overall national unemployment and inflation rates have, as expected, a negative impact in all our outcome variables (Table 1). Living in a richer country does not lead to greater life satisfaction, confirming Easterlin's (1974 and 1995) paradox. National GDP per capita is only significantly – and negatively – associated with satisfaction with the economic situation. Finally, corruption levels significantly lower life satisfaction, as well as satisfaction with democracy, government, and the economy (Table 1).

Regarding our key variables of interest – fiscal and political decentralization – the results indicate that decentralization matters for SWB, but that its association with the satisfaction of individuals with institutions is more ambiguous.<sup>7</sup> Giving more fiscal and political powers to decentralized governments leads, once everything else has been controlled for, to more satisfied citizens. Four of the five fiscal decentralization variables and political self-rule are significantly and positively associated with life satisfaction. Only subnational total expenditure, among the fiscal decentralization variables, and shared rule, among the political decentralization indicators, are statistically insignificant (Table 1).

However, while decentralization may increase the overall level of life satisfaction, it does not always lead to more satisfied citizens with political institutions. From a fiscal decentralization perspective, the results differ depending on whether we consider the expenditure or revenue side of decentralization. By and large, citizens are satisfied with the capacity of their local governments to

6. Bjørnskov et al (2008) used one wave of the World Values Survey, while Hessami (2010) used a pool of the Eurobarometer Surveys Series.
7. While in any regression analysis the issue of causation is bound to be problematic, in SWB research scholars have traditionally approached the question by asking themselves whether more satisfied citizens would choose a decentralized system, while unhappy ones would prefer a centralized one (Bjørnskov et al. 2010). Given the greater stability of decentralized institutions over time – even in a period of a drive towards devolution such as the one covered in this analysis – than that of the life satisfaction indices we use, the possibility of reverse causation is extremely unlikely. This suggests, as stated by previous research into decentralization and SWB (e.g. Frey and Stutzer, 2000; Dorn et al., 2008), that “causality runs unambiguously from direct democratic rights to satisfaction with life” (Frey and Stutzer, 2000, p. 927). In addition, by introducing a fixed effects estimation which includes not only specific country effects, but also specific country-time effects in order to control for unobserved heterogeneity across countries and time-periods, the fact that decentralization factor scores are robust, limits any potential biases linked to endogeneity and omitted variables (see also Bjørnskov et al. 2010).

Table 1  
 Econometric estimates of satisfaction equations

	Life satisfaction	Satisfaction economic situation	Satisfaction with government	Satisfaction with democracy
<i>National Indicators</i>				
Government size	0.0045	-0.1925	-0.0995	-0.0287
	0.65	-11.55***	-5.85***	-2.57***
Unemployment rate	-0.0529	-0.1367	-0.0818	-0.0721
	-9.62***	-11.83***	-4.79***	-6.31***
Inflation rate	-0.0278	-0.1257	-0.1052	-0.052
	-3.38***	-5.69***	-4.59***	-3.46***
GDP per capita	-0.0029	-0.0493	-0.0052	0.0102
	-0.5	-3.45***	-0.36	1.08
Corruption	-0.0299	-0.127	-0.1686	-0.0788
	-2.34***	-4.14***	-3.94***	-2.72***
<i>Fiscal decentralization</i>				
Subnational Total Expenditure	-0.0068	0.024	0.0769	0.0456
	-0.82	1.33	4.02***	3.37***
Subnational Current Expenditure	0.0255	0.0027	-0.0233	0.0094
	2.79***	0.15	-1.4	0.75
Subnational Capital Expenditure	0.0215	0.0416	0.0164	-0.0008
	3.42***	3.01	1.1	-0.08
Subnational Total Revenue	0.0344	-0.0561	-0.1677	-0.023
	2.66***	-2.00**	-4.73***	-1.08
Subnational Tax Revenue	0.0222	-0.0941	-0.074	-0.0306
	2.15***	-4.48***	-2.87***	-1.64*
<i>Political decentralization</i>				
Self rule	0.1865	-0.6203	-1.0378	-0.3041
	2.30***	-4.42***	-5.53***	-2.72***
Shared rule	0.1417	1.6712	2.9905	-0.6928
	0.57	2.06***	3.24***	-1.29
Constant	7.1066	17.5029	11.6449	8.0338
	13.86***	14.08***	14.08***	8.01***
N	103,601	112,735	112,898	110,895

Notes: Estimates include individual controls: age, age squared, gender, education, citizenship, self-reported health, religiosity, left-right political scale, trust, marital status and work status. Coefficients are estimated using a linear fixed-effects model. Standard errors are clustered at country-region level. Significant at \*\*\*1 percent, \*\*5 percent and \*10 percent level.

expend. Increases in subnational total expenditure seem to trigger greater satisfaction with government and democracy (Table 1). There is, however, no discernible impact on the levels of satisfaction with the economic situation. Different types of subnational expenditure are weakly associated with changes in levels of satisfaction, although citizens seem to prefer increases in current expenditure by local governments to increases in capital expenditure. It may therefore be no coincidence that decentralization processes in Europe and elsewhere in the world have led to increases in current expenditure at the expense of capital expenditure (Rodríguez-Pose et al., 2009).

On the revenue side, the panorama is very different. European citizens get little satisfaction from local governments with greater capacity to raise revenues. The revenues of local governments as a percentage of total revenues are negatively and significantly correlated with satisfaction with government and the economic situation. European citizens seem to dislike local and regional taxation more than anything. The greater the capacity to tax by subnational governments, the lower the satisfaction with democracy and, especially, with government and the economic situation. The association between political decentralization, on the one hand, and life and institutional satisfaction, on the other, also delivers some interesting results. First of all, political decentralization triggers greater life satisfaction, once a whole raft of individual and macroeconomic indicators are controlled for. This positive connection stems more from the political capacity of autonomous governments to design and implement local policies and to provide local public goods and services (*self-rule*) than from their capacity to influence national politics and policies (*shared rule*) (Table 1). Citizens also cherish the lobbying capacity of local and regional governments at the national level. The greater the capacity of autonomous governments to influence national politics and policy, the greater the satisfaction with government and the economic situation. However, having the political power to implement policies does not always reward subnational autonomous governments. Although citizens may appreciate the capacity of local governments to deliver better public goods and services, greater self-rule reduces the levels of satisfaction with democracy, government, and the economic situation (Table 1). Locals are therefore not uncritical of the powers and actions of local governments and are willing to treat local decision-makers as harshly – if not more – as national ones.

The combination of the positive effect of certain political and fiscal decentralization variables on life satisfaction and the satisfaction with the institutions considered is an interesting one. Citizens appear happy and satisfied not only with the transfer of resources, which indicates the capacity of local governments to implement policies, but also with the ability to conduct specific policies and deliver specific goods and services at the local level, represented by the transfer of powers to subnational governments. However, the overall satisfaction that local government may bring does not represent a blank cheque for autonomous

subnational governments, as greater autonomy may, under specific fiscal and political decentralization conditions, lower the levels of satisfaction with democracy, government, and the state of the economy. Overall and, as with any other government, citizens seem to be more satisfied with the more concrete and actual capacity of their local governments to deliver efficient policies than with the abstract idea that they can have a say on their daily politics and policies.

## V. CONCLUSIONS

This paper has tackled a number of black boxes about the influence of decentralization processes. First, it represents a step beyond the studies about the macroeconomic and territorial impacts of decentralization which have dominated analyses of fiscal decentralization. Second, it has delved into the little known world of the institutional conditions influencing SWB, which had been obscured by the prominence of analyses focused on personal, socio-demographic and micro- and macroeconomic factors. Third, it goes beyond the point, underlined by Frey and Stutzer (2002), that life satisfaction is much more than personal issues, by paying attention to the distinction between overall SWB and the level of satisfaction with political institutions and policy. This implies taking into account that changes in the satisfaction with political institutions ultimately contribute to enhance or dent overall life satisfaction. It also resorts to the use of a temporal dimension in order to consider any potential shocks that may affect the self-perception of an individual's well-being. Finally, it distinguishes between the political and fiscal dimensions of decentralization – and among its various constituents – in order to present a fuller picture of the mechanisms at work in determining the satisfaction with changes in the dimension of political institutions.

The results highlight that both political and fiscal decentralization matter. On the whole, decentralization matters positively for the satisfaction of individuals with political institutions. This represents an important contrast to the traditional analyses of the macroeconomic implications of decentralization, which tend to point to an either negligible or negative influence of decentralization on factors such as economic growth and productivity, fiscal policy or government effectiveness (e.g. Voigt and Blume, 2009; Rodríguez-Pose and Ezcurra, 2011; Feld and Schnellenbach, 2011). The results also signal that many of these studies may be somewhat off-focus, as the ultimate goal of decentralization is not necessarily to accomplish better aggregate economic outcomes, but to improve the delivery of policies and services and to make citizens more satisfied. Whether this leads to better macroeconomic outcomes will then depend on the actual capacity of local governments to deliver. This subtle distinction is captured in the analysis by the results of the different political and fiscal decentralization. Citizens are generally satisfied with the thought that decisions can be taken by governments

closer to them, but their actual capacity to implement policies efficiently is even more important for their personal satisfaction. However, the greater satisfaction with decentralization does not give to local and regional governments *carte blanche*, as citizens seem more than ready to criticise subnational governments in basic aspects, such as the state of democracy, the satisfaction with government, and the satisfaction with the economic situation, if they fail to deliver.

The analysis also raises a number of interesting issues that will need to be tackled as the conceptual tools and the data improve. Although we capture some temporal dimension, the analysis is not a true panel. Improvements in the collection of data on personal satisfaction and the generation of true panels will certainly put our results to the test. We also consider that disentangling the mechanisms through which institutional satisfaction is linked to life satisfaction will require greater detail with more suitable data. In any case, we believe that our results can set the bases for a greater scholarly and policy concern with a capital aspect of decentralization which has so far been neglected by most traditional studies on the transfer of powers and resources to subnational tiers of government.

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## DECENTRALIZATION, SUBJECTIVE WELL-BEING AND THE PERCEPTION

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### SUMMARY

This paper analyses whether the different powers and resources at the disposal of local and regional governments across Europe deliver greater satisfaction with political institutions and lead to greater life satisfaction. The analysis uses microdata from the four available waves of the European social survey (2002, 2004, 2006 and 2008), including more than 160,000 observations of individuals living in 29 European countries. Our results reveal that fiscal and some forms of political decentralization have a positive and significant effect on the overall subjective well-being of individuals. However, fiscal decentralization has a different effect on the perception of institutions depending on whether we consider subnational expenditure or revenues. Similarly, the effect of political decentralization on the level of satisfaction with institutions also varies depending on whether the capacity of local governments to influence national politics or to exert authority over their own citizens is considered. The results also show that citizens seem to be more satisfied with the actual capacity of their local governments to deliver than with the general principle that they can have a say on their daily politics and policies.