



# Between centralized and decentralized welfare policy: Have national guidelines constrained the influence of local preferences?



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## ABSTRACT

Decentralized welfare services allow more flexibility toward individual needs assessment, but may also have negative consequences such as welfare competition or lack of equity between regions. Does national standardization require full centralization of individual assessment, or can a set of unbinding national guidelines reduce unwanted variation between regions? The case of this article is a national benefit norm for municipal social assistance payments issued by the Norwegian central government in 2001. A large share of municipalities changed their local norms to match the national norm in the following years, but data show that local benefit norms are uncorrelated with the actual payments. The apparent compliance to national guidelines does not translate into actual welfare generosity.

Although caseworker discretion is important for individual payments, the municipal level of welfare payments is clearly influenced by local preferences and budget constraints. This implies that political control is active, but through other instruments than the local benefit norms.

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## 1. Introduction

Public provision of welfare services is to varying degree assigned to local or central governments. Oates' decentralization theorem argues that decentralized provision of public goods increases efficiency by allowing adaption to local needs and preferences. Along this line, it can further be argued that closeness to the clients allows greater flexibility toward individual needs assessment. On the other hand, welfare services are often provided by the public sector with a purpose of equity, and variation between regions may compromise this objective. Decentralized responsibility for redistributive services is also problematic due to welfare migration and welfare competition.

The central government may want to combine the benefits of local flexibility toward individual needs with some level of equity across regions. The question is whether the central government can effectively influence decentralized decisions while maintaining the level of local autonomy. This article analyses a case where a non-binding national benefit norm, at first glance, appears to be a successful instrument for standardizing local social assistance levels.

Norway has chosen a decentralized model for social assistance. Within the broad legal framework of the Social Service Act, municipalities are politically, financially and administratively responsible for providing income assistance at the subsistence level to all individuals living within its borders. The Social Service Act allows municipalities full autonomy regarding the level of payments as long as all who

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apply for social assistance are ensured proper subsistence. It follows that welfare generosity varies between municipalities. Local benefit norms are set by politicians at the municipal level and reported to Statistics Norway each year.

The central government introduced national guidelines for social assistance in 2001 with the purpose of reducing variation in payments not grounded on differences in needs. A central element of these national guidelines is a set of national benefit norms, which define standard amounts intended to cover basic living expenses for a set of stylized users. The national norms are not mandatory, so the formal degree of municipal autonomy is not reduced. This raises the question of whether such a soft policy instrument can have real effects on local welfare policy. Standard fiscal federalism theory focuses on matching grants and legal regulations as the two effective instruments for controlling local governments.<sup>1</sup> Literature within political economy, exploring the role of imperfect information, may provide some rationale for the benefit norm as a guideline to voters and politicians (Dai, 2005; Lohmann, 1998; Revelli, 2006).

Both before and after 2001, all municipalities set their own local benefit norms. Quite a large number of municipalities changed their local benefit norm to match the national norm after 2001, and by 2005, about 50% of the municipalities had adopted the national benefit norm. This rate of adaption to the national benefit norm gives the impression that the guidelines have been fairly successful.

The compliance may be just for show, however. Fiva and Rattsø (2006) encountered a surprising lack of correlation between the local benefit norms and welfare generosity estimated from actual payments. Caseworker discretion is a central component of social assistance disbursement. This will naturally create some discrepancy between benefit norms and payments, but a total lack of correlation indicates that actual payments are fully independent of the local benefit norms. The question arises if caseworkers are actually operating without political governance. An alternative explanation is that local political governance is executed through other instruments than the local benefit norms, which means that the local norms can be changed without consequences for the actual level of welfare generosity. The main hypothesis of the paper is, that while local benefit norms have been changed to adapt to the national norm, actual welfare generosity is determined by local political preferences and is unaffected by the national norm.

From micro data on actual social assistance receipts, I estimate expected payments for a standardized user in each municipality to represent the actual levels of municipal social assistance generosity. I find in Section 4 that the coefficient of variation for benefit norms is significantly reduced after the introduction of the norm, while variation is unchanged for expected payments. Like Fiva and Rattsø (2006), I find hardly any correlation between benefit norms and expected payments. In Section 5, I study to what degree benefit norms and expected payments are decided by local determinants, combining the empirical strategies of Fiva and Rattsø (2006) and Borge et al. (2014). I find that local demand determinants are more important for actual payments than for benefit norms, both before and after the introduction of national guidelines in 2001. These results support the hypothesis that caseworkers are governed, at least partly, by local political preferences.

Norway has chosen a more decentralized model compared with many other countries, but is not the only national government to recognize the advantages of decentralized social services. The US undertook a partial decentralization of assistance to the poor with the introduction of TANF in 1996 (Oates, 1999). One result seems to be that local political ideology and other determinants have become influential (Fellowes and Rowe, 2004; Fording et al., 2007; Soss et al., 2001).<sup>2</sup> Will Norway have to make a move in the opposite direction and make the national norm mandatory in order to reduce variation in welfare generosity? The present study illustrates the challenges central government faces when trying both to allow discretion and to restrain variation. The challenge of controlling complex decisions through simplistic measures is at the core of the principal–agent relationship between different actors in public service provision. This is also a relevant issue in the EU setting, as shown by studies of implementation of EU policy in the member states (Blom-Hansen, 2005; Knill and Lenschow, 1998; Linos, 2007).

The paper proceeds as follows: Section 2 discusses the role of the local benefit norms and the background to introducing a national norm. Section 3 develops the hypothesis for empirical testing. Section 4 presents simple analyses of the municipal benefit norms and the estimated municipal expected payments. The main analysis, testing the influence of local demand determinants, is presented in Section 5. Section 6 concludes.

## 2. Norwegian social assistance and the national benefit norm

Social assistance is designed to be a means-tested safety net for the Norwegian population. When all other potential sources of income are ruled out, social assistance shall ensure that the individual can sustain a minimum level of living conditions. The assistance is meant to be a temporary emergency solution and should cover only basic needs in order to motivate welfare clients to become self-sufficient. Yet a considerable number of people receive social assistance as their main source of income over several years, some even permanently.

The Social Service Act defines what sort of expenses welfare clients should be able to afford, but underlines that differences in needs require the municipality to consider each case individually. It also states that motivation toward self-sufficiency is important. Municipalities can condition payments upon efforts on the part of the welfare client and sanction non-compliance by reducing payments. In the end, the municipal caseworkers must make individual considerations and carry out needs assessments. In order to standardize some of the basic cost elements in the needs calculation, all local governments establish local benefit norms to guide the caseworkers' discrete

<sup>1</sup> See for example Inman and Rubinfeld (1997 p. 46). Wildasin (1991) derives the case for using intergovernmental grants to correct for externalities in income redistribution.

<sup>2</sup> The cited studies are also relevant in the sense that they look beyond stated local benefit norms in order to capture variation in actual welfare generosity.

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