



# Decentralisation In Times Of Crisis

Edited by  
Gian Marco Bovenzi



# **DECENTRALISATION IN TIMES OF CRISIS**

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Introduction by

Emma Galli

Conclusions by

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Edited by Gian Marco Bovenzi, Fondazione Luigi Einaudi

Introduction by Emma Galli

Conclusions and policy recommendations by Gabriele Pinto

European Liberal Forum EUPF

Rue d'Idalie 11-13, boîte 6, 1050 Ixelles, Brussels (BE)

[info@liberalforum.eu](mailto:info@liberalforum.eu)

[www.liberalforum.eu](http://www.liberalforum.eu)

Fondazione Luigi Einaudi Onlus

Via della Conciliazione,10, 00193 Roma

[info@fondazioneLuigieinaudi.it](mailto:info@fondazioneLuigieinaudi.it)

[www.fondazioneLuigieinaudi.it](http://www.fondazioneLuigieinaudi.it)

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# SECTION I

“DOCTRINA”:

A Decentralisation rationale



## Chapter 1

Decentralisation after the crisis: why we need more, and more autonomous, local jurisdictions

Fabio Padovano

## Chapter 2

Trade-offs in policy centralisation and decentralisation - broadly contemplated in times of crisis

Giampaolo Garzarelli



# Trade-offs in policy centralisation and decentralisation broadly contemplated in times of crisis

## Giampaolo Garzarelli

Giampaolo Garzarelli was educated at the American University, Washington, DC, Luiss-Guido Carli, Rome, the University of Connecticut, Storrs, and Sapienza – University of Rome. Professor Garzarelli's first research contributions lie in the field of the theory of the firm, modularity, and innovation, particularly in the co-evolution of technology and organization in voluntary open-source software production. More recently, he is trying to make time for older research interests, especially in the fields of the New Institutional Economics and Public Choice, that concern the Second-generation theory of fiscal federalism, particularly its laboratory aspect, and state formation through fission. He is the Editor of the Journal of Public Finance and Public Choice (Bristol University Press).



# CHAPTER 2

## Chapter 2

# Trade-offs in policy centralisation and decentralisation broadly contemplated in times of crisis

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### Introduction

**Giampaolo Garzarelli**

The lingering COVID-19 pandemic from the daily-spread trends of the SARS-CoV-2 virus has been compared to a terrorist attack, to being dragged into war, and to a natural disaster. It is undeniable that the parallel has valid foundation. There have been disruptive social and economic effects (negative externalities) like those that manifest in these other times of crisis – casualties, drop in GDP, exacerbation of the gender gap, unemployment spike, etc. And the arsenal of public policy tools that has been harnessed to deal with the pandemic is basically the same as that of these comparable situations of emergency: curfews, dedicated hospital

facilities, limitations of many social activities, and payroll subsidies. In addition, we have also experienced a less familiar policy, especially for democracies: lockdown by fiat. Clearly, we live in times of crisis.

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More generally, the pandemic returned to centre stage an important policy trade-off – the one between centralisation and decentralisation. Should there be a central, one-size fits all policy response in times of crisis? Or should there be a more grassroots, devolved policy response? The present contribution tackles the question positively rather than normatively, and points out, in telegraphic rather than in a full-blown missive form, how the answer to this question presents more facets than conventionally thought.<sup>1</sup> The key is to try to hold as clear a picture as possible about both the idiosyncratic context faced and the nature of the policy problem that one attempts to solve; while the former is usually considered, the latter is seldom. But both ought to be considered. Even though the key is cut with illustrations from the current pandemic, its insights can be applied to other crises.

### Hayek's lesson on decentralisation

If one thinks about the classical liberal legacy of Friedrich A. von Hayek in the context of

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<sup>1</sup> For a less-telegraphic answer from a different starting point, but from which this paper still draws from, see Garzarelli, Keeton and Siteo (2021).

social planning, then arguably the first point that comes to mind in trying to answer our question is to consider why we would even list centralisation as a policy alternative. For Hayek taught us that decentralisation is the most efficient form of organising purposive human activity. The pith of Hayek's decentralisation argument is as follows. (See Hayek 1948, especially Chs. 2 and 4.)

Humans have cognitive limitations. Notwithstanding these cognitive limitations, we have a mechanism, often taken for granted, that spontaneously coordinates purposive human action: the market. The market is an unintentional social institution that solves the problems associated with our cognitive limitations without anyone's planning. Indeed, for Hayek, the genuine economic problem resides in the division of knowledge, which can only be capitalised – viz., optimally coordinated and employed – if left to its own devices.

Consequently, no one can completely substitute the spontaneous order of the market with an intentional organisation, such as a central planning board, because no one completely possesses the amount of knowledge that is present in the market. Attempts at doing so basically reduce the variety of knowledge present in society. They rarefy individual knowledge, and, as a result, stifle economic initiative, leading to misery for all. It is for this reason that the market is for Hayek a "marvel" (Hayek 1948, p. 87).

The market-as-marvel notion leads to the most general Hayekian – and perhaps the most classical liberal – lesson: decentralisation is a more effective way of coordinating human activity than centralisation. Only decentralisation guarantees maximum individual freedom, and that an individual directly pays the cost tied to their choice (responsibility is not separated from action). The lesson served classical liberal purposes well as Hayek was engaged in the defence of freedom against social planning, where 1989 in this sense represents a notable turning point.

Over the years, this lesson has been generalised by analogy. It has largely been interpreted to mean that decentralised public good supply – which encompasses our main concern, namely public policy supply –

enhances welfare more than its centralised alternative. Consequently, since the market is superior to alternatives, the public sector should emulate it.

So, the analogy suggests that the public sector should be organised as a market. This is in the main useful advice. However, as often happens, matters are not so facile. The type of problem is relevant as much as the problem setting. Both are constraining, and hence define viable options too (e.g., Bolton and Farrell 1990; Kollman, Miller and Page 2000; Galli and Garzarelli 2020).

Hayek (e.g., 1997[1939], p. 194; 1948, pp. 268-9) was well-aware of the difficulties associated with implementing a decentralised public sector, and of intentionally creating institutions mimicking the market more generally. In particular, he knew that such institutions could not replace the market or be just like the market. At best, such institutions could aid the role of the market. Those same cognitive limitations that bring about the market, suppress the intentional creation of market-like institutions. A market-like institution is not an Athena-like output that can spring full-blown from the head of Zeus.<sup>2</sup>

In the Hayekian view, moreover,

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<sup>2</sup> Of course, Tiebout's voting with the feet model can be seen as an exception. However, as Tiebout himself admits, his exception works only because of the extreme – little realistic – assumptions of the model (Tiebout 1956).

decentralisation is not superior in absolute terms to centralisation. If one concedes that we live in a world of change, the point is that in a decentralised system people may more readily adapt to change that is familiar. But when change is unfamiliar – when, e.g., it doesn't involve just coordination of price and quantity but also that of the unexpected, such as change tied to a significant technological innovation or, closer to our times of crisis, to a pandemic – centralised organisation may be more appropriate. Nowhere is this view more evident than in Hayek's discussion of the "emergency powers" of a "model constitution" (Hayek 2013[1979], pp. 458-459).

"Though normally the individuals need be concerned only with their own concrete aims, and in pursuing them will best serve the common welfare, there may temporarily arise circumstances when the preservation of the overall order becomes the overruling common purpose, and when in consequence the spontaneous order, on a local or national scale, must for a time be converted into an organisation. When an external enemy threatens, when rebellion or lawless violence has broken out, or a natural catastrophe requires quick action by whatever means can be secured, powers of compulsory organisation, which normally nobody possesses, must be granted to somebody. Like an animal in flight from mortal danger society may in such situations have to suspend temporarily even vital functions on which in the long run its existence depends if it is to escape destruction."

Valuable insights can be gained by considering how this Hayekian prescription relates to our pandemic moment.

## Centralisation v. decentralisation in times of COVID-19 pandemic

COVID-19 is a problem that, recent vaccines notwithstanding, is still relatively little understood. For instance, while the elderly and those

with co-morbidity are universally identified as vulnerable categories, after all these months matters are still unclear about some types of infected (e.g., children) and the long-term effects on other types of categories (e.g., there is now medical debate about the consequences of COVID-19 on male fertility). Uncertainty moreover envelops other pressing issues too, such as the duration of immunity after recovery and the extent to which available vaccines will be effective against the mutant strains.

Even if COVID-19 is still relatively enigmatic, the daily-spread trends from it are an emergency that calls for urgent and necessary action. But we live in a world of constraints, and it is these constraints that often guide our decisions, including, we must not forget, policy actions. Additionally, because we also live in a world of change, it is important to keep in mind that, for a variety of reasons (growth of knowledge, legislation, politics, technology, etc.), constraints may change as well as correlate.

In representative democracy, pondered reasoning about a decentralised versus centralised policy response is particularly valid when there is sufficient time to reach political compromise and to try out various policy design options. An ill-defined problem usually is solved by running trials on its possible policy solutions, because gaps in cognition can be overcome through the mistake-ridden learning from decentralised policy experimentation (Garzarelli and Keeton 2018).

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Experimentation on vaccines as a pharmaceutical policy response instantly comes to mind. However, valid results from experimentation take time. In the case of COVID-19, many experiments were performed in parallel, and vaccines were developed and approved in record time. But production of vaccines and, especially, a vaccination campaign to reach herd immunity still take time. Meanwhile a pandemic does not stop, usually galloping at faster pace, and virus variants appear as well. One germane constraint is therefore time. Lack of time prevents an incremental, tailored non-pharmaceutical response from learning by distributed policy design. It prevents also long negotiations to reach political compromise for a multi-partisan policy solution. And in the immediate run both these favour a prompt – if less-refined – non-pharmaceutical response, such as a lockdown by executive decree.

The related constraint that is in operation is hospital capacity, which itself underwent change from the implementation of a policy of increased decentralisation stimulated by a constraint of its own known as the epidemiological transition (Omran 2005). The epidemiological transition is a phase that many countries, both developed and developing, have been undergoing from communicable to non-communicable diseases (e.g., cancer, diabetes, heart disease, mental illness). In the last decade or so, non-communicable diseases in fact accounted for 70 percent of all global deaths (Allen 2017). In terms of policy, this established transition put pressure on governments – especially those where health care is massively funded through the public sector with concomitant public access to the care perceived to be a fundamental individual right – to change priorities in healthcare service.

Consider Italy, where the right to health is constitutional.<sup>3</sup> Italian health care constraints in the face of the pandemic in part also mirror the earlier policy choice directed toward facility re-organisation and spending for non-communicable diseases from the epidemiological

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<sup>3</sup> See Article 32 of the Italian Constitution, available in official English translation at [https://www.senato.it/documenti/repository/istituzione/costituzione\\_inglese.pdf](https://www.senato.it/documenti/repository/istituzione/costituzione_inglese.pdf) (last accessed on July 20, 2021).

transition. That is, they reflect a policy that favours prevention rather than hospitalisation. Decisions about health coverage priorities and how to spend funds earmarked for health care shifted to where idiosyncratic health needs are, namely sub-nationally – to regions. Catering for non-communicable but well-identified morbidity requires the supply of ad hoc services locally, because that is where the relevant knowledge about the most pressing health issues usually is. Recent data indicate that regions ultimately maintained sufficient intensive care spots, but simultaneously reduced overall hospitalisation capacity.<sup>4</sup> Many other countries share a policy experience from the transition like the Italian one (something also reflected by the COVID-19 numbers and, almost always, by the COVID-19 policy choice – e.g., Spain).

In countries that have responded to the epidemiological transition, hospitals were mostly redesigned for non-contagious diseases (complex therapy, life-saving surgery, life-support, specialised diagnostic test, trauma, etc.). This constrained situation from the sensible policy response to the transition entails that a lockdown is seen as a political choice of self-preservation. Under a pandemic,

Lack of time prevents an incremental, tailored non pharmaceutical response from learning by distributed policy design

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4 See Angelici, Berta, Moscone and Turati (2020). One estimate reports that before COVID-19 Italy could rely on 5,324 intensive care hospital spots, and 2,974 spots in infectious disease hospital wards. These are small numbers if one considers a population of more than sixty million, with a very high share of elderly people – 23 per cent of Italians are aged 65 and over (2nd oldest population after Japan) with a median age of 45.5 (3rd highest after Japan and Germany). (The target, slowly being achieved, is to increase the total intensive care hospital spots by 50 percent). [https://www.corriere.it/cronache/20\\_marzo\\_16/coronavirus-quantanti-posti-terapia-intensiva-ci-sono-italia-quantanti-ne-arriveranno-0fbafa76-678a-11ea-93a4-da8ab3a8afb1.shtml](https://www.corriere.it/cronache/20_marzo_16/coronavirus-quantanti-posti-terapia-intensiva-ci-sono-italia-quantanti-ne-arriveranno-0fbafa76-678a-11ea-93a4-da8ab3a8afb1.shtml) (last accessed May 2, 2021).

the failure of the health care system could be disastrous, because it would also generate negative externalities for individuals in need of care from non-communicable diseases; that is, hospital congestion from a pandemic impacts those who need unrelated medical attention as well.

Thus, a decentralised policy response toward a well-defined problem later militated in favour of a centralised policy response toward an ill-defined problem. The substantive implication: when it comes to policymaking, problem faced matters as much as idiosyncratic context.

A lockdown by decree is a manifestation of policymaking under urgency and necessity – or, if you prefer, emergency – that can be reconcilable with representative democracy if checks and balances remain intact and the centralisation of executive power for policymaking, like the policy itself, has an explicit expiration date. Hungary under COVID-19 is in this sense the most obvious negative heuristic. (Also compare the classic Higgs 1992.) To say the same thing differently: without passing judgement about fairness or justice (Rawls 1999), there can be cases when a fiat response may be pursued in a liberal society. And this may be an underexplored role for the state-as-a-nightwatchman (Nozick 1974).



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