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Devolution as a means to adequate social safety nets?

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Abstract

Decentralisation is invariably among the recommendations that international organisations such as the World Bank make for an enhancement of social provisions, and particularly a better targeting of social assistance regimes, in Eastern and Central Europe. However, theoretical literature as well as empirical research suggests that decentralisation is not by definition a panacea, especially when it concerns the transfers of competencies in the matter of social protection systems. It is true that there are arguments to promote redistributive activity at lower levels of government but which regard to policies aimed at redistribution and reducing poverty (and welfare generosity) the assumption that redistribution is best organised at the central level is rather dominant. Fundamental constraints on redistribution by lower level governments would -according to this line of reasoning- facilitate a 'race to the bottom'. This paper investigates the relationship between the generosity of social assistance benefits and several dimensions of decentralisation (the administration, decision-making and funding of social assistance schemes) at two levels of government (the substate and the local level) in 21 OECD countries by means of a fuzzy set analysis. The results indicate that social assistance benefits are more adequate in countries where the decision-making, funding and administration of social assistance schemes is controlled by the central government and in countries where central or substate governments set the basic social assistance rates and housing benefits while sharing funding liabilities with the local government level. When Central and Eastern European countries opt for decentralisation as an instrument of poverty alleviation – through a better targeting of benefits –, prudence is called for the fact that there might be a trade-off between the transfer of competencies to lower levels of government and the generosity of welfare programmes.

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1. Introduction

Until the late 1980s, the main instrument of minimum income protection in Eastern and Central European countries was near-universal employment at low pay accompanied by work-based welfare systems, together with subsidised prices and services. It was only in the 1990s, when the transition from communism to a market economy was resulting in unprecedented levels of unemployment and poverty, that non-contributory social safety nets were introduced to supplement the existing labour-centred social security systems. In other words, the social assistance regimes of Central and Eastern Europe are still very young, and benefit entitlements are low, often well below the poverty line (Cantillon et al, forthcoming).

Another important legacy of the socialist era is a tradition of centralised policy-making that leaves little room for local anti-poverty initiatives. Decentralisation is invariably among the recommendations that international organisations such as the World Bank make for an enhancement of social provisions, and particularly a better targeting of social assistance regimes, in Eastern and Central Europe (Dillinger, 1999; Litvack et al, 1998; Kaiser, 2006; World Bank 2007). Many countries have in the past decade indeed implemented significant reforms of their intergovernmental fiscal frameworks and public administrations with a view to increasing the role of local governments in social services (World Bank, 2007). However, research suggests that decentralisation is not a panacea. Hölsch and Krause (2004), in a study into the relationship between the degree of decentralisation and poverty reduction through social assistance in five countries, find that social assistance schemes with a medium degree of decentralisation (France, Germany and Finland) are indeed more effective in alleviating poverty than either extremely centralised (UK) or extremely decentralised systems (Italy).

This paper considers the relationship between the level of government where social assistance is organised and the generosity of the ultimate safety net of universal or general social assistance. In their typology of social assistance systems, Eardley et al (1996) define general social assistance benefits as means-tested benefits for all households under certain income threshold, irrespective of whether they belong to specific population groups, such as the elderly or the disabled. We intend to ascertain whether the way competencies are divided between central government on the one hand and substate and local government

on the other is important to the degree in which minimum income protection is socially effective. To this end, we rely on OECD estimates of the guaranteed net minimum income for four hypothetical household types under a universal social assistance scheme.

The paper is organised as follows. Section 2 explains why the decentralisation of social assistance schemes is considered as a necessary condition for effectively combatting poverty in the case of Central and Eastern European countries. Subsequently, section 3 summarizes the advantages and disadvantages of a transfer of competencies in the field of redistributive and anti-poverty policies as mentioned in the theoretical literature. A definition of decentralisation and its different types are given in section 4. Section 5 deals with the different ways in which competencies on the subject of social assistance are organized in 30 OECD countries. Section 6 contains some methodological notes while the empirical results are presented in section 7. Section 8 concludes with a brief discussion.

2. Social assistance programmes in the Central and Eastern European Countries : decentralisation as an instrument of targeting

In Central and Eastern Europe, basic social assistance safety nets to supplement labour-centred social security were developed only recently. Until the late 1980s, the main instrument of minimum income protection in Eastern and Central European countries was near-universal employment at low pay accompanied by work-based welfare systems (e.g. public pensions), together with regulated and subsidised prices (of food, clothing, housing etc.) and services (e.g. (nearly) free health care and education). For those incapable to take active part in the working life social assistance systems provided a safety net (Cerami, 2005). However, as Milanovic (1995) states, neither in terms of its size nor the concentration on the poor did social assistance have the role that it typically has in the West. In most of the Central and Eastern European countries social assistance was relegated to a subsidiary role. On the one hand, this was due to the fact that poverty was not (at least officially) widespread ; on the other hand there was little sympathy for the poor as such (Milanovic, 1995). Policymakers saw poverty as a social pathology – experienced by individuals who for some reason were unable to work. Highly selective and stigmatised services were developed to cater for them (Cantillon & Van Mechelen, forthcoming).

With the transformation from central planned to market economies, social assistance schemes became increasingly important as a part of the Central and Eastern European social protection systems. The schemes were meant to meet the new emergent needs caused by the deterioration of the economic situation (Cerami, 2005). The process of transition took place against the background of an unfavorable economic climate and political and economic forces arguing (under the influence of recommendations by international organisations like the IMF, World Bank and the OECD) for neoliberal restructuring (privatization, elimination of enterprise subsidies etc.). Hence, structural reforms were taking place within the framework of declining economic output, tight macro economic policies and severe austerity measures (Boeri & Keese, 1992 ; Czike et al., 2002). Because of i) massive job losses (and unemployment) due to profound economic and labour market changes and ii) a considerable decrease of the living standard of many households as a result of the removal of indirect subsidies which made consumer price rise considerably (World Bank, 2004 ; Milanovic, 1995), significant parts of the population faced a deterioration of their socio-economic situation. This was true all the more because old state-run protection and services were disappearing. After all, (neoliberal) restructuring also meant curtailing social spending. Social policy as it existed under communism was considered rather excessive and too costly (Cerami, 2005 ; Czike et al.). Diminished financial capacity made it hard to continue providing the same level of social provision as in the pre-transition era and as a result the existing welfare institutions were dismantled and subsidies for utilities in general withdrawn.

Because of the developments mentioned, the transition created unprecedented levels of post-war poverty. In response to the increasing poverty levels, non-contributory social safety nets were introduced in the 1990s to supplement the existing labour-centred social security systems of which the coverage is very low, due to the growth of employment in the informal economy, that does not offer any social security protection.

Today, in most of the CEE countries the right to a guaranteed minimum subsistence is defined by the constitution or by consequent laws (Cerami, 2005). One of the key features of the social assistance schemes in these countries is the establishment of a Minimum Income Level (also called Guaranteed Income Level) as a poverty threshold. All households and citizens that find themselves below the poverty line established by law have the right to social assistance benefits. These provisions can take the form of cash, in-kind benefits or services. The amount is

calculated as the difference between the official subsistence level and the family or individual disposable income.

However, the market-oriented reforms and the consequent increase in the number of poor people has placed the social assistance schemes under great financial pressure. These kind of 'final' safety-nets have been called to limit the negative effects of reforms carried out in other sectors (Cerami, 2005) and national governments have found themselves urged to carry out reforms because of budgetary constraints. The central issue in these reforms of social assistance has become how to improve targeting. As Milanovic asserts (1995), 'if poverty is on the rise and money is scarce targeting is the only option'.

In order to enhance a better targeting of social assistance regimes in Eastern and Central Europe, international organisations such as the World Bank argue strongly in favour of the decentralisation of existing social assistance programmes (Dillinger, 1999; Litvack et al, 1998; Kaiser, 2006; World Bank 2007). Many countries have in the past decade indeed implemented significant reforms of their intergovernmental fiscal frameworks and public administrations with a view to increasing the role of local governments in social services (World Bank, 2007). Today, most Eastern European social assistance schemes are regulated at the national level, although the decision-making powers of local governments have already become more substantial. For example, in Poland national legislation defines minimum and maximum benefits, but it is up to local Social Assistance Centres to decide how much a particular family should receive (OECD 2004). Further decentralisation is on the political agenda, as it is in Slovakia (*World Bank* forthcoming). In Latvia, the nationally established Guaranteed Minimum Income is merely a basic rate and municipalities are free to increase benefit amounts in accordance with local needs and financial possibilities (Gassmann 2005). The case of Latvia illustrates quite clearly the risks associated with decentralising both financial responsibilities and power of decision on social assistance schemes: the deprived regions, where poverty is most widespread, are least able to provide an adequate safety net (*World Bank* forthcoming).

Yet, the theoretical literature as well as empirical research suggests that decentralisation is not by definition a panacea, especially when social assistance schemes are meant as an important instrument for combating poverty. Hölsch and Krause (2004), in a study into the relationship between the degree of decentralisation and poverty reduction through social assistance in five countries,

find that social assistance schemes with a medium degree of decentralisation (France, Germany and Finland) are indeed more effective in alleviating poverty than either extremely centralised (UK) or extremely decentralised systems (Italy).

3. Advantages and disadvantages of transfer of competency : the theoretical literature and empirical evidence

3.1 Theoretical framework

A significant amount of economic and political literature is available on the potential relationship between the level where redistribution is organised and (re)distributive outcomes (through the generosity of welfare programmes and/or the redistributive capacity of tax systems).

In recommending a decentralisation of social security services in Central and Eastern Europe, the World Bank refers to an argument that is frequently encountered in the theoretical literature on the possible benefits of power transfer to lower levels of government: it is hypothesised that transferring competencies (including in the realm of social policy and social security) to local authorities creates more room for a policy that meets the needs and requirements of various local entities (Jung, 2005: 3, Bertels, 1994 : 156). The underlying assumption is that, as far the needs and preferences of the citizenry is concerned, there may be significant differences within a country between various local entities. Being 'closer to the people' (Masayoshi, 2004 ; Faguet, 1997), local authorities are more aware than central government of the needs and preferences of residents in their own jurisdiction. Consequently, local authorities are able to be more responsive to those needs and they are better placed to design programmes and services which suit the preferences of local residents (Masayoshi, 2004 ; Prud'homme, 1995). In other words, at a local level, programmes and services are more easily tailored to the requirements of local residents and issues¹ (De Vries,). Moreover, local governments may be more efficient in administering the programmes, as they may be better informed than the central authorities of practical circumstances affecting the local implementation of policies (Begg et al., 1993). It is also argued that not only do local authorities possess more adequate knowledge to respond to local needs, but, for reasons of accountability, they are

¹ "Local solutions for local problems" (Miller, 2002)

also more readily inclined to take into account citizens' needs and preferences when outlining policy. After all, decentralisation permits decision-makers in decentralised units to be held directly accountable to the local citizenry through local elections (Faguet, 1997).

The recommendation of the World Bank for social services to be decentralised also finds substance in other theoretical arguments. Besides allowing for a better alignment of policy to local needs and preferences, a decentralised approach (including in relation to social services) is said to create more room for policy innovation and experimentation. This argument is commonly heard in the context of federal states and is hence often referred to as 'laboratory federalism'². According to this view, federalism provides fertile conditions for policy innovation because it creates, at the lower level, multiple governments any one of which might take the lead in experimenting with new solutions; it can thus unleash policy innovation on a local level that would not win sufficient support on a national level (Hueghlin, 2006). Once given policies have been shown to work, one may see a *demonstration effect* whereby new policies (or policy models) are taken up by other decentralised units (sometimes resistant jurisdiction) or by the central government. (Hueghlin, 2006). However, this argument is not restricted to federal states: it may in fact hold for any country where both policy-making and implementation are transferred to lower levels of government.

A better alignment of policy to local needs and preferences and the creation of room for innovation and experimentation are commonly heard arguments in favour not only of power transfer in the field of social security services, but of decentralisation in general. An argument that *is* specific to power transfer in social security (particularly in the context of redistribution of wealth) concerns the aspect of solidarity: solidarity, so it is claimed, is greater within small (homogenous) entities than in large (heterogeneous) ones. In order for (generous) redistributive schemes to work, citizens must feel mutual commitment and a willingness to participate in insurance and redistribution (Making Sense of Subsidiarity). Especially those who are net contributors must feel strong solidarity with the beneficiaries (Weinstock, 2001). As there is a greater connectedness between citizens at the local than at the national level, there shall be a greater willingness to show solidarity and to redistribute locally than nationally (Pauly, 1973). In the simplest of terms, one could say that the rich care more about the poor to the extent that they live nearby. It is also suggested that willingness to

² Elucidation Bryce

redistribute may be stronger for the poor nearby if only because the desire to do good is conditional on the perception of bad circumstances, and bad circumstances close at hand are more likely to be perceived than those at a distance (Pauly in Ashworth et al., 2002). Moreover, solidarity may be based on reciprocal altruism. In other words, people's willingness to help others may be dependent upon their conviction that those others would also be willing to help them. Hence, 'knowing' the other individual will enhance one's willingness to cooperate. And consequently people will also be more willing to support a collective programme to help the poor in their own jurisdiction (Ashworth et al., 2002).

However, transfer of powers to lower levels of government may also entail some disadvantages. As Prud'homme (1995) asserts, "there are serious drawbacks that should be considered in designing any decentralisation programme". Consequently, the theoretical literature puts forward a range of arguments in favour of centralised policymaking (e.g. economies of scale, risk-sharing, etc), including in relation to social protection and programme generosity in particular (the actual topic of this paper)

First and foremost, it is argued³ that transfer of competencies to lower levels of government is a means of restricting the growth and size of government, and consequently its (social) expenditures (cf. infra). This argument is based on the so-called Leviathan hypothesis, which states that "the size of public sector varies inversely with the decentralisation of the 'fisc'" (Brenan & Buchanan). The underlying reasoning is founded on two assumptions (Obinger, et al., 2005). First, governments are so-called revenue-maximising Leviathans (Fiva, 2006). The interests of bureaucrats are always advanced by an increase in the budgets they command and the level of activity they undertake (among other reasons because opportunistic governments employ public expenditure to assure political support). Consequently public policy will tend to be distorted in the direction of excessive taxing and spending (Begg et al., 1993. (making sense of subsidiarity), which leads to an expansion of the public sector. In other words, political centralisation enhances the growth of the Leviathan by creating a monopoly with unlimited power to extract revenues from society. Conversely, the hypothesis that the size of government declines as taxes and expenditures are decentralised is founded on the assumption that the decentralisation of fiscal powers stimulates competition between the constituent units. The Leviathan view predicts that such

³ Particularly in the 'public choice' literature

competition should always lead to lower levels of taxation, expenditure and overall government activity (Begg et al., 1993) because competition among jurisdictions provides taxpayers with a valuable escape option that makes it harder for Leviathans to exploit them. And this limitation on the expansion of public expenditure also affects the generosity and coverage of social programmes, since social expenditures account for as much as 50 percent of total government outlays (Obinger et al., 2005).

Competition between local entities due to the mobility of citizens and capital is also at the heart of the fiscal federalism literature, where it is asserted that social redistribution is best organised at the highest, central, level. A key element in this theory is the notion of inter-jurisdictional competition, as described in the Tiebout hypothesis: if citizens are faced with an array of communities that offer different types or levels of public goods and services, then each citizen will choose the community that best satisfies his or her own particular demands. Individuals effectively reveal their preferences by "voting with their feet." Citizens with high demands for public goods will concentrate themselves in communities with high levels of public services and high taxes, while those with low demands will choose other communities with low levels of public services and low taxes. More specifically, the socially weak shall tend to move to regions where social benefits are high, while better-off households shall be inclined to move out of such regions, because they are made to carry the burden of generous redistribution in the shape of high taxation and social contributions (Bertels et al., 1994). The same mechanism is assumed to apply to the mobility of enterprises and thus capital (Oates theorem). Industry, too, will tend to shun regions where the burden of taxation is high. Regions with generous protection schemes shall consequently face rising costs and an increasingly narrow financial base. A decentralisation of redistribution policy will thus compel regions to compete with one another in trying to become the least attractive to individuals who are highly dependent upon social protection. Each region (or indeed country) shall need to limit social benefits to avoid an influx of needy persons and to attract the socially better off (e.g. the high-skilled) and industry. In the longer term, this dynamics will lead to a 'race to the bottom', whereby social protection is gradually eroded. In engaging such a race to the bottom, states are attempting to attract economic development by reducing the cost of government. States can also compete by trying to reduce directly the non-fiscal costs associated with carrying out businesses, by reducing state regulation (Obinger et al., 2005).

In addition, it is pointed out in the literature on 'political institutionalism' that decentralisation of competency in social policy can have a negative impact on the volume of social expenditures (and consequently on benefit generosity, too). Institutional features, it is argued, can be important determinants of welfare state development. And one of those features is decentralised arrangements: they impede the expansion of the welfare states (Castles, 1999). Fragmentation of power between multiple actors and levels of government increases the number of institutional veto points (that is, points in the political process at which legislations can be blocked). A relatively large number of veto points in a country's constitutional structure depresses welfare state expansion and may possibly result in suboptimal policy outcomes and lowest common denominator policies, as they enable relatively small groups to obstruct legislation (Bradley et al., 2001 ; Bonoli, 2001 ; Obinger, 1998). According to this reasoning, a decentralisation of social protection schemes in Central and Eastern European Countries may impede the further development of these welfare states.

Finally, it is argued in the literature that there is a risk involved in decentralising social protection programmes if one takes inadequate account of the revenue capacity of the local entities concerned. If those local entities must fund social programmes largely from own revenues, then some – i.e. the poorer ones – may find it hard to provide (sufficiently) generous schemes in view of their limited resources. Transfer of financial competencies within the context of well-functioning intergovernmental fiscal system that ensures adequate sustainable and equitable financing of benefits and programmes across local entities could resolve this problem, on condition that a system of earmarked financing is in place. If not, then there is a considerable risk that funds designated for social programmes will be diverted elsewhere (Kaiser, 2006 ; World Bank, 2007)

3.2 Empirical evidence

The impact of decentralisation on social redistribution and on benefit generosity in particular cannot be assessed merely on the basis of theoretical arguments. It would appear that for every argument in favour of decentralisation there is an argument against.

However, there is relatively little empirical data on the relationship between decentralisation and benefit levels. Moreover, existing studies provide no evidence of an unequivocal relationship between (de)centralisation of social

programmes and benefit generosity. On the one hand, it is said that concerns over the 'race to the bottom' have generally been overstated (Moreno Mc Ewen ; Heuglin) and that little empirical evidence is to be found indicating that a downwards spiral in case of decentralisation is likely to occur (e.g. Berry & Fording, 2003) Some are mentioning eligibility rather than benefit competition in this context (Berry & Fording, 2003) or suggest that instead of a race to the bottom even the opposite evolution might occur. For instance, Moreno & Trelles (2005) indicate that, in the case of Spain, the decentralisation of welfare competencies has stimulated policy innovation ending up in a 'race to the top' that has minimized the alleged detrimental consequences for state-national solidarity. Moreover, Beramendi argues that the preferences of political actors for decentralization are likely to be affected by the level of regional inequality and redistributive spending rather than the other way around (Beramendi in Ravishankar, 2004). In societies prone to low redistribution decentralisation is more probable because subnational –units with diverging needs resist risk-sharing. Low redistribution and benefits thus would exist because of lacking cross-regional solidarity (Jung, 2005). On the other hand Hölsch and Krause (2004), in a study into the relationship between the degree of decentralisation and poverty reduction through social assistance in five countries, find that social assistance schemes with a medium degree of decentralisation (France, Germany and Finland) are indeed more effective in alleviating poverty than either extremely centralised (UK) or extremely decentralised systems (Italy). Summarizing : the discussion on whether decentralization increases or decreases social welfare and efficiency remains –both on theoretical and empirical grounds- an open debate.

4. Types of decentralisation

This paper investigates the relationship between decentralisation and social assistance benefit levels. Important to note is that there is no consensus on the definition of decentralization (Sharma, 2004) : "decentralization seems often to mean whatever the person using the term wants it to mean" (Bird,in Sharma 2004). In line with the World Bank literature, decentralization in this paper is considered as an umbrella term for all forms of transfer of powers and resources from higher to lower levels in a political system" (see amongst others Rondinelli et al., 1983 ; Manor, 1997, Kaiser, 2006 ; Litvack et al., 1998). Three types of decentralization can be distinguished. First, *deconcentration* occurs when the central government hands over some of its administrative authority or

responsibility to lower levels within the central government ministries and agencies (Rondinelli et al, 1983). Deconcentration allows the central government to improve the efficiency and effectiveness of service delivery without losing control over the delivery of that particular service (Litvack et al, 1998). Second, *delegation* refers to a situation in which the central government transfers responsibility for decision-making and administration of public functions to local governments or semiautonomous organisations that are not wholly controlled by the central government but are ultimately accountable to it (Kaiser, 2006). Third, *devolution* refers to a situation in which the central government transfers authority for decision-making, finance and management to quasi-autonomous units of local government (Kaiser, 2006).

In investigating the link between decentralisation and social assistance benefit levels the three different types of transfer of competencies will be considered. According to some empirical studies the form of decentralization appears to be an important area for analysis in assessing social policy outcomes. For instance, the overall picture that emerges from a study of Ravishankar (2004) is that political decentralisation has far a greater impact on welfare state spending than fiscal decentralisation. Yet, with respect to the latter some findings point to the fact that countries in which responsibility for spending is decentralized, but responsibility for revenue-raising is centralized, tend to spend more than other countries, other things being equal. By contrast, in countries where both revenue-raising and welfare spending are decentralized, expenditure levels appear lower (Moreno & Mc Ewen, 2005 ; Fiva , 2006).

5. General safety nets and decentralisation in OECD countries

Most of the 30 OECD countries considered in this study have some kind of system of means-tested benefits. Moreover, in the majority of the countries⁴ these schemes have a universal character. In the strictest sense of the word, the prevailing social protection systems in the UK, Ireland, New Zealand and the US are not universal schemes that guarantee cash benefits to all the needy. The UK, Ireland and New Zealand have no universal safety net, but various

⁴ Turkey has a system of conditional cash transfers which provides money to poor families contingent upon certain behaviour, usually investments in human capital such as sending children to school and meeting their basic health and nutritional needs. These benefits are not universal, but targeted at pregnant women and families with children.

complementary categorical schemes. In the United Kingdom, for instance, non-able-bodied persons with insufficient resources can claim Income Support (if working fewer than 16 hours a week), able-bodied persons are entitled to an income-based Job Seekers Allowance (if working fewer than 16 hours a week), and low-income households working at least 16 hours a week are eligible for the Working Tax Credit. Because these programmes are closely aligned, they are often considered together as a universal guaranteed minimum income (e.g. Walker and Wiseman 2003). Minimum income provision in Ireland and New Zealand is organised along similar lines. The US, for its part, deviates in another sense: the federal government does not provide cash benefits for all needy households, but only food stamps and Medicaid. The Temporary Assistance for Needy Families programme (TANF) does encompass means-tested cash benefits, but only to households with children.

Generally speaking, social assistance regimes distinguish themselves from social security systems not only through the nature of the benefits involved, but also by how they are organised. Social assistance regimes are often characterised by a close involvement of local authorities in the implementation of regulations, and sometimes even in their concrete design (Saraceno). In most countries, these programmes are regulated largely by the central government. Yet, in some (like Hungary, Italy, Greece) the transfer of competencies is that far-reaching that the regions, provinces or municipalities have entirely the freedom to (or not) establish and design their own systems. In these countries a minimum income is not always guaranteed to every citizen due to the fact that the choice of whether or not to establish a safety net is left to the municipalities or regions.

Table 1 arranges the OECD countries by the manner in which their general social assistance programmes are decentralised. Under the general social assistance schemes, households often receive different types of means-tested benefits: a basic rate to cover the general cost of living (food, clothes, ...) and supplementary benefits that are linked to specific costs (housing, heating, ...). Households with children also receive family benefits or, as the case may be, specific allowances for lone parents, which may or may not be means-tested. These allowances are not always organised and provided at the same level of government. In Norway and Iceland, for example, social assistance claimants receive a centrally established housing allowance, while the level of the basic rate and other supplementary benefits is determined by every municipality separately. In order to ascertain in the empirical analysis which competency divisions provide for

socially effective benefits and which do not, we measure the degree of decentralisation for each of the three income components: the basic rates, the housing allowances and the other supplementary benefits⁵. In table 1, we do not make this distinction, but we rather arrange the various countries by the level of government at which the total net income of the social assistance claimant is determined. This means that countries where the basic rates for social assistance claimants and housing allowances are the same across the nation, but where local government holds the explicit competency to decide on additional benefits, are subsumed under the group of regimes where the local authorities have decisive competency over the overall income package for social assistance recipients. A table has been added in appendix that provides a more detailed picture of the division of competency in individual countries.

Table 1. Decentralisation of social assistance benefits in 27 OECD countries* (2004)

No decentralisation	Deconcentration	Delegation	Devolution
Luxembourg	Australia, Ireland, New Zealand, United Kingdom, Slovak Republic	<i>To substate level:</i> France	<i>To substate level:</i> Austria, Canada, Italy, Spain, Switzerland, United States <i>To local level:</i> Czech Republic, Portugal, Belgium, Denmark, Finland, Germany, Greece, Hungary, Iceland, Japan, Netherlands, Norway, Poland, Sweden

* Korea, Mexico and Turkey do not appear in this classification due to a lack of reliable data

Source: own data (see methodological notes)

As it is showed in table 1, there is just one OECD country, namely Luxembourg, where general social assistance has not been decentralised in any way. That is to say, the Luxembourg central government has not transferred fiscal, political or administrative responsibilities to lower levels of government (Litvack et al, 1998). It is the central government that lays down the eligibility criteria and the benefit amounts (of basic rates as well as housing allowances and other supplementary benefits) and that carries the full financial burden of the system. The payment of benefits and the processing of new applications is taken care of by a single central body, the so-called Fonds National de Solidarité, which is directly under the national government's control.

⁵ Except in Canada, rate-setting and granting of child benefits is always taken care of by the central government. Because of this lack of variation, this variable was not included in the analyses.

In the other OECD countries, competencies are to some extent transferred to a substate or local level. In Ireland, the United Kingdom, Australia, New Zealand and the Slovak Republic social assistance delivery is *deconcentrated*. Basic rates and supplementary benefits for social assistance recipients are regulated and financed by the central government and administered by regional (Ireland, Australia, New Zealand and the United Kingdom (standard rates)) or local (the Slovak Republic and the United Kingdom (housing benefits)) agencies which are under the direct supervision of the central government.

Delegation is to be found in the case in France, albeit that the central government has retained power of decision in relation to the eligibility criteria and the level of social assistance benefits and supplements. The central government regulates and finances, but leaves the implementation of the social assistance programme mostly to the departments, in cooperation with the municipalities. The main difference between France and a country such as Ireland is that, in Ireland, local and regional authorities are in no way involved, while in France they help shape social assistance policy, albeit that they have very few decision-making competencies.

In the remaining OECD countries, either basic or supplementary benefits, or both, are *devolved* to lower levels of government. In Austria, Canada, Spain, Switzerland and the US, social assistance is devolved to *substate* level. In the first four of these countries, the provinces, regions or cantons have full competency in relation to both basic benefits and supplements for social assistance claimants. So each substate takes autonomous decisions with regard to the eligibility criteria, the benefit amounts, and the funding of the system as a whole. In Switzerland, the variation in benefit amounts between cantons is however restricted through national guidelines which, though not binding, are more or less adhered to by all cantons. In the United States, the broad outlines of minimum income protection are provided in federal programmes (largely financed by the federal authorities), such as the Food Stamp Programme, Medicaid and TANF. However, individual states are free to develop and finance more broadly accessible and more generous social assistance programmes. In 1998, some 18 of the 52 states had their own cash assistance programmes (Walker and Wiseman, 2003). In most countries where social assistance is organised at substate level, local authorities are also involved in policy implementation, and sometimes also in its financing, but the degree to which this is the case may vary considerably from region to region.

In many OECD countries, the general social assistance regime has been devolved directly from central government to the *municipalities*. This implies first and foremost that the municipalities are made jointly responsible for the *financial* side of social assistance benefits and/or supplementary benefits. However, in most countries the central government does meet part of the cost. In Belgium, Denmark, Germany, Japan, Poland, Portugal and the Czech Republic, municipalities receive a transfer per social assistant recipient that covers part of the social assistance benefit. The proportion that the municipality contributes to the basic allowance (i.e. excluding housing allowances and supplementary benefits) varies from 25% in Japan to 75% in Germany⁶. In Finland, Iceland, the Netherlands, Norway and Sweden, municipalities receive a general government grant which largely covers either the totality of their social expenditures (e.g. Sweden) or their expenses on means-tested benefits (e.g. the Netherlands). The size of the grant often depends on local indicators, such as the unemployment rate, the urbanisation rate,....

In countries where social assistance programmes are funded with local resources, the local authorities generally have a say in determining benefit amounts. As Table 2 shows, however, the margin that municipalities have at their disposal varies strongly from country to country. In Japan and the Netherlands, benefit amounts, supplements and possible deviations thereof are laid down by law, so that little room is left for a municipal policy on social assistance benefits. In the Czech Republic, Denmark, Finland, Germany and Sweden, the national legislator determines how basic benefits and housing allowances should be calculated. Yet the municipalities have room to adapt the eventual social assistance income to the local socioeconomic context, as they can decide quasi-autonomously on the level of the supplementary benefits. Although little research has been conducted into this matter, it is generally assumed that, in these countries, minimum income protection of the poor varies strongly depending on where they live. Intercommunal differences in minimum protection are probably the greatest in Belgium and Portugal, where only the basic amount is regulated nationally, while municipalities are left free to decide on eligibility criteria for and the benefit amounts of housing allowances and other supplements. In Iceland, Norway and Poland, the municipalities can, within nationally imposed limits, even determine

⁶ Portugal and the Czech Republic are not included here: in these countries, the municipalities carry the entire burden of supplementary benefits but they do not contribute to the basic rates.

the basic amounts. However, housing allowances are fixed at the national level in these countries.

The most radical form of devolution, is found in Greece, Italy and Hungary. In these countries there is a total transfer of regulation, funding and implementation of the social assistance programme to local levels of government, The municipalities actually carry the full financial burden of social assistance, and in the case of Hungary and Italy, there even are no national social protection arrangements: the choice of whether or not to establish a safety net is left to the municipalities or regions. In practice, though, very few such schemes exist. In Italy, they are found most commonly in the Centre-Northern regions, and they are usually organised and run at the municipal level. Moreover, in Italy, most existing minimum income provisions, both at the national and at the municipal level, are categorial (Eardley et al 1996, Saraceno 2002, Sacchi and Bastagli 2005). The same accounts for Hungary where no statutory Guaranteed Minimum Income as such is available but where numerous similar provisions exist for certain groups (e.g elderly, disabled etc) (Cerami, 2005).

Table 2. Decision-making power of local governments in 15 OECD countries on net incomes of social assistance recipients (2004)

Quasi unlimited power of decision	Basic amounts determined freely	All supplementary benefits determined freely	All supplementary benefits except housing allowance determined freely	Limited power of decision
Greece, Italy, Hungary	Iceland, Norway, Poland	Belgium, Portugal	Czech Republic, Denmark, Finland, Germany, Sweden	Japan, Netherlands

Source: own data (see methodological notes)

6. Methodological notes

6.1 The model family approach

In the paragraphs that follow, we shall analyse the degree of variation that exists in the social effectiveness of universal minimum income protection in OECD countries on the basis of the available literature on decentralisation and redistribution. Social adequacy is measured in terms of net disposable income of general social assistance claimants as a percentage of the poverty line. However,

the social effectiveness of a benefit system is, of course, not only dependent upon the benefit levels, but also upon the accessibility and take-up of benefits. Therefore, effectiveness of a social benefit is often calculated by comparing pre- and post-transfer income. Yet in the case of universal social assistance schemes – and social assistance schemes in general – calculating such a comparative indicator for a large number of countries is not a straightforward proposition, given the limitations of existing comparative income surveys. Most comparative international studies into the adequacy of social assistance benefits are consequently restricted to just a handful of countries (see Behrendt, 2002; Hölsch and Krause, 2004; Kuivalainen, 2005). In the present paper, too, the focus is limited to a single crucial element for determining the effectiveness of universal social assistance, namely the social adequacy of benefit amounts.

For many countries, the net income of claimants on general social assistance can be estimated using the model family method. The model family approach basically involves calculating the financial consequences of fiscal and social policies for a set of hypothetical families⁷. The OECD uses this technique in the Benefits and Wages series for the annual estimates of the incomes of four hypothetical families (single person and couple, without and with two children). The OECD defines the net disposable income of social assistance recipients as total cash benefits minus total taxes (OECD, 2004)⁸. Cash benefits for social assistance recipients include minimum income benefits generally excluding any strictly housing-related parts, housing benefits generally including any strictly housing related parts of minimum income programmes, family benefits and lone parent benefits . In-kind benefits (such as free school meals, subsidised transport, free health care, etc) are excluded. An exception is made for food stamps in the United States, since the OECD considers them to correspond closely to social assistance benefits paid in other countries.

The main drawback of the model family approach is that the results obtained are illustrative rather than representative (Bradshaw and Finch, 2002). They provide insight into the income position of a limited number of household types with a very specific spending pattern. After all, the amounts granted in financial benefits depend directly on real costs, so that the latter need to be specified unequivocally (e.g. housing allowances are a function of rent paid in many countries). In the

⁷ For an extensive discussion of the model family approach, see Van Mechelen et al 2004. This paper also served as a reference for an outline of the method in Atkinson et al, 2005.

⁸ The income components which are taken into account in the net disposable income, as well as the basic assumptions made, are described in detail in OECD, 2004 (Annex A).

OECD estimates, assumptions regarding consumption patterns are avoided as much as possible, except in the case of housing. This implies that in-kind benefits, childcare allowances and the like are left out of consideration. However, the downside of this restriction of the number of assumptions made is that the OECD results do not take into account that what households have to pay for out of their after-tax income varies markedly across countries⁹.

A further drawback in the context of an analysis of the impact of decentralisation is that the OECD estimates for countries without a national law or guidelines on social benefit amounts are based on a 'typical' region or locality, while we are interested precisely in the effect of decentralisation on the *minimal* guaranteed income in a given country. In other words, we wish to ascertain how adequate the protection is in the least generous region or locality of a country. Therefore, we have adapted the OECD estimates for some countries, basing our approach on basic social assistance rates not in an average region, but in one of the less generous regions. As the calculation of housing allowances is usually rather untransparent and therefore hard to replicate, we have however retained the OECD estimates for these allowances, even for countries where each region applies its own system. We rely on the basic rates in the province of Salzburg in the case of Austria, on those applied in the province of Manitoba for Canada, on the so-called category-II municipalities for Finland, on the states of Meckelnburg-Vorpommern, Saxony and Thuringia for Germany, on the region of Murcia for Spain, and on the minimum norms of the SCIAS in the case of Switzerland. Although Poland is not a federal state, the OECD estimate for this country was also adjusted because it is based on a maximum benefit. In our analysis, the data for Poland are based on the minimum benefit. The figure for Norway was retained as we know from comparison with other estimates (see Cantillon et al, 2003 and the Nososco website¹⁰) that the OECD estimate of the income of a social assistance claimant is already rather low.

6.2 Fuzzy set qualitative comparative analysis

Thanks to the model family approach, we have at our disposal estimates of the net disposable income of general social assistance claimants in some twenty OECD countries. In order to gain insight into the relationship between the degree

⁹ For an example of a study based on the model family approach which does take into account this aspect, see Bradshaw and Finch, 2002.

¹⁰ <http://www.nom-nos.dk/nososco.htm>

of decentralisation and the level of minimum income protection, we make use of a method that is appropriate for such an intermediate-N situation, namely Qualitative Comparative Analysis (QCA). QCA is a case-oriented research method that tries to connect specific outcomes with complex patterns of causality by means of Boolean algebra (Ragin, 2000). QCA offers researchers a tool for systematically comparing configurations of explanatory variables for the presence or absence of a particular outcome. The method has the important advantage that it allows one to formulate causal claims without requiring a very substantial number of cases (De Meur & Rihoux, 2002). Moreover, these conditional statements are always formulated in such a manner that they reflect the diversity and the complexity of social reality. Causation is typically understood conjuncturally, in terms of combinations of conditions, which makes QCA particularly suitable for explaining complex social phenomena at macro and at meso level (Yamasaki & Spreitzer, 2006). These two advantages probably explain the growing success of the method in policy analysis in general, and also in welfare state research (Kvist, 2006; Ragin, 2000; Rottiers et al, 2006) and research into systems of minimum income protection in particular (Nelson, 2003; Morreira, 2006). The purpose of the present paper is to ascertain which configurations of power transfer constitute a foundation for socially adequate or socially inadequate benefits.

QCA was originally intended for dichotomous variables. In the present paper, we use the multi-value fuzzy set variant fsQCA. It offers the same benefits as QCA, but is founded on a broader empirical basis than QCA (Ragin, 2006). FsQCA takes as its starting point not classical variables but fuzzy set scores that indicate to what extent a case belongs to a particular set. In appendix, we have added a table with all the fuzzy set scores. To determine the fuzzy set scores for social adequacy of general social assistance benefits, we first defined three breakpoints or qualitative anchors and subsequently calculated the scores using the calibration technique described in Ragin (2007). The breakpoints correspond with the fuzzy set scores 0.007, 0.500 and 0.993. These scores indicate respectively full non-membership, the crossover point and full membership in the set of countries with adequate social assistance benefits. Countries were attributed a fuzzy set score of 0.5 on their outcome variable if, on average¹¹, the net disposable income of social assistance claimants corresponds exactly with the poverty line (50% of equivalised median income (using the square root of

¹¹ I.e. the average for the four household types for which the OECD estimates the net disposable income.

households)¹²). For full membership, net disposable income should be 10% above the poverty line, while for full non-membership it should be 10% below. The fuzzy set scores which indicate the social inadequacy of social assistance benefits in a given country are simply the complement of the membership score in the set of countries with social adequate benefits.

In order to gain insight into the precise distribution of competencies, we make use of 12 fuzzy sets (i.e. variables): 3 for the competencies of the substates and 9 for the competencies of the local authorities. The scores on the first three indicate for the principal income components of social assistance recipients – the basic rate, housing benefits and other supplementary benefits¹³ – to what extent they are determined by the substates. These fuzzy set scores may assume four distinct values: 0.007 if the substates have no formal competency, 0.25 if they have very limited competency (e.g. in 2004 the German states could set their own benefit amounts, but within the relatively strict guidelines issued by the central government), 0.75 if the level of autonomy is substantial (e.g. the US States are able to largely determine their own course within the TANF programme and they are moreover empowered to organise additional social assistance schemes) and 0.993 if the substate can pursue a quasi-autonomous social assistance policy. For the countries that score highly on these three indicators (i.e. Austria, Canada, Spain, Switzerland and the US), it is hard to determine to what extent local authorities are involved in social assistance programmes, as this may vary substantially from substate to substate. For the other OECD countries, we determined the competencies of the local authorities by means of 9 fuzzy sets. For each of the three most significant income components of social assistance recipients, they indicate which competencies have been transferred to the local authority level. A distinction is made here between 3 aspects of decentralisation: the transfer of respectively administrative, financial and decision-making powers. This results in 9 fuzzy sets, the scores of which may again assume 4 different values: 0.007 if the local authority has been assigned no formal competency, 0.25 if the autonomy of the local authority is very limited (e.g. if the local authority is bound by a national guideline to provide a housing allowance that covers the rent cost fully insofar as the rent is deemed to be reasonable (Germany, Finland and Sweden)) or if the financial accountability of

¹² Source: OECD, 2004.

¹³ A fourth substantial income source for social assistance recipients, at least in the case of households with children, is child benefit. Except in Canada, rate-setting and granting of child benefits is always taken care of by the central government. Because of this lack of variation, this variable was not included in the analyses.

the municipalities is no higher than 32% of the total cost, 0.75 if the autonomy of the municipality is substantial (e.g. the central government helps arrange a number of supplements, but leaves the organisation of others entirely to the local authorities) or if the financial responsibility is considerable (33 to 90% of the total cost) and 0.993 if the local authority enjoys quasi-autonomy in implementation, decision-making or funding. These fuzzy set scores were assigned on the basis of national reports drawn up for the purpose of the OECD's Benefits and Wages series, the Mutual Information System on Social Protection of the European Commission and national data (particularly from websites of institutions involved in the regulation or implementation of the benefits analysed).

By combining the OECD data with the fsQCA method, we are able to include 23 countries in our analysis. The OECD provides estimates of both the net disposable income of social assistance benefit recipients and the poverty line for 20 countries. Furthermore, the fsQCA approach enables us to include a number of negative cases, i.e. countries where the guaranteed minimum income is zero, as central government leaves the provision of social assistance programmes entirely to the regional or local authorities, but without any obligations. This is the case in Italy, Hungary and Greece. In a classical regression analysis, these countries would most likely be regarded as outliers and consequently be excluded from further analyses. In fsQCA, they are assigned a score of 0 on the outcome variable and very high scores on the fuzzy sets for the competencies of local authorities. Japan, Iceland, Luxembourg, Korea and the Slovak Republic could not be included in the analysis for lack of a comparative poverty standard. Mexico and Turkey, for their part, were excluded on grounds of inadequate information on the precise distribution of competencies.

Two fuzzy set analyses were carried out. First, we ascertained for all 23 countries which distribution of competencies between central government and the substates is linked with socially adequate or, as the case may be, socially inadequate benefits. Subsequently, for the 17 countries where the substates play no or a very modest role in social assistance policy, we examined which competency transfers from the central to the local government level are related to socially adequate or, as the case may be, socially inadequate social assistance benefits.

Given that fsQCA is a very recent analyses method (developed only in the 1990s), we assume that not all readers are familiar with its underlying logic, the

concepts applied and the notation. Therefore, in the discussion of results, we shall rely as much as possible on self-explanatory plots and try to avoid fsQCA jargon. For those readers who are familiar with the fsQCA approach, we briefly elucidate the formal criteria applied in the analysis of the truth tables. The truth tables (containing only those configurations for which the number of cases amounts to at least 1) and the solutions derived from them are provided in appendix¹⁴.

The following combinations of conditions are assumed to meet the requirements for sufficient or necessary causation:

- The configuration of conditions occurs in at least 3 cases. This implies that evidence from just one or two countries is not deemed enough to speak of sufficient or necessary causation.
- The consistency of the configuration is greater than .75. Consistency is a measure of the extent to which the fuzzy set scores for a particular combination of conditions satisfy the basic requirements for a necessary or a sufficient condition. A combination of conditions is necessary for a given outcome if, for each case, the membership score in this combination is smaller than or equal to the membership score in the outcome variable. A configuration of conditions is sufficient if, for each case, the membership score in this combination is greater than or equal to the membership score in the outcome variable. The consistency measure used takes into account both the number of cases meeting and not meeting these requirements as well as the extent to which this is the case (for method of calculation, see Ragin, 2006b).
- The raw coverage of the configuration is greater than .20. Coverage measures for each combination of causal conditions its contribution or significance in the total set of outcomes. Again, the measure used takes into account both the number of cases and the size of the fuzzy set scores (for method of calculation, see Ragin, 2006b).

On the basis of the configurations that meet these three criteria, we propose the solution that either maximises the parsimony or ties in most closely with the most parsimonious logical equation, and maximises the number of countries for which it offers a solution, i.e. the coverage, and ties in closely with our knowledge of the cases.

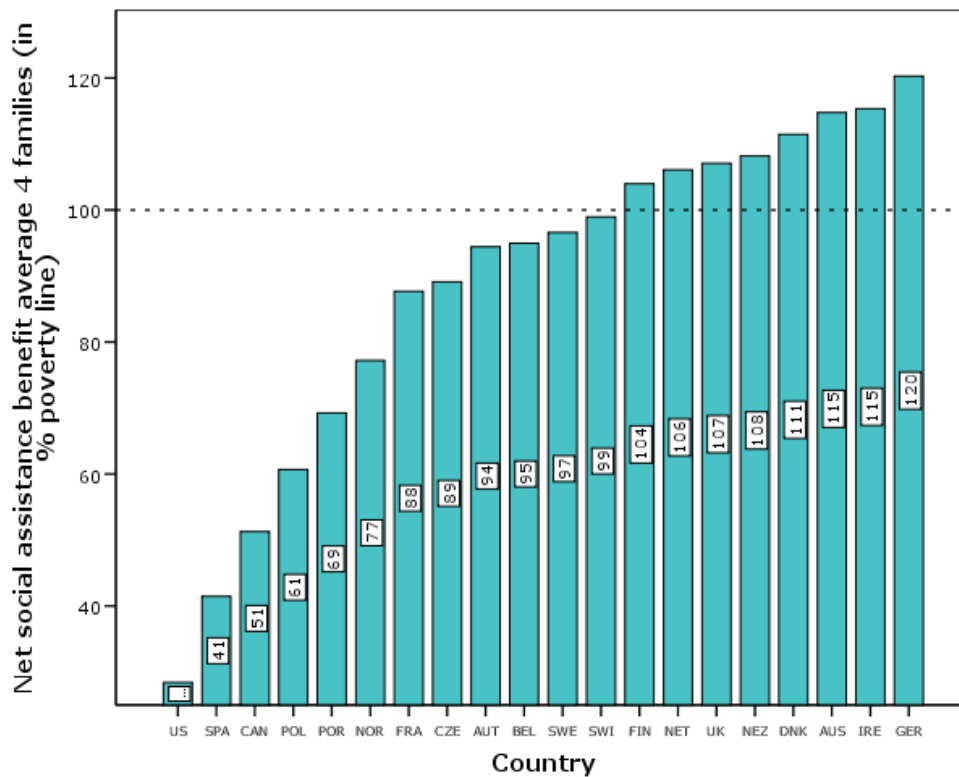
¹⁴ The truth tables in appendix ascertain for each configuration the extent to which the fuzzy set scores meet the requirements for causal sufficiency. The tables can, however, also be used to ascertain the causal necessity of each configuration, as, in this table, the coverage indicator is equal to the consistency measure for assessing the necessity of the configuration, and because, conversely, the consistency measure for sufficiency is equal to the coverage measure for necessity.

7. Empirical results

The annual net disposable income of general social assistance recipients, expressed in purchasing power parities, varies from approximately USD 260 per month in Slovakia to USD 1,650 in Luxembourg (Cantillon et al, forthcoming). In figure 1, this income from social assistance is compared with the poverty line, defined here as 50% of the median standardised household income in the country in question. According to this poverty threshold, social assistance benefits provide adequate protection against poverty in only 8 countries: Germany, Ireland, Australia, Denmark, New Zealand, the United Kingdom, the Netherlands and Finland. In Belgium and Switzerland, the income of social assistance recipients lies up to 5% below the poverty line. In the Czech Republic, France and Norway, it lies up to 25% below the poverty line, and in Portugal, Poland, Canada, Spain and the US it lies even further below. In the US – where the federal government only provides food stamps for families without children – the social assistance income amounts to less than 30% of the aforementioned poverty line. Italy, Greece and Hungary, for their part, have no universal minimum income scheme (and have therefore not been included in figure 1).

If we consider the degree to which the social assistance programmes in the countries in figure 1 have been decentralised (tables 1 and 2), we notice that all countries with adequate benefits belong either to the group where social assistance programmes are run almost exclusively by the central government (Australia, New Zealand, UK and Ireland), or to the group where social assistance schemes have been devolved to the municipal level through co-financing schemes, but where the power of decision of those municipalities is quite limited, given that either the amounts involved are imposed nationally or strict guidelines are issued regarding both basic rates and housing allowances for social assistance recipients (the Netherlands, Finland, Denmark and Germany). Conversely, the countries where universal minimum income protection is found to be inadequate to prevent income poverty are those where the regional or local authorities are granted ample room to devise local social assistance policy. In the United States, Italy, Spain and Canada, minimum income entitlements for the needy but capacitated are determined at substate level. In Greece, Hungary, Poland and Norway this decision-making competency lies primarily with the municipalities.

Figure 1. Net social assistance benefits as percentage of poverty line*, 20 OECD countries, 2004**



* as measured by 50% of equivalised median income (using the square root of household size)

** Italy, Greece and Hungary are not included as these countries have no universal minimum income. Iceland, Japan, Korea, Luxembourg, Mexico, Turkey and the Slovak Republic are not included because of data issues (see methodological note).

Source: OECD.

The results of the fsQCA, as presented in tables 3 and 4, are in line with these observations. According to the fsQCA, two combinations of causal conditions are necessary for socially adequate benefits. The first condition concerns the transfer of competencies to the sublevel, the second relates to the decentralisation of the social assistance system to the municipal level. The first condition for adequate social assistance benefits is that the central government should not transfer substantial decision-making competency on social assistance benefits to the substates. In all countries where general safety nets are entirely (Austria, Canada, Italy, Spain) or largely (Switzerland and the US) developed at substate level, social assistance benefits are below the poverty line (see table 3). A

restricted role for the substates is thus a necessary condition for adequate benefits. It is however not a sufficient condition. In many countries, including Belgium, Hungary, Norway and Portugal, the substates are not or barely involved in social assistance policy, yet the guaranteed minimum income in these countries is low in comparison with the poverty line. Table 4 illustrates an additional condition for adequate social assistance benefits. The role of municipalities should also be limited. In all countries where municipalities can decide largely autonomously on the level of social assistance incomes – be it because they have the competency to set either basic rates (Norway, Poland) or housing allowances (Belgium, Portugal) or both (Greece, Hungary) – benefit levels are very low. Only in countries where the central government sets the basic rates and strictly regulates housing allowances for social assistance recipients is the net guaranteed income of social assistance claimants on or above the poverty line.

Table 3. Substate decision-making power on social assistance programmes and the adequacy of social assistance benefit levels in 23 OECD countries (2004)

	Substate decision-making power on basic rates and supplementary benefits	No substate decision-making power on basic rates and supplementary benefits
Adequate benefit levels		Australia, Denmark, Finland, Germany, Ireland, Netherlands, New Zealand, UK
Inadequate benefit levels	Austria, Canada, Italy, Spain, Switzerland, US	Belgium, Czech R., France, Greece, Hungary, Norway, Poland, Portugal, Sweden

Source: see methodological notes

Comment: In tabel 1 staat Frankrijk bij de landen waar de bijstandsprogramma's gedelegeerd zijn naar substate level. De combinatie van tables 1 en 3 is verwarrend!!!

Table 4. Local decision-making power on social assistance programmes and the adequacy of social assistance benefit levels in 17 OECD countries (2004)

	Local decision-making power on basic rates or housing benefits	No local decision-making power on basic rates and housing benefits
Adequate benefit levels		Australia, Denmark, Finland, Germany, Ireland, Netherlands, New Zealand, UK
Inadequate benefit levels	Belgium, Greece, Hungary, Norway, Poland, Portugal	Czech R., France, Sweden

Source: see methodological notes

8. Discussion

Given the diversity in theoretical models on the impact of decentralisation on income redistribution and benefit levels, as well as the lack of unequivocal empirical data, it is very hard to predict benefit levels on the basis of the distribution of competencies between the central, substate and local government levels. The most obvious conclusion is perhaps that the adequacy of social assistance programmes is enhanced by mixed forms of decentralisation, i.e. neither a strictly centralist organisation nor an entirely decentralised approach seems to improve programme adequacy. Even the World Bank, which constantly emphasises that local levels of government are best informed about the needs and requirements of the local citizenry and thus best able to pursue an efficient anti-poverty policy, believes that there is a crucial role to be played in social assistance programmes by central government. Through earmarked financing, the central government should ensure that each municipality has enough financial resources at its disposal to implement a social assistance programme, and indeed uses these resources to that end (World Bank, 2007). In other words, the World Bank pleads for a very limited form of devolution (i.e. the type of decentralisation whereby financial responsibility is also transferred to the local level of government).

The results of our study confirm that adequate social assistance benefit levels indeed are not attained in countries with entirely decentralised social assistance regimes, but rather in countries with mixed systems or limited forms of devolution. In OECD countries where social assistance programmes are organised entirely at the regional or the local level, guaranteed minimum income is invariably below the poverty line. By contrast, countries where the involvement of local authorities in the administration (Netherlands) and/or funding (Denmark, Germany and Finland) of social assistance is substantial, yet restricted under central legislation or guidelines, the level of basic rates and housing allowances for social assistance recipients is invariably adequate. In Denmark, Germany and Finland, the municipal authorities actually enjoy quite a large degree of autonomy: municipalities are able to adjust social assistance benefit levels to local needs and requirements because they can decide quite independently on entitlement to and the levels of supplementary benefits towards covering the cost of heating insurance and the like. Yet the national regulation with regard to rate-setting prevents the municipalities from providing the poor with 'poor' benefits.

Moreover, the analyses yielded evidence of a second group of countries with high social assistance benefit levels, namely those countries where the transfer of competencies has been restricted to institutions which fall under the direct control of the central government. In Ireland, the UK, Australia and New Zealand, the regional and local authorities are excluded almost entirely from the development and implementation of general social assistance programmes. And in each of these countries, the combination of the basic rate for social assistance recipients, housing allowances and, as the case may be, family allowances is above the poverty line.

Although our findings confirm that generous safety nets occur only in OECD countries with limited forms of decentralisation, they clearly contradict the recommendations of the World Bank. Unlike asserted in those recommendations, central funding of social assistance rates does not suffice to prevent that 'poor regions produce poor regimes'. In Portugal, the Czech Republic and France, social assistance rates are after all organised nationally, yet benefit levels for all citizens are very low (table 5). On the other hand, the Finnish system with substantial local responsibility for social expenditures does not result in inadequate benefits in the most deprived, simply because national guidelines will not allow this to happen.

Table 5. Central funding of social assistance programmes and the adequacy of social assistance benefit levels in 23 OECD countries (2004)

	Central funding of basic social assistance rates	No (or limited)* central funding of basic social assistance rates
Adequate benefit levels	Australia, Ireland, Netherlands, New Zealand, UK	Denmark, Finland, Germany
Inadequate benefit levels	Czech R., France, Portugal, US	Austria, Belgium, Canada, Greece, Hungary, Italy, Norway, Poland, Sweden

* Regional or local governments bear at least one-third of the financial burden of the social assistance programme.

Source: see methodological notes

Our findings also refute the theoretical models which assume that there is greater solidarity within smaller entities and that therefore decentralisation will enhance distribution of wealth towards the poor, at least insofar as this can be measured in terms of higher social assistance levels. Certainly in Norwegian villages, the connectedness between rich and poor citizens is not always sufficient to result in a local social assistance regime with adequate benefit levels. The same holds for

the Spanish regions or the Canadian provinces. Theories regarding the positive relationship between decentralisation and efficiency are less easily falsified on the basis of our results. After all, our dependent variable, i.e. social assistance benefit levels, says little about the degree of efficiency of the social assistance system. This is apparent from the analysis by Hölsch and Krause (2004), who conclude that the strongly centralised social assistance regime in the UK is highly effective. In terms of percentage, the reduction in poverty achieved is greater than the corresponding figure for France, Germany, Finland or Italy. This is probably due in part to the generosity of benefits. However, if one considers the relationship between the relative poverty reduction and the proportion of social assistance expenditure in GDP, it appears the British system is one of the least efficient.

Our findings correspond most closely with the theoretical models in which it is postulated that decentralisation leads to a 'race to the bottom' as a result of mutual competition between regions and municipalities. After all, we only encounter social assistance benefits above the poverty line in countries where regions and municipalities cannot decide entirely autonomously on guaranteed minimum income levels.

When Central and Eastern European countries opt for decentralisation as an instrument of poverty alleviation – due to a better targeting of benefits –, prudence is called for the fact that there might be a trade-off between the transfer of competencies to lower levels of government and the generosity of welfare programmes.

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	Substate	Local			Remarks
		Administr- ation	Funding	Decision- making	
Australia	None	None	None	None	
Austria	B H S	-	-	-	
Belgium	None	B H S	B H S*	H S	* Basic rate: 50%
Canada	B H S	-	-	-	
Czech R.	None	B H S	S	S	
Denmark	None	B H S	B H S*	S	* Basic rate and housing benefit: 50 %
Finland	None	B H S	B H S*	H S*	* Transfer from central government covers local social expenditures only partially; central guideline imposes full subsidising of rent cost, insofar as rent amount is reasonable.
France	B H S*	B H S	None	None	* Administration only
Germany	B*	B H S			* Funding: largely by municipalities, rest by the Länder; Decision-making: central guideline specifies which costs should be covered by basic rate and housing benefit, and mentions possible supplementary benefits – within these boundaries of these guidelines, the Länder are free to determine the basic rate and the municipalities the housing allowances and other supplementary benefits
Greece	None	B H S	B H S	B H S	
Hungary	None	B H S	B H S	B H S	
Iceland	None	B H S	B S	B S*	* Central system of housing allowances; Central guideline for basic rates and supplements
Ireland	None	None	None	None	
Italy	B H S	-	-	-	
Japan	None	B H S	B H S*	None	* 25% of social expenditures
Luxemb.	None	None	None	None	
Netherl.	None	B S	B S*	B S*	* Transfer from central government largely covers local social expenditures; central system of housing allowances; national social assistance act leaves little room for municipal supplements
New Zeal.	None	None	None	None	
Norway	None	B H S	B S*	B S*	* Transfer from central government covers local social expenditures only partially; central system of housing allowances; central guidelines for basic rates
Poland	None	B H S	B S	B S*	* National government determines minimum and maximum basic rate, which differ quite substantially
Portugal	None	B H S	H S	H S	
Slovak R.	None	None	None	None	
Spain	B H S	-	-	-	
Sweden	None	B H S	B H S*	B H S*	* Transfer from central government covers social

Switzerl.	B H S*	-	-	-	expenditures only partially; central guideline specifies which costs the basic rate and housing benefit should cover and mentions possible supplementary benefits
UK	None	None	None	None	* In accordance with central guidelines
US	B S*	-	-	-	* Besides the federal Food Stamp Programme, federal housing vouchers and federal TANF guidelines

Sweden	0.007	0.007	0.007	0.993	0.993	0.993	0.250	0.250	0.750	0.750	0.750	0.750	0.264
Switzerland	0.750	0.750	0.750	-	-	-	-	-	-	-	-	-	0.422
UK	0.007	0.007	0.007	0.007	0.993	0.007	0.007	0.007	0.007	0.007	0.007	0.007	0.892
US	0.750	0.007	0.993	-	-	-	-	-	-	-	-	-	0.000
Name of variabele:	Sasub	Hbsub	Supsub	Adsaloc	Adhbloc	Adsupploc	Desaloc	Dehbloc	Desupploc	Fusaloc	Fuhbloc	Fusupploc	Po4

Appendix 2 Assessment of causal sufficiency

1. Outcome : socially adequate social assistance benefit levels

a) Truth table 1:

Sasub	Hbsub	Supsub	Fre- quency	Consis- tency	Raw coverage
0	0	0	18	0.44	0.93
1	1	1	4	0.17	0.08
1	0	1	1	0.30	0.04

b) Solution 1: PO4 \square sasub * supsub
(consistency = 0.93 & coverage = 0.44)

c) Truth table 2:

Adsaloc	Adhbloc	Adsupplc	Desaloc	Dehbloc	Desupplc	Fusaloc	Fuhbloc	Fusupplc	Fre- quency	Consis- tency	Raw coverag e
0	0	0	0	0	0	0	0	0	4	0.78	0.38
0	1	0	0	0	0	0	0	0	1	0.73	0.13
1	0	1	0	0	0	0	0	0	1	0.76	0.11
1	1	1	0	0	1	0	0	1	1	0.42	0.14
1	1	1	0	0	1	1	1	1	4	0.83	0.33
1	1	1	0	1	1	1	1	1	1	0.62	0.13
1	1	1	0	1	1	0	1	1	1	0.54	0.13
1	1	1	0	1	1	1	1	1	2	0.06	0.01
1	1	1	1	1	1	1	1	1	3	0.03	0.01

d) Solution 2: PO4 \square desaloc * dehbloc
(consistency = 0.93 & coverage = 0.70)

2. Outcome : socially inadequate social assistance benefit levels

a) Truth table 1:

Sasub	Hbsub	Supsub	Fre- quency	Consis- tency	Raw coverage
0	0	0	18	0.58	0.71
1	1	1	4	0.92	0.24
1	0	1	1	1	0.08

b) Solution 1: SASUB * SUPSUB \square po4
(consistency = 0.93 & coverage = 0.29)

c) Truth table 2:

Adsaloc	Adhbloc	Adsupploc	Desaloc	Dehbloc	Desupploc	Fusaloc	Fuhbloc	Fusupploc	Fre- quency	Consis- tency	Raw coverag e
0	0	0	0	0	0	0	0	0	4	0.25	0.09
0	1	0	0	0	0	0	0	0	1	0.34	0.05
1	0	1	0	0	0	0	0	0	1	0.45	0.05
1	1	1	0	0	1	0	0	1	1	0.80	0.20
1	1	1	0	0	1	1	1	1	4	0.36	0.11
1	1	1	0	1	1	1	1	1	1	0.84	0.13
1	1	1	0	1	1	0	1	1	1	0.86	0.16
1	1	1	0	1	1	1	1	1	2	1.00	0.15
1	1	1	1	1	1	1	1	1	3	1.00	0.29

d) Solution 2: DESALOC + DEHBLOC \square po4
(consistency = 0.93 & coverage = 0.69)
(most parsimonious solution)