

OECD Countries Local Government Fiscal Context ~~[DRAFT 1-29-133-31-14]~~

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Below we present a contextual overview of local government finance in the OECD countries. The overview consists of a set of tables (see below) and discussion of the role of local government in the public sector, the extent of local government autonomy in each of the countries, and the functional assignment of responsibility of the various local government systems (who does what?). The six countries that are the focus of our study are thus placed within the broader context of all OECD countries for which relevant data are available. A more complete discussion of the local government context of the six countries is then included.

Tables for OECD Countries:

Table 1:	Local tax revenue as a percentage of all government tax revenue, 2010
Table 2:	Local Public Expenditure as a Percentage of all Non-Defense Public Expenditure, 2010
Table 3:	Local government expenditure as percentage of GDP, 2010
Table 4:	Revenue by Source as a percentage of total local revenue, 2010
Table 5:	Local expenditures on key public services as a percentage of all general government spending on that service, 2010.

Role of Local Government in the Public Sector.

Local government varies dramatically in the importance of its role relative to other governmental levels across the OECD countries. Tables 1 and 2 provide two measures of local government importance relative to other levels of government, one related to tax-raising and the other to public expenditure. The first table displays each OECD country's local government tax revenue as a percentage of tax revenue raised by all levels of government (national, state, and local in federal systems; national and local in unitary systems). The second table displays local government direct general expenditure as a percentage of all levels of government direct general expenditure, excluding defense expenditures (direct general expenditure excludes grants provided to another level of government). Note that local governments may play a relatively small role in tax-raising but a relatively larger role in spending if local governments receive substantial amount of grant funds from higher levels of government.

The range with respect to both taxing and spending is enormous. Local government taxes as a percentage of all public sector taxes ranges from 1.2% in Greece to 43.9% in Japan. Local government public spending as a percentage of all public spending ranges from 6.6% in Greece to 65.9% in Denmark.

Below we group countries for which there are data for both local revenues and expenditures into five categories. The categories relate the country's rank for each of the two measures relative to

the overall median. Countries with values five or more percentage points above the median on both measures are termed “high local government importance.” Countries with values five or more percentage points below the median on both measures are deemed “low local government importance.” Countries within five percentage points of the median on both measures are deemed “average local government importance.” Countries that are within five percentage points of the median on either the revenue or expenditure category, but are more than five percentage points from the median (either above or below) are termed “mixed.”

Countries with high relative local government importance (the six countries in our study are bolded)

- Denmark
- Finland
- **Italy**
- Japan
- Korea
- Sweden
- **United States**

Countries with low relative local government importance

- Australia
- Austria
- Belgium
- Greece
- Ireland
- Israel
- Portugal

Countries with average or mixed relative local government importance

- Canada
- Czech Republic
- Estonia
- France
- **Germany**
- Hungary
- Iceland
- Netherlands
- Norway
- **Poland**
- Slovak Republic
- Slovenia
- **Spain**

- **United Kingdom**

Countries with high local government importance are, with one exception, countries with highly centralized unitary systems of government. It is not surprising that local governments in federal systems generally play a smaller role with respect to both taxes and spending since in federal countries there is an intermediary level of government with taxing and spending powers¹. The one exception is the United States, where localism is culturally and politically embedded, even if it is not institutionally so.

~~The six countries in our study are bolded above.~~

However, while local government may play an important role relative to other levels of *government*, our assessment of local government's overall importance may differ depending on the role local government plays in the national economy relative to the private sector. if the public sector as a whole plays a small role in the national economy relative to the private sector as opposed to playing a large role. Table 3 provides data on the local public sector expenditure relative to the nation's overall economy.

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Inspection of the data in Table 3 does not change our ranking of local government importance. All of the countries that ranked high in terms of the importance of local government relative to the other governmental levels also rank above the median in terms of local government's share of the national economy. Similarly, all of the countries whose local government system ranked low in terms of importance relative to the rest of the public sector also ranked below the median with respect to local government importance in the national economy.

Local Autonomy

We conceive a country's local government system to have local autonomy if it has available to it a substantial amount of resources ~~available to it~~ that can be used in any manner it wishes, i.e., subject to local government discretion. In general, revenue raised from local sources (taxes and fees and charges) is available for the local government to use for any legal purpose. Grant revenue available from other levels of government is constrained either by legal use, if it is a categorical or conditional grant, or, more generally, by the possibility of future year reductions if a general grant. Thus, percentage of local government revenue resulting from grants from higher level of governments is generally viewed as one indicator of local discretion, with a low percentage indicating relatively high local discretion and a high percentage indicating relatively less local discretion.

Table 4 ranks OECD countries on the degree to which their local government systems have local discretion as measured by own source local revenue as a percentage of total local revenue (i.e., 100 - grants as a percentage of local revenue). The ranking is from high local discretion to low.

¹ A much higher role in expenditure than in revenue raising may mean either that local government is receiving large amounts of grant funding to use to assist in providing local government services or that local government is simply serving as an administrative mechanism for a higher level of government in providing services of the higher level government, with the funds for those services passing through the local government budget.

Iceland has the highest degree of local discretion on this measure, while the United Kingdom has the lowest. Of the six countries that are the focus of our study, the United States, Germany and Spain have relatively high levels of local discretion, while Italy, Poland, and the United Kingdom have relatively low levels.

However, having substantial discretion may be rather meaningless if there is not much revenue available. Local autonomy is thus best conceived as a substantial *amount* of revenue available for discretionary use. In terms of comparing the OECD countries, we measure *amount* of local revenue as own-source local revenue as a percentage of GDP. We measure discretion as above, i.e., percentage of local revenue raised through own sources as a percentage of GDP. These ~~numbers-data~~ are reported in Table 5.

We term countries above the median on both of these measures as characterized by high local autonomy, those below the median on both as low local autonomy, and those below the median on one of the measures and above on the other as mixed or medium local autonomy. Below we present the resulting classification of local government system autonomy of OECD countries for which data are available on both measures.

High Local Autonomy

Austria
Czech Republic
Estonia
Finland
Iceland
Sweden
Switzerland
United States

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Medium (Mixed) Local Autonomy

Denmark
France
Germany
Israel
Italy
Norway
Poland
Portugal
Spain

Low Local Autonomy

Belgium
Canada
Hungary
Ireland

Luxembourg
Netherlands
Slovenia
United Kingdom

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Who Does What?

Local government systems perform different functions in different countries. These differences are due to national government assignment of service responsibilities to different levels of government, to the amount of “home rule” local governments have to undertake activities not assigned to them, to the amount of local autonomy they have (see prior section), and to differences in local preferences across countries.

We use the International Monetary Fund’s public service categories and data from their *Government Statistics Yearbook, 2011* to compare local government systems across countries. Table 6 presents local government direct general spending as a percentage of all government direct general spending (i.e., exclusive of grants provided to other levels of government) for each of the IMF categories. Those functions for which the local government system is responsible for more than 25% of all government direct general spending we designate as functions for which the local government system plays an important role and are bolded.

Although there are important exceptions in each case, local governments in most of the countries play an important role in environmental protection, housing and community development, recreation, and education. However, while the median country’s local government system spends nearly 50% of all public sector funds spent on education, the Spanish, Australian, and Greek systems all account for less than ten percent of all government education spending. With the exception of the Scandinavian countries (particularly Sweden and Denmark) and Korea, few local government systems are responsible for social protection and welfare spending. In health, the median local government system spends less than five percent of all government spending, but the Scandinavian countries, some eastern and central European countries (Estonia, Hungary, and Poland) and Korea and Italy all spend more than 25% of total government spending on that function. Belgium, Canada, the Netherlands, the United Kingdom, and the United States are the only countries in which local governments spend more than 25% of all public spending on public order and safety.

The functions for which the six countries in our study play an important role (i.e., account for more than 25% of all government spending) are listed below:

Germany:	economic affairs, environmental protection, housing and community amenities, recreation, and education.
Italy ² :	general public services, economic affairs, environmental protection, housing and community amenities, health, recreation, and education.
Poland:	economic affairs, environmental protection, housing and community amenities, health, recreation, and education.

² This is somewhat misleading since the IMF treats Italian intermediary levels of government as local government.

Spain: general public services, environmental protection, housing and community amenities, and recreation.

United Kingdom: public order and safety, economic affairs, environmental protection, housing and community amenities, recreation, and education.

United States: public order and safety, recreation, and education.

OECD Country Tables

**Table 1. Local tax revenue as a percentage
of all government tax revenue, 2010**

Australia	3.48%
Austria	17.75%
Belgium	7.64%
Canada	11.95%
Chile	6.34%
Czech Republic	26.07%
Denmark	27.32%
Estonia	22.02%
Finland	34.96%
France	16.71%
Germany	12.85%
Greece	1.23%
Hungary	9.62%
Iceland	29.11%
Ireland	4.02%
Israel	9.07%
Italy	21.33%
Japan	43.91%
Korea	21.97%
Luxembourg	6.23%
Mexico	n/a
Netherlands	5.86%
New Zealand	7.35%
Norway	17.82%
Poland	19.47%
Portugal	9.59%
Slovak Republic	18.64%
Slovenia	18.97%
Spain	14.93%
Sweden	42.32%
Switzerland	n/a
Turkey	n/a
United Kingdom	6.21%
United States	24.10%
Mean	16.74%
Median	16.71%

Source: IMF Government Statistics Yearbook 2011.

Table 2. Local expenditures as a Percentage of all Non-Defense Public Expenditure, 2010

Australia	7.2%
Austria	15.8%
Belgium*	13.6%
Canada**	19.0%
Chile	n/a
Czech Republic	26.5%
Denmark	65.9%
Estonia	25.8%
Finland*	41.8%
France	21.7%
Germany	17.1%
Greece*	6.6%
Hungary*	24.3%
Iceland	26.0%
Ireland*	15.3%
Israel	16.6%
Italy*	33.1%
Japan	n/a
Korea	60.1%
Luxembourg	n/a
Mexico	n/a
Netherlands	34.5%
New Zealand	n/a
Norway	34.6%
Poland	34.1%
Portugal	14.4%
Slovak Republic	18.9%
Slovenia	20.5%
Spain	16.1%
Sweden	49.5%
Switzerland	23.6%
Turkey	n/a
United Kingdom*	29.5%
United States***	31.5%
Mean	26.6%
Median	23.9%

Source: IMF Government Statistics Yearbook 2011; Data for the US: Office of Management and Budget, 2010. Notes: Data for local government in Italy includes Italian municipalities, provinces and regions. Bolded data means local government sector accounts for more than 25% of all government spending on function; i.e., it plays an important role. *2009. **2007. ***2010.

Table 3. Local government expenditure as percentage of GDP, 2010

Australia	n/a
Austria	7.38
Belgium	6.90
Canada	8.71
Chile	n/a
Czech Republic	11.76
Denmark	36.53
Estonia	9.98
Finland	22.24
France	11.49
Germany	7.59
Greece	2.87
Hungary	12.65
Iceland	13.31
Ireland	6.43
Israel	5.42
Italy	15.69
Japan	n/a
Korea	13.00
Luxembourg	4.89
Mexico	2.10
Netherlands	17.03
New Zealand	n/a
Norway	15.08
Poland	14.88
Portugal	7.13
Slovak Republic	7.28
Slovenia	10.09
Spain	6.26
Sweden	24.90
Switzerland	6.96
Turkey	n/a
United Kingdom	13.98
United States	11.50
Mean	11.52
Median	10.09

Source: OECD fiscal decentralisation database.

Table 4. Revenue by source as a percentage of total local revenue, 2010

	Own Source	Grants
Iceland	88.7	11.3
Switzerland	86.7	13.3
Austria	81.7	18.3
Sweden	76.5	23.5
United States	73.9	26.1
Finland	70.5	29.5
Slovak Republic	70.1	29.9
Portugal	66.2	33.8
Czech Republic	65.4	34.6
Israel	64.6	35.4
Germany	64.5	35.5
Estonia	60.8	39.2
Spain	60.4	39.6
Slovenia	60	40
Norway	59.1	40.9
France	58.8	41.2
Canada	57	43
Italy	52.8	47.2
Luxembourg	52.2	47.8
Belgium	50.3	49.7
Poland	49.3	50.7
Ireland	44.4	55.6
Denmark	43.8	56.2
Hungary	41	59
Netherlands	29.6	70.4
United Kingdom	28.6	71.4
Mean	59.9	40.1
Median	60.2	39.8

Source: OECD fiscal decentralisation database.

Table 5. Own-source local revenue as a percentage of GDP, 2010

Australia	n/a
Austria	6.32%
Belgium	3.48%
Canada	4.65%
Chile	n/a
Czech Republic	7.45%
Denmark	16.36%
Estonia	6.24%
Finland	15.63%
France	6.90%
Germany	5.03%
Greece	n/a
Hungary	4.85%
Iceland	11.13%
Ireland	3.88%
Israel	3.75%
Italy	8.09%
Japan	n/a
Korea	n/a
Luxembourg	2.77%
Mexico	n/a
Netherlands	4.83%
New Zealand	n/a
Norway	8.48%
Poland	6.80%
Portugal	4.24%
Slovak Republic	4.48%
Slovenia	5.90%
Spain	3.91%
Sweden	19.62%
Switzerland	6.74%
Turkey	n/a
United Kingdom	4.00%
United States	6.17%
Mean	6.99%
Median	6.04%

Source: OECD fiscal decentralisation database.

Table 6. Local expenditures on key public services as a percentage of all general government spending on that service, 2010

	General Public services	Public Order and safety	Economic affairs	Environment protection	Housing and community amenities	Health	Recreation, culture, and religion	Education	Social Protection
Australia	15.8%	2.6%	13.9%	48.9%	23.1%	0.3%	43.9%	0.2%	1.3%
Austria	20.1%	10.3%	17.1%	60.1%	34.9%	19.1%	52.5%	25.0%	7.4%
Belgium*	18.8%	48.1%	11.8%	55.5%	51.9%	2.4%	49.3%	22.2%	6.3%
Canada**	13.0%	35.0%	28.5%	69.0%	69.7%	1.5%	53.9%	47.7%	3.3%
Chile	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Czech Republic	35.0%	10.4%	34.0%	65.6%	67.6%	4.4%	72.0%	74.3%	7.5%
Denmark	19.7%	9.0%	41.5%	50.9%	41.1%	98.3%	54.2%	49.0%	81.2%
Estonia	25.9%	1.6%	24.0%	97.7%	94.9%	30.5%	44.4%	58.0%	5.6%
Finland*	45.1%	18.7%	28.3%	40.3%	54.7%	83.8%	73.0%	64.6%	23.4%
France	31.7%	21.1%	44.5%	88.7%	95.6%	1.1%	73.4%	31.3%	8.3%
Germany	23.5%	16.0%	22.8%	60.5%	56.3%	2.0%	64.9%	27.1%	12.6%
Greece*	12.4%	1.3%	12.4%	81.3%	38.5%	n/a	20.8%	1.7%	1.9%
Hungary*	20.5%	8.1%	17.6%	52.5%	99.6%	32.4%	41.6%	64.3%	8.7%
Iceland	17.7%	9.5%	13.8%	46.3%	12.4%	1.1%	67.5%	58.5%	23.6%
Ireland*	7.5%	7.3%	27.9%	72.8%	94.7%	0.0%	49.7%	22.5%	4.4%
Israel	15.6%	8.5%	17.6%	85.7%	38.1%	0.4%	47.3%	28.4%	9.5%
Italy*	30.3%	12.2%	52.5%	85.4%	82.9%	98.5%	56.5%	28.1%	3.8%
Japan	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Korea	57.1%	0.0%	47.5%	n/a	93.1%	49.2%	77.5%	109.4%	39.1%
Luxembourg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mexico	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	23.3%	56.2%	52.2%	92.7%	85.1%	3.3%	84.5%	78.3%	15.1%
New Zealand	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	33.1%	15.0%	31.0%	82.0%	92.3%	27.5%	65.6%	67.4%	22.8%
Poland	23.1%	15.8%	45.1%	88.3%	95.8%	45.8%	82.8%	73.0%	10.8%
Portugal	27.0%	3.5%	27.3%	68.5%	97.8%	5.0%	69.6%	10.9%	2.7%
Slovak Republic	27.6%	0.7%	17.9%	58.5%	85.0%	0.3%	51.3%	66.3%	4.0%
Slovenia	17.6%	7.7%	29.8%	69.8%	72.2%	15.2%	55.8%	55.6%	2.4%
Spain	43.7%	20.2%	20.5%	69.7%	75.7%	1.8%	52.3%	5.2%	4.0%
Sweden	39.9%	14.6%	33.2%	61.9%	89.3%	97.2%	78.1%	76.9%	30.7%
Switzerland	30.1%	26.6%	26.9%	70.2%	83.8%	12.8%	61.1%	36.5%	10.3%
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
United Kingdom*	18.5%	49.2%	28.5%	55.9%	67.0%	0.0%	49.4%	67.4%	22.8%
United States***	20.9%	52.6%	21.6%	n/a	23.7%	10.2%	69.4%	51.5%	8.2%
Mean	25.5%	17.2%	28.2%	68.4%	68.5%	23.9%	59.4%	46.5%	13.6%
Median	23.2%	11.3%	27.6%	68.8%	74.0%	5.0%	56.1%	50.2%	8.3%

Source: IMF Government Statistics Yearbook 2011; Notes: Data for local government in Italy includes Italian municipalities, provinces and regions. Bolded data means local government sector accounts for more than 25% of all government spending on function; i.e., it plays an important role. *2009. **2007. ***From IMF Government Statistics Yearbook 2001.