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The Relationship between Fiscal Decentralization and Trust in Government: Evidence from the South Korean Case

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Abstract

To date, many developing countries have continued to implement fiscally decentralized governance systems to respond to the diversified needs of local residents more effectively and to better act in line with the public interest. However, little is known about the fiscal decentralization–trust link. Focusing empirically on the South Korean case, this study examines how financially decentralized governance might increase government

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trustworthiness not just at the national level, but also at the local level. The results of multilevel regression and panel data analyses partly confirm the results of pro-fiscal decentralization studies in that the growth of local fiscal autonomy is positively and significantly related to public trust in government. Specifically, we find that as fiscal decentralization improves, levels of trust in local government also rise. In addition, our findings show that in terms of having higher levels of public trust in government, the impact of revenue decentralization tends to be greater than that of expenditure decentralization. This evidence implies that allowing local governments to have their own revenue sources rather than expenditure autonomy can be a way to better respond to people's needs in the long run.

Points for practitioners

First, as fiscal decentralization improves, levels of trust in local government also rise. Second, allowing local governments to have their own revenue sources rather than expenditure autonomy can be a way to better respond to people's needs in the long run. Third, government policies should aim to provide benefits to citizens for their own sake, such as by exercising effective delivery or improving the quality of public services and programs that are likely to be viewed positively by constituents. This could encourage citizens to engage with the current public-sector spheres in ways that affect their confidence and expectations of government policies and bureaucrats in a positive manner.

Keywords

expenditure decentralization, fiscal decentralization, local fiscal autonomy, local trust, trust in government

Introduction

Improving the level of trust that citizens have in their government¹ has been a significant topic of interest in the field of public administration and policy for several decades. Research suggests that higher levels of public trust motivate or even alert governments and officials to pursue decisions consistent with the public interest and to accept accountability for the consequences of their decisions (Espinal, Hartlyn, & Kelly, 2006; Wang & Van Wart, 2007). Sometimes higher levels of public trust encourage governments to take on greater risk in order to achieve innovation in governance (Wolak & Palus, 2010), which can lead to better services for the community. In addition, trust in government helps improve citizens' compliance with laws and regulations (e.g., tax compliance), thereby lowering transaction and enforcement costs (Oh & Hong, 2012; Scholz, 1998). Indeed, trust in government appears to play a critical role in promoting public values such as accountability, transparency, efficiency, and responsiveness in a broader manner.

However, in today's complex and rapidly changing environment, public trust in government seldom evolves in a linear manner, and rather tends to fluctuate depending on various internal and external factors. More importantly, once the erosion of trust in government begins (e.g., during an economic downturn), it takes a considerable time to restore prior levels of trust (Van de Walle et al., 2008). This situation thus has provided researchers with unique social experiment opportunities to investigate the factors that may influence public trust. As a result, a large body of literature discusses the determinants of trust in government (e.g., citizens' satisfaction with public services, general democracy, and economic and political performance). Yet, most such studies tend to focus heavily on trust in central governments, with much less attention to trust in local governments. In addition, the research into trust in government has provided very limited information about the direct impact of government reform, especially in the financial context, on levels of trust.

Over the last two decades, fiscal decentralization has remained a gradual but noteworthy feature of the public sector. This fiscal and managerial trend is maximizing the discretion of lower levels of government to respond to the diversified needs of local residents more effectively and to better act in ways consistent with the public interest. In turn, many developing Asian countries (i.e., China, Malaysia, the Philippines, Indonesia, and South Korea) have also felt pressure to improve the quality of public services they offer as they have decentralized their fiscal systems of governance (Tang & Huhe, 2016). In response to these developments, this study is motivated by the need to examine how fiscal decentralization can affect the level of citizen trust in government, especially given the limited research that examines the fiscal decentralization-trust link. Focusing empirically on the South Korean case, this study not only looks critically at the rapidly changing socioeconomic context and the dynamics of fiscal decentralization among Korean sub-national governments, but it also examines levels of public trust at both the national and local levels. In doing so, the study aims to provide scholars and practitioners with fresh views on the issue and to stimulate further exploration of the idea that fiscal decentralization can positively affect citizens' perceptions of governments as trustworthy.

The remaining sections of this article are as follows. The next section sketches the historical trends and features of fiscal decentralization in the Korean government. The third section reviews existing literature to develop a theoretical framework on the fiscal decentralization-trust link. The following sections then discuss the data collection and methods, along with providing an explanation of the empirical findings. The final section concludes with a discussion of the findings, limitations of the study, and possible directions for future research.

Historical Trends and Features of Fiscal Decentralization in Korean government

The South Korean government has a unique history with decentralization compared to other countries. Since the Local Autonomy Law, enacted in 1949, public functions have devolved gradually toward local governments. While early decentralization was followed by a return to centralized control during the military regime (1961-1987), decentralization in governance regained its momentum with the national democratization movement in 1987. Subsequent decentralization was based largely on the Self-Governance Act of 1988, which allowed local top-level bureaucrats to be elected directly by the public. The first local elections took place in 1991, and another election for city mayors and provincial governors was held in 1995 (Kim & Lee, 2012). Later, under the Kim Dae-jung Administration (1998-2003), the Law for the Promotion of the Transfer of Central Authorities was enacted, establishing specialized committees for decentralization, and local councils were also elected alongside appointed local chief executives, who served as cornerstones for the gradual decentralization process.

Further developments took place during Roh Moo-hyun's Administration (2003–2008), when the Presidential Committee on Government Innovation and Decentralization was established to develop a roadmap for further decentralization and to accelerate the process. As part of the “regional redistribution policy,” one of the Roh Administration's key national agendas—the 2003 Special Law on Decentralization Promotion—was passed, which mandated the decentralization of a great many of the responsibilities previously handled by the central government (Bae & Kim, 2013; Kim & Lee, 2012). In turn, local policymaking generally became more transparent, accountable, and responsive to the demands of local residents.

President Moon Jae-in, the 19th and current President of South Korea, in office since 2017, has supported continued localization of government. “Well-balanced development across every region” has been the primary goal of the Moon Administration, which has resulted in the transfer of more national functions to local governments as well as the shifting

of a significant proportion of national and regional taxes in support of strong fiscal decentralization. Notably, however, despite important progress in administrative decentralization, when it comes to fiscal decentralization, the disparity in revenue-raising capabilities, and subsequently in revenue size, has remained significant between higher and lower levels of government, creating a persistent barrier to further decentralization in practice. Because not all local governments² have been given the authority needed to raise revenues, the tax bases of many localities have remained insufficiently broad to address local needs, and even the ability to tax goods varies across localities.³ As of 2017, the share of local taxes in national taxes in Korea (17.3%) remains lower than for numerous other countries (e.g., Japan: 23.9%, Kazakhstan: 22.1%, Australia: 20.5%) (OECD, 2019). Until recently, most Korean localities have continued to rely heavily on intergovernmental grants from the central government (Bae & Kim, 2013; Kim & Lee, 2012).

Nevertheless, the share of revenue attributable to sub-national governments seems to be increasing over time. As shown in the historical changes in fiscal autonomy index (see Figure 1), which is measured by the ratio of local taxes and non-tax revenues to the total budget (general account budget), over the past decade, the degree of fiscally-autonomous localities in most provinces has increased on average. In particular, since 2012, except for a few areas around the metropolitan regions (e.g., Seoul, Incheon, Daejeon, and Gyeonggi), the index has increased notably for local governments.

[Insert Figure 1 here]

A Review of the Fiscal Decentralization–Trust Link

Theoretical Insights

In order to uncover the relationship between fiscal decentralization and citizens' trust in government, this study builds on the mechanisms established by a large literature, which

provides clues (and evidence) that in a fiscally decentralized environment, it is likely that governments perform better, thereby leading to higher levels of public trust.

Much of the current research has examined and measured factors affecting trust in government, with the following factors repeatedly echoed in the public administration and policy literature: citizens' perceptions of economic and political performance (e.g., Espinal, Hartlyn, & Kelly, 2006; Kim & Lee, 2012), citizens' satisfaction with specific public services (e.g., public health, employment, and social services) (Christensen & Lægreid, 2005), their perception of the status of democratic rights (Zhao & Hu, 2015), and citizen engagement in the political system (Christensen & Lægreid, 2005; Wang & Van Wart, 2007) or administration (e.g., in the process of government performance measurement or e-participation) (e.g., Kim & Lee, 2012; Kweit & Kweit, 2007; Tolbert & Mossberger, 2006).

More notably, scholars have offered detailed insights into the role of fiscal decentralization in driving the abovementioned factors and thus in helping to improve citizens' trust in government. For example, fiscally decentralized governance systems can offer citizens greater choice in public services, since governments are better informed about the diverse preferences and needs of their constituents and are thus able to target their spending with appropriate discretion, thereby responding to peoples' needs with greater allocative efficiency (Jin & Zou, 2005; Martinez-Vazquez et al., 2017; Oates, 1972, 1999; Olson, 1969). Decentralized government can also enhance citizens' interest in the local decision-making process, which precedes increased democratic political participation (Dabla-Norris, 2006; Tang & Huhe, 2016). It is likely that governments (especially, elected public officials) in these circumstances thus become more accountable to constituents (voters) for their performance (Channa & Faguet, 2016; Tabellini, 2000). Furthermore, decentralized or fragmented public systems can stimulate greater competition among local jurisdictions, as they endeavor to attract more mobile resources—such as capital and labor—in order to

provide public goods and services (Dincer, 2010). In turn, many governments invest in infrastructure projects (e.g., urban transit and housing), which typically increases employment and income in the jurisdiction, thereby helping to promote long-term economic growth (e.g., see Brueckner, 2006; Kappeler et al., 2012).

To frame the main analysis around this line of reasoning, this study exploits the dichotomous character of the first- and second-generation fiscal federalism approaches, stemming from the distinct ways in which localities have sought fiscal discretion (that is, the expenditure-side-versus-the revenue-side decentralization). According to the first-generation federalism approach that has dominated studies of fiscal decentralization for more than four decades, local governments (agencies) tend to act as benevolent agents in favor of the public interest (e.g., social welfare), since they represent the first point of call for public goods and services for the local residents they serve, as compared with central governments (Musgrave, 1959; Oates, 1972, 1999; Weingast, 2009). Thus, it can be reasonably argued that through local autonomy on spending decisions (expenditure decentralization per se), local governments are likely to be viewed as trustworthy agents. By contrast, supporters of the second-generation fiscal federalism approach suggest that sub-national governments are more likely to pursue their own interests, acting as “selfish public officials with their own agenda” (Martinez-Vazquez et al., 2017). In this context, allowing local governments to raise a substantial portion of their own revenue (revenue decentralization per se) would incentivize them to be more accountable to citizens, to be innovative with market-enhancing public goods for economic growth, and to be less corrupt (Kwon, 2003; Weingast, 2009). Thus, such local fiscal changes may help generate higher levels of public trust in government.

Of course, the influence of fiscal decentralization in the literature appears to be highly context-specific as well as country-specific. In other words, one can argue that fiscal decentralization does not always lead to positive consequences (Channa & Faguet, 2016).

Presumably, the context-dependent nature of fiscal decentralization's influence is attributable to local governments' relatively weak administrative capacity in many developing countries and even some European countries (e.g., particularly regarding revenue-raising and borrowing competencies), which affects their ability to ensure discretion over fiscal decisions (Kwon, 2003; Ladner et al., 2019). Moreover, due to spillovers across local jurisdictions, fiscal decentralization can lead to the under-provision of public goods, and locally elected representatives may be easily "captured" by local elites and interest groups, which can increase corruption (Bardhan, 2002). Acknowledging these risks and the possibility of mixed or results, this study posits that the general relationship between fiscal decentralization and trust in government should be a positive one empirically.

Previous Empirical Evidence

In the existing literature, still much of the empirical analysis is favorable to the direct and indirect impact of fiscally decentralized governance on government trustworthiness. For example, in an effort to extend the positive argument of the decentralization–corruption link to the proposition of public trust, Dincer (2010) empirically examines the relationship between fiscal decentralization and trust. Based on data from the U.S. collected from the World Values Survey (WVS) and the Census Bureau, Dincer uses three different measures of decentralization—revenue decentralization, expenditure decentralization, and the number of local governments in each state government. His findings show a positive and statistically significant relationship between the measures of decentralization and the share of trusting people in a state. Using data from WVS and the IMF's Government Financial Statistics, Ligthart and van Oudheusden (2015) expand the level of analysis to 42 countries over the period 1994-2007. They posit that improved responsiveness of governments to their constituencies in fiscally decentralized governance systems can bring higher quality public

services, thereby leading to higher levels of citizen trust in government related institutions (Ligthart & van Oudheusden, 2015, p. 117). In their empirical models, they consider varying types of public trust, including citizen confidence in the national government, civil services, parliament, and political parties. They also examine public trust in non-governmental institutions such as churches, press, and television. Their overall findings confirm a positive relationship between fiscal decentralization and trust in government. Notably, however, Dincer's research focuses not on trust in government but on trust in persons. Ligthart and van Oudheusden's study views trust in government in various categories of the public sector but fails to directly measure citizen trust in local government.

A recent study by Tang and Huhe (2016) examines cases of East Asian countries and finds a contrasting pattern of political trust in government across different countries. They gauge fiscal decentralization as the averaged share of local expenditure and revenue over total expenditure and revenue (p. 224), finding that in democracies (i.e., Japan, South Korea, and Taiwan), the effect of fiscal decentralization is more likely to have a positive impact on local trust than on national trust. On the other hand, in authoritarian countries (i.e., China, Singapore, and Vietnam), its impact is more likely to be negative at the local level compared to the national level. As Tang and Huhe note (2016, p. 230), "decentralization constitutes a driving force that causes people to hold different views toward national and local governments." Yet, based on their findings, the effect of fiscal decentralization on public trust in government indeed appears to be conditional upon the context and regime-type (p. 217).

Although a so-called *cause-and-effect* path between fiscal decentralization and government trustworthiness is somewhat unclear and indirect (Martinez-Vazquez et al., 2017), some recent survey-driven empirical studies provide further confidence regarding our line of inquiry. For instance, focusing on the dynamics of decentralization in a single developing country (here, Bolivia and Colombia, respectively), Faguet (2004) and Faguet & Sánchez

(2014) find that public investment patterns in the areas of social services such as health and education tend to positively change under decentralization, especially in terms of the quality of local public services. This implies that decentralization helps bring governments “closer to the people” in a manner that reinforces local preferences (Channa & Faguet, 2016, p. 200), which in turn likely leads to increased responsiveness and benefits to their citizens. In a similar vein, scholars in economics and political science have also highlighted the positive impact of fiscal decentralization on various types of outcomes in the public sector, such as economic development (e.g., an increase in GDP), income equality and poverty reduction, social capital, corruption control, and budget size (e.g., see Ladner et al., 2019; De Mello, 2011; Fisman & Gatti, 2002; Kwon, 2013; Martinez-Vazquez et al., 2017).

Taken together, it can be reasonably argued that fiscally decentralized governance systems may maximize the likelihood of positive outcome related to government-driven policies or decision-making, by better tailoring those outcomes to local needs (Faguet & Sánchez, 2014). This, in turn, is likely to improve people’s trust in their government.

Data and Methods

Data Source

As mentioned earlier, in order to obtain more reliable results, objective organizational-level (government) data and subjective individual-level (citizens) data was combined in the empirical models. The data were gathered from two main sources. First, data on budget and other financial data of local governments were collected from Statistics Korea and Local Finance Integrated Open System, run by the Ministry of the Interior and Safety of the Republic of Korea. Second, we measured public trust in government using responses from four sets of *A Survey of Citizens Perceptions on Public Administration*, collected in 2007, 2010, 2013, and 2016, respectively, by the Korea Institute of Public Administration (KIPA).⁴

Measures

Trust in government To measure trust in government, the study uses the following survey question with a choice of two answers: “How much do you trust each of the following organizations?” – (1) central government and (2) local government, ranging from 1 (*not at all*) to 4 (*a great deal*). With regard to the level of trust in central government and trust in local government, the mean values increased from 2.20 to 2.30, and 2.19 to 2.25, respectively, over the period 2007-2016 (see the descriptive statistics of variables in Appendix A). This evidence shows that Korean citizens’ trust in government at both levels has increased modestly over time.

Fiscal decentralization Given the lack of agreement over how to measure fiscal decentralization (Ladner et al., 2019), studies have relied on the revenue-side of local governments, the expenditure-side, or both (e.g., see Dincer, 2010; Yeung, 2009). For deeper probing of the topic, we include both dimensions of fiscal decentralization in our empirical models. In particular, as mentioned earlier, it is important to examine local autonomy over expenditure decisions, because under decentralization, how and how much local governments actually spend in line with constituents’ needs may represent the degree of “good governance” in the long run and may thus correlate with citizen trust in government (e.g., see Ladner et al., 2019; Weingast, 2009). We thus incorporate expenditure decentralization into the model and measure it as the share of each local government’s total expenditures over the sum of all levels of government’s expenditures (as percentage), as with some previous studies (e.g., Dincer, 2010; Ligthart & van Oudheusden, 2015). Each local government’ total expenditures include all kinds of public expenditure (e.g., consumption, investment, and transfer payments) for general public service, public order and safety, education, culture and

tourism, health, social welfare, agriculture, science and technology, transportation, to name a few.

Importantly, due to multicollinearity between the standard measures of revenue and expenditure decentralization, which generates a correlation coefficient above 0.9 each year, we chose a fiscal autonomy index instead as a proxy measure for revenue-side decentralization. This index has long been considered a comprehensive indicator that reflects the fiscal conditions of local governments in Korea, because related information has been updated and reported every year by the Ministry of the Interior and Safety, Local Fiscal and Economic Policy Office, Korea. It is calculated by multiplying local own-source revenue (local taxes and non-tax revenue) by 100 and then dividing it by the revenue of the general account. Further, it is notable that our models originally considered two classifications of the index to tackle endogeneity issues and to produce more rigorous estimation results: (1) the current year value (t) of the index, and (2) the difference between the current year value and the previous year value of the index (Δ). The former represents an absolute-level of local fiscal autonomy each year, whereas the latter represents its relative change over the year. Yet, due to the correlation issue (here, the coefficient above 0.7 each year), we include the relative-level index (Δ) only.

Analyses and Control variables Given the data available for empirical analyses, we employ multilevel mixed-effects Ordered Probit regression. This strategy allows for an examination of the effects of individual-level and group-level components of the variables simultaneously. For control variables, as with previous studies (e.g., Christensen & Lægreid, 2005; Espinal et al., 2006; Kim & Lee, 2012; Zhao & Hu, 2015), we include six variables based on respondents' demographic characteristics (gender, age, education, and income level), political ideology (their own liberal-versus-conservative identifications toward politics), and

perception of national economic conditions (PNEC). We expect that respondents' personal characteristics may lead to variance in the way they view, and in the extent to which they support, national and local governments. Additionally, we include four macro-level regional characteristics: local leaders' political party, unemployment rate, gross regional domestic product (GRDP), and the population of each local government, since trust in government cannot be studied in isolation from where citizens live.

Results

Multilevel analysis

Table 1 contains the results of the multilevel analyses. To begin, the intra-class correlation represents the correlation between the error terms, and the more homogeneous the level-2 units are, the higher the intra-class correlation coefficient (ICC) is (Steenbergen & Jones, 2002, p. 223). Here, the ICC for each model approaches zero, indicating that the difference between areas is heterogonous enough to use a multilevel analysis rather than a simple ordinary least squared regression without different levels of analysis.

The estimated coefficients on fiscal decentralization are of primary interest for this study. As explained in the methodology section, fiscal decentralization is measured in two ways: the relative change in the fiscal autonomy index (Δ) and expenditure decentralization. The results reported in Table 1 suggest that the effect of fiscal decentralization is not universal, depending on how it is measured. Even so, to varying degrees, the magnitude-difference between the previous year and the present year of the fiscal autonomy index positively affects trust in local government over the years. However, it was found that the coefficient on expenditure decentralization is not significant in any regression. This result may limit the generalizability of this study and warrant further investigation.

In addition to different effects depending on the measure of fiscal decentralization, some variation also exists in the magnitudes of the coefficients. In particular, the coefficients that represent the effect of the relative change in the fiscal autonomy index on citizen trust in local government vary depending on the year; it is far greater in 2007 and 2013 than in 2010 and 2016. These differences may be a function of changes in the political context: Korea has a local election every four years, and depending on the political ideology of newly elected governors, the level of fiscal autonomy can be altered, which in turn may affect the degree to which the fiscal autonomy index affects citizen trust. In 2007 and 2013, the political party variable is substantively and statistically significant, whereas it is insignificant in 2010 and 2016. This implies that political factors can create differences in the magnitude of the coefficient.⁵

With this caveat in mind, the evidence regarding the fiscal decentralization-trust link in central government turns out to be neither consistent nor significant. These results thus suggest some degree of discrepancy in decentralization's effect on trust in central and local government. With regard to control variables, only individual-level of citizens' perceptions of the national economy acts as a significant predictor of trust in both central and local government.

[Insert Table 1 Here]

Robustness checks

The aim of this study is to determine the influence of decentralization on citizen trust in government. Yet, it may also be the case that trust in government leads to increases in decentralization as well (e.g., see Ladner et al., 2019). For example, citizen trust in government tends to enhance tax morale (Luttmer & Singhal, 2014; Torgler, 2003), and as a result, to contribute to greater local government revenues. In this case, citizen trust in

government may improve the level of decentralization, as local governments have more resources to spend autonomously. In other words, reversal causation is plausible. For this reason, we conduct a complementary panel data analysis that provides a more rigorous test of the fiscal decentralization-trust link by taking into account the possibility of dynamic reciprocal relationships.

One notable concern in using panel data analysis for this study is the differing units of analysis. The unit of analysis of trust in government is the individual-level survey respondent. By contrast, the level decentralization is an area level variable. In an effort to unify the units of analysis, we thus aggregated the individual-level data, using the mean value of the sixteen regions of the Korean sub-national structure.

Table 2 reports the abridged panel analysis results covering the period 2007-2016. A Hausman test indicates that the fixed effects estimates are the most appropriate to use. Contrary to our expectation, neither the fiscal autonomy index (Δ) nor expenditure decentralization turns out to be significant in its association with citizen trust in central government. Regarding trust in local government, the fiscal autonomy index affects the outcome in a positive direction, though expenditure decentralization does not. As can be observed, no strong generalizations can be made about the impact of decentralization on trust in government, as the effects vary by indicator. Yet, over different methodological approaches, a small yet causal decentralization-trust link does seem to exist.

[Insert Table 2 Here]

Discussion and Conclusion

This article empirically examines the relationship between fiscal decentralization and citizen trust in government. Using multilevel regression and panel data analyses, the study considers how financially decentralized governance might increase government trustworthiness not just

at the national level but also at the local level. The findings partly confirm the results of pro-fiscal decentralization studies in that the growth of local fiscal autonomy is positively and significantly related to public trust in government. Specifically, we find that as fiscal decentralization improves, levels of trust toward local government also rise. This finding is consistent with Tang and Huhe's (2016) observation that in democratic governments, the impact of fiscal decentralization on citizen's trust in government is more positive at the local level than at the national level. In addition, our findings show that in terms of having higher levels of public trust, the impact of revenue decentralization tends to be greater than that of expenditure decentralization. This evidence supports the second-generation fiscal federalism theories. It implies that to effectively respond to people's needs, local governments need to have their own revenue sources (revenue-raising capacity *per se*) rather than the expenditure autonomy.

Another notable finding of this study is that citizens' perceptions of national economic conditions work as one of the strongest determinants of trust in government at the central level as well as the local level. While national economic conditions are not under the direct control of government, the results here suggest—and we suspect—that governments may have enough incentive to devote time to designing policies that positively influence citizen trust in government, albeit it indirectly. For instance, in cases where governments fail to deliver what they promise and thus face poor public outcomes (e.g., unsatisfactory service quality), or citizens continue to hear news about political scandals or corruption in the public sector (Van de Walle et al., 2008), citizens' distrust in government will likely increase (Christensen & Laegrid, 2005; Van de Walle & Bouckaert, 2003). From this perspective, government policies should aim to provide benefits to citizens for their own sake, such as by exercising effective delivery or improving the quality of public services and programs that are likely to be viewed positively by constituents. This could encourage citizens to engage

with the current public-sector spheres in ways that affect their confidence and expectations of government policies and bureaucrats in a positive manner (Kim, 2010).

This study makes several contributions worth mentioning. First, it constitutes of the first studies to bridge the gap between two central yet disparate topics in public administration research, decentralization and trust. In this sense, it enriches the literature and brings some conceptual and analytical clarity to the discipline. Second, in addition to providing some empirical evidence in support of the positive aspects of fiscal decentralization, it adds to the generalizability of this broad finding by considering an Asian context that to this point has been relatively understudied. Third, by employing data from multiple sources, and combining subjective survey data with objective data, it offers a more refined set of variables that appropriately capture the reality of the situation. What is more, the use of varying measures of fiscal decentralization in the empirical model allows us to examine diverse aspects of local government's fiscal conditions on both the expenditure and revenue sides, thereby providing a more contextualized understanding of the fiscal decentralization-trust link.

It is also important to note some limitations of this study that may suggest opportunities for future research. First of all, one concern stems from the nature of the data itself, as briefly mentioned above. Due to the lack of available data, it has not been possible to incorporate longitudinal survey data dealing with perceptions of the same group of survey respondents over time into the empirical models. Instead, the analyses were based on cross-sectional survey data. It will thus be important for future research to employ more extensive and varied approaches, including interviews with citizens (in particular, the beneficiaries of specific programs that emerge as a result of fiscal decentralization) and local public officials in order to compare their viewpoints on the topic. Relatedly, future research might narrow the focus to

particular welfare programs in order to frame a more in-depth analysis. This may help to supplement our empirical data and add further weight to the findings.

Moreover, additional factors were left untested in this study but could influence the extent to which citizens trust the government. For example, although it is not necessarily the case in practice, and its impact largely depends on the level of economic development or the quality of governance (Martinez-Vazquez et al., 2017), one could argue that fiscally decentralized governments are likely to perform better or provide better service quality at the local level, thereby leading to higher levels of public trust (e.g., Kim, 2010). Yet, as noted above, government trustworthiness itself tends to move together in a relationship with the effectiveness of specific policies, the size of the budget (i.e., the level of expenditure), citizens' pre-determined image of government officials (especially the negative ones), and their perceptions of fairness and opportunities for participation in the public decision-making process (e.g., see Kim & Lee, 2012; Wang & Van Wart, 2007; Whiteley et al., 2016). Accordingly, much more work, including more mediating factors in the empirical models, may be needed before researchers can confidently state that a strong causal link between fiscal decentralization and trust in government exists.

More importantly, as mentioned earlier, many Korean local governments still remain highly dependent on the central government. The scope of discretion they enjoy in managing their own financial resources is indeed limited, and their capacity to manage resources appears to vary substantially by region, institutional setting, and political environment; future studies would do well to examine these differences. Lastly, since this study considers only one country context, some may raise concerns regarding its relevance to other contexts. Thus, the observations outlined in this study need to be further validated in other locations.

Notes

1. Trust in government tends to be described as political support by citizens regarding the *process* or *output* of government efforts (or both) (Easton, 1965; Tolbert & Mossberger, 2006). Whether the degree of trust (public support) is about *government institutions* (e.g., including President, Congress, judiciary, political parties, or local councils) or *individual actors* (e.g., political leaders or government officials), or both, is still open. According to Van de Walle and Bouckaert (2003, p. 893), in a broader sense, trust has often been used interchangeably with citizens' confidence, beliefs, perceptions, and image of government, which suggests that trust in government should be interpreted as citizens' general (positive or negative) attitudes or perceptions towards government (institutions or political actors) beyond a restricted meaning.
2. There are two tiers of local government below the central government, which are comprised of the upper-tier of special cities and provinces, and the lower-tier of cities, towns and townships. The regional level is composed of nine provinces (*do*), six metropolitan cities (*gwangyeoksi*), Sejong self-governing city and Seoul capital city (*teukbyeolsi*), while the municipal level consists of cities (*si*), counties (*gun*, mostly rural) and autonomous districts (*gu*). There are also 17 independent educational offices. In 2012, Sejong special self-governing city was created and added to the current government structure. However, it should be noted that the present study does not include Sejong city in its empirical models due to lack of available data.
3. The upper-tier localities including provincial and metropolitan governments have the authority to levy taxes on acquisitions, registrations, licenses, and regional development, while the lower-tier ones can levy taxes on residents, properties, tobacco, aggregate land, automobiles, farmland, and commercial businesses.

4. Specifically, since 1992, the Korea Institute of Public Administration has operated the triennial survey of approximately 1,000 citizens (age 20 and over) to explore historical trends in citizens' attitudes toward government management. The survey respondents are polled using a nationwide proportional stratified sampling method. The survey includes questions regarding general experiences with public administration, degrees of satisfaction and trust in government services, views on politics, citizen participation, and so on.
5. Notably, since our analysis is not an ordinary least squares regression, a straightforward interpretation of the coefficients is less meaningful.

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Table 1. Results of Multilevel Mixed-Effects Ordered Probit Regression

Dependent Variables: (1) Trust in Central Government (Central Trust); (2) Trust in Local Government (Local Trust)								
	2007		2010		2013		2016	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
<i>Fiscal Decentralization</i>								
Fiscal Autonomy Index (Δ)	1.36 (1.16)	5.01*** (1.15)	-.012 (.02)	.008** (.02)	6.71 (6.38)	2.80*** (6.61)	2.90 (2.38)	.769* (2.05)
Expenditure Decentralization	1.47 (2.16)	3.18 (2.12)	4.24 (2.91)	.693 (3.50)	-9.71 (10.13)	-9.48 (10.54)	-2.02 (4.33)	-2.76 (3.77)
<i>Individual-level</i>								
Gender	-.131 (.07)	-.150* (.07)	-.146* (.07)	-.093 (.07)	-.014 (.07)	.046 (.07)	-.018 (.07)	.021 (.07)
Age	.002 (.00)	.002 (.00)	.010* (.00)	.004 (.00)	.008* (.00)	.006* (.00)	.034 (.03)	.023 (.03)
Education	.050 (.04)	-.015 (.03)	-.041 (.04)	-.062 (.04)	.029 (.04)	.021 (.04)	-.037 (.04)	.036 (.04)
Income	.014 (.01)	.005 (.01)	.065*** (.02)	.048** (.02)	.012 (.01)	.010 (.01)	.045* (.02)	.019 (.02)
Ideology	.005 (.03)	-.007 (.03)	.004 (.02)	.025 (.02)	-.075** (.02)	-.018 (.02)	-.047 (.03)	-.029 (.02)
PNEC	.416*** (.05)	.155** (.05)	.277*** (.04)	.202*** (.04)	.256*** (.05)	.297*** (.05)	.293*** (.05)	.300*** (.05)
<i>Government-level</i>								
Political Party	.184 (.17)	.503** (.17)	.373 (.20)	.227 (.23)	-.387* (.22)	-.411* (.23)	-.375 (.18)	-.210 (.16)
Unemployment Rate	.050 (.07)	.145 (.07)	-.195* (.10)	-.273** (.11)	.276 (.15)	.105 (.17)	.187 (.14)	.143 (.12)
GRDP	.006 (.01)	.007 (.01)	.007 (.01)	-.006 (.01)	.004 (.01)	.009 (.01)	.008 (.01)	.001 (.01)
ln(Population)	-.035 (.18)	-.127 (.18)	-.213 (.22)	.049 (.26)	.784 (.67)	.751 (.69)	.078 (.31)	.148 (.27)
N	993	994	987	988	1,000	1,000	1,000	1,000
Wald R-squared	91.35***	57.39***	88.57***	50.04***	60.15***	51.45***	69.52***	54.14***
ICC	1.29e-16	2.43e-20	.023	.035	.044	.052	.028	.023

Note: Standard errors reported in parentheses. PNEC = Perceived National Economic Condition, GRDP = Gross Regional Domestic Product.
*p<.05, **p<.01, ***p<.001

Table 2. Results of Panel Data Analysis

	Trust in Central Government (Central Trust)		Trust in Local Government (Local Trust)	
<i>Fiscal Decentralization</i>				
Fiscal Autonomy Index (Δ)	.010	(.01)	.017**	(.02)
Expenditure Decentralization	3.74	(6.79)	4.22	(8.02)
<i>Government-level</i>				
Political Party	-.024	(.07)	-.00004	(.08)
Unemployment Rate	.036	(.07)	.003	(.08)
GRDP	-.007	(.01)	-.008	(.01)
ln(Population)	1.45	(1.21)	1.17	(1.44)
<i>N</i>	62		62	
<i>F</i>	0.49		0.41	
R-squared	.005		.003	
Hausman Test	Fixed		Fixed	

Note: Standard errors reported in parentheses. *F* indicates the F-statistics and *N* is the number of observations.

* $p < .05$, ** $p < .01$, *** $p < .001$

Figure 1. Historical Changes in the Fiscal Autonomy Index

Note: Data was derived from Local Finance Integrated Open System

<http://lofin.mois.go.kr/portal/main.do>

Appendix A. Descriptive Statistics and Measurement of Variables

Variables	2007		2010		2013		2016	
	Mean (SD)	Range (Min ~ Max)	Mean (SD)	Range (Min ~ Max)	Mean (SD)	Range (Min ~ Max)	Mean (SD)	Range (Min ~ Max)
Fiscal Autonomy Index (Δ)	-.016 (.045)	-.220~.064	-2.84 (4.95)	-13.20~6.18	-.014 (.014)	-.052~.074	.032 (.033)	.002~.11
Expenditure Decentralization	.109 (.069)	.023~ .210	.103 (.062)	.022~.196	.101 (.055)	.023~.174	.105 (.062)	.024~.189
Gender	.493 (.500)	0~1	.493 (.500)	0~1	.494 (.500)	0~1	.496 (.500)	0~1
Age	43.17 (14.02)	20~80	44.46 (13.88)	20~79	45.40 (13.70)	20~78	3.17 (1.41)	1~5
Education	4.51 (1.31)	1~8	4.46 (1.28)	1~8	4.56 (1.14)	1~8	4.75 (1.15)	1~8
Income	5.86 (2.70)	1~13	6.54 (2.59)	1~13	8.18 (2.87)	1~15	7.74 (2.51)	1~13
Ideology	3.82 (1.33)	1~7	5.21 (1.75)	0~10	5.13 (1.65)	0~10	5.18 (1.51)	1~10
PNEC	2.05 (.764)	1~5	2.38 (.913)	1~5	2.16 (.780)	1~4	2.33 (.766)	1~4
Political Party	.067 (.25)	0~1	.618 (.49)	0~1	.454 (.50)	0~1	.498 (.50)	0~1
Unemployment Rate	3.23 (.816)	1.7~4.1	3.64 (.930)	1.8~5.1	3.13 (.723)	1.8~4.2	3.72 (.655)	2.1~4.9
GRDP	21.76 (5.46)	13.85~46.4	25.48 (7.20)	13.85~57.19	28.38 (7.75)	18.08~60.09	31.86 (7.75)	20.15~60.96
ln(Population)	15.30 (.814)	13.23~16.22	15.26 (.892)	13.26~16.28	15.32 (.847)	13.29~16.32	15.33 (.857)	13.37~16.36
Trust in Central Government	2.20 (.659)	1~4	2.32 (.683)	1~4	2.29 (.649)	1~4	2.30 (.669)	1~4
Trust in Local Government	2.19 (.666)	1~4	2.43 (.680)	1~4	2.37 (.718)	1~4	2.25 (.707)	1~4

Note: *Gender* was recorded as a dummy variable (1 = *male*, 0 = *female*). *Age* was measured as numerical values (more than 20 years old). *Education* was measured using the question: “What is the highest level of education you have completed?” (0 = *less than primary school*, 9 = *more than doctorate degree*). *Income* was applied as a continuous variable (average monthly household income). *Ideology* was about a respondent’s liberal-versus-conservative political ideology, measured on a standard 7-point scale, with larger values indicating more conservative identification. *PNEC* was measured with the question: “What do you think about current national economic conditions?” and then

measured with a 5-point Likert scale, ranging 1 = *very bad* to 5 = *very good*. *Political Party* of local leaders was coded “1” if the local leader in each government was involved in a ruling party; or coded “0” if otherwise. *Unemployment* was measured as an unemployment rate of local government each year. *GRDP* was recorded as the value of gross regional domestic product (in million won) in localities each year. Lastly, *Population* was measured as a natural log term of total residents in each local government.