Journal des Economistes et des Etudes Humaines

Volume 13, *Number* 4 | 2003 | *Article* 2
NUMÉRO 4

Index of Fiscal Decentralisation: Methodology and Findings

Victoria Curzon Price, *University of Geneva*
Jacques Garello, *University of Aix-Marseille III*

Recommended Citation:
Price, Victoria Curzon and Garello, Jacques (2003) "Index of Fiscal Decentralisation: Methodology and Findings," *Journal des Economistes et des Etudes Humaines*: Vol. 13: No. 4, Article 2.

DOI: 10.2202/1145-6396.1105

Index of Fiscal Decentralisation: Methodology and Findings

Victoria Curzon Price and Jacques Garello

Abstract

The Index of Fiscal Decentralisation (IFD) could be a very helpful quantitative instrument while radical changes in European organisation are just now coming. The IFD permits a comparison between fifteen European countries (including Switzerland). It is based on five variables indicative of the respective weights of central and local governments: how is allocated the total amount of fiscal revenues and spending, which level has the power to determine the tax base, the tax rates and types of taxation, as well as the way they are used, what is the possibility for taxpayers to control and to take legal proceedings at different levels?

The results make clear that in most of the European countries (except Switzerland) the fiscal centralisation is high, and that there is wide deviation of the index. So the prospect of a fiscal harmonisation seems to be very weak in the short term. The paper leads to the concept of "fiscal coherence": the worst situation is that of taxation designed and collected at one level, and of spending at another one. Hence actors in the fiscal system are irresponsible and taxpayers powerless.

L'indice de décentralisation fiscale est un instrument de mesure particulièrement appréciable au moment où un changement radical intervient dans l'organisation de l'Europe. Il permet de comparer quinze pays européens (dont la Suisse). Il est construit à partir de cinq variables significatives des poids respectifs des administrations centrales et locales : comment se répartit la masse des recettes et des dépenses, qui détient le pouvoir de décision sur les assiettes, les taux et les modalités des prélèvements et l'usage qui en est fait, quelles sont les possibilités de contrôle et de recours des contribuables aux différents niveaux ? Les résultats font apparaître un niveau plutôt élevé de centralisation dans la plupart des pays (la Suisse étant la seule exception notable), et une forte dispersion de l'indice.

Les perspectives d'une harmonisation fiscale semblent donc très réduites à court terme. L'étude débouche sur le concept de « cohérence fiscale » : la pire des situations est celle où les prélèvem- ents sont décidés à un niveau, et les dépenses à un autre ; les acteurs de la fiscalité sont alors irresponsables et les contribuables impuissants.

KEYWORDS: index of fiscal decentralisation, fiscal coherence, taxpayer

INDEX OF FISCAL DECENTRALISATION METHODOLOGY AND FINDINGS

Victoria Curzon Price° & Jacques Garello°°

1. Introduction

This paper reports on a research project initiated and financed by IREF (Institut de recherche en économie et fiscalité). We begin by explaining what we hoped to achieve by creating an index of fiscal decentralization. In a second section we describe the methodology followed: the reasons for the selection of the five variables which were taken into account, and the results of quantitative estimates for fifteen countries. With more time and data at our disposal, we could naturally have pursued this research much further, but even in its current state, we consider that the results are worth publishing. We have an interesting sample of countries and have come across some noteworthy trends. In a third and concluding section we offer an interpretation of the results. The detailed explanations for scores are collected in two appendices.

2. Why Develop an Index of Fiscal Decentralization?

Debates on the future of European integration usually centre on "what to do next?" Deepening or widening? Or both. The idea that perhaps we have gone far enough is not often explored. One area where it is almost taken for granted that "Europe must progress" is in taxation. Ever since the publication of the PRIMAROLO report[1] much effort has been expended on emulating the OECD on

° University of Geneva.

°° University of Aix-Marseille III.

[1] Commission-1997.

Volume 13, numéro 4, Décembre 2003, pp. 441-478.

the need to fight "harmful tax competition". The result has been an extended battle to harmonize withholding taxes on savings and/or to ensure administrative cooperation between tax authorities, culminating in the adoption of the Savings Directive in 2003[2]. Some member states also support the establishment of agreed minimum corporate tax rates, and the German government has even threatened to withhold EU regional and cohesion fund aid from Central European countries which refuse to harmonize their tax systems with those of Western Europe.. Different tax rates across the European single market, not to speak of the single currency zone covering 12 members, are thought to be distorting. They are said to generate inefficient capital and resource flows between member states.

This being the general context, what purpose is served by studying fiscal decentralisation?

❏ The future of European integration is more uncertain than ever. It is now clear that ten new members will join the existing structure (up to and including the Treaty of Nice) in May 2004. The outcome is unknown at the time of writing.

In any event, many member states are currently emphasizing *decentralisation or devolution* as a better and more democratic form of governing their own societies, while at the same time supporting moves towards greater *centralisation* at the level of the European Union. This trend is not only paradoxical. It needs to be *included* in any vision of the future of European integration. Since this question is absent from the text of the Constitutional Treaty Project, it is not too late to launch a debate on the issue.

❏ This is all the more necessary because the current Commission has pursued a strongly centralizing bias, in particular in relation to taxation (nor is this the only area) in order to prevent "harmful tax competition". However, this harmonization bias at European level runs against the decentralizing trend at member-state level. How much freedom do member states have (or should they have) to "deconcentrate" their own internal domestic tax arrangements? How will greater local tax autonomy at sub-national level impact on the "harmful tax competition" debate? Is the Commission on a collision course with the growing tide of public opinion in favour of more local democracy, especially in fiscal matters? Does institutional competition in fiscal matters lead to a "race to the

2 Council-2003.

bottom", as many fear[3], or to constraints on the growth of government, as many hope[4]?

❏ Any debate on the future of European integration must also address the question of fiscal federalism within the European Union and with it the question of subsidiarity. At present only a small part of the EU budget comes from truly "own resources" (customs duties), and as trade liberalization progresses, one can assume that this share will diminish with time. The remainder comes from a specified share of VAT, but this is renewable every six years and subject to intense political debate each time. At one moment the question of an independent "European" tax authority will certainly arise, and with it, the extent to which member states can continue to exercise their fiscal independence. Euroland members have, after all, already abandoned their autonomy in matters of monetary and fiscal policy, so fiscal sovereignty logically seems to follow. We definitely need a debate on this question.

❏ Finally, social policies at the European level are also on the agenda in any debate on the future of European integration. It seems natural to most people that the European proto-federal state should reflect the normal social concerns that determine social policies at member-state level. However, the question of *how and how much* social policy is to be shared between Union and state levels has yet to be explored. Again, the question of subsidiarity arises. Perhaps most social policies are best decided and delivered at sub-national level, perhaps not. A serious debate on this question has yet to take place.

❏ The European Union is entering a new phase with the accession of 10 new members, which is sure to accentuate competitive pressures at all levels – in goods and factor markets, naturally, but also at the level of institutions. Since the "widening" of the Union has taken place before the "deepening" one can assume that the pressure for "deepening" will increase, along with the difficulty of forging a consensus among 25 countries. In the meantime, in the absence of such a consensus, institutional competition will dominate. It is therefore of interest to discover the extent of institutional *divergence* between EU members in matters of fiscal organization.

The purpose of our current research on the extent, direction and nature of fiscal decentralisation in different member states of the European Union is to contribute to various aspects of these issues.

[3] According to the « Primolo Report », EU Commission (Commission-1997), "une concurrence (fiscale) incontrôlée ayant pour enjeu des facteurs mobiles peut rendre les systèmes fiscaux pénalisants pour l'emploi et entraver la réduction méthodique et structurée de la charge fiscale globale. Elle réduit aussi la marge de manoeuvre pour atteindre d'autres objectifs communautaires tels que la protection de l'environnement. De plus, la concurrence fiscale peut gêner les efforts de réduction des déficits budgétaires … L'intégration des marchés, si elle ne s'accompagne pas d'une coordination fiscale, restreint de plus en plus la liberté des Etats membres de choisir la structure fiscale la plus adaptée… » (p. 2).

[4] For seminal articles on institutional competition see Tiebout-1956 and Hirschman-1981.

3. Methodology: An index of fiscal decentralisation: Conceptual structure

In order to assess how various European countries stand with regard to the question of fiscal decentralisation, we have proceeded in two stages.
Stage 1: :Establishing a working definition of fiscal decentralisation;
Stage 2: :Establishing quantitative estimates for various elements of the working definition of fiscal decentralisation.

Stage 1: A working definition of fiscal decentralisation: five criteria

Generally speaking, total fiscal decentralisation to local authorities would imply that taxpayers and their elected representatives possess all powers to raise taxes, decide on spending programmes and control budgets. Tax payers would enjoy appropriate protection under the law, be free to organize fiscal referenda and be free to move their fiscal domicile, partially or completely, elsewhere. Zero fiscal decentralisation, on the other hand, would imply that higher authority (in principle, Central national government) determine completely, for each local government agency, types of taxes, tax rates and expenditure programmes; central government collects and redistributes all tax revenues; tax payers have no recourse against tax authorities and cannot alter their tax domicile, partially or totally.

These extreme situations certainly do not exist today in Western Europe, although they have in the past[5]. Today, reality lies between these two extremes. We have tried to discover where, using five variables. We have detailed studies for 15 European countries, including all the "big" EU members: Germany, France, Italy, UK, Spain, most of the Nordic countries, some Central European countries, Switzerland and Ireland.

The variables are judged on scores from 0 to 5, with 0 being the most centralized and 5 the most decentralized. The issues under considerationed are:

Variable 1 *: central/local split in tax revenues*
Structure of fiscal revenues: which level of government collects what proportion of tax?

[5]The *République des Escartons* (in the Briançon area on the Franco-Italian Alpine border) enjoyed total fiscal independence from the King of France from 1450-1791. The Cantons of Uri, Schwyz and Unterwald also purchased their judicial and fiscal freedom from the Hapsburg emperors in the 13th century, and have yet to relinquish them (Martin-1966, pp. 25-26). At the other extreme, Lord Acton devotes a whole passage in his *History of Freedom* to the fact that in times past ordinary people "were so much material that the sovereign power consumed for its own purposes", before limited government was "invented" (Acton-1993, pp. 38-39).

DOI: 10.2202/1145-6396.1105

The variable is widely used and easily available. However, care needs to be taken to make sure that we are measuring what we want to measure. Social security contributions are excluded because they are not taxes (even if, as in Denmark and the UK, some social goods are partly financed out of tax revenues). Furthermore, it is important to get this number *before* transfers between different levels of government take place.

This data gives us a first impression of the distribution of tax receipts between different levels of government. It runs from 0 (all taxes levied by Central authority) to 5 (100% of taxes levied by local authorities).

Table 1: Central/Local split in tax revenues

Rank	Central (% revenues)	Local (% revenues)
5	0	100
4	20	80
3	40	60
2	60	40
1	80	20
0	100	0

Variable 2*: central local tax discretion*

How are taxes collected? Which level of government actually gets the money out of the tax payer? How much top-down redistribution is there from the centre to local government? If there is little redistribution, each level of government stands on its own feet and is responsible for the outcome. The system is transparent. If there is a lot of redistribution (block grants, automatic funding etc. from the top down) then this encourages fiscal irresponsibility. Nobody knows or cares where the money goes to or comes from. It is reasonable to believe that such fiscal incoherence would be associated with high levels of taxation.

It is in fact not easy to establish the degree of redistribution of tax revenues between levels of government. The OECD itself already adjusts its data according to whether tax revenues should be attributed to the spending agent as of right,[6] and what should be deemed a *grant* from central to local government. From our point of view, it would be better to simply have access to the raw data. For example, a centralized branch of the French fisc (the "Trésor public") collects VAT

[6] The OECD puts the question thus: "When a government collects taxes and pays them over in whole or in part to other governments, it is necessary to determine whether the revenues should be considered to be those of the collecting government which it distributes to others as grants, or those of the beneficiary governments which the collecting government receives and passes on only as their agent."OECD-2002a, p. 295. In general, tax revenues are attributed to non-collecting governments "when they have exercised some influence or discretion over the setting of the tax or distribution of its proceeds" (*ibid.*).

and redistributes the revenue to all levels of government throughout the country according to a pre-established key. Should this be considered Central tax revenue, or revenue accruing by right to each sub-level of government? Which is the agent, which is the principal? According to the OECD system, this would be judged as "local government revenue", while we would prefer to see the full extent of the vertical distribution. This is not always possible, but as a second best, we have tried to establish the share of local tax receipts originating from Central government.

Table 2: Central/Local tax discretion

Rank	
5	All taxes levied and spent at sub-central level
4	Taxes autonomous at each level (little or no inter-regional redistribution)
3	Taxes determined by central authority, redistribution < 20% of total
2	Taxes determined by central authority, redistribution 20-40%
1	Taxes determined by central authority, redistribution > 40%
0	Taxes determined centrally, no local discretion

Variable 3*: local discretionary taxing power*

Which level of government exercises the power to determine taxes from a legal point of view? How much influence does the citizen/taxpayer have to control central and/or local government expenditure? Are tax referenda possible? (This seems to be the ultimate form of taxpayer control over the process of setting taxes, distant parliamentary control being subject to free-riding, log-rolling, and pork-barrel/public choice problems of every kind[7]).

The question in fact goes to the heart of democracy. Voting on taxes coincides historically with the birth of democracy, and constitutional limitations on the powers of the central authority. The Magna Carta (1215) was *inter alia* designed to protect the barons from arbitrary confiscation of their property by King John; the American Revolution started with a tax revolt.

Fiscal decentralisation implies that the voter/taxpayer is as close as possible to the political decision-making authority which sets taxes and spends the revenue thus generated[8]. Under a regime of fiscal centralisation, on the other hand, the

[7] According to Vaubel (Vaubel-1995, p. 43) "direct democracy (by referendum) is the most effective way of curbing the influence of pressure groups".

[8] See Garello-2003: "decision making needs to be local because *knowledge of needs and resources* is in large part local". Vaubel (Vaubel-1995, p. 11) emphasizes for his part the fact that individual preferences differ, and that the demand for "public" goods and the supply of voluntary transfers depends on many local preferences.

DOI: 10.2202/1145-6396.1105

voter/taxpayer is far from the decision-making authority, even if it is a matter of supplying and paying for local collective goods; when central authority sets the spending agenda, "caps" local expenditure or puts limits on local tax rates. In such distant centralized régimesregimes, lobbies shift their efforts upwards to the true decision-taking authority, far removed from the people concerned[9]. Decisions contrary to their interests are thereby easy to take. On the other hand, if local authorities possess real fiscal power, it is probable that they respond more precisely to the preferences of their voters and are less swayed by special interest groups because voters can spot rent-seekers more easily in a small polity than in a larger one, and can vote the rent-givers out of office.

For all these reasons, it would seem logical that fiscal decentralisation should result in lower overall levels of taxation[10]. As mentioned above, the fiscal referendum at local level is the ultimate defence against such rent-seeking as might subsist in a local context.

Table 3: Local discretionary taxing power.

Rank	
5	Taxes determined at local level, citizens have the right to call fiscal referenda
4	Each level of government is independent of the other(s). Referenda possible
3	Powers of each level set in Constitution according to "European" notion of subsidiarity*
2	Non-marginal powers devolved to local or regional levels by central state. No referenda
1	Local levels cannot initiate new taxes, marginal changes in rates possible. No referenda
0	Local levels have no power to tax. No referenda

Variable 4*: local discretionary spending power*

Who decides what public revenue should be spent on? Are different levels of government autonomous, or are tasks set from above?

9 According to Vaubel (Vaubel-1995, p. 43), centralization favours rent-seekers because lobbies "save transaction costs by lobbying one instead of (N) governments" and ... because centralisation "raises the cost of political information for the individual consumer and taxpayer who has to pay the bill". One might add that centralization, by concentrating greater resources in the hands of fewer public officials, increases the size of the honey pot and attracts more lobbies and more effort on their part to secure rents from it.

10 According to Weingast B.R., Shepsle K.A., Johnsen C. (Weingast/Shepsle/Johnsen-1981, p. 643) rent-seeking ("project financing through generalized taxation" which "concentrates the benefits and spreads the costs") results in "larger projects and programs than are economically warranted". Therefore, the more rent-seeking there is, the higher the level of taxation.

This variable tries to establish how much discretion/influence the sub-national levels of government have in setting their own spending agenda, even if part of their revenue comes from the central level. This is a subtle question which cannot be answered solely by reference to constitutional provisions. All sub-national government authorities spend money which they have not themselves collected (see variable 2). The question is which level of government decides on the expenditure. Measuring "discretion/influence" is a matter of informed judgment by experts.

Taken together Variables 2, 3 and 4 try to get to the heart of "fiscal incoherence". Fiscal incoherence occurs when those who decide on expenditures know that they will be paid for by others. They are encouraged to behave irresponsibly. Furthermore, voter-taxpayers will also encourage their local authorities to behave irresponsibly, since they too like the idea that others will pay for their collective goods. Fiscal incoherence leads to fiscal illusion (collective goods are costless). We take it as given that fiscal coherence (tax revenue is spent in the same constituency as it is raised) induces a more responsible form of government, and gives taxpayers a better price/quality trade-off for the supply of collective goods. All things equal, it should result in a lower ratio of taxes to GDP.

Table 4: Local discretionary spending power

Rank	
5	Lower levels of government possess real autonomy, must meet expenditure largely from own taxes, few transfers from higher levels of government
4	Lower levels of government exercise a wide measure of spending autonomy but depend on central government for part of their budget (< 20%)
3	Lower levels of government exercise a wide measure of autonomy, despite depending on central government for a large part of their budget (> 20%)
2	Central state determines tasks, sets global limits to expenditure, local spending fairly free within these constraints
1	Central state determines tasks, leaving lower level with little or no discretion
0	No local power, all is centralised

Variable 5*: legal rights of tax payers*

Tax litigation: what legal protection do taxpayers enjoy? Do the tax authorities enjoy special privileges, do people have to address themselves to special administrative courts, or can they seek redress through the normal courts?

This variable seeks to discover if the rule of law applies to tax matters. Tax payers need to have easy access to independent local courts if they find themselves in conflict with the tax authorities. At the other end of the scale we have a distant, centralised tax authority with exceptional coercive powers at its disposal. Special administrative courts run by the tax authority itself are highly suspect, which is why we prefer fiscal litigation to go through the normal court procedure. This is more common in Anglo-Saxon countries than on the Continent.

Table 5: Legl rights of taxpayers

Rank	
5	Tax authorities enjoy no privilege. The case goes to court in the ordinary way
4	Administrative courts exist at each level, but tax payer can appeal to ordinary courts
3	Administrative courts exist, fiscal authorities decisions can be challenged, but tax payer must pay up anyway, pending the judgment
2	Litigation is managed by the tax authority itself, decisions have immediate effect, tax payer can appeal only after the internal litigation process has run its course
1	There is no right of appeal outside the administrative courts
0	There are no administrative courts, tax payers have no rights at all

Stage 2:
Establishing quantitative estimates for various elements of the working definition of fiscal decentralisation.

Upon the invitation of IREF, twelve scholars agreed to assess fifteen countries in the light of the above variables and score cards. These papers are available on the IREF web site[11]. Each scholar or team produced its own study, emphasizing whatever was most relevant for each country or countries, but keeping to the overall framework. The authors of this methodological paper then used the country studies in order to extract the detailed information needed to develop the index. The methodology, score cards and scores were discussed by the IREF group at a seminar held in Aix-en-Provence on 13 May 2003. Various adjustments having been agreed upon by the group, the final scores may not match exactly the initial scores as presented in the web versions of the papers.

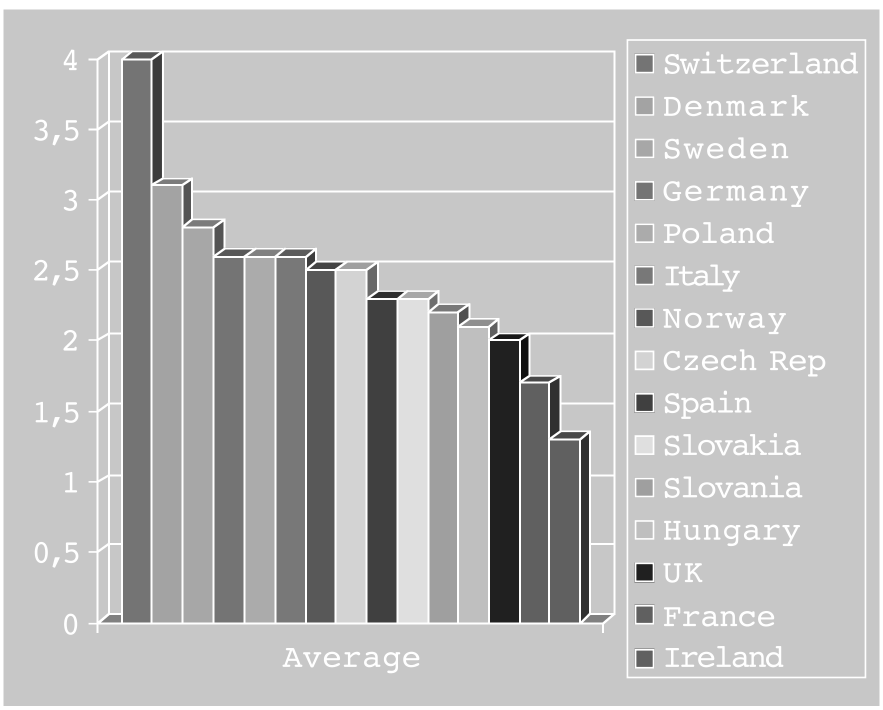
[11] Iref web site: www.iref-europe.org/fra/indexfr.htm

4. Interpreting the Results and further Questions

Index of Fiscal Decentralisation: unweighted average of scores earned by each country for 5 variables:

Table 6: Average 5 variables, 15 countries

Switzerland	4.0	Slovakia	2.4
Denmark	3.0	Spain	2.3
Italy	3.0	Slovenia	2.2
Sweden	2.8	Czech Rep	1.9
Germany	2.6	UK	1.8
Poland	2.6	France	1.7
Norway	2.5	Ireland	1.3
Hungary	2.5	**Average**	**2.44**



DOI: 10.2202/1145-6396.1105

Our study has not provided much evidence on the question of the effects of fiscal competition. The over-all level of centralisation is high for most countries, and decentralisation moves are comparatively recent, suggesting that only Switzerland has any experience in fiscal competition at sub-national level. International fiscal competition is still in its infancy so more time is needed to assess its effects. In the meantime, Curzon Price points out in the paper on Switzerland[12] (in this volume) that inter-cantonal fiscal competition (of long standing) has not resulted in a "race to the bottom" and Brosio[13] notes that, in the admittedly recent Italian experience, provinces have used their new-found freedom to raise, rather than to lower, taxes.

There may be a positive relationship between our index of fiscal decentralisation and per capita income: thus Switzerland, Denmark, Sweden and Germany (at the top end of the scale) enjoy higher per capita incomes than France, Italy and the UK (at the bottom end of the scale). Italy's high score should be ignored since it reflects recent reforms which will take decades to translate into per capita income results, if any. The Central European Countries being still in a transitional mode, are not yet in a comparable position either. However, the relationship is not very strong and more country studies and possibly time series are needed to explore the relationship further.

There is no simple relationship between our index of fiscal decentralisation and the share of government in the economy. Thus Ireland (a highly centralized unitary state) enjoys one of the lowest tax to GDP ratios (31.1%) in the set, while Sweden (a rather decentralized unitary state) enjoys one of the highest (54.2%). While this result runs counter the hypothesis that decentralisation *per se* encourages greater taxpayer control over government, it does not contradict the hypothesis that *fiscal incoherence* encourages irresponsible government. It is of course possible that these different outcomes reflect voter preferences as to the size of government, in which case it would be folly to try to harmonize them at EU level.

Combining variables 2 and 4 (see matrix below) puts the emphasis on fiscal redistribution and the strength of the link between taxing and spending decisions. It is clear from most individual country papers that the trend is towards entrusting lower levels of government with ever more tasks to perform, even if central government does not easily relinquish its sovereign taxing powers. This means that, other things equal, there is a growing measure of tax redistribution from the centre to sub-national levels of government, and increasing fiscal incoherence.

It is difficult to interpret this trend, however. On the one hand, it favours greater efficiency since many public goods are best delivered at local level. It suggests that the economies of scale argument for the provision of public goods is no longer dominant and that the public is willing to trade in economies of scale for more transparency, efficiency and control over how their tax money is spent. On the other hand, it favours greater *inefficiency* in the supply and demand for public goods, since

12 Curzon-Price-2003.

13 Brosio-2003.

the link between taxing and spending decisions is weakened and government taxing and spending irresponsibility may be encouraged. However, this situation may be just a phase in a process leading to coherent decentralisation in the long run. For the time being, however, fiscally coherent states (whether unitary or federal) are a definite minority in our sample.

	Variable 2: Central/ local tax power		
		Highly centralized	*Highly decentralized*
Variable 4 Central/local Spending power discretion & influence	*Highly centralized*	**Fiscally coherent centralized unitary states** (UK, Ireland)	Empty box
	Highly decentralized	**Fiscally incoherent unitary or federal states** (Nordic countries Germany, France)	**Fiscally coherent decentralisation** Switzerland Italy?

Table 7: Fiscal Coherence

Fiscally incoherent states (Nordic countries, Germany, France) appear to have a higher ratio of tax to GDP than fiscally coherent states (UK, Ireland, Switzerland), which confirms the hypothesis that fiscal incoherence encourages irresponsibility, but more countries need to be added to the sample before any stronger conclusions can be reached. Although we feel that the transition countries cannot be directly compared with the older industrialized market economies in this regard, we note that they have adopted the Nordic model (they are fiscally incoherent unitary states) and may therefore soon join the ranks of the high tax to GDP ratio countries before very long (if the irresponsibility hypothesis turns out to be dominant). However, like Ireland, they appear to be very much aware of the benefits of international fiscal competition, which may keep taxes down at least for a while.

More generally we would argue that “coherent decentralisation” (last box in the matrix, occupied only by Switzerland, and perhaps Italy) might be the answer to the growing disaffection of people with politics and politicians. It is arguably the only answer to the growing “democratic deficit” in the European Union, itself open to the pressures of globalisation and the need to remain fiscally competitive with the rest of the world. It could lead the way to “decentralized globalization”, whereby people regain control, at the local level, of the principal decisions concerning the financing and provision of social and semi-public goods, leaving only a few true public goods to

DOI: 10.2202/1145-6396.1105

be supplied at a higher level. Coherent decentralisation could also be the answer to the responsible delivery of social and semi-public goods, important in determining the location of ever more mobile entrepreneurs and factors of production.

There is no clear relationship between the size of countries and their degree of centralisation: Switzerland is a very small, very decentralized country, the UK a large, very centralized country; but then we have in our sample a large federal state (Germany) and several small unitary states (Ireland, the Nordic countries, the Central European countries). All are, of course, democracies. But it is clear that they are democracies of a very different kind. That small countries like Slovenia and Ireland should be so centralized is perhaps more acceptable from a democratic point of view than the centralisation of large countries like the UK or France. Normalizing for population, the "democratic deficit" appears rather large in these countries, and it is doubtless because of this that all large unitary states are exploring ways of devolving power to local authorities. Italy is particularly striking. It is at present undergoing a major decentralisation exercise, while the UK has made a timid start with the Welsh Assembly and the Scottish and Northern Irish Parliaments, and France has for many years been moving towards "régionalisation" (or "décentralisation" or "déconcentration"). As noted above, growing fiscal incoherence may be just a phase in the process of transition towards a more coherent form of decentralized government. Indeed, there is much to be said for completing the process and some societies may adopt coherent decentralisation in the long run. This is certainly what the electorate would wish for and would constitute a further chapter in Acton's *History of Freedom*, were it ever to occur.[14]

The range of different models of government is striking in itself and suggests that it would be very difficult, not to say impossible, to harmonize all taxes across Europe. By the same token, it would be self-defeating to harmonize only one or two types of tax (say, corporate tax, or tax on savings), since governments would have a hundred ways of compensating by changing other taxes, thus pushing tax dispersion into other areas.

Part of the redistribution of taxes from the centre to local levels of government is inspired by regional policy. Richer regions are expected to support poorer regions, to some degree, within the nation state. There is also a redistributive regional policy at European level (comparatively much smaller). However, the trend noted by all authors towards greater local autonomy is precisely aimed at reducing the extent of this type of redistribution, political support for which has long been waning, even within the confines of the nation state, since the effects appear to be at best negligible, at worst, wasteful and corrupting. However, looking to the future, with ten new much poorer members joining, the pressure to up-grade and enhance regional redistribution policies at European level is bound to increase. Which of these two very contradictory trends will dominate?

14 *Op. Cit.*

Our study decided to exclude social transfers, but it is clear that any future elaboration of our study of fiscal decentralisation would need to look into how social goods are financed and produced.

Even the highly centralizing Constitutional Treaty Project does not alter the basic European rule that all matters concerning taxation must be taken unanimously. The proposed Directive on Taxation of Savings (DTS) (to enter into force only once all international agreements upon which it depends have been ratified) has been many years in the making. This illustrates the political difficulty of reaching even a minimal agreement on one specific tax. It is not just that 15 (now 25) countries must agree. There are also international repercussions. These were particularly clear in the case of the DTS, since if income from savings was to be taxed at a uniform level throughout the EU, money would just flow to other financial centres outside the EU. This problem, far from resolved even for the DTS (after much arduous diplomacy), is in fact much more general. Even supposing the EU could agree on a harmonized tax code, it would have to be able to adjust to the reality of international competition. It would be disastrous if, once a harmonized rate were set in stone (given the internal political difficulties of achieving agreement), it could never be changed again. This would be an invitation to the rest of the world to set taxes below EU levels, ensuring that mobile resources move to their areas. The only answer would be to give the EU clear fiscal competence to change tax rates. But this implies far greater democratic control at EU level, unthinkable in present circumstances. In short, fiscal harmonization, even if desirable (and this is by no means clear), is at present quite impossible.

We are therefore obliged to entertain the very real probability of fiscal competition within the EU, and between the EU and the rest of the world, for the foreseeable future. This competition will take two basic forms. Mobile factors (capital, firms, savings) will move geographically from high to low tax areas, and we can expect some spontaneous convergence to lower tax rates on this account (though much has already occurred). What is less apparent, however, is that geographically immobile factors (labour, land) will also move functionally from high to low tax alternatives available in the same geographic space (from employment onto welfare, from the market to “do-it-yourself” production, from the official to the undeclared economy, or simply from active to non-active roles in the economy). In short, countries will be competing on both fronts, both to attract geographically mobile resources to their shores, and to encourage a high participation rate for geographically immobile resources. Countries will therefore find it difficult to compensate lower corporate and savings taxes with higher taxes on labour and land.

DOI: 10.2202/1145-6396.1105

References

Acton J. (1993) *The History of Freedom*, originally published in 1877, republished by The Acton Institute, Action Institute Classics Series, edited by Robert A. Sirico.

Brosio, G. (2003) "Intergovernmental relations in Italy", *Journal des Economistes et des Etudes Humaines*, Vol. XIII, n°4, Décembre, pp. 545-568.

Commission (1997) Communication to Parliament and the Council entitled « Towards tax coordination in the European Union : a package to tackle harmful tax competition », COM(97)564.

Council (2003) Directive 2003/48/EC on "Taxation of savings income in the form of interest payments."

Curzon Price, V. (2003) "Fiscal decentralisation: The Swiss Case", *Journal des Economistes et des Etudes Humaines*, Vol. XIII, n°4, Décembre, pp. 527-544

Garello, P. (2003)."The Dynamics of Fiscal Federalism", *Journal des Economistes et des Etudes Humaines*, Vol. XIII, n°4, Decembre, pp. 421-440.

Hirschmann, A. O. (1981) "Exit, Voice and the State" in *Essays in Trespassing Economics to Politics and Beyond,* Cambridge University Press, Cambridge, pp. 266-84.

IMF *Government Finance Statistics*, various issues.

Iref web site: www.iref-europe.org/fra/indexfr.htm

Martin, W. (1966) , *Histoire de la Suisse: essai sur la formation d'une confédération d'états*, Payot, Lausanne.

OECD (2002a) *Revenue Statistics 1965-2001*, Paris.

OECD (2002b) *Country studies UK 2001-02*, Paris.

Tiebout, Ch. .M. (1956) "A Pure Theory of Local Expenditure", *Journal of Political Economy,* Vol. 64, No. 5, pp. 416-424.

Vaubel, R. (1995) *The Centralisation of Western Europe: The Common Market, Political Integration, and Democracy,* IEA Hobart Paper No. 127, London.

Weingast, B.R., Shepsle, K.A. &, Johnsen, C. (1981) "The Political Economy of Benefits and Costs: A Neoclassical Approach to Distributive Politics", *Journal of Political Economy,* Vol. 89, 1981, pp. 642-664.

APPENDIX I

COUNTRY RESULTS, SUMMARY FINDINGS FOR EACH VARIABLE

The methodology, score cards and scores were discussed by the IREF group of researchers[15] at a seminar held in Aix-en-Provence on 13 May 2003. Various adjustments having been agreed upon by the group, the final scores may not match exactly the initial scores as presented in the web version of the papers.

Country results, variable 1
Central/local split in tax revenues

Switzerland	3.5	Hungary	1
Denmark	2	Norway	1
Germany	1.5	Czech Republic	1
Sweden	1.5	Slovenia	1
Poland	1.5	Slovakia	0.5
Spain	1.5	UK	0.5
France	1.5	Ireland	0
Italy	1.5	**Average**	**1.3**

The results for this variable show how centralized tax collection in most countries is. Even Switzerland, by far the most decentralized, does not earn more than 3.5. It suggests that there is a widespread perception that there are economies of scale in tax collection. This may beis surely changing with electronic data processing, which massively reduces the transaction costs of raising taxes for all levels of government. If so, there may be hope for "coherent decentralisation" in the future (see Introduction and Conclusion of this paper)[16].

Country results, variable 2
central/local tax discretion

Switzerland	4	UK	1.5
Denmark	3	Czech Republic	1
Sweden	3	Spain	1
Italy	3	Poland	1
Germany	2	Slovakia	0.5
Norway	2	Slovania	0,5
France	2	Ireland	0
Hungary	2	**Average**	**1.77**

[15] See www.iref-europe.org/fra/indexfr.htm for the country studies upon which these evaluations are based.

[16] See Introduction and Conclusion of this paper.

DOI: 10.2202/1145-6396.1105

Results for Variable 2 show that although local governments in most countries get to spend between 20-50% of total public revenue, they do not enjoy real discretionary spending power. This is because with central government grants come, naturally enough, close central government controls to try to combat local government fiscal irresponsibility. So most tasks are set from above, with the exception of Switzerland. If, as is the case in Sweden, the administration of tax collection is decentralized, we feel that this does not reflect so much a respect for local democracy, but rather a desire to control tax-payers more efficiently[17]. Italy's high ranking reflects fundamental constitutional reforms introduced in 1998.

Country results, Variable 3
Local discretionary taxing power

Switzerland	4	Slovakia	2.5
Sweden	3.5	Czech Republic	1.5
Denmark	3	Ireland	1.5
Germany	3	Hungary	1
Spain	3	France	1
Italy	3	Slovenia	1
Poland	2.5	UK	1
Norway	2.5	**Average**	**2.27**

Results for variable 3 show that some Scandinavian countries, without having a formal federal structure, nevertheless enjoy a large measure of local autonomy to set taxes. The two big unitary states – France and the UK are at the other end of the scale. It should be noted that Italy, formerly a unitary state, is in the process of radically changing its constitution and government structures, a fact which is reflected in its score (3). On the other hand, it is judged that the creation of the Scottish and Welsh elected bodies has not (yet) fundamentally altered the very centralized nature of the UK.

Country results, Variable 4
Local discretionary spending power

Switzerland	4.5	Slovakia	3
Denmark	4	Hungary	3
Spain	3.5	Germany	2.5
Slovenia	3.5	France	2
Italy	3.5	Czech Republic	1
Sweden	3	UK	1
Poland	3	Ireland	0
Norway	3	**Average**	**2.7**

That Switzerland and Germany should earn high scores on this variable is

17 See detailed comments by Norgaard/Braestrup, p. 31.

not surprising, but it is interesting that a lot of countries, even without a formal federal structure, are organized along lines which give local government a wide measure of autonomy determined along lines of "European" subsidiarity (i.e., devolved, top-down subsidiarity). This is better than nothing (see Ireland and the UK, for example). Slovenia's 1993 Local Self-government Act appears to have transferred major powers to local government. In Italy, provincial and municipal governments have used their important new fiscal powers to raise, rather than lower, taxes. As a result Rome is trying to set limits on these new powers[18].

Variable 5
Legal rights of tax payers

Slovenia	5	Norway	4
Poland	5	Italy	4
Slovakia	5	Germany	4
Hungary	5	Denmark	3.5
Czech Republic	5	Sweden	3
UK	5	Spain	2.5
Ireland	5	France	2
Switzerland	4	**Average**	**4.13**

Most countries give citizens a very high level of legal protection from the tax authorities, especially the Scandinavian and Anglo Saxon countries. Central European countries are keen to break with the past. Only France and Spain seem to still have problems with their Napoleonic and/or monarchic past.

18 Brosio, pp. 13-14.

DOI: 10.2202/1145-6396.1105

APPENDIX II

DETAILED EXPLANATION FOR COUNTRY SCORES

Germany

Prof. Lars P. Feld,
Philipps-University Marbourg

Variable 1 Structure of budget receipts: Central/local split

About 30% of Germany's taxes are levied locally (see OECD 2002b, Country studies UK 2001-02, Graph 30) but länder and municipal governments account for almost 60% of expenditures[19]). However, this variable only considers tax revenues, and on this account, according to the standard score card, Germany gets 1.5.

Variable 2 measure of fiscal autonomy, fiscal sovereignty and democratic answerability

This variable assesses fiscal autonomy and responsibility. Länder and municipal governments account for almost 60% of expenditures[20]. This places Germany in an ambiguous position. Although expenditure is very decentralized, the extent of redistribution between levels of government suggests reduced responsibility to "stand on one's own feet". Feld asserts in this regard "La peréquation fiscale entre les fédérés complète l'impression que le fédéralisme coopératif allemand est un système très inefficace"[21]. So despite its federal structure and legendary fiscal decentralisation, we believe that Germany scores no more than 2.5.

Variable 3 which level of government is responsible for tax legislation, tax rates, tax structure?

Germany possesses a classical federal structure, with each level of government enjoying a wide measure of self-determination. However, the federal level holds the ultimate power at least as far as taxation is concerned, and may determine expenditure in areas of shared competence[22], or may assert new competencies. As Feld says: "Les fédérés gèrent souvent des administrations à la place de l'Etat

[19] Feld, p. 1. The pages mentionned in this appendix are those of each paper presented at the IREF web site ; www.iref-europe.org/fra/indexfr.ht

[20] Feld, p. 10.

[21] Feld, p. 28.

[22] Feld, p. 11.

fédéral"[23] and cites the case of kindergartens : the Federal government imposes on the Lander the duty to provide a place for every child, and then may (or may not!) help to pay for it. Feld also notes that municipalities have a fair measure of autonomy to set business tax[24]. In short, Germany fits the model of devolved subsidiarity and scores 3.

Variable 4 Spending decisions: How is spending decided upon? Managed? Monitored?

How is spending decided upon? According to Feld "la structure des dépenses des collectivités allemandes est souvent prédéterminée par les autres collectivités"[25]. Or again : « La structure de dépenses est fixée par des élus nationaux et régionaux dans les législatives fédérales ou dans les négociations centralisées »[26]. This suggests that Germany again scores 2.5.

Variable 5 Tax disputes and litigation (what legal rights do tax payers enjoy?)

According to Feld "Les contentieux fiscaux sont portés devant des instances administratives en cas de contentieux moins sérieux et devant des instances judiciaires spécialisées en cas de contentieux plus sérieux. Dans le dernier cas les tribunaux financiers s'occupent des contentieux fiscaux nationaux, régionaux et locaux. »[27]. Pending further information, and assuming that tax payers have the ultimate right to take their case through normal courts, Germany scores 4.

Germany's unweighted average score is 2.6.

Switzerland

Prof. Victoria Curzon Price
University of Geneva
Assisted by Andrea CUOMO
University of Geneva

Variable 1 Structure of budget receipts: Central/local split

In Switzerland, the Federal government raised 32% of all taxes in 2000 (Curzon PriceTable 2). This share has been growing slowly but surely (it stood at 28% in 1975). Excluding social charges, the three-way split in in total tax revenues in 2000 was: Federal 39%, Cantonal 37% and municipal 24%. Combining the two, we

23 *Ibid.,* p. 11

24 Taxe professionnelle, pp. 22-ss.

25 *Ibid.,* p. 38.

26 *Ibid.,* p. 38.

27 *Ibid.,* p.36, et T.15.

DOI: 10.2202/1145-6396.1105

consider that Switzerland scores 3.5 on this variable. The score would be even higher if we took into consideration the fact that the Cantonal government collect personal and corporate income taxes on behalf of the Federal government.

Variable 2 measure of fiscal autonomy, fiscal sovereignty and democratic answerability

Fiscal sovereignty resides with the Cantons[28], and even the Communes have a wide measure of autonomy. This fact earns Switzerland a score of 4 : "Taxes levied autonomously at each level (little inter-regional redistribution)".

Variable 3 which level of government is responsible for tax legislation, tax rates, tax structure?

Given Switzerland's highly decentralized tax structure and citizens' rights to initiate referenda on all matters, especially including tax questions, we consider that a score of 4 is appropriate ("Each level of government is independent of the other(s). Referenda are possible."): However, it should be noted that in 1990 Switzerland adopted a federal law on the harmonisation of tax *bases*[29]. which constrains cantonal freedom to determine tax *structures.* However, since tax rates are not harmonized, we consider that this is but a small dent in cantonal fiscal authority. Score: 4.

Variable 4 Spending decisions: How is spending decided upon? Managed? Monitored?

How is spending decided upon? We consider that a score of 4.5 is appropriate here.

Variable 5 Tax disputes and litigation (what legal rights do tax payers enjoy?)

Same as Germany: Specialized administrative courts settle most questions, but citizens may carry cases up the normal court system as far as they wish. Score 4.

Switzerland's unweighted average score is 4.0.1

28 Curzon Price, p. 1.

29 Not rates, see Curzon Price, p. 4.

Spain

Prof. Joachim TRIGO
University of Barcelona

Variable 1 Structure of budget receipts: Central/local split

Lower levels of government raise less than 20% of all taxes[30] (see OECD 2002b, Country studies UK 2001-02, Graph 30), , but spend almost 30%. Trigo confirms this state of affairs[31] and suggests a score of 2.5. However, this seems on the high side, given our standard score card and the fact that Trigo[32] appears to be saying that provincial governments raised only 7% of total income tax. Our score card suggests a score of 1 – but this may be too low. Spain is only just beginning to experiment with federalism, and clearly retains many unitary institutions from the past. Trigo speaks of a recent reform, adopted in July 2001, which aims to make "the incomes of the CCAA depend more on the taxes paid by its citizens and less on the transfers of the State"[33], but no evaluation of this reform is available yet. We suggest a score of 1.5.

Variable 2 (measure of fiscal autonomy and democratic answerability)

Pending the results of the July 2001 reform, Spain still appears to be highly centralized. Trigo suggests that 80% of all tax revenues are decided upon by the central government[34] and suggests a score of 1.

Variable 3 (measure of legislative responsibility for setting taxes)

Trigo considers[35] that the score of 3 corresponds precisely to Spain's situation ("Powers of each level set in the Constitution according to the "European" model of devolved subsidiarity"). We agree.

Variable 4 (who decides on spending?)

Trigo refers to "autonomy, sufficiency and solidarity"[36]– somewhat contradictory principles – and later to "insufficient autonomy in the decision of the structure of the spending of the CCAA … which cannot make its resources available as a whole, and establish its priorities of spending according to the decisions of its

30 OECD 2002b, Graph 30.
31 See Trigo, p. 38.
32 *Ibid.,* p. 18.
33 *Ibid.,* p. 18.
34 *Ibid.,* p. 38.
35 *Ibid.,* p. 39.
36 *Ibid.,* p. 15.

DOI: 10.2202/1145-6396.1105

Parliament in those areas that are of its responsibility"[37]. A whole section is devoted to "The low level of fiscal responsibility"[38]. For these reasons we believe that Spain earns a score of no more than 3, perhaps 3.5 ("Distribution of tasks between levels of government is established by higher authority").

Variable 5 (What jurisdictions for tax litigation?)

According to Trigo[39] tax payers have "to answer to the sovereign Tax Administration, which in principle is the State, despite the fact that responsibilities exist which …have been yielded to the Autonomous Communities". He suggests a score of 2.5 which we agree to.

Spain's unweighted average score is 2.3.

United Kingdom

Prof. Victoria Curzon Price
University of Geneva

Variable 1 (Structure of budget receipts)

According to the OECD[40], local governments in the UK raise a very small fraction of tax revenue (less than 5%), and get to spend about 25% of the total. Data derived from the IMF GFS give a somewhat different result (local government expenditure rises to 30% of the total (with social security excluded) (Curzon Price, Table 8). Since the Thatcher government's ill-fated attempt to reform local finances, local governments have had their taxing powers reduced[41]. They can only levy household property taxes, business property taxes now being the preserve of the central government. They have no other fiscal source of revenue. This state of affairs would seem to justify a score of 0.5

Variable 2 (measure of fiscal autonomy and democratic answerability)

Local governments in the UK are basically agents of the central government, which sets the agenda with regard to education, social services, housing, law and order and support for industry[42]. These items account for 82% of local government expenditure[43], leaving interest on local government debt (8%), transport (4.8%),

37 *Ibid.,* p. 16.
38 *Ibid.,* pp. 17-19.
39 *Ibid.,* p. 39.
40 OECD-2002b, Graph 30.
41 Curzon Price, pp. 7-9.
42 Curzon Price, p. 2.
43 Curzon Price, Table 5.

recreation & sport (3%) and "other" public services (4%) for possible local autonomy. Local governments are in competition with "quangos" (quasi-autonomous non-governmental bodies" which also execute central government policy in such areas as agriculture, transport, environment, social services, education and health[44]. The creation of the Scottish Parliament and Welsh Assembly in 1998 does not alter this state of affairs, since these new elected bodies have taken over the tasks formerly performed by Whitehall, without altering the nature of local government. These bodies now have a say in how to spend £21 bn of public money (out of a total of £312 bn, or less than 10%). According to the standard score card, the UK scores 1 ("Taxes determined by central authority, local "spending power" =/<20%"), but we would suggest 1.5 to reflect the creation of the Scottish and Welsh representative bodies (even if they don't have much power).

Variable 3 (measure of legislative responsibility for setting taxes)

We believe that the UK scores 1.

Variable 4 (who decides on spending?)

The UK appears to score 1 on this variable.

Variable 5 (What jurisdictions for tax litigation?)

This is the only variable for which the UK has a high score, because the British legal system does not have "special" administrative courts. If the Crown decides to prosecute an individual, the Director of Public Prosecutions has to address the normal court system. If an individual wants to appeal against the state, he must do the same. Most cases are, of course, settled out of court through negotiation. Score: 5 "Tax authorities enjoy no privileges. The case goes to court in the ordinary way".

The UK's unweighted average score is 1.8.

France

Dr. Olivier VERHEYDE
Université Aix-Marseille III

Variable 1 (Structure of budget receipts)

Central government in France levies 66% of total revenues[45], or perhaps 60%[46]. This proportion rises if one takes into account only *fiscal* receipts, of which the

44 Curzon Price, p. 3.
45 Verheyde, p. 15, T.1.
46 Verheyde, p. 31.

central government raises 90%[47]. These data are rather contradictory because France retains a great many specific, non-fiscal levies (on rents, on share transactions, on business turnover etc.). We suggest a compromise score of 1.5

Variable 2 (measure of fiscal autonomy and democratic answerability)

After describing the structure of tax legislation in France (highly centralized) Verheyde[48] nevertheless maintains that local governments enjoy a reasonable level of autonomy "La marge de manoeuvre fiscale locale est ... assez forte en France"[49] because they cover at least 50% of total expenditure with their own taxes[50]. This appears to earn France a score of 2, even though Verheyde notes[51] that only agents of the central state actually levy taxes. However, local governments then receive back from the central government what they have determined, as well as about double that in extra grants.
(Please refer to the problem of how to attribute taxes note 6 above).

Variable 3 (measure of legislative responsibility for setting taxes)

Local governments are responsible for setting rates covering half their expenditure, as we have just seen, which itself is equal to 25% of the total[52]. But they cannot "invent" new taxes. This seems to earn a score of 1.

Variable 4 (who decides on spending?)

Verheyde[53] reports that local governments in France are forbidden to do certain things (like support churches), and are obliged to do others (like maintain school buildings), but that if a municipal council is well run, it can enjoy a fair amount of discretion between these two extremes. Score 2 seems to apply here.

Variable 5 (What jurisdictions for tax litigation?)

Verheyde gives a score of 2 without hesitation, but notes an additional difficulty for the tax-payer: depending on type of tax at issue, a specialized examining magistrate may be assigned to the case without the tax payer being aware of which person (or which branch of the judiciary) is judging his case[54].

47 See OECD 2002b, Graph 30.
48 Verheyde, pp. 1-15.
49 Verheyde, p. 21.
50 *Ibid.,* pp. 22-23.
51 *Ibid.,* p. 31.
52 Verheyde, p. 31)
53 *Ibid.,* p. 32.
54 *Ibid.,* p. 33.

Central Europe

Andras SEMJEN
Institute of Economics, Hungarian Academy of Sciences
Laszlo SZAKADAT
Department of Microeconomics
Budapest University of Economics and Public Administration

Czech Republic

Variable 1 (Structure of budget receipts)

According to the IMF *Government Finance Statistics* (GFS), the local government share in consolidated government revenue of the Czech Republic, minus social security receipts, is about 23%. According to the score card, this gives CR a score of just over 1.

Variable 2 (measure of fiscal autonomy and democratic answerability)

S&S report p. 11 that "tax revenues of subnational governments varied between 40-53%" and the following paragraphs suggest that indeed, while local governments may raise very little in taxes, they get to spend about half of total public revenues. There is a substantial amount of redistribution from central to local government, along with which comes, of course, strict central control. "In the CR municipalities and other subnational governments have very limited power to tax and accordingly their autonomy in the decision over expenditures is also weak"[55].

This looks like a score of 1.

Variable 3 (measure of legislative responsibility for setting taxes)

By the same token, a score of 1.5 seems to fit the CR.

Variable 4 (who decides on spending?)

The story told pp.11-14 suggests a score of 1perhaps 2.5:

Variable 5 (What jurisdictions for tax litigation?)

We believe that a score of 5 would be appropriate here[56]

Unweighted average score for the Czech Republic is 1.9.

55 S&S, p. 11
56 S&S Table 3.4.

Hungary

Variable 1 (Structure of budget receipts)

IMF GFS suggest that local government in Hungary raises about 33% of total revenue. This seems to earn Hungary a score of 1.5.

Variable 2 (measure of fiscal autonomy and democratic answerability)

"local taxes are administered and collected by local governments" but "tax sharing" in both directions is an important factor.[57]. This suggests a fair measure of democratic accountability, but too much redistribution to earn 3. We suggest a score of 2.

Variable 3 (measure of legislative responsibility for setting taxes)

"Taxes can only be imposed in Hungary if they are listed in tax codes. No taxes can be levied without legislative approval. Even local taxes are limited in this respect... The tax code determines not only the tax base of municipalities but... the upper limits of tax rates as well..."[58]
This seems to warrant a score of 1.

Variable 4 (who decides on spending?)

"... in many important respects local communities have some autonomy"[59], but local government is chronically under-financed (central government sets tasks which afterwards it fails to pay for...). The Hungarian situation seems to fit the score of 3.

Variable 5 (What jurisdictions for tax litigation?)

According to S&S[60] , 5 is appropriate here.

The unweighted average score for Hungary is 2.56.

57 S&S, p. 14.
58 S&S, p. 14.
59 S&S, p. 18
60 T 3.4

Poland

Variable 1 (Structure of budget receipts)

According to IMF/GFS, local share in consolidated public revenue (minus social security receipts) amounts to 28% . This corresponds to a score of 1.5

Variable 2 (measure of fiscal autonomy and democratic answerability)

"The Polish tax system is administered by the Minister of Finance... most taxes are administered and collected by the Polish state"[61]. This suggests a score of 1.

Variable 3 (measure of legislative responsibility for setting taxes)

Taxes can only be levied on the basis of tax codes and amendments passed by the Polish Parliament[62] – normally earning Poland a score of 1. However, "Citizens at local level may initiate referenda on fiscal matters", which is an interesting democratic control mechanism. The fiscal referendum earns Poland a score of 3.

Variable 4 (who decides on spending?)

"In 1998 when the Polish government decentralized ... the financial control over local government was also loosened a bit. The subnational governments now have more influence on expenditures ... the functions were reallocated among the three levels of governmental system"[63]. This suggests a score of 3 (classical subsidiarity)

Variable 5 (What jurisdictions for tax litigation?)

Again, we defer to S&S and give a score of 5[64]

The unweighted average score for Poland is 2.6.

[61] S&S, p. 21.
[62] S&S, p. 21.
[63] S&S, p. 29.
[64] S&S, T.3.4.

DOI: 10.2202/1145-6396.1105

Slovakia

Variable 1 (Structure of budget receipts)

IMF GFS gives local governments' share in total revenue as equal to 13%. This suggests a score of 0.5

Variable 2 (measure of fiscal autonomy and democratic answerability)

Local tax revenues cover only 50% of total local expenditure "Many functions of the general government are directly financed from the central budget and not through local governments" which implies a "relatively high level of centralized financing"[65]. However, under-financing of local government is a problem: "Municipalities started to sell their tangible and intangible assets in order to finance their tasks" ... "Municipalities are usually poor" All of which suggests a low score – perhaps 0.5:

Variable 3 (measure of legislative responsibility for setting taxes)

As in Poland, Parliament is the sole source of tax law, but local referenda are possible[66]

Variable 4 (who decides on spending?)

A system of "autonomous local governments" was established in "late 1990"[67]... "intermediary administrative units were also created" (such as districts). S&S imply that local government in Slovakia is similar to that elsewhere in the region, which suggests a compromise score of 2.5, possibly 3.

Variable 5 (What jurisdictions for tax litigation?)

Again, a score of 5 (see above)

The unweighted average score for Slovakia is 2.4.

65 S&S, p. 36.
66 S&S, p. 36.
67 S&S, p. 35.

Slovenia

Variable 1 (Structure of budget receipts)

According to IMF GFS, local government in Slovenia raises 17% of the totoal. This corresponds to a score of 1 (17 being closer to 20 than to 10).

Variable 2 (measure of fiscal autonomy and democratic answerability)

"The tax system is administered by the Minister of Finance and Tax Administration of the Rep. of Slovenia.... All taxes are collected by central Tax Administration. ... Citizens at local level may not initiate referenda on fiscal matters."[68]. This earns Slovenia a score of 0.5 on this variable:

Variable 3 (measure of legislative responsibility for setting taxes)

"Taxes can be levied only on the basis of tax code passed and amended by the Slovene legislation. Only the Parliament has the right to determine the tax base and it also sets limits on tax rates. National and local taxes are determined centrally. Local authorities cannot choose freely on what they would like to levy tax. They have only a limited choice: they can fix tax rates within the boundaries set by the central legislation".[69]

However, the system of local finance was reformed in 1999[70]. It is not clear if this reform has substantially shifted tax-and-spend responsibility to municipal level. Pending further discussion, we suggest a score of 1

Variable 4 (who decides on spending?)

In 1993 Slovenia adopted the Local Self-government Act in accordance with the European Charter of Local self-government (the right to local self-government being one of the basic democratic principles promoted by the Council of Europe)[71]. This was a major departure from practice under Communism, when municipalities simply executed State policy. So even if Slovenia looks rather centralised from the tax receipts point of view, it looks decentralized on this measure: "the introduction of local self-government resulted in a decentralisation of the management of public affairs, i.e. transferring numerous tasks of central government to the local level" and a large measure of local discretion.

[68] S&S, pp. 37-38.
[69] S&S, p. 37.
[70] S&S, p. 45.
[71] S&S, p. 44.

DOI: 10.2202/1145-6396.1105

This score card seems to lack a step between 3 and 4: Thus tasks can be distributed constitutionally between different levels of government according to the "European" model of subsidiarity (3), but the local authority can enjoy a wide measure of discretion as to how to accomplish these tasks. Suggest 3.5

Variable 5 (What jurisdictions for tax litigation?)

Same as the other central European countries: 5

Average unweighted score for Slovenia: 2.2

Scandinavia

Stig Norgaard
Danish Ministry of Finance
Jacob Braestrup
Special advisor, Copenhagen City Hall
Both authors are on the board of the Danish Taxpayers Association

Denmark

Variable 1 Structure of budget receipts: Central/local split

According to N&B, local government raises 34% of total revenue. This is confirmed by the OECD, which puts local government revenue at 30%[72]. This suggests a score of 1.5, possibly 2. IMF GFS suggests a higher share of revenue arising from local government, but it is not clear that this is net of transfers. Score: 2

Variable 2 measure of fiscal autonomy, fiscal sovereignty and democratic answerability

"All personal taxes ... are calculated by the municipal tax administration... Although largely state administered, the task of assessing and collecting taxes is thus to some degree the shared responsibility of the state and municipalities"[73]. Score: 3.

Variable 3 : which level of government is responsible for tax legislation, tax rates, tax structure?

Table 4, p. 15, shows some local tax power. This suggests that local government in Denmark cannot blame central government for *everything* that goes wrong… Referenda can be initiated by parliamentary representatives, not by the people. We think that Denmark deserves 3 on this score, even if the score card does not correspond exactly to the situation described. (subject to discussion with N&B) :

72 See OECD-2002b, Graph 30.
73 N&B, p. 8.

Variable 4: Spending decisions: How is spending decided upon? Managed? Monitored?

« Most of the responsibilities of local government are dictated by law and thus mandatory. Within certain limits counties and municipalities are, however, able to choose the level of service provided »[74]. By analogy with Slovenia, this situation implies a compromise score of 3.5. Furthermore, lower levels of governmentThey have very limited possibility for economically supporting individuals or companies (id). The growth of expenditure has been indirectly put under central control by athe decreed tax-halt[75] (the story here suggests that local governments have been exercizing considerable autonomy until now – perhaps this will now change). A centralizing move, but one which limits increases in tax-and-spend policies. Difficult to interpret.) We confirm 3.5.

Variable 5: Tax disputes and litigation (what legal rights do tax payers enjoy?)

"If a taxpayer disagrees with the assessment of the *local* tax administration, he may appeal free of charge to "Skatteankenaevnet" a locally based layman board of tax appeal… (this) does not postpone the payment of taxes. The next step is appeal to the national tax court. Then through the normal courts, up to the Supreme Cour"t. N&B suggest 3, but we think that the fact that the first board of appeal is local is a big plus. At least 3.5

Unweighted average for Denmark: 3.0

Norway

Variable 1 Structure of budget receipts: Central/local split

Local government in Norway levies small share of the total: 15%[76]. Since we do not wish to give quarter marks, we suggest that Norway earns a score of 1.

(IMF GFS gives a different answer, but these statistics are ambiguous)

Variable 2 measure of fiscal autonomy, fiscal sovereignty and democratic answerability

« In Norway, the administration of tax laws in primarily in the hands of the *national* tax authorities, which have the overall responsibility of ensuring that all taxes are assessed and collected in the correct manner. The tax authorities also

74 N&B., p. 10.
75 *Ibid.,* p. 13.
76 N&B, p. 20, Chart 6.

handle the national population register. »[77]. THowever, the *municipal* treasury is « responsible for the collection and registration of ordinary income taxes and employers' payroll taxes » (id). For this reason we would like to raise Norway's score from 1.5 proposed by N&B to 2. But the high level of central government transfers[78] makes for a low level of democratic answerability. Score: 2For discussion.

Variable 3 : which level of government is responsible for tax legislation, tax rates, tax structure?

« In Norway, all tax legislation is managed at the state level, by Parliament »[79] However, municipal governments have a certain measure of discretion in setting local tax *rates* (central government impose a maximum rate of taxation)[80] Municipal governments tax both income and property[81]. Tax legislation may not be challenged through referenda[82]. We suggest 2.5 (slightly better than N&B's score of 2, because of the measure of discretion in setting local tax rates).

Variable 4: Spending decisions: How is spending decided upon? Managed? Monitored?

Central government makes up the considerable shortfall between local revenue and local expenditure (respectively 15% and 36%[83] Chart 6) by a per capita "block grant". One can see why local governments become irresponsible, favour "tax-and-spend" policies[84] which lead to the central government trying to "cap" them. We agree with N&B that Norway earns a 3 on this variable.

Variable 5: Tax disputes and litigation (what legal rights do tax payers enjoy?)

"Central tax authorities …are … responsible for tax assessments"[85]. First appeal is to the *municipal* tax assessment board. The assessment board is elected by the members of the municipal council. There are such tax boards at each level of government, and appeals can go up and up. The tax payer may choose to take the case to the regular courts. (pp. 26-27)". Score: 4.
Unweighted average for Norway: 2.5.

77 N&B, p. 22.
78 Chart 6, p. 20.
79 N&B, p. 24.
80 *Ibid.*
81 *Ibid.,* p. 25.
82 N&B, p. 26.
83 N&B, p. 20, Chart 6.
84 N&B, p. 22.
85 N&B, p. 26.

Sweden

Variable 1 Structure of budget receipts: Central/local split

Local governments get to raise 30% of public revenue[86], a ratio which is confirmed by the OECD (see OECD 2002b, Country studies UK 2001-02, Graph 30). This gives a rank of 1.5.

Rank Central (% revenues) Local (% revenues) 2 60 40 1 80 20 0 100 0

Variable 2 measure of fiscal autonomy, fiscal sovereignty and democratic answerability

« In Sweden the responsibility for tax collection rests in the hands of the National Tax Board… »[87]. But the country is divided into 10 administrative regions, each administered by a regional tax authority (skattemyndighet). This must bring the tax man closer to the people… Each region has a tax fraud investigation unit as well as an enforcement agency[88]. N&B suggest 2, but we wonder if 32.5 is not more appropriate, given the regional tax administrations

Variable 3 : which level of government is responsible for tax legislation, tax rates, tax structure?

N&B confirm that « local self-government, including the power of municipalities and counties to raise taxes in order to finance local services, is enshrined in the Swedish constitution »[89]. Through the income equalisation component central government smoothssmoothes out differences between the need for services and the capacity to provide for them[90]. « Personal income (the tax base) is defined by central government, but municipalities and counties set their own tax rates »[91]. Local referenda have been used in an advisory capacity[92].
The general impression is one of considerable local autonomy, but this is nevertheless tempered by N&B's informed assessment :
« in reality, it is Parliament who defines the taxing ability of municipalities and counties » [93] We suggest 3.5.

86 N&B, p. 30, Chart 7.
87 N&B, p. 31.
88 *Ibid.*
89 *Ibid.,* p. 29.
90 *Ibid.,* p. 33.
91 *Ibid.,* p. 26.
92 *Ibid.,* p. 37.
93 *Ibid.,* p. 37.

DOI: 10.2202/1145-6396.1105

Variable 4: Spending decisions: How is spending decided upon? Managed? Monitored?

Local governments get to spend 38% of total revenue, and raise 30%, so there is a fairly high level of overlap between local tax receipts and local expenditure. This implies a high level of local democratic answerability. N&B confirm that « local self-government, including the power of municipalities and counties to raise taxes in order to finance local services, is enshrined in the Swedish constitution »[94]. Through the income equalisation component municipalities smooth out differences between the need for services and the capacity to provide for them[95]. Today, the central government provides « block grants » which are not ear-marked (this increases local government discretionary spending policies)[96]. N&B conclude that « the municipalities and countries of Sweden do enjoy some degree of budgetary autonomy »[97] and suggest a score of 3.

Variable 5: Tax disputes and litigation (what legal rights do tax payers enjoy?)

All legal cases against the public administration, including tax litigation, are handled by separate administrative courts. The score card does not really cover the Swedish situation. It is not that tax authorities enjoy special legal privileges, it is simply that the Swedish system distinguishes *in general* between state and civil matters. This is probably designed to *enhance* the protection of the ordinary citizen. We suggest 3.

Average unweighted score for Sweden: 2.8.

Ireland

Dr Graham Brownlow
Lecturer in economics at Dublin City University Business School

Variable 1 Structure of budget receipts: Central/local split

Ireland has traditionally levied local taxes in the form of property taxes. These (always highly unpopular) were abolished in 1978[98], although a modest residential property tax (RPT) was reintroduced in 1983 (yielding £7 million out of a total revenue of £11,716 million)[99]. Locally raised public revenue (from RPT, fees for

94 *Ibid.,* p. 29.
95 *Ibid.,* p.33.
96 *Ibid.,* p. 34.
97 *Ibid.,* p. 34.
98 Brownlow, p. 4.
99 *Ibid.,* p. 3.

planning applications, rentals, service charges for water, refuse collection, etc.) amounts to only 4.8% of total revenue (id.). « Taxes therefore account for only a small proportion of local revenue » [100]. This gives Ireland a score of 0.

Variable 2 measure of fiscal autonomy, fiscal sovereignty and democratic answerability

« Many empirical studies … all confirm that Ireland has an enduring record of fiscal centalisation »[101] leading some commentators to declare that « the Irish system of government is subject to a chronic democratic deficit » : it is neither local nor government[102]. Local authorities are funded via central government grants. Ireland has adopted the American model of local government : professional full-time local managers (civil servants) run the local authorities in conjunction with elected representatives[103]. Between 1920 and 1993 the number of local councils was reduced from 460 to 117 in the name of efficiency.

« Lower levels of government have no real autonomy »[104]
We believe that all this implies that on variable 2, Ireland again scores 0.

Variable 3 : which level of government is responsible for tax legislation, tax rates, tax structure?

By the same token, taxes are decided centrally. But Ireland has a culture of referenda[105] which has yet to be tested in tax matters. This mitigating factor allows us to suggest a score of 1 or 1.5 on this variable.

Variable 4: Spending decisions: How is spending decided upon? Managed? Monitored?

All Brownlow's comments suggest a very low score. For instance, p. 26: "In the Irish case centralism in both tax raising and spending was very much in force at the time of the Single European Market in 1992… Ireland's system of local government had very limited financial autonomy".[106] "The segments for which no real local autonomy included significant areas of Irish economy and society such as: urban road transport, ports, airports, agriculture, forestry, fishing, hunting, electricity,

100 *Ibid.,* p. 4.
101 *Ibid.,* p. 3.
102 *Ibid.,* p. 6.
103 *Ibid.,* p. 9.
104 *Ibid.,* p. 10.
105 *Ibid.,* p. 11, 42.
106 *Ibid.,* p. 26.

commerce, tourism, security, policy, justice, education, hospitals, personal health and family welfare services. The functions that local authorities did carry out in these areas were in any case very strictly controlled by central government"[107].

Variable 5: Tax disputes and litigation (what legal rights do tax payers enjoy?)

The legal system follows the Anglo-Saxon model of an independent judiciary with no special administrative courts.
Score: 5

Unweighted average score for Ireland: 1.3

Italy

Prof. Giorgio BROSIO
Università di Torino

Variable 1 (Structure of budget receipts)

Excluding social security charges, central government in 1999 levied 75% of total revenue[108]. This gives Italy a score of 1.5
However, major decentralisation reforms were introduced in 1993 and 1998 (see Brosio p.5-7)[109] and their effects are reflected in the following variables.

Variable 2 (measure of fiscal autonomy and democratic answerability)

In 1993 a municipal property tax was introduced, in 1995 regions were granted a share of the gasoline tax. In 1998 a new IRAP (VAT) was allotted to the regions and regional governments were allowed to tax personal incomes at a flat rate limited to 2%. In 1999 provinces were given the outcome of the car insurance tax. Finally, since 2001, regions are getting about 25% of VAT. These new sources of income should "allow the richest regions of the North to cover all their present expenditure responsibilities with taxes"[110].
For these reasons we consider that Italy earns a score of 3 (the intent of the reforms appears to be to oblige regions to "stand on their own feet".

107 *Ibid.,* p. 26.
108 Brosio, p. 3.
109 See Brosio, pp. 5-7.
110 Brosio, p. 6.

Variable 3 (measure of legislative responsibility for setting taxes)

According to Brosio, the Decreti Bassanini (1998) has introduced "a substantive amount of administrative federalism" similar to the German model"[111]. "The central government has devolved many of its administrative responsibilities to regional governments, which in turn have assigned them to still lower levels, namely provinces and municipalities," Brosio comments on the "strong resistance" by central bureaucrats and judges that the regional governments are the big winners. This looks like a score of 3 (top-down subsidiarity).

Variable 4 (who decides on spending?)

It is well known that until recently the Italian unitary state transferred substantial resources from the rich North to the much poorer South. However, resistance to this high level of redistribution has grown over time, leading to the Northern League movement (in favour of regional independence) and the regional reforms described by Brosio. Nevertheless, substantial scope for redistribution still subsists, and Brosio points to some perverse effects, whereby already rich regions are net recipients of the system[112]. Special statute regions in 1998 covered 78% of expenditure out of their own taxes, and "ordinary" statute regions covered 52% (up from 34% and 1.2% respectively in 1981)[113]. Brosio concludes his paper by stating "More responsibilities have been transferred to subnational governments and central controls have been reduced" and "A traditionally centralized state is being gradually transformed into a decentralized one"[114].

For these reasons, we suggest a score of 3.5

Variable 5 (What jurisdictions for tax litigation?)

"The Italian system of tax appeals is, first, based on provincial and regional administrative committees." If the dispute is not resolved, both taxpayers and the tax administration can address the ordinary courts.[115]

Score 4

Unweighted average score for Italy: 3

111 Brosio, p. 6.
112 *Ibid.,* p. 9.
113 Brosio, Table 5.
114 *Ibid.,* p. 19.
115 Brosio, p. 23.

DOI: 10.2202/1145-6396.1105