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# 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 jurisdictions provision costs depend on the types of public goods it provides and on the size of its public administration. A citizens 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. Under decentralization, political decision-makers neglect the impact of their decisions on the welfare of the other tiers constituents. We show that the first-best territorial pyramid (the number of tiers and jurisdictions per tier) is implementable under decentralization, but that political decision-makers choose a non optimal range of competencies and a non optimal size of their administration compared to the first best. Decentralized decision-making thus implies a complete territorial reorganization with more tiers, less jurisdictions per tier with reduced competencies but a larger size of their administration, for small valuations of the public activity and vice-versa.

**Keywords:** theory

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