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Human development and decentralization: The importance of public health expenditure

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ABSTRACT

The capacity of governments to improve economic and human development is a major societal concern, being the public expenditure on health and education probably one of the main instruments and basic supports of modern welfare states and certainly the essential policies to improve the quality of life of their citizens. But the impact of these public policies on the economic and human development of a society is not just a matter of the volume of public spending. Like public policies more generally, organizational aspects will also have an influence, and one important dimension of organization is the extent to which public expenditures are decentralized. In this paper, we employ cross-country evidence to analyse how central and subnational expenditure in the areas of health and education can affect to a broader measure of economic and human development, the Human Development Index (HDI), and we also examine the impact on each of the HDI components. The HDI is a multidimensional, composite index of human and economic development, that allows us to include outcomes related to health, education, and income (UNDP 2020). Based on a sample of 57 developed and developing countries over the period 2000-2018, and applying data panel analysis, we find robust evidence that both central and subnational expenditure in the area of health have a positive impact on the HDI, and in each of their dimensions (life expectancy, education, and income), while in the case of the education expenditure, this positive and statistically significant effect on human development can only be confirmed on the educational dimension of HDI. These findings are robust to different lagged structures of the government expenditure variables, alternatives estimations techniques (2SLS), and the presence of a range of potential confounding variables including measures of the autonomy of subnational governments (i.e., political decentralization), and also investment and ethnic fractionalization.

KEYWORDS Human development; government health expenditure; decentralization

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