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At the conclusion of Part I of the Structure of Public Psychiatry sequence we return to the topic of Centralization vs. De-centralization in the American welfare state. For our purposes **Reading #12** is the most useful and succinct I know. Though written as an analysis of European health care systems, it is entirely applicable to the welfare state and public mental health in the United States

12.

OPTIMAL BALANCE OF CENTRALIZED AND DECENTRALIZED MANAGEMENT

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INTRODUCTION

Decentralization is typically a central plank of health sector reform. It is seen as an effective means to stimulate improvements in the delivery of services, to secure better allocation of resources according to needs, to involve the community in decisions about priorities and to facilitate the reduction of inequities in health. Whether the claims for decentralization outweigh the disadvantages, notably fragmented and duplicated services as well as high transaction costs, requires examination. Further, a tendency to discuss centralization and decentralization as if they were two distinct and therefore alternative categories also needs careful consideration. Decentralization is attractive because a central administration is typically not close enough to the users of services to allow appropriate responses to expressed preferences. Disappointment with large, centralized and bureaucratic institutions is widespread throughout Europe. In many countries, the same drawbacks of centralized systems have been identified: low efficiency, slow pace of innovation and inadequate responsiveness to changes in the external environment affecting health and health care. The susceptibility of centralized systems to manipulation by politicians is also

regarded as a cause for concern. It would, however, be naive to think that decentralization is automatically a solution to this problem. Decentralization can take many forms and is usually politically inspired.

The objectives of decentralization have been diverse. It has been seen as an important political ideal, providing the means for community participation and local self-reliance, and ensuring the accountability of government officials to the population. It has also been seen as a way of transferring some responsibility for development from the centre to the periphery and, in consequence, a way of spreading the blame for failure to meet local needs.

In many developed countries, local government has historically been strong with central government powers often being developed somewhat later than those of local government. However, central government has tended to place increasing restrictions on local government. A common theme in the expansion of the powers of central government has been the need to promote greater equality of public services throughout the country using central policies, regulations and grants. Decentralization nevertheless has remained a continuing cry, although often raised against a background of strong influences promoting centralization. Recently, faced with economic recession and a wish to control public expenditure, some central governments have tried to limit local discretion further.

Decentralization cannot be regarded simply as a technical matter. It arouses strong emotions, with the result that discussion of the concept is perhaps less balanced than it should be. Too often, only the advantages of decentralization are identified while those of more centralized systems are ignored.

CONCEPTS OF DECENTRALIZATION

Decentralization is a term that is overused while at the same time not fully understood. Its lack of precision makes it fashionable but also unhelpful when attempting to consider its particular strengths and limitations. It can be defined in general terms as the transfer of authority or dispersal of power in public planning, management and decision making, from the national level to subnational levels, or more generally from higher to lower levels of government (Rondinelli 1981). A dictionary definition describes decentralization in these terms: 'to withdraw from the centre; to transform by transferring functions from a central government, organisation or

existing structure of central government. Only administrative, and not political, authority is transferred to one or more lower levels. This has been termed the 'ministerial' model (Regan and Stewart 1982), whereby administrative responsibilities are handed over to locally based offices of central government ministries. Since deconcentration involves the transfer of administrative rather than political authority, it is seen as the least extensive form of decentralization. Nevertheless, it is frequently used in many countries. The local administration set up under deconcentration can be of two different types. In the vertical pattern of local administration, local staff of each ministry are responsible to their own ministry. The second type of local administration may be referred to as the integrated or prefectural form, in which a local representative of central government responsible to one ministry (e.g. the ministry of interior or local government) is made responsible for the performance of all government functions in that area. Sectoral government ministries exercise only technical supervision over their staff.

- *Devolution.* In implementing devolution (political decentralization), governments relinquish certain functions to new or different organizations outside their direct control. Devolution means the creation or strengthening of subnational levels of government that are substantially independent of the national level with respect to a defined set of functions. They may be called regional or local government.

Devolution thus implies a greater restructuring than deconcentration. Two major issues arise. First, health makes a heavy demand on recurrent expenditure, yet local governments often have restricted possibilities to raise revenue. One trend has thus been to shift health services ownership and financing out of local government control, as health services have become too expensive for them to maintain. On the other hand, if the cost is covered by central government grants to local governments, then this implies heavy dependence and a likely reduction in autonomy. Such a situation, especially within budgets covering actual expenses, offers health services an incentive to overspend and become inefficient. Second, devolution may complicate efforts to construct a logical hierarchy of health services and to set up a regional structure.

- *Delegation.* In delegation the emphasis is on giving an authority the right to plan and implement decisions relating to particular activities without direct supervision by a higher authority. This

form of decentralization relates only to defined tasks and not to all activities. The attraction of delegation is that it allows government regulations and bureaucracy to be bypassed in order to permit more efficient and flexible management.

If the management of an entire, nationalized health service is delegated to a parastatal organization, the role of the ministry of health is restricted to strategic and policy issues. This can happen under devolution as well as full-blown insurance-based health care provision. There is, however, a danger of duplication of services.

- *Privatization.* Privatization involves the transfer of government functions to a non-governmental organization which may be either a voluntary agency or a private company. It may refer to production (provision) of services, to financing of services, or to both (Barr 1987). In practice different combinations of these two elements can be found. Privatization may refer to support functions like maintenance, cleaning, transport, catering, and so on. Privatization does not remove from the government all burdens of health care management. In practice, a strong regulatory authority will be needed to monitor the supply and quality of both health services and supply industries (e.g. pharmaceuticals) and to ensure the effective coordination of services on a geographical basis.

PATTERNS OF DECENTRALIZATION

Countries employ different patterns of decentralization simultaneously for different functions. For instance, in the UK the model of organization is one of deconcentration. However, the chain of command from centre to periphery is interrupted by appointed district health authorities which are agents of the Secretary of State for Health.

With regard to devolution, the outcome depends on the strength of local governments. Countries which have successful regional and/or local government in health care typically have had it for a long time. Local democracy is not something which can be put in place overnight. Transferring decision-making power to weak local bodies is risky if a local 'dictator' can distort local democratic control for personal gain. In eastern Europe, for example, due to the weak democratic tradition, it has been difficult to understand the different roles of elected and nominated bodies.

The case of the UK nicely illustrates another version of this dilemma. The district health authority is accountable through the regional office to the Secretary of State for Health (the Minister). Although health authority members are appointed, some confusion exists as to whether they should be agents of the centre or represent local communities. In reality they fall into the former category, since they possess no local legitimacy in that they are centrally appointed rather than locally elected bodies.

In the Nordic countries, by contrast, health boards at either regional level (Denmark and Sweden) (Anell 1996; Anell *et al.* 1996) or municipal level (Finland and Norway) (Martikainen and Usikylä 1997; Saether and Hertzberg 1997; Saether and Olsen 1997) are democratically elected and directly responsible to their local populations. Managers and other professionals are employees who have only as much decision-making power as is delegated to them by the health boards.

The point is that whatever the composition of the decision-making body, it should be clear from where the mandate to operate comes. The fundamental question remains whether the head of a hospital or a district is allowed to exercise decision-making power and managerial (implementation) power at the same time. In principle, this should not be possible.

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