

SYMPOSIUM ON LOCAL GOVERNMENT REFORM

JOHN BRISTOW
Trinity College, Dublin

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My purpose here is not to argue one way or the other as regards the controversy about the proper role, structure or finance of local authorities in Ireland. I propose to do no more than to parade some of the contributions which economics can make to an analysis of these issues. Much of what I have to say may seem rather remote from the nuts and bolts of reform, but I believe that we have only two sensible options for local Government: scrap it or completely reconstruct it. Some fairly basic analysis may therefore be of value.

From an economic viewpoint, the design of polities should at a minimum consider the following: macroeconomic implications; efficiency in resource allocation; implications for the distribution of welfare; and efficiency in public choice. I shall use this taxonomy, although in a flexible way which reflects the non-separability of these categories.

1. MACROECONOMICS AND REGIONAL REDISTRIBUTION

Let us start with some redistributive and macroeconomic considerations. Take a unitary country which has a uniform system of taxation and public expenditure - i.e. one where the only government is central government and where the tax laws and systems of public expenditure do not explicitly distinguish between one region and another. Then, with given definitions of the tax base and given statutory rates of tax, one might expect to find that regions with higher income per head would pay more tax per head. Furthermore, receipts per head from such items of public expenditure as unemployment benefits and income-discriminatory social insurance and other schemes might be expected to be inversely related to income per head. In other words, a country with a geographically uniform fiscal system will in general expect that system to redistribute income from the richer

to the poorer regions.

Other, rather less obvious, mechanisms may work in the same direction. For instance, suppose there are uniform industrial development grants. If the promoters of grant-aided projects favour lower-income regions (perhaps because they have more plentiful and/or cheaper labour), such regions will gain at the expense of richer regions who contribute per head an above-average amount to the financing of the grants. Or again, a national policy to subsidise agricultural production will benefit rural areas, which in most countries are poorer than urban centres.

The kind of processes described so far are relevant not only to the sort of concern for social justice which usually underlies discussion of income redistribution. It also has implications for macroeconomic matters.

In the first place, there is a strong tendency for poorer regions to run deficits in their transactions with the rest of the world - which in this context means other regions within the same country as well as other countries. The fiscal process helps to offset disequilibria in regional balances of payments since poorer, deficit regions tend to be net beneficiaries and richer, surplus regions net losers from that process. But more than that. Inter-regional fiscal flows can play a role as regards short-term stabilisation.

This question can be most easily considered by comparing the response to an autonomous reduction in the demand for the exports of, on the one hand, a sovereign country with, on the other hand, a region of a unitary country. In the face of a reduction in exports, a sovereign state can maintain its domestic demand only by means of an expansionary fiscal or monetary policy, but this will exaggerate the new balance of payments deficit and can be maintained only by running down net foreign assets. Eventually, its deficit will force it to reduce domestic demand or to attempt to remedy the situation by changing its exchange rate or by establishing barriers to trade.

When confronted with an analogous reduction in exports, a region can use few or none of these instruments. It may be able to borrow or to exercise some upward fiscal leverage, but it has no monetary discretion, it cannot erect trade barriers nor adjust its exchange rate. However, it has the great

advantage that it may need none of these because of the automatically stabilising effects of inter-regional fiscal transfers. The decline in exports produces a decline in regional income, which in turn reduces the regional base of central taxes and, particularly as unemployment rises, increases the region's eligibility for receipts of central expenditure. The net inflow to the region from the central fiscal system is increased. This increased inflow enables the maintenance of regional demand and in effect finances the trade deficit which that maintenance produces.

If the fiscal system of a country with only one tier of government can work like this to the advantage of poorer regions, then one should ask: in what circumstances would such a region want greater fiscal autonomy? Start with the extreme case of a region having most of the powers usually associated with a nation-state. Suppose it can impose any kind of taxes it likes on its residents and also has no constitutional restrictions on its spending powers. Such a region will see clear advantages over the unitary model.

Above all, it no longer has to rely on the kind of automatic mechanisms outlined to raise its income towards that prevailing elsewhere in the country.

On the other hand, if a country were reorganised in this sort of way, the central fiscal system would not remain as it was in the unitary model. If major expenditure and taxing functions were transferred to regions, then either central expenditure and revenue would be significantly reduced or total public expenditure as a proportion of national income would rise to unprecedented levels. The former is surely the more likely. But this would dramatically reduce the capacity of the central system to act automatically in favour of disadvantaged regions, especially if the transfer of powers involved the major fiscal redistributors such as income tax and welfare benefits. The increased ability of the region to help itself would be bought at the cost of a reduced ability to gain help from the rest of the country.

With this kind of trade-off, there is presumably an optimum for a region, but a difficulty is that no single fiscal constitution is likely to achieve the optimum for each region. Rich regions lose from current redistribution and so have no trade-off at all - greater autonomy is all gain for them. If, in absolute terms anyway, autonomy benefits are the same for all regions,

but autonomy costs are greatest for the poorest regions, then the poorer the region the less it has to gain from autonomy - not exactly what the anticentralist school would usually claim.

Increased centralism has been a pretty universal trend for several decades. Some of this may be due to efficiency factors dealt with shortly, but I doubt whether this has been the political driving force. Although this may be controversial, I suspect that the drive has originated (or at least been sustained) by the political power of the poorer regions. If I am right in believing that the relative benefits of regional fiscal autonomy rise with relative regional incomes, and since incomes are always negatively skewed, then centralisation is exactly what one would predict under most polities.

On top of this has been a universal increase (tempered a bit in the 1980s, but recovering) in the importance attached to income-redistribution, which all recognise can be better achieved, covertly or explicitly, through the central than the local fisc. So we should not be surprised if the same thing is happening in Ireland.

2. RESOURCE ALLOCATION

I turn now to issues of efficiency in resource allocation. This has to do with whether those who make production decisions in the public sector get, and can act on, the appropriate signals regarding the desires of users and the relative scarcity of resources. Unfortunately, nearly all public finance is here and I shall have to be very selective. I have chosen two topics usually regarded as especially critical in the design of multi-tier fiscal systems - economies of scale and externalities.

Economies of scale exist if an expansion of output will, if best-practice methods are used at the existing and potential levels of output, lead to a reduction in the cost of a unit of output. Strictly speaking, this is a technological concept and, at some level of output, crops up everywhere. The relevance of this to us is that it opens the way to a consideration of the most efficient level of government at which an activity should be conducted. But, before pursuing that, something more needs to be said.

First, the fact that economies exist at one level of output does not mean

that they exist for any higher level of output. Economies of scale can be exhausted and the issue is at what level are they exhausted. Secondly, larger organisations bring with them managerial problems less likely to be met in smaller organisations. These difficulties in maintaining control, accountability, flexibility, motivation, or whatever, could of course offset the opportunities for improvement generated by the technical factors. Thirdly, the quality of the product may decline as scale increases. This may be partly due to the managerial difficulties just mentioned, but may also arise because of the increased remoteness of the top management from the customers or because technical economies may be realisable only if product uniformity is imposed.

The search for the optimal degree of decentralisation often reduces to a balancing of all these factors: the "small is beautiful" of Schumacher against the "as long as they're black" of Henry Ford.

The efficiency arguments about the devolution of power from central to local government are also partially a reflection of this balancing act. To illustrate, take an example which (except for a small sub-sector) is in Ireland not legally in the public sector at all, though financially is best treated as such - education. Primary schools run out of economies of scale at quite a small size. They do not need to offer specialised teaching and the financial and psychological costs of transporting pupils long distances are great. So, even small parishes may provide enough pupils for a school of optimal size. Secondary schools, on the other hand, are regarded as superior if they provide a wide range of subjects and, at this level, there has to be a fair degree of specialisation among teachers. Also, it does teenagers less harm (and causes their parents less anxiety) to travel to school than is the case of eight-year olds. So, secondary schools are typically bigger and cannot be organised at a level as small as a parish. Even more so with universities where, in both teaching and research, there are marked economies of scale. As a result, there are fewer universities even than health boards, let alone counties.

Not much more can be said a priori. Whether the economies of scale argument points to the parish, the town, the county, the region or the country as the optimal jurisdiction is a matter of fact, not belief. The trouble is that very few of the relevant facts are known. What tends to happen is that people overtly give weight to one factor or another,

not because there is much in the way of known fact supporting that weighting, but because they want to press a solution arrived at for other, more covert reasons. This can be seen in arguments about the closing of local hospitals. Consultants who like high-tech medicine and/or resent what they think of as interference of local politicians and bureaucrats (but who think they can stand up to similar interference at the national level because they will have their national profession in their corner) claim that the economies of scale which modern technologies generate will be denied to patients unless there is a concentration of their speciality in a few centres. Conversely, consultants who would rather be the head of a small unit than subordinate in a large unit, and local politicians who are conscious of the patronage possibilities inherent in local control, point to the benefits to patients of being hospitalised near home. Exactly the same things happen in universities. I am always suspicious of the motives lying behind the views of anyone whose livelihood would be affected by proposals to change the degree of concentration of an activity, including proposals to centralise or decentralise Governmental functions.

Now to externalities. These occur when a decision has unrequited adverse or beneficial effects on others. If a local authority does something affecting another local area, and is unable to collect from the latter if the effect is beneficial or is not required to pay compensation if the effect is harmful, then the decision is likely to be nationally wrong because that decision has left relevant factors out of account. Other things being equal, the decision has been made at too low a level. If one county allows farmers to pollute a river, downstream counties suffer. The former saves enforcement costs by this policy at the expense of the welfare of other counties. Or, conversely, a county which spends money cleaning up or controlling the flow of a river confers benefits on residents of other counties who have paid nothing.

This was the kind of economic reasoning which led to the creation of the federal Tennessee Valley Authority, to perform functions which otherwise were certainly within the constitutionally approved powers of the states in the basin of the river. Unless acceptable methods are found to charge all beneficiaries of or compensate all sufferers from these spillovers, the efficient thing is to remove the spillovers by giving the decision to a jurisdiction which contains all those affected.

The two kinds of efficiency issue reviewed here must create problems for

those wanting to devolve more powers from Dublin. One difficulty of our present structure is that, at the level immediately below central Government, there are 32 units, with an average population of only 110,000 and an average area of a mere 850 sq. miles. It would not be surprising if economies of scale remained unexhausted and substantial externalities existed at the level of such small units. We recognised this twenty years ago as regards health, the second tier for that function now containing only eight units. It is at least arguable that the case for greater devolution would be strengthened if the context were central Government plus eight regional authorities, and then nothing else, instead of 27 counties, 5 county boroughs, 49 urban district councils and 30 boards of town commissioners.

3. PUBLIC CHOICE

The final element in this basket of concepts concerns what economists call public or collective choice. The economic interest of this is as follows. If a decision is made by one person, that decision can be expected to reflect that person's interests. This proposition is the cornerstone of both positive and normative microeconomics (at least of the neoclassical kind). But what if a person is bound by a decision made by another, because the decision is to be made by a group and individual members of the group cannot escape the results of the decision? Whose interests are served by the decision? It is trivially obvious that a simple Yes/No question answered unanimously creates no problem here. Early writers went as far to say that only unanimous decisions should be enforceable on a group, but this does not help much since the absence of a decision to depart from the status quo is, in its effects, identical to a decision to maintain the status quo. So, non-unanimity rules have to be found which get over the problem that, somehow, the improvement in the welfare of those who vote for a decision must be compared with the decline in welfare of the dissenters.

What is probably obvious is that the greater the uniformity of preferences of the members of the group, the less likely it is that group decisions will induce an unacceptably high level of coercion of dissenters. So, the design of optimal polities may proceed as follows. One possibility would be to start with the decision area and draw boundaries so that, within any jurisdiction, preferences in relation to that decision area are reasonably homogeneous across citizens within any jurisdiction. This is sometimes

called gerrymandering, but no matter. (Public choice theory comes up with quite a few cases where popular ogres do not seem so bad - log-rolling is another example).

The trouble is that the optimal boundaries are likely to vary according to the decision area in question - one set for education, one for refuse disposal, and so on. Nor need optimality in this sense mean that a jurisdiction has to consist of contiguous pieces of land: enclaves could abound. The latter would exacerbate problems of externalities. However, it has already been mentioned that we have jurisdictional boundaries for the local health function which are unique to that function, so there may be something in this.

An alternative would be to define the jurisdictional boundaries and then allocate decision areas so as to minimise the coercion of dissenters within any jurisdiction. But this also could have odd results. Galway may be given decision powers in physical planning because preferences within that county on planning are thought to be acceptably homogeneous, but not in water and sewerage because there are too many diverse opinions among Galwegians on the subject. But the reverse may hold true for Carlow.

However, there is here the seed of a potentially strong case for devolution. Whatever about the degree of homogeneity of preferences within a region, it will almost certainly be the case that preferences on most things are more uniform the smaller the jurisdiction - i.e. whatever the degree of heterogeneity at the local level, it is bound to be greater at the national level. This has therefore been a long-winded way of arriving at the pretty obvious conclusion that democracy demands devolution because it is wrong for, say, Kerry people to have imposed on them decisions which affect only them but in regard to which they have been a small minority of the voters. Surely, it is not right that, even in the case where those affected are unanimous, they should be denied what they want because of the influence of those unaffected.

But before the devolutionists throw their hats in the air, it must be pointed out that this coin has two sides. If you want more power, you must accept more responsibility, and all the public choice arguments depend critically on the financial arrangements in place. The voters of Mayo may be unanimous that a million pounds should be spent on an airport rather

than a sewerage scheme, but this tells us absolutely nothing about whether this is a desirable allocation of resources if most of the money is coming from non-Mayo taxpayers. This may seem so obvious as to be not worth saying, were it not for the fact that there are an awful lot of people who think, not just that there is such a thing as a free lunch, but that the diner should choose the menu.

What devolved financial arrangements might be is another day's work, but I should like to end with a piece of unalloyed dogmatism.

I am queasy about explicitly redistributive grants being made from the central fisc to the poorer local authorities: many Dublin people are poorer than many Leitrim people and I think the moral arguments for redistribution should be applied only to persons, not to groups defined by geographical location. Also, whatever the defects of the national system of public choice, I do not see why I should have a *crucial* say in the spending of other people's money or that any of my tax money should be used for purposes which i cannot *in principle* influence.

DISCUSSION

Dr. Donal de Buitléir: I was a member of Dr. Barrington's Advisory Expert Committee.

Colm McCarthy has claimed that the proposals for local Government reform are not reform at all. I believe that the proposals should be seen in the context of a reform of our system of Government generally. The system of central Government has not been working well for a considerable period. It is difficult to think of any area of public policy, where substantial reforms are not necessary and where concern about the slow pace of change is unjustified.

The proposed reforms are about providing citizens with more choice and with a much more responsive system of Government. The enactment of a general competence power for local authorities together with an increase in the proportion of their funding received in the form of a block grant has the potential for allowing different areas to choose different baskets of public services.

There is a great need also for a more responsive system of Government. Why did we have to wait so long for clean air in Dublin? The problem and the solution had been identified years ago. Yet we had to wait for an Act of Parliament before a solution was put in place. What was a purely local issue which should have been settled locally, had to become a problem of such proportions that it forced its way onto the national stage before anything was done. Genuine local government would have ensured that the problem was dealt with much earlier.

P. Byrne: Any proposal to reform local government which does not confront the basic issue which is - how power should be dispersed in a democracy - is doomed to failure.

Mr. Barrington referred to the Danish experience where in the late 60s/early 70s major reforms were carried out. Over 1,100 municipalities were reduced to 245, 25 County Councils to 14. A lot of the reduction in authority numbers came about through amalgamation of existing authorities encouraged by Central Government who announced in advance

a programme of devolution of services previously administered centrally. In many cases such services would only be devolved to authorities representing areas of population in excess of specified size. Furthermore, at an early stage of the public debate, the Government set a date for the reform to be in place which undoubtedly concentrated the minds of all concerned.

Mr. McCarthy in his commentary mentioned that he saw no valid reason why services funded nationally should not have their policy decided nationally giving the impression to me that all funds coming to County Councils from the Department of Environment were coming from Secret Gold Mines under the Custom House - rather than the people of Ireland (and Europe) through their taxing masters in Dublin and Brussels!

There are no simple criteria either in population numbers or area size to establish the ideal size or numbers for a county or a sub-region. Placing too much reliance on statistics in such matters is fraught with danger. One is reminded of Coleridge's comment when asked about the social report of the large numbers who were being evicted during the Highland Clearances.

His reply was that "in matters of social import people should be weighed not counted".

J. McGinley: The principal points I wish to make are:

1. That Tipperary was divided in 1838 into two ridings as a result of land problems and the need for improving the Police, Courthouse and Jail purposes.
2. That county managers are the most accountable of all public officials in that the meetings are discussed in public and duly publicised in the local papers. That the Estimates meetings often run to five separate meetings compared to the Department of Environment, which might simply merit a fifteen minute debate in Dáil Eireann, with Questions to the Minister for the Environment only on stated periods. The fullest information has to be given to County Council members, particularly in the Book of Estimates.
3. The managers for both Waterford City and Sligo County who are

both present at the symposium, have despite financial restrictions, been enabled to facilitate such diverse activities as Airports in both of their areas. That Section 77 of the 1963 Planning Act gave wide powers for development purposes.

4. That Social Welfare recipients often represent up to 80% of the tenants in Local Authority houses. It is, therefore, not valid to make the point that the income from tenants is much less than the actual amount being expended on repairs. In the case of Health Boards, on frequent occasions, County Councillors are now suggesting that instead of regionalisation, the powers should be given back to the County Councils or, at least, more work be done at county level rather than Regional level.
5. With regard to the history of the County Management System, I refer to the recent publication by The Institute of Public Administration of *City and County Management in Retrospect* and, in particular, to the article in that publication by Dr. Eunan O'Halpen, which traces the degree of control of Central Government over Local Authorities. Lastly, I quote from Pope:

"In forms of Government let fools contest, what ere is best administered is best".

R. Fay: In all the present discussion of local Government reform both those for reform and those against reform tend not to look beyond the level of local authorities and the operation of officials and representatives at this level. Efficient local Government and the requirements of democracy demand that we do look beyond this level and these groups. In particular we must look to the involvement of community groups in local Government.

Ireland is exceptional at a European level for the extent of its voluntary sector. This is a sector that has demonstrated a high degree of ability in the delivery of services. It is a sector that is increasingly targeted by the institutions of the European Community. Yet it is a sector excluded from the decision making processes of local Government. If the present process of reform continues to ignore this sector local Government will continue to be undemocratic and inefficient.

The challenge to involve community groups is a challenge to deepen the nature of our democracy. We pursue a model of representational democracy here that is flawed due to the levels of centralisation in Irish Government. It can also be challenged as to its democratic nature in that while we elect representatives we have no control over their actions once in office - beyond waiting a period of five years to vote in someone else. The development of models at a local level that would allow access for community groups to the democratic process would be to promote a democracy that is less superficial due to its participatory nature.

The Community Workers Cooperative in its submission to the Advisory Committee on Local Government Reform outlined possible models that could be incorporated in the present reform process so as to develop a more participatory model. Our interest in local Government reform grew from our involvement in the debates about Ireland's application to the European Community for increased structural fund grants in the lead up to the Single Market. The new regulations governing these funds required a participatory planning process for investment decisions. This process was to involve the European Commission, national Government, and appropriate bodies at regional and local levels. This did not happen in Ireland as the structures for such a planning process do not exist in our very centralised system.

Subsequent debates in the European Parliament clarified that the local level was meant to involve both local authorities and what are referred to as non-Governmental organisations - community groups. European policy makers are increasingly stressing the need for local democracy and for the involvement of community groups in planning for their areas of concern. In the Single Market we will increasingly depend on Structural Fund grants which will require us to develop a more participatory model of democracy so that we can comply with the regulations governing these grants. We should avail of this present reform to ensure that we have the necessary structures to cope with such a demand. These structures must involve mechanisms for promoting the active participation of community groups in defining policy in response to the needs they identify at local level.

It seems simplistic to criticise such an aspiration on the basis of cost. It will involve extra cost - and not a little extra imagination! However, the mobilisation of local initiative and expertise that will result from such

mechanisms will in the long term represent a considerable return on this investment. Increased democracy will lead to increased efficiency in spending public money. Wastage due to inappropriate provision will also be avoided which will be a further saving.

Of course community groups have little interest in involvement in the system of local Government that we have at present. Such involvement, to have any value, must be with reformed and empowered local authorities. The principle of subsidiarity, with decisions devolved to the lowest possible level consistent with efficiency, must be enshrined in any new legislation. Once this is respected we can begin to think of structures for directly involving community groups in local Government.

Our democratic structures are out of tune with the rest of Europe. They are also out of touch with the present reality of an Ireland increasingly dependent on the voluntary sector. Reform is required for reasons of our aspirations to democracy, of our need for increasing efficiency in the management of public funds, and of the onus on us to relate to our European partners with structures that have some compatibility at this level.

John Goodwillie: It is not yet clear how much power the Government is willing to devolve to local authorities, either in terms of the functions for which they would be responsible or in terms of whether it would be willing to eliminate the necessity of sanctioning expenditure, of which a previous speaker, Dr. O'Connor, has given some examples. The fact that decisions on this are not expected before the local elections suggest that the Government is not serious about handing over responsibilities. If substantial responsibilities were to be handed over, energetic and capable people would have to come forward as candidates in the local elections, and voters would exercise more care as to who they voted for. But since decisions on the handover of powers are to be an ongoing matter, the Government will have a perfect excuse in pointing to the unfitness of councils to take on new powers as an argument for not handing over any major powers.

Professor Bristow argued that greater local autonomy was justifiable only on the basis of financial responsibility, and commented that the people of Co. Mayo might wish to spend £1m. on either an airport or on sewerage.

But whether the million pounds comes from Mayo or from outside is not the main point. If £1m. is being allocated to Mayo from whatever source, the people of Mayo should have the right to decide what it is to be spent on. Sewerage is a bad example, because it has national implications: the sewage which goes into the sea from Co. Mayo does not stay within Mayo. But the Mayo people certainly should have the right to choose between spending £1m. on an airport and spending £1m. on mending pot-holes - presumably there are as many pot-holes in Mayo as anywhere else. It is a question of democracy.

I found myself in agreement with much of what Colm McCarthy was arguing. To have a regional layer of authorities plus a county layer of authorities is indeed too much. It would have been much better to have amalgamated the two layers by reducing the number of counties to 20, as he suggests, or even lower. However, I suspect that since the new regional councils are to be composed merely of delegates from county councils and city councils, they will not end up as very powerful bodies, and may turn out to be simply a revival of the old Regional Development Organisations.

He is wrong, however, to suggest the abolition of sub-county bodies. He quotes the example of Clonmel allocating £1,000 to a swimming pool. I don't suppose that it is possible to run a swimming pool on £1,000 a year. But whether Clonmel is to have a swimming pool or not is surely a matter for the people of Clonmel: not a matter for the people of Co. Tipperary as a whole, most of whom live so far away from Clonmel that they will never be able to avail of a swimming pool there.