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Independence of Local Government

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Abstract

This paper is about sovereignty of local authority, advantages and disadvantages of independence of local government from the point of finance.

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INDEPENDENCE OF LOCAL GOVERNMENT

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Abstact: **this paper is about sovereigntyof local authority, advantages and disadvantages of independence of local government from the point of finance.**

Key words: **autonomy, local government, choices and Responsiveness, citizen participation, experimentation and innovation, accountability, improved revenue mobilization, easier monitoring of results, subnational minority majorities, duplication and responsibility, external impact of local decisions.**

Regional autonomy policy gives rights and responsibilities of local governments extensively to organize and manage the affairs of government, in order to improve the efficiency and effectiveness of governance and public service adapted to the conditions, potential and uniqueness of the area concerned, the principle of funding following the government functions that become obligations and responsibilities of each level of government. The regional autonomy policy, on the one hand has magnified the role, functions and responsibilities of local governments in the provision of public services. While on the other hand, the consequences on the increasing need for funding sources to finance the provision of those services.

Local governments should seek to enhance the well-being of their citizens through the provision of public services consistent with the goals of the citizenry. If governments fail to provide these services, to pay for their provision in a responsible fashion, or to safeguard resources obtained to provide these services, the wellbeing of the citizenry, at present and in future, will be in jeopardy. The fiscal local government reflects the several advantages and disadvantages.

There are advantages and disadvantages of local government finance:

№	Advantages	Disadvantages
1	**Choices and Responsiveness**	**Duplication and Responsibility**
2	**Citizen Participation**	**External Impact of Local Decisions**
3	**Experimentation and Innovation**	**Technical Capacity and Economies of Scale**
4	**Accountability**	**Horizontal Fiscal Balance**
5	**Improved Revenue Mobilization**	**Maintenance of National Standards**
6	**Easier Monitoring of Results**	
7	**Subnational Minority Majorities**	

Choices and Responsiveness. Local governments permit fiscal diversity and choices about what government services will be provided to the citizenry. Local fiscal administration provides the structure through which these governments can respond to the service preferences of their residents in a fashion that is fiscally responsible, financially sustainable, and consistent with standardsof transparency and democratic governance. Local governments may make little difference when a country is small and has a homogeneous population and geography and an undifferentiated economy. But if there are major differences within the country—for instance, some rural areas and some urban areas—the variation in governmental services and means of financing them signifies that having independent local governments can be ideal for accommodating citizen preferences. The sorts of services that are most important to the population are not likely to be the same in all parts of the country. Local governments provide the institutional mechanism for responding to those differences. They become the governance mechanism that best serves the interests of the citizenry. And the system of local fiscal administration is the means for responding efficiently and effectively to those different interests. A system of decentralized branches of the national government cannot hope to provide the diversity that is possible with devolved local sovereignty. Indeed, the variation can extend to the localities themselves; for example, Swaziland uses one form of local government in urban areas and another form in rural areas.

Citizen Participation. Local governments provide the opportunity for political participation. Participation in the decision process (through local fiscal administration), not receipt of better information about government activities, is what empowers people in participatory governance. Even though communications technology has made available better, cheaper, and more accessible mechanisms for dealing with a central government, those mechanisms do not fully substitute for the regular, face-to-face contact that a physically accessible government provides.

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Experimentation and Innovation**.** Local governments provide natural laboratories for governmental and opportunities for governmental innovation. Multiple sovereignty means that local governments may develop their own approaches to dealing with public issues. Some experiments will be successful; some will have problems. The innovations will not put the nation at risk—as would attempts at new practices at the national level—and those that are successful can become best practices for the rest of the country. Because multiple localgovernments are working for the best interests of their citizenry, there are strong competitive incentives for these governments to strive for efficiency and effectiveness: their citizens will see what other governments are doing and will demand similar or better responses from their leaders.

Accountability. When governmental decisions are made closer to the citizenry, rather than in the national capital, the public is likely to keep careful track of decisions about government services and taxes to finance them, to communicate their concerns and interests to government representatives and officials, and to be watchful as policies are put into practice by the governmentbureaucracy. That attention is an important contributor to accountability.The citizenry, not an external audit agency, keeps watch on the implementation of government programs, so the feedback is immediate, not the product of some report eventually released by specialists. Direct accountability is to those people for whom the government services are intended and to whom the government will be accountable in the next election. Furthermore, the person passing a law lives in the community and must abide by that law and suffer its consequences.

Improved Revenue Mobilization**.** The citizenry is more inclined to accept increased tax payments when it sees a clear link between payment of the tax and improved government services. When taxes are levied and collected at the central government level, that link can be hard to see. Payments disappear into the national treasury, and the funds get used in ways that have little identifiable consequence or impact on the taxpayer. The relationship can be radically different in the local fiscal structure. The governing body levies a tax for local roads, for example: the tax iscollected locally, the money is spent on the local roads, and the citizenry can see the link between the tax and the service. The citizenry may be more willing to accept imposition of a tax if the link between it and a particular service is apparent. The effect is both on the politics of getting taxes adopted and on compliance. Any local taxpayer will be a greater relative contributor to the local budget than he or she is to a national budget, and any tax not paid will make a greater difference to that budget. The consequence of nonpayment seems more apparent, so compliance is more likely. This is important for the formulation of budget programs as well as for the monitoring of program execution and for the evaluation of program results.

Subnational Minority Majorities. Ethnic, religious, linguistic, or social groups may be a majority of the population in certain regions, although distinct minorities in the nation as Their special interests may well be submerged by the majority in national politics, and they may become alienated from the life of the nation. Local sovereignty gives these citizens the opportunity to govern and to provide local government services, often with a style and substance differing from those in other regions, without the need to break away and form their own country. Because of this ability to adjust government services to local tastes and preferences, local government with decentralized responsibility can be a great accommodator of regional differences and a moderator of regional tensions. The decentralized structure can give regional majorities a role in governance that they would almost certainly never enjoy at the national level. **Autonomy in local fiscal administration can improve the provision of government services to the citizenry. But the devolution of greater authority to local units of government is not without problems—and some have proven significant.**

Duplication and Responsibility. **Seldom are divisions of governmental responsibility among tiers of government so clean that duplication of effort (and the accompanying waste) is totally prevented. Agencies from more than one government may have authority in a particular field—criminal investigations, for instance—with the result that some responsibilities get taken care of twice, while other important functions may get neglected. A centralized government wouldlikely have better control and reduce the duplication of effort. Just as local governments can create duplication of governmental effort, they also can cause confusion about responsibility for public problems, with the result that inadequate attention is given to some services. The centralgovernment may believe that localities are satisfactorily handling an issue, and localities may believe that the issue is a central government responsibility. More important, the citizenry may be confused about which government is responsible for providing particular services. In a nation with tiers of government, “the government” is never a single entity but multiple governments with differing roles and responsibilities. It is not surprising that an ordinary individual would be confused about which tier of government is responsible for certain duties and which level should be blamed for service failures.**

External Impact of Local Decisions. **When substandard local provision of services has an adverse impact on the growth prospects and economic productivity of the nation as a whole, local decisions have national importance. Many services that may be provided by local governments—education, environmental protection, public health, and the like—have impacts outside the political and geographic jurisdictions of localities. Local fiscal decision makers have every incentive to pay less attention to external beneficiaries than to the local citizenry, who have a direct impact on the fate of local politicians. In that democratic environment, it is natural that external effects will have limited impact in the fiscal decision-making process and on policy outcomes. At a minimum, such external effects create a strong reason for having special features in the intergovernmental fiscal system to induce localities to take account of**

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these effects in their decisions—whether the features are mandates, controls, or transfer programs. Another type of external impact from decentralized finances is the macroeconomic impact. When local governments have fiscal autonomy, it is possible that their actions may make national economic stabilization more difficult. There is concern that uncoordinated decentralization creates a bias toward deficits, particularly in developing countries. The problem is particularly acute when the governments with new responsibilities lack the capacity and resources to deal with them. The ultimate danger is that local governments will be unable to practice fiscal discipline and will run uncontrolled deficits, and so may ultimately need to be bailed out by the central government. Unless there is a perceived hard budget constraint on local governments, the sustainability of the national system of government finance is then in jeopardy.

Technical Capacity and Economies of Scale**. A frequent objection to expanded local fiscal authority is that local governments lack the technical capacity to handle the tasks needed for responsive, honest, and efficient management of public resources. Personnel may lack the qualifications needed for the work, local governments may lack appropriate information technology, and local lawmakers may lack the experience needed for balanced fiscal decision making. As a result, the local citizenry will not be adequately served if government finances are placed under local responsibility. Rather than start the process of developing localcapacity to handle these tasks and provide the citizenry the advantages of having public choices locally, national governments choose to retain fiscal choice at the central level. This occurs in the face of abundant evidence that local authorities are able to develop appropriate capacity. However, without a well-developed and transparent system of fiscal administration, inefficiency,corruption, and ineffective provision of services are distinct possibilities. A related concern is that of lost economies of scale from having smaller governments provide local services. However, scale economies come from the size of the producer of a service, and smaller local governments might contract for services with larger governments or with private enterprises for productionof services, while retaining local government control over the terms and conditions of provision of those services. That arrangement, popular in many jurisdictions in the United States, permits local control over the service while earning the cost and technological advantages associated with large-scale production. It is limited only by the capacity to design a production contract thatincludes all relevant terms of supply expectations for the quality and quantity of the government service. If intangibles are associated with the service, it may be more difficult to develop an appropriate contract because those intangibles are not easy to capture in contract language—and the contractor will focus on performance of those expectations set out explicitly in the contract.**

Horizontal Fiscal Balance**. Horizontal fiscal balance—a problem in countries that have substantial regional economic differences—considers the extent to which the distribution of revenue resources (or local tax bases) across local governments can leave some units with great fiscal affluence while others have little capacity. Tax bases are not evenly dispersed because there is an unequal geographic distribution of natural resources (oil, water, and fertile soil); hubs of commerce; and people within countries. A pattern of fiscal imbalance will emerge with almost anylocal tax source, although this will happen to a greater extent for certain sources (natural resource taxes are one example) than for others and where the geographic scope of the localities is smaller. Significant disparity in fiscal resources means that the residents of some localities will have better governmental options available to them than will others. Localities that have high fiscal endowments may offer more governmental services at a standard tax rate, standard governmental services at a lower tax rate, or various combinations between those limits. This puts their citizens at an advantage in comparison with citizens of less well-endowed jurisdictions. Such a result may be accepted as an element of the working of the market economy, except to the extent that localities are charged with the provision of services of national importance (primary and secondary education or basic public health, for instance). In these services, the limited endowment of localities can produce public service issues for the nation as a whole—because low-quality public service there can have effects on the rest of the nation—and some national intervention may be needed. Many higher-tier governments establish intergovernmental transfer schemes to mitigate horizontal imbalances, so that the public services provided by local governments do not vary as widely as their fiscal endowments. Of course, if local government finances are not supported by local resources—inother words, if they are financed exclusively by transfers from a higher tier of government—the horizontal imbalance problem will not arise, unless the higher-tier government is insensitive to imbalance in its transfer programs. However, local governments lose a considerable degree of fiscal autonomy when they lose the ability to adjust the size of their budgets and the distribution of program costs among the population.**

Maintenance of National Standards**. A national structure with local fiscal autonomy encourages the formation of local identity and local response to special issues confronting localities. However, this responsiveness to local situations may conflict with a spirit of national unity and the need to maintain certain government service standards throughout the nation. Local governments may have different service levels and standards as a result of local disparities in government affluence, competence of local government bureaucracies and officials, rules or their interpretation, and political choices made by the citizenry. Governmental policies and programs will likely differ according to the locality in which a business or individual is located. Therefore, public service responsibilities that are determined to be those of local governments must be thosein which national variation will be acceptable.**

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