

Merging regions: What effects will the French perceive?

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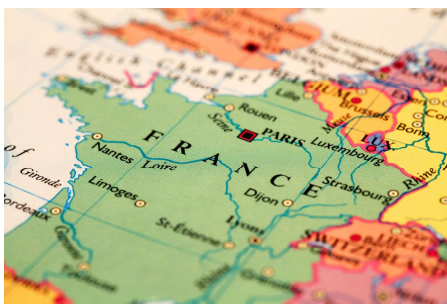
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To simplify France's "territorial patchwork" and to achieve a sufficient regional size by European standards, a redrawing of regional boundaries was decided in 2015, involving the merger of the 22 former administrative regions of metropolitan France into 13 new regions. In force since January 1, 2016, this reorganization aimed to reduce inter-regional disparities by merging large or "absorbing" regions, from an administrative or economic point of view, with smaller or "absorbed" regions. At the same time, the responsibilities of the new regions were expanded by the NOTRé law. An analysis of comparative changes in well-being, as declared by the inhabitants of the different regions concerned, suggests that merging has not had a negative impact; in fact, in the short term, absorption appears to have had a positive impact. The effects obtained are particularly pronounced for those with more mobility on the labor market. At the macro level, the unemployment rate decreased more in the merged regions. These elements suggest that the size effect of the new regions may have favored a certain economic dynamism that more than compensated for the possible loss of a sense of regional belonging.

- Since 2016, metropolitan France has had 13 administrative regions (compared to 22 previously) with expanded responsibilities.
- Although the reported well-being of inhabitants has not varied between merged and non-merged regions as a result of this reorganization, it has increased significantly in the short term in regions that have been absorbed on an administrative or economic level.
- This effect is more pronounced for individuals who are more mobile on the labor market and the unemployment rate has fallen more sharply in these regions.
- Increased economic dynamism thus seems to have benefited the populations of the regions concerned and to have more than compensated for the possible loss of a sense of regional belonging.



The Institute for Public Policy (IPP) was created by PSE and developed as a scientific partnership between PSE and the Groupe des Écoles Nationales d'Économie et de Statistique (GENES). The IPP aims to promote quantitative analysis and evaluation of public policies using cutting-edge methods in economic research.

Since 2016, metropolitan France (on the European continent) has been divided into 13 new administrative regions in place of the 22 former regions created 60 years earlier (see Figure 1 and Box 1). This redrawing was motivated mainly by the desire to simplify the "territorial millefeuille", which refers to the stacking up of different local authorities (communes, inter-municipal partnerships or EPCIs, departments, regions). It was also implemented to allow the creation of new regional entities of a size comparable to those of other European regions. In addition, the desire to reduce inter-regional disparities was emphasized during the legislative debate that preceded this reorganization, which accounts for the characteristics of the new administrative map.

The boundaries of some regions – Brittany, Centre-Val de Loire, Corsica, Île-de-France, Pays de la Loire, and Provence-Alpes-Côte d'Azur – remained unchanged. In the regions which merged, however, a new capital, new regional prefectures (reflecting, among other things, the devolution of national powers), and new regional councils (the deliberative assemblies of these local authorities) were determined according to the relative economic and political importance of the former regions concerned. For example, the city of Lyon, the former capital of the Rhône-Alpes region, became the new prefecture of the Auvergne-Rhône-Alpes region; it is also the seat of its new regional council. From this point of view, the Rhône-Alpes region can be considered as "absorbing" while the Auvergne region was "absorbed", insofar as the latter consented to a transfer – at least in a geographical sense – of its decision-making assemblies. Similar situations prevailed in Nouvelle-Aquitaine (Aquitaine absorbed Limousin and Poitou-Charentes), Grand-Est (Alsace absorbed Champagne-Ardenne and Lorraine), and Hauts-de-France (Picardie was absorbed by Nord-Pas de Calais). In other regions, governance was shared more equally, such as in Bourgogne-Franche-Comté, Normandy, and Occitania.

The perception of the merger

In the field of political economy, the optimal number and size of administrative jurisdictions (countries, regions, etc.) have been studied and theorized by Alesina and Spolaore (1997), among others. They result from a tension between, on the one hand, the need to achieve economies of scale by taking advantage of a size effect (an argument in favor of centralization with rather large entities), and on the other hand, a presumed taste among citizens for the management of political affairs at a local level (a preference for decentralization that calls instead for local decision-making bodies). In practice, assessing the relative importance of these two channels is a delicate exer-

Figure 1: Redrawing the administrative boundaries of metropolitan France
(a) The 22 former regions



cise that is subject to the need for appropriate experimental conditions.

The large-scale reorganization of the regions provides an interesting framework for conducting such an evaluation, because this administrative redrawing, which was rather unexpected at the time (this reform was not, for example, announced during the campaign for the 2012 presidential elections), was implemented throughout metropolitan France as of January 1, 2016. This natural experiment allows for a causal evaluation of the effects of regional mergers on self-reported subjective well-being. This ap-

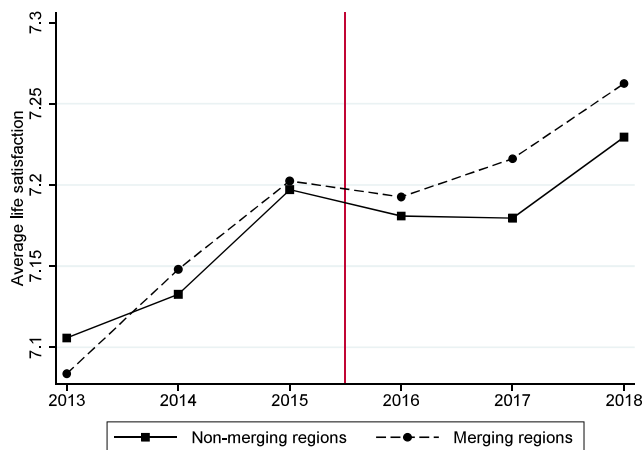
Box 1: Decentralization, a play in three acts

In France, the process of decentralization was initiated in 1982 by the Deferre laws (Act I), involving in particular the transfer of departmental executive power to the general councils. It was continued in the early 2000s (Act II) by granting financial autonomy to local authorities (regions, departments, municipalities) and by organizing the transfer of new powers to the regions, relating to high schools, the organization of regional rail transport, and professional training. Act III of the decentralization involves a redrawing of regional boundaries; it clarifies and strengthens their powers as well as those of inter-municipal authorities. In particular, it includes the following three laws:

- Law 2014-58 of January 27, 2014 on the modernization of territorial public services and the reinforcement of *métropoles* (MAPTAM), which clarifies the jurisdictions of territorial authorities and strengthens the role of inter-municipal organizations.
- Law 2015-29 of January 16, 2015 on the delimitation of regions, regional and departmental elections and the modification of the electoral calendar, which led to a redrawing of administrative regions in metropolitan France.
- Law 2015-991 of August 7, 2015 on the new territorial organization of the Republic (NOTRé), which reinforces the powers of territorial authorities.

proach was initiated by Flèche (2020) in the context of a centralization reform in Switzerland, which progressively expanded the powers of the cantons at the expense of the municipalities. This study focuses on the impact of this reform on the subjective well-being of citizens, measured by life satisfaction declared in surveys and filled in by individuals themselves on a numerical scale from 0 to 10, called the Cantril scale.¹ In the case of Switzerland, a federation of cantons, the study concludes that the reform has a negative impact on subjective well-being, linked to a preference for decentralization.

Figure 2: Changes in subjective well-being according to the merger status of regions



Interpretation: In 2013, on average, life satisfaction was 7.11 in regions that did not merge and 7.09 in regions that merged.

Source: SRCV survey, Insee, 2013-2018. Author's calculations.

In the case of a centralized country such as France, it is legitimate to ask whether such effects can also be detected. This evaluation mobilizes for this purpose the statistical survey on resources and living conditions of households (SRCV) produced by INSEE between 2013

and 2018. This source contains information on the subjective well-being of individuals, their region of residence, and their socio-demographic characteristics (age, gender, qualification, family status, labor market status, and socio-professional category, as well as the household's standard of living). It is based on a difference-in-differences method which consists of comparing changes in subjective well-being between a treatment group, exposed to administrative redrawing, and a comparison group, not affected by this reorganization. The regions that did not participate in the merger thus constitute a comparison group. The regions that have merged are, on the other hand, considered as a treatment group. This approach is based on an assumption of common trends between the comparison group and the treatment group, according to which the changes in subjective well-being would have been the same in both groups in the absence of the reform. Over the 2013-2015 period prior to the merger, this assumption is not invalidated by the data (Figure 2). The difference-in-differences econometric estimation, which controls for a set of cyclical and individual factors (including those mentioned above), concludes that there is a small but non-significant positive effect of the merger, which is already visible in Figure 2; in particular, there is no negative effect, which would reflect a preference for decentralization.

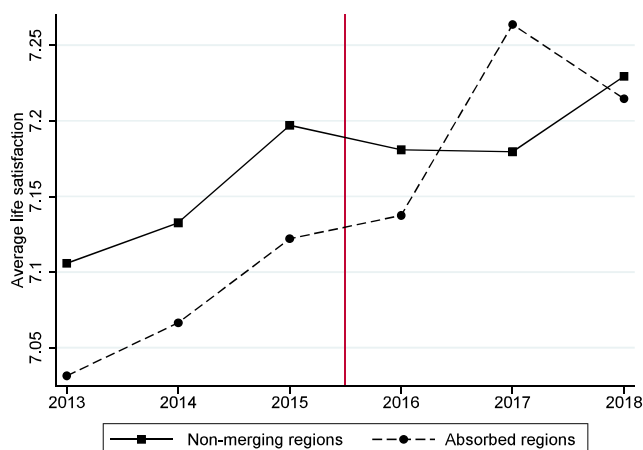
The perception of absorption

To take this further, it is possible to consider another treatment, absorption, defined as a former region being attached to a new regional capital. In the new regions of Burgundy-Franche-Comté, Normandy, and Occitania, governance is largely shared between the former regional capitals: The former regions of Franche-Comté, Basse-Normandie and Languedoc-Roussillon are not absorbed in

¹The principle is as follows: The top of the scale is associated with a very high declared satisfaction, the bottom of the scale corresponds to a very low life satisfaction.

the strict sense of the term.² The previous methodology is then used to compare the changes only between the absorbed regions and the regions that did not merge. Here again, the assumption of common trends seems plausible based on the years before 2016 (Figure 3). In particular, simulations of fictitious reforms (placebo tests) can be performed in 2014 as well as in 2015: With regard to these falsification tests, the changes are statistically similar in the two groups before the reform. The results of the analysis suggest that absorption not only had no negative impact on subjective well-being, but also increased it in the short run. The measured effect was +0.08 on the Cantril scale, which corresponds, for example, to about 8% of individuals reporting a +1 increase in life satisfaction on this scale, with the remainder reporting no change in life satisfaction as a result of the absorption. For comparison, the average increase in life satisfaction, nationally, was +0.16 between 2013 and 2018 (or 10% of a standard deviation). Finally, these effects are more pronounced for a population that is *a priori* more mobile in the labor market: single people, laborers, and those with a professional or technical degree.

Figure 3: Changes in subjective well-being according to the merger status of the regions



Interpretation: In 2013, on average, life satisfaction was 7.11 in regions that did not merge and 7.03 in absorbed regions.

Source: SRCV survey, Insee, 2013-2018. Author's calculations.

These results must be interpreted with caution: the existence of other unobserved factors that affected the absorbed regions more than the regions that did not participate in the redrawing, and that could have led to the divergence observed from 2017 onward, cannot be completely excluded. With this limitation in mind, however, these results can be set against the debates that ultimately led to the adoption of this administrative reorganization. The arguments against the merger included the importance of citizens' attachment to their region. If this

feeling of regional belonging had been predominant, negative impacts would undoubtedly have been observed, particularly in the regions that were absorbed: These regions have in fact undergone greater centralization than the others as a result of this reorganization, since they have seen their decision-making authorities move further away geographically.³ Compared to the results obtained in Switzerland, the absence of a negative effect highlights the importance of the institutional context more generally. It is indeed likely that citizens' preferences for decentralization have shaped the nature of a more decentralized – and in this case federal – state such as Switzerland. This is clearly not the case in a more centralized state such as France, and this difference in preferences may explain some of the above results. However, other elements specific to the redrawing of the French regions are also likely to explain this increase in well-being.

Regional government spending increased following the merger

In a 2019 report on local public finances, the French Court of Audit pointed to a more rapid increase in spending by regional authorities that had merged. This result can be explained precisely by the desire to avoid "the impression of absorption" (*Rapport de la Cour des Comptes* 2019), and in particular by a partial reorganization of services, preservation of existing administrative structures, or even a harmonization from above of the publicly funded schemes and salaries of the local authorities concerned. From this point of view, the reorganization has not generated any efficiency gains: On the contrary, costs have increased from an accounting perspective.

A greater fall in unemployment in the merged regions

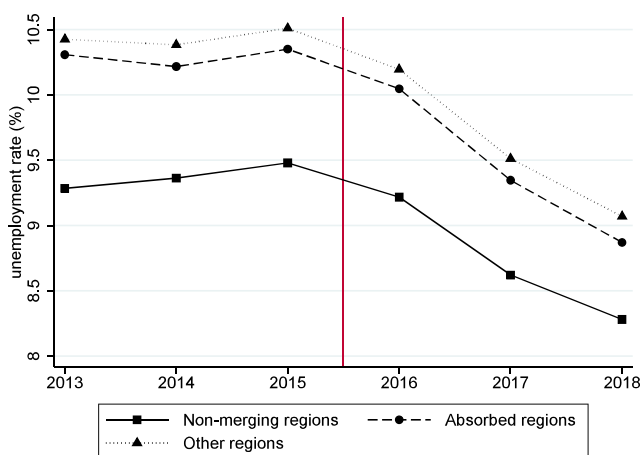
However, some spending has been devoted to promoting regional economic development, a responsibility of the regions which was reinforced by the NOTRé law (Box 1). This has thus contributed to a certain economic dynamism in the merged regions. The NOTRé law stipulates, for example, that direct aid from regional authorities to companies should be made more transparent and target support for innovation. These elements raise the question of whether such proactive policies at the regional level have stimulated economic activity in the new regional entities that have been created.

²The results presented below correspond to a conservative definition of absorption that excludes these regions; however, including these regions does not significantly alter the results.

³To test this mechanism, it would have been ideal to include a question directly related to the respondents' sense of regional belonging. Unfortunately, such a question was not asked in the survey.

One element of the answer relates to the development of the unemployment rate according to the merger status of the regions (not having participated in the merger, absorbed, etc.). Convergent analyses carried out at different levels of aggregation (new regions, old regions, departments, employment areas) allow us to estimate that the unemployment rate decreased more sharply following the merger in the regions that took part in the reorganization, by around 2% (which represents a decrease of 0.2 points). This decrease is mainly observed in the absorbed regions, and it is more pronounced among women, especially among those under 50 years of age, even reaching 3.8% among those under 24 years of age.

Figure 4: Unemployment rate changes according to the merger status of the regions



Interpretation: In 2013, the unemployment rate was 9.3% in regions that did not merge.

Source: Insee, 2013-2018. Author's calculations.

Conclusion

This study examined the individual and macroeconomic effects of the merger and the "absorption" of former administrative regions of metropolitan France. Enlargement of regional boundaries turned a blind eye to feelings of belonging to the former regions, but no negative effects were detected on well-being declared by the population. In fact, in the former "absorbed" regions, which were the most likely to be affected by such feelings, subjective well-being tended to increase in the short term. Moreover, a certain dynamism of local economic activity can be observed: The localized unemployment rate decreased more markedly in the regions involved in the merger, especially in the "absorbed" regions. The regions' increased responsibilities for economic development may have played a role in this more rapid reduction in the unemployment rate; however, the exact mechanisms through which this

effect may have been transmitted (business activity and hiring indicators, in particular) will need to be clarified in future research.

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Reference study

This policy brief is based on the Crest 2020-20 working paper "How do citizens perceive centralization reforms? Evidence from the merger of French regions".⁴

⁴<https://crest.science/wp-content/uploads/2021/06/2020-20.pdf>