

Optimal territorial design and decentralization

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Abstract

We consider a multi-tier territorial organization with governments in charge of providing a bundle of public goods with different provision and access costs. A jurisdiction's provision costs depend on the types of public goods it provides and on the size of its administration. A citizen's access costs depend on the types of public goods and on her distance to the public facility that provides it. We compare the optimal territorial organization (the number of tiers and jurisdictions per tier, the size of their administration and the bundle of public goods provided at each level) under centralization and decentralization. Decentralization is modeled as a delegation game in which local decision-makers consider only the impact of their own decisions on the welfare of their constituents. We show that the effect of decentralization on the territorial organization depends on the attention given by citizens to the quality of public services: if it is large (low), the resulting territorial organization entails less (more) jurisdictions per tier, with reduced (increased) scopes, and a greater (smaller) number of tiers than under the centralized organization.

Keywords: Decentralization, Fiscal Federalism, Territorial Organization.

JEL classification: H11, H77

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