

**Local Governance Reforms
and Fiscal Policies
in a Global Perspective**

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Abstract

Local governments have been facing problems brought about by globalisation, aging societies, individualisation and reinforcing social inequalities. Despite reform waves starting in the 1980s, local government structures remain heterogeneous. On one hand, these reforms have been focusing on political reform heading towards democratisation (direct elections of mayor, new electoral systems, local referendums, citizen juries etc.). On the other hand, the second reform trajectory have been focusing on administrative reforms such as privatization and internal management reforms (mostly in form of New Public Management strategies). More important in this field of administrative reforms are territorial reforms, functional reform and fiscal reforms. Especially the last two are highly interwoven. In most systems, local governments criticise unfunded mandates and their lack of influence on national policy making when it comes to devolution. In some countries, local government still need to develop the capacity to handle new functions. But in most countries, the dominating trend toward decentralisation and devolution brings more local responsibilities and new local taxes, which means more autonomy. Besides the increase of unconditional grants, local government is allowed to define tax base and tax level. Nevertheless, national path dependency and political culture become obvious and some local governments' diversity prevails.

Local Government is facing enormous pressure. Some colleagues see a strengthening of local government in the form of decentralization and devolution as the panacea for higher efficiency and effectiveness. Other colleagues feel that decentralization leads to local egoism and parochial patronage.

Local government systems are extremely heterogeneous (see Kersting/Vetter 2004). There are different traditions regarding local government. For heuristic reasons a dichotomy will be presented. The dichotomy focuses on the level of autonomy encompassing fiscal and functional aspects.

In the "autonomy model," local government independently focuses on its own needs and preferences. In the "agency model," local government is a vehicle implementing decisions from central government. These two aspects are part of a continuum and local government often fulfills both roles (see also Hesse/Sharpe 1991).

Besides local government types, the size of communities is relevant. In different federal systems, local municipality sizes differ radically. In developing countries such as South Africa and Uganda, local authorities are responsible for, on average, 240,000 and 370,000 citizens respectively. The figure is also high in China, around a hundred thousand. In urban India, Chile, and Brazil, municipalities are responsible for about 20,000 to 60,000 citizens. In Indonesia, the figure is as low as 6,000.

The focus here will be more on Europe and the US and less on Asia, Latin

America, and Africa. Firstly, the socio-economic context and political contexts will be described. Then, reform trajectories are presented. Finally the global fiscal reform.

1. Socio economic context and political challenges

New and old democracies are facing new challenges (Kersting in 2006). In many countries, demographic change altered age structures in the population ("Grey society"). The social security systems, the pension schemes in particular do not satisfy the rising expectations of the population. International migration has reduced the ageing of the population in some countries slightly and has led to "multicultural societies". In many societies, the immigration creates intercultural tension. Strong immigration towards cities ("Urban society") leads to strong segregation tendencies and to the construction of different environments. As differences between social groups develop at the same time, partly due to globalization, additional tension becomes visible between poor and rich.

For example, tension between those who are employed and earn a sufficient income and the unemployed persons or marginal workers and citizens depending on social welfare grants ("Two-thirds society"). Since tensions harden in the urban context and mostly overlap, sociopolitical measures are limited. Example, are policies for integration. Thus, these groups are increasingly thrown back into traditional primordial social communities, such as family and kinship, while the better-off groups are rather marked by the classical processes of individuation and the dismantling of social capital.

These critical social developments are accompanied by crises in the political system. Classical state tasks are increasingly privatized, thus, decision competence falls away. At the same time, state tasks often shift away from the dominating national parliaments to supranational institutions. The democratically elected parliaments often hand over relevant competencies to only indirectly legitimized executives and to the increasingly more important expert committees. However, basically three central crisis phenomena seem to occur:

1.1. *Participation crisis*

With the dissolution of social environments, parties — as central institutions in democracies — are coming under pressure. Essentially in old democracies, party membership is sinking rapidly. This process of disengagement from organized interests also appears in the civil-social area. However, participation in trade unions has increased vigorously after the relative decline of the industrial sector. In addition, new civil-social organizations in society are also enlarging. However, even here, a weaker connection between members and organization becomes evident.

Central continuous leadership tasks are only reluctantly taken over or barely being transferred to younger members in the often hoary organizations.

The decline of political engagement is shown even more clearly during elections. In nearly all political systems, election turnouts are dramatically low (with some

exceptions such as Denmark). While the election turnout at national elections in the majority of countries during the seventies lay at clearly more than 70%, it sank during the last 30 years by between 10% and 20% (IDEA 2002). In the countries of the Council of Europe, the election turnout of 1980 lay at 88%, at 74% in 2002, and sank to 70% in 2004 (Schmitter/Trechsel 2004: 26). Merely a few countries, for example in Sweden and in Germany, elections turnout of about 80% is reached. The elections at regional or municipal level have even lower participation rates. During so-called "Low stimulus" elections, (for example local elections or European elections), often less than half of the eligible voters cast their ballot (Kersting, 2005). In international comparison, this is often seen as normalization because old democracies, (for example Switzerland), have had a very low election turnout for a long time. Even then, voter turnout seems problematic because electoral abstention by the younger generations in particular is strongly increasing. Clearly, erosion phenomena appear in countries with very high electoral norms and where voting is a civil duty. In Germany, out of three million first time voters, half a million did not take part in the 1998 national election. In the German national election of 2002, the percentage of non-voters rose considerably (Kersting in 2004). Of the three million potential first time voters, one-third did not vote. An investigation of non-voters shows that these were often voters with a low educational standard. The election turnout was higher in particular in the rural regions with functioning social environments and networks. With three central criteria for the elections, — candidate, programme and party — the party connection is increasingly losing its influence. Political disinterest and apathy are not the central reason for electoral abstention. Within the scope of educational expansion and changing social norms, a political cynicism also becomes increasingly clear in more highly educated groups that feel only slightly engaged to the electoral norm. Beyond this conventional form of participation, other participation acts are decreasing. Although some highly specialized new social groups with political interests appear increasing, citizens can only be mobilized for short-term events. Mostly there is no broad mobilization and mobilization seldom includes all income age groups and educational levels. Engaged groups clearly indicate distorted age structures. In long term institutions, older "rich in time" people represent their interests more strongly. Furthermore in relation to income and educational level, the better-put "élites" are also rather more active.

1.2. Control crisis, Competence crisis, De-democratization

Institutions that are not democratically constituted increasingly play an important role in democratic systems. These controlling institutions ("Guardian Institutions") are directed, above all, by experts. Expert panel institutions such as central banks, autonomous regulation authorities, audit office, the police, the military and other similar hierarchically structured institutions are important (Schmitter/Trechsel 2004).

Collective decision-making does not have to be constituted democratically in all areas. Private decisions, e.g. in families and associations, have a strong economic and social relevance. However, these often originate on the basis of voluntary

relations and hierarchies or by automatic market coordination. Furthermore in particular, the work sector and education sector as well as wide parts of the leisure time sector are characterized by hierarchical principles. In the private sector, the organizational efficiency and complex coordination mechanisms of these sectors do not always have to be directed by democratic principles and are widely accepted socially even if often contested (Schmitter/Trechsel 2004).

Financial crises, privatisation and post-parlamentarianism have influenced political development. Elected parliamentarians, in spite of professionalisation, have lost competence. They increasingly devolve the tasks of government and administration to technocratic expert committees, to the Judicative, to local and the supranational levels, and to the media.

1.3. Legitimisation crisis and politically cultural change

A reason for the rising political apathy also lies in false perception of politicians (Kersting/Cronqvist 2005). In view of the background of the loss of competence of parliamentarians, politics is merely seen, particularly in the lower educational layers, as a rivalry and struggle for power between politicians and parties within elections. This enhances political apathy and disinterest. In contrast, in more highly educated groups, an interest appears in political projects, programmes, problems, ideas, and principles around social challenges. Notwithstanding, political cynicism and a lack of efficacy i.e. a feeling of lacking influence, becomes apparent in spite of a high level of political knowledge. While political apathy is marked by low social standing and low access to political information and a feeling of lack of political competence, political cynicism is characterized by a lack of political preference and a feeling of a lack of responsiveness. Political cynicism, in addition to the false interpretation of a lack of political "efficacy", also leads to a false perception of political accountability. Here, any differences between political parties are denied and an economy omnipotence is ascribed.

The nation state, compared with the economic enterprises, is accused of an inferiority and a total emigration of political decision-making in the direction of regional bodies such as the EU is stated (Schmitter/Trechsel 2004: 29).

The political discontent is based partly on lack of education. With the "educational explosion" in the sixties in Western Europe also came a strong change in social norms.

The change moved cultural identity, equality and personal autonomy into the foreground.

Conflicts were provoked by dominating system of liberal representative democracy characterized by subordination, discipline, hierarchy, and elitist leadership.

Besides the devolution of decisive competence in supranational institutions, control deficits and a lack of effectiveness of state programmes are criticized. Politics is perceived as having little influence, and the impression of a bare struggle for power around privileges between parties and politicians is strengthened.

In political camps, the socialist left government is increasingly accused of neo-liberal policy, while conservative governments attest socialist left-wing strategies.

2. Reform trajectories

The “Public Choice” debate and the good governance strategies had a tremendous effect on local government reforms. Since the 1980s, local government system reforms have been abundant. Because of the heterogeneity of local government structures, local government system reforms are also quite heterogeneous. Caulfield and Larsen (2002: 13ff.) developed a twofold typology and defined four kinds of reform strategies: management-, political-, functional-, and boundary reforms. Here, three reform categories and trajectories can be identified and they can be identified empirically. It is obvious that some reform activities may well touch all three groups and that administrative reforms may have severe political implications. Territorial, fiscal and functional reforms, as well as reforms of local administration, are directed to improve efficiency and effectiveness while “local political reforms” are generally intended to enhance citizen involvement and local political participation; thereby strengthening the input aspect of local democracy.

Table 1 Local government reform activities

Fiscal, Functional and Territorial Reforms - Financial Decentralisation Functional and, Devolution, Deregulation Boundary Reforms/Amalgamation Inter-Municipal Co-operation	
Management Reforms Budgeting Reforms, e. g. Output Orientation, Global Budgeting	Political reforms Direct Election of the Mayors/ Executive Mayors
Intra-Organizational Decentralisation Customer Orientation Privatisation, Public Private Partnerships	Local Referendums New Electoral Laws Introduction Advisory Boards, Neighbourhood Councils, Round Tables, Forums, Future Conferences ... E-Government/Electronic Voting

See Kersting 2001, 2002a; Caulfield and Larsen 2002: 13. Kersting /Vetter 2004

2.1. Management reforms

Reforms within the administration frequently take place. With the advent of independence and with the regime changes after the democratisation of the 1980s and 1990s, administrations had to adjust. Further more, Local public sector management was seriously affected by the Washington Consensus and its structural adjustments programmes in early 1980s and by good governance process. “New Public Management (NPM)” became extremely prominent in the beginning of the 1980s. These “new” management concepts started to shape not only national but also local

administrations to become more efficient and effective. After the British Conservative government had introduced a far-reaching new policy of local government reform at the end of the 1970s, many countries followed the British example.

Despite this, the neo-liberal ideology of Margaret Thatcher's reform concept was often ignored or at least softened. Management reforms are mainly concerned with the service delivery function of the local public administration: Citizens are generally defined as consumers. Output-orientation is strengthened by introducing transparent global budgeting, cost benefit accounting, intra-organizational decentralization, stronger inter-municipal co-operations, privatization strategies, and the like. Another means of management reform is the opening up of the local political arena for new actors being integrated in the local decision making and service delivery process. Finally, new management concepts tend to include a changing role of the local assemblies vis-à-vis the local administration. New management concepts try to strengthen the steering function of the local assemblies by making the administration more transparent and by offering the councillors management tools for directing and controlling the local administration. Depending on different degrees of financial pressure, most countries started a series of management reforms at different time points. With only some exceptions, for example Germany (see Wollmann 2002), the processes were mostly not initiated by the municipalities themselves.

In the late 1970s, US government under the presidency of Ronald Reagan and British Government under PM Margaret Thatcher started their encompassing reform of local governments by introducing the neo-liberal "New Public Management" (NPM). Since the end of the 1970s, a wave of management centred reforms has been (coming) spreading across the globe. International organizations such as the OECD and the EU promoted the concepts of new public management.

These included not only a stronger customer/consumer orientation, output-orientation, global budgeting, stronger inter-municipal competition, human resources management, but also the reduction of local government to its core functions by outsourcing and privatisation. Although, management reforms seem to be on the agenda in most countries, none of the other countries seems to have adopted the "radical" neo-liberal British style of reform.

With the intra-administrative changes in local management in the UK, the Conservatives fundamentally altered the role of British local government after 1979: "The centre has resorted to seven significant devices to curb the role of local government: direct action instead of collaboration; privatization; *quangoisation* and centralization; enhanced central inspection; specific grants; more centrally-led policy-planning systems; and more influence for clients and consumers of services individually. Even if one judges the various particular measures desirable in themselves, cumulatively they amount to a radical reshaping of the role of local government in Britain" (Jones 1991: 204). These changes were mainly efficiency driven and the New Labour Government did not substantively alter this after 1997 but continued to place an emphasis on performance through the introduction of Best Value, LPSAs, Comprehensive Performance Assessment, etc. Finally, outsourcing, public-private-partnerships (PPP) and even third sector approaches were continued under

the New Labour government.

NPM has affected all countries. Starting in the US and the UK, it spread to the Anglo-Saxon world (see New Zealand) and it became the doctrine in developing policies. On the European continent, the wave of management reforms seems to have mainly hit the Nordic and Middle-European countries including Scandinavia, the Netherlands, Germany, Switzerland, to a smaller degree Austria, and even Italy. Nevertheless, each nation seems to have put the main emphasis on slightly different aspects (for details see the country chapters in this volume). While for example, in contractual management is widespread in Finland, many Swedish municipalities have introduced purchaser/provider models.

In addition, service declarations and compensation systems with results-oriented elements have become mandatory. Quasi-privatization is most prevalent in Denmark and Finland. In Denmark, private companies have acquired the right of "challenging" municipal service provision. They can take over if they can provide services more efficiently and many municipalities work closely with voluntary associations. In the Netherlands, NPM-oriented reforms started quite early. In Austria and Germany, NPM has been high on the agenda since the beginning of the 1990s. In Germany, Switzerland, and Austria, prominent public, private and scientific actors accompanied and promoted the introduction of NPM like the "Kommunale Gemeinschaftsstelle für Verwaltungsvereinfachung" (KGSt), the Bertelsmann Foundation or the University of St. Gallen (CH). In contrast with what happened in the United Kingdom, however, management reforms in these countries were not imposed by central government but were implemented mainly from below. In Italy, finally, management reforms also became an important feature of local government reform and the "pact of stability" impels the municipalities to sell their estates and activities, and encourages contracting out.

In Southern Europe, countries like France, Spain or Greece do not seem to have followed the wave of NPM with the same impetus as the North- and Middle-European countries. In France, new management strategies are only important in the largest local authorities. Outsourcing, privatization and public-private partnerships are of minor importance with only some key experiences existing. In Greece, several local politicians used the possibilities offered by law for creating municipal enterprises, not only in order to develop entrepreneurial activities, but also in order to privatize, formally, municipal services. In Spain, new public management is discussed and there are some examples of new budgeting reform models.

However, it seems more as a formal discussion than something really rooted in local financial policies.

Management reforms in the "old" European democracies cannot be directly compared to the changes that took place during the last decade in the new post-communist democracies. Privatization in an existing democratic market economy is something different than privatization in a formerly centralized, authoritarian state economy. Market oriented management reforms therefore are a vital element for introducing democracy in formerly state economies. In the former communist regime's central planning, budgeting procedures changed. New personal policies have

been introduced. Facilities and curricula for the education and on-job training of local government personnel have been established. Local government legislation permits councils to sell or dispose municipal property. This right is used by municipal governments to privatize municipal houses and apartments and also facilities of communal infrastructure. Outsourcing is frequently used in the provision of communal services (street cleaning, road maintenance, management of parks etc.). Public-private partnerships have been made legally possible and do actually exist, but are not common. This situation is quite similar in the Baltic Countries as well as in Poland, where the implementation of efficient local management systems is of major importance for the democratisation process. In Poland, the foreign advisors from the established democracies had a strong impact on the implementation of actual management ideas, including NPM-strategies. However as already pointed out, the strength of these "management reforms" has to be interpreted with regard to the different starting points vis-à-vis to the established local government systems of Western Europe.

2.2. Local political reforms

Good local governance was originally a project focusing on the input sector of the local political systems. Thus, a wide range of reform activities in local politics is on its way and explicitly heading for stronger citizen integration. In the light of growing political apathy and decrease in electoral turnout in many European countries, more direct channels of political participation are often assumed to be a way out of this rising input-crisis, thereby, questioning the democratic primacy of the councils in the local decision-making process.

Three prominent strategies for promoting more direct participation at the local level exist: the direct election of mayors, the new fora, and the implementation of local referenda. These strategies actually became important in some countries, although their effects on citizen mobilization and integration are not yet clear.

Aiming at strengthening political responsiveness, several countries implemented new means of direct democracy, one of them being the direct election of the mayors at local level. The direct election of mayors will enhance responsiveness, citizen involvement, and vote turnout. This direct election is expected to give the citizens more say in "who governs" their cities. It makes the "political leader" more responsive to the citizens at large and less dependent on the local power structures in the councils. Especially in multi-party systems and without a dominant party, the mayor has to look for different support groups. He cannot focus only on his own party support but has to respect different milieus and interest groups as well (Kersting 2005). Although in some countries, this new mode of direct election was not matched with a re-structuring of the mayoral position, other countries strengthened the local executive in order to enhance governability by a strong or executive mayor. While in some of the German "Länder" the direct election of strong mayors goes back at least until 1949, others have introduced the direct election only recently, as is the case in the other German Länder, in Italy, in some parts of Norway, and in some cities of Great Britain.

Since the beginning of the 1990s, referenda have been implemented in nearly all European countries – although to different degrees (see Council of Europe 1993; Möckli 1995; Forschungsstelle Direkte Demokratie, Marburg 2002). In Italy for example, referenda were explicitly included in the municipal charters enacted in the 1990s because of democratic concerns. They were seen as a means to control the local executive, to restrict party dominance in the councils, and to reinforce the responsiveness of the political authorities. Local referenda are not always binding and citizens can initiate a local referendum only in Austria, Finland, Germany, Switzerland, the Czech Republic, Hungary, and since the 1990s in Italy. Other countries have obligatory referenda and, in most cases at least, facultative referendums have been introduced.

Direct means of participation appear to spread rather unsystematically.

First, there is Switzerland and the US with their already elaborated systems of direct democracy. Switzerland has to be ignored in our comparison of reform efforts, because being “the paradise for local referenda”, there seems to be no need for a further strengthening of direct democracy.

Second, there is a mix of countries that introduced quite substantive changes with regard to direct citizen integration. These are, on one hand, federal countries like Germany and Austria. Since the beginning of the 1990s, the direct election of mayors has been common in all German and in most of the Austrian Länder. Additionally, Germany introduced local referenda nation-wide (see Gabriel 1999; Kersting 2002). They also play important role in Austria even though their actual use is still limited. Similarly, in Italy, Poland and Hungary, local top officials are now chosen directly by the citizens and local referenda have gained ground. In Hungary, local referenda received a high constitutional status in 1990 and in Poland, referenda were most often organised to recall local councils before the end of their term. Italy was one of the forerunners in the direct elections of mayors in 1993 and in allowing for local referenda in order to weaken the influence of the political parties in local policy-making. The Czech Republic, finally, is a border case. Local referenda were amended in 1994 while Czech mayors are still indirectly elected by the local councils. Although their direct election is contemplated in the future.

Third, there is a group of North- and Middle-European countries, which have either started with pilot projects concerning the direct election of their mayors or which give at least some importance to local referenda even if they are not always binding (for an overview of local referendums in Europe see table 2). In this group, we find the Scandinavian countries, the United Kingdom and the Netherlands. Why these countries are so reserved in introducing more elements of direct democracy is an open question as in these countries, voter turnout is known to be decreasing or to be comparatively low (see Vetter 2000; Denters and Klok in this volume). Since 1999, some Norwegian municipalities have been experimenting with the direct election of mayors (see Larsen 2002) and in the United Kingdom, citizens can vote to urge a referendum for an executive mayor. Up to now, however, only eleven elected mayors are in power in England and none of them in a major city. Finally, in the Netherlands, national legislation for the direct election of mayors has not been

Table 2 Local Referenda across Europe (without plebiscites and recall)

	Local Initiative	Obligatory Referenda	Facultative Referenda	Consultative Referenda
Austria	×	×	×	
Czech Republic	×	×	×	
Denmark				×
Finland	×		×	×
France			×	
Germany	×		×	
Greece				
Hungary	×	×	×	
Italy	×	×	×	×
Netherlands	×*			×
Norway			×	×
Poland		×	×	
Portugal				
Spain			×	
Sweden			×	×
Switzerland	×	×	×	
United Kingdom		×		×

* only in three cities

Source: Möckli 1995; Forschungsstelle Direkte Demokratie, Marburg 2002.

passed although the role of the local council has been strengthened in nominating the candidates.

Fourthly, in most of the South European (France, Spain and Greece) as well as in the Baltic countries, direct means of citizens' participation are still of minor importance. Here, citizens can neither directly decide about their major political representatives nor do local referenda play an important role in local decision-making.

Fifthly: Latin America has a number of referenda at national level (see e.g. Uruguay, Venezuela) but little on the local level. On the other hand, some dialogical fora have been established in Latin America (Brazil) and frequently implemented in other Countries.

Finally: Direct democracy instruments such as local referenda are nearly non-existent in Asia and Africa. Sometimes, this is because local democracy is still not relevant for national politicians and sometimes the instruments are not implemented although they have an important constitutional status.

Reforms occur with regard to the electoral laws of the councils. On one hand, we find the application of more personalized electoral systems. Giving the citizens more opportunities to vote and more opportunities to influence the selection of their political representatives in the local assemblies might help voter turnout to increase. In proportional systems, the candidate selection of the parties can be opened up for the citizens by introducing mechanisms of "cumulating" votes for several candidates

as well as modifying the party lists. These citizen-oriented personalized electoral systems can intervene with the recruitment of candidates by the local political parties. On the other hand, reforms like automatic registration, polling on a day off, enhancing the number of polling days, compulsory voting, and the reduction of the age of voting eligibility are alternatives in order to strengthen voter turnout and citizen integration in the local decision making process via representative democracy.

Changes are also induced by the ongoing penetration of the internet which has led to high "participatory" expectations by enabling transparency and by opening up new ways of political communication. New ways of e-governance like electronic voting instead of ballots can enhance voter turnout. Online elections will make the electoral process easier and cheaper. The lower costs could then imply a new impulse for more direct democracy. It is not yet clear, however, whether these expectations are in any way realistic. Notwithstanding, several communities have already started pilot projects using electronic devices like sms-text voting, telephone voting, voting by digital TV etc..

The introduction of new governance structures is one way of bringing local politics closer to the citizens. "The new governance structures consist of strongly connected actors from different spheres of the society" (Amnå 2000: 215), whether they be private firms, non-governmental organisations or citizens, representing special interest groups. Some of them are integrated into the local decision making more formally in the form of local neighbourhood councils or advisory boards. Others are still less institutionalised like "round tables", "forums", "future conferences" and the like.

Finally, the explicitly representative dimension of local democracy is strengthened *vis-à-vis* the new direct modes of citizen participation that are being introduced. By changing the functional role of the local councilors and by lessening their day to day pressures in decision making (one aspect of the NPM reform strategies), the political aspect of local democracy will be enhanced *vis-à-vis* the local administration. Local representatives are offered businesslike new management tools (output figures, budget reviews) that should enable their strategic management capacity in planning, steering, and controlling the local administration.

In local representative democracy, the introduction of new, more personalized electoral systems at the local level; the implementation of e-government-strategies or possibilities for e-voting; the introduction of governance structures in the form of neighbourhood councils, advisory boards, round tables, forums etc.; as well as changes in the representative function of the local councilors to stimulate public interest and enhance electoral turnout or other forms of citizen involvement were considered and implemented.

Again, the post-communist countries have to be treated separately when talking about changes in local representative democracy. These systems—quite obviously—show the most extreme changes with regard to representative democratic values in local politics. Having had a different starting point than the Western European local government systems, we might better talk about changes toward representative

democracy than changes to strengthen the traditional principle of local politics. The formerly communist countries implemented democratic electoral systems; they all now hold elections for their local representative bodies and partly their local executives. Although electronic voting or e-government are of no relevance to them and there have until today been no debates about changing the functional role of the local councillors (in general going hand in hand with NPM-reforms), most of them have developed local governance structures. Neighbourhood councils and/or advisory boards exist, even though they are sometimes weak and/or of minor relevance like for example in Poland or Hungary. In the Czech Republic, they seem to be most prominent. As Michal Illner points out: "Neighbourhood councils do exist. Their function and structure are regulated by the Local Government Act. The neighbourhood councils can submit their own proposals, can comment on proposals prepared by the Municipal Councils and can comment on citizens' initiatives. Advisory committees can be established both by Municipal Councils and Municipal Boards as instigating and consultative bodies. Their functions are regulated by the Local Government Act. The Councils are obliged always to establish the Budgetary Committee and the Audit Committee. Minority Committees must be established by the Councils in municipalities where at least 15 percent of the population opt for other than Czech nationality." We thereby conclude, that for our purpose, these fundamental changes in post-communist democracies have to be considered as relevant changes towards more local democracy, although the system transformations are not really comparable to the reforms of the "old" Western European local government systems.

Not only major reforms occur in emerging democracies and transitional systems, but also in some of the "old" democracies such as the United Kingdom, the Netherlands, Germany, Austria and Italy. While local government reforms in the United Kingdom are still unpopular because of the image they acquired in the 1980s and early 1990s, a number of experiments were implemented in Labour's first term to try out new forms of voting. Postal voting made a significant impact but the key issue appears to be reform of the voting system itself. Additionally, Labour government introduced new constitutions and new political management arrangements in local authorities that created an executive/scrutiny split in the councils. This means that for non-executive councillors, greater emphasis is paid to their representative role with the aim of increasing democracy and improving efficiency via quicker decision-making. (Besides this, area committees are allowed, fragment consider reusing though not required, under Labour's new political management arrangements.) Labour's national strategy for neighbourhood renewal also encourages the development of neighbourhood management boards and all sorts of participative mechanisms at the local level. One of the policy effects is the new duty of local authorities to develop a Community Strategy and to consult with all relevant stakeholders while doing so. Although in the Netherlands, no major reform of the electoral system took place, the weight of the preferential vote for the candidates has been somewhat increased. The functional definition of the councillors' role is becoming more representative to stimulate the public interest in local politics, and to

enhance electoral turnout and other forms of active citizen involvement. Finally, neighbourhood councils, advisory boards, and other forms of citizen integration in policy making became increasingly important in the sense of interactive governance. Besides the direct election of the German mayors in the 1990s, the widespread introduction of personal vote, panache, and lower quorum brought significant changes in the local electoral systems aiming at bringing people back to the polls. While neighbourhood councils and advisory boards have existed since the 1970s, new forms of participation or citizens' consultation, like round tables, are being implemented in line with the Local Agenda 21 processes that began to develop in the 1990s. In Austria, the voting age was reduced to 16 in 3 states.

In 2002, the franchise for non-EU started in Vienna at the district level and local governance structures started to be built up in accordance with the Local Agenda 21 processes. Finally, in Italy, new electoral laws became very important as well as new ways of integrating citizens views in local policy-making via neighbourhood councils, advisory boards, or other forms of collective interest articulation.

Very little or no changes are observed in countries where governance structures already seem to be quite strong (Scandinavia) or where the main focus is not on representative but on direct democracy (Switzerland). There are South European countries like France, Spain or Greece, where changes towards strengthening representative democracy are obviously rather limited. There are some developments of neighbourhood activities, advisory boards and other forms of governance especially in bigger cities but they do not seem to symbolize a major intention to strengthen the input side of local democracy.

2.3. Territorial, fiscal, and functional reforms

Territorial, fiscal, and functional reforms are related to broader strategies often heading towards federalism such as delegation and decentralization. These three types of reform generally go hand-in-hand. "How functions are allocated across and between jurisdictions is as much a matter of central-local relations as it is a response to boundary and size." (Caulfield and Larsen 2002: 19) The territorial and functional reform, which have taken place in many Western European countries since the early 1950s, were one of the first and far reaching reform activities since World War II, aiming for efficiency and effectiveness. The more centralized states implemented additional layers of government in order to facilitate the coordination between centre and periphery while the more decentralized states delegated more competencies to the lower levels in order to optimise the service delivery function of local governments. These processes often went hand-in-hand with amalgamations of local authorities in order to strengthen their capacities. "In terms of a broad trend, the message that overwhelmingly emerges is that most of Europe is moving down the path of greater decentralization. The establishment of a viable local democracy is seen as vital in Spain and Portugal. France and Italy have undertaken decentralization measures. The Scandinavian countries have, in the context of already decentralized systems, introduced experiments in "free local government", aimed at further promoting local autonomy and initiative." (Stoker 1991: 7). Similar

processes of decentralization and devolution have been observed in Central Europe since the fall of communism.

Territorial, fiscal, and functional reforms comprise the implementation of new layers of government.

Boundary reforms like amalgamations, functional and financial changes between different levels of governments, devolution, and deregulation are of quite different importance on the European reform agenda. In general, two groups of countries can be distinguished according to the importance they give to this kind of reform activity: mainly the "old" democracies in Northern America, Asia and Europe on one hand, and the "new" democracies in developing Latin America, Asia, Africa and in Eastern Europe (including Spain and Greece) on the other hand.

Most "old democracies" implemented substantial territorial reforms combined with functional and financial shifts between different levels of government in the 1960s and 1970s. Since then, territorial and/or functional reforms have only been marginal in the federal countries of Austria, Germany, and Switzerland. In Germany and Austria, only some functional shifts from upper to lower levels of government occurred with generally the question of financial compensation being the major aspect of dispute. In Switzerland, with its strong decentralization and local autonomy, the implementation of new layers of government is now starting to be discussed in some urban areas.

However, nothing has been implemented so far. The only changes which seem to gain importance in this group of federal countries are inter-communal cooperations, which allow for more efficient service delivery.

In Scandinavia, the Netherlands, Italy, France, and the United Kingdom, territorial and/or functional changes were more visible although their implementation did not always succeed or are still in progress. In all of these countries—besides other strategies—, amalgamations or inter-communal cooperations also play an important role in the reform agenda. Additionally, "sub-national" governments seem to be endowed with more functional and financial responsibility. The most visible reforms occurred in the two then most centralized countries of Western Europe: France—with the implementation of regional governments in the beginning of the 1980s—and the United Kingdom with the implementation of the Scottish Parliament, the Welsh Assembly and the possibility of regional government in England if local people vote for it. These processes of decentralization, however, mainly touched the meso-levels of government and the local political systems were not really strengthened. Contrarily in the United Kingdom in the early 1980s, QUANGOs took over local government responsibilities, thereby diminishing the functional scope of local politics. In the 1990s, Labour removed some of the restrictions placed on local government by the Conservatives but significant changes regarding the functional responsibility of local government are not obvious. Less visible changes concerning the local levels are documented for Scandinavia, the Netherlands, and Italy. In the Netherlands, attempts to set up a new unified tier of regional government have failed although to a large degree, there is a functional decentralization to regional independent governmental authorities and mainly effectiveness-driven boundary

reforms are of importance. In Scandinavia, we do find functional and financial reforms. For example in Norway, there are some experiments with county functions transferred to municipalities and Sweden has transferred more development functions to counties. Territorial reforms consist mainly of amalgamations which now are new on the agenda in Sweden and Denmark while in Norway, inter-communal cooperation is already extensive and is currently being discussed as an alternative to amalgamation. Finally, an incremental and ambiguous implementation of vertical subsidiarity is also on its way in Italy going hand in hand with a growing fiscal autonomy and new attempts to create authorities for metropolitan areas (Città metropolitane) and multithematic functional arrangements for cooperation between small municipalities (unioni di comuni).

In the second group of countries, the "new" emerging democracies, we find that territorial and functional reforms play a far more prominent role on the reform agenda than in the countries mentioned before. The process of decentralization is important in most developing countries. Decentralization took place during independence in Africa and Asia, with the waves of democratization in the 1980s and 1990s in Africa, Asia, and Latin America, in Southern Europe (Spain and Greece), and in the new democracies in Eastern Europe. Local government restructuring in the democracies of Central Europe from formerly authoritarian soviet style systems to democratic governments started with the implementation of structural, functional and financial changes of the respective systems. These system transformations involved territorial changes like the introduction of new layers of government, the devolution of formerly centralized functions and financial means to lower levels of government. After the first hype of decentralization, however, we now also find incentives for amalgamations or inter-municipal cooperations to strengthen local governments and to diminish fragmentation. In Spain and Greece, the transitions to democracy took place in the late 1970s and early 1980s. In this period, a new territorial, functional and financial distribution of power was implemented. However, these two countries do not yet seem to have reached their goal of a structurally and functionally satisfying system. In Spain, for example, a second wave of devolution took place during recent years, giving local governments more say *vis-à-vis* regional governments, while in Greece there has been an attempt to solve the problem of fragmentation by local government amalgamations. In some developing countries, decentralization is criticized even after territorial reforms. In South Africa, the ongoing malfunction of some municipalities is seen as an argument for a re-centralisation.

The strongest territorial and functional changes occur in the new democracies. Far fewer reform activities are to be found in the "old" established democracies, the only kind of territorial and/or functional changes being of actual importance in these countries are inter-municipal cooperations which are an important voluntary alternative to amalgamations. Inter-municipal cooperations seem flexible enough to be applied to different problems in different situations. They are voluntary in nature and easy to arrange. They seem to be a reliable tool to enhance the service delivery capacity of the local systems without causing the local decision makers to lose too much autonomy. However, they are accompanied by a loss in transparency

and accountability. They lack the democratic legitimacy of the primary local institutions and might finally hinder the development of democratic legitimacy if more and more functions are delegated from the local councils to such inter-municipal institutions.

3. Local government and fiscal trends

Fiscal theory and territorial functional and fiscal reforms are strongly interrelated. The principle of subsidiarity postulates a devolution of power and regulation, and taxing implementation on the lowest level of government. This contradicts the more Anglo-Saxon "residuality principle" that local government is only taking over functions that cannot be fulfilled properly by central government.

According to the "principle of subsidiarity", decision-making should be close to the people who should decide on the amount and kind of public services they want (The latter is important because there might be monopolies in the existing local public sector. Of course the fact that monopolies exist in the private sector should also not be overlooked). In this regard, there are assumptions that local government knows better about the concerns of its citizen. Local government shows higher fiscal responsibility and responsiveness. The focus on local government avoids inefficient layers of government. It furthermore brings competition and innovation by intercommunal learning effects (see Shah 2006).

The principle of "fiscal equivalency" postulates an overlapping of particular jurisdiction and the benefit area to avoid free rider. This principle requires separate jurisdictions for each individual public service. According to the "correspondence principle", affected consumers should constitute the jurisdiction that decides on the provision of public goods. This can also lead to a large number of overlapping jurisdictions organized according to functional lines and geographical overlap. But decentralization theory says "that each public service shall be provided by the jurisdiction that could internalize benefits and costs of such provision" (Oates 1972: 22).

Fiscal theory discusses different strategies as checks and balances and as instruments for institutional changes (see Sah 2006). Firstly, a "voting by feet" members of the constituencies are allowed to leave their inefficient and ineffective communities. Secondly, most democratic institutions have elections and "voting by ballot" allows political change or a choice of policies. Thirdly, public service can be delivered by voluntary associations such as clubs which focus on a specific service for the members. Lastly, a "jurisdictional redesign" allows functional territorial and fiscal reforms

Federalism is often regarded as the devolution of decision-making towards the lower levels. However, political process does not only focus on decision-making but also on different input processes for control as well as output processes for implementation. In this regard, three different policy functions have to be differentiated. This also relates to the difference between "dual, competitive federalism" (e.g. USA) and cooperative federalism (e.g. Germany). These three functions are embedded in the field of the separation of powers and focus on legislation, control and

implementation. First is the development of policies and standards. When it comes to broader frameworks and standards, the unit of the national level is often seen as the responsible sphere. At the provincial level, implementation and oversight is important. And lastly, local level service delivery and provision becomes the main function. Power and revenue sharing is immanent discourse in most federal systems. In unitary countries such as the United Kingdom and New Zealand (without intermediate levels of governments), fiscal reforms are often not debated adequately (see Caulfield 2000).

Local governments have more and more powers regarding land planning, infrastructure and the provision of local social services. In some countries, policy fields such as education, health, and even employment are seen as local functions. A broadening of the economic and social competencies has to be matched by financial decentralization and local control of fiscal policies.

3.1. Principles

Fiscal reforms mainly focus on the stabilization of communal incomes. Discussions and negotiations with the other spheres of state are important aspects of multilevel government. In the next section, however, the focus will be on local taxation. There are four main principles regarding taxes in general and local taxes in particular:

a) Political, ecological, economic and socioeconomic targets

Besides rule setting, and (re)distribution, retraction is an important government function to build up resources for any state engagement. Taxes are the main instrument for "retraction". In addition, however, taxes allow political steering and the development of certain policies. So fiscal reforms give (dis-)incentives for certain policy programmes and other higher ranking goals and targets. In the socioeconomic sector, fiscal policies define the re-distributional function of the state. Taxes may focus on economic redistribution to tackle inequalities and to allow pro-poor exchanges. Besides this redistribution to allow equal living standards and chances, fiscal refunds can focus on other policies such as ecological program to allow a sustainable use of resources and to focus on environmental goals. Fiscal reforms can also focus purely on economic growth. Considering that the targets of taxes are companies and individual persons, one important principle in this regard is the avoidance of taxes which crucially diminishes companies' capital. Since taxes should allow a sustainable solid income, these shouldn't be so high that economic engagement and economic growth is no longer possible and a company's survival becomes critical.

b) Fiscal equivalent

Local taxes in particular should achieve a balance between the fiscal burden and the outcome. In this regard, a kind of group accountability is obvious. Those groups benefiting from more services such as companies operating in the municipal area should pay higher taxes. They use the infrastructure and rely on the availability of

skilled labour etc. On the other hand, it should be visible to those paying the taxes that the money is used to enhance the local infrastructure and services and that the economic companies benefit directly; for example by roads built etc. This feeling of relationship between the local taxes and local services is seen as crucial also for the motivation of tax payers. The accountability of companies allows interest formation between economically active companies and citizens.

c) Communal revenue sharing

To allow national redistribution and equal chances for living in all regions, taxes should allow intercommunal redistribution. Intercommunal redistribution should lead to greater equality and fairness.

Regional inequalities, because of free-rider effects, the bias between city centres and the periphery, or between metropolises and small cities, should be diminished by tax policies and redistribution.

d) Stable sustainable income

Local taxes should bring in an income which is not affected strongly by the ups and downs of economic development. Thus, taxes should not react to these cycles but allow companies to develop economically. Being a basic income for the municipality, taxes should avoid the diminishing of the capital of substantial companies which they need for economic reinvestment and survival.

Fiscal autonomy cannot only be analyzed by the level of discretion over local revenues. Here, the input of resources, and not the expenditure, is analyzed. Fiscal autonomy is related to fiscal practices where local governments get grants and transfers from higher levels of governments. Fiscal decentralization should increase responsiveness and accountability at the local level. This fiscal decentralization should develop economic welfare gains and can mobilize efficient public finance. Critics mention that only national fiscal policies can bring about nationwide equalization and redistribution.

3.2. Fiscal status quo and fiscal reforms

In general, the local budget is heavily influenced by economic development. In times of recession, fiscal income drops and the different state levels often struggle to deliver even basic services. Nevertheless, the problem of "unfunded mandates" hints at a more structural fiscal gap, which is not affected by economic booms and recessions. The problem of "unfunded mandates" surfaces when local governments cannot fulfill their functions because of lack of monetary resources. This emphasizes the relationship between functional and fiscal reforms.

When it comes to local government's share of total revenues, it can be shown that the local governments of Scandinavian countries, headed by Denmark, receive the highest percentage of GDP (Caulfield 2000). This is due to their main responsibilities in services such as health and education. With regards to the federal countries, local governments in Mexico and Australia receive only a small percentage of

GDP. In Japan, France, New Zealand, Greece, and Turkey, local government revenues as a percentage of GDP are also quite low. Since the 1980s in countries such as Norway, France, Italy, Spain, and Finland, local government resources have increased.

The average percentage of the GDP allotted to local government in OECD countries is around 12%. Local expenditures in developing countries are mostly much lower. The percentage is exceptionally high in China (around 10%), but much lower in countries such as Brazil, South Africa and Indonesia (around 7%) and still lower in countries such as Chile and Argentina (around 3%). In India, only 1% of the GDP is gathered locally.

In general, the level of local expenditure as part of public expenditure in most developing countries is higher than the OECD average (Sah 2006). In countries such as South Africa and Uganda, approximately 20% of the public expenditure is spent locally. China spends exceptionally more than 50% locally.

In general incomes at the local level rely on five main sources:

1) Local government can receive conditional and unconditional grants from other state levels such as provincial or national government. In Unitarian systems, this kind of financing of local communities predominates. At the national level, principles of regional equity and coordination are important. This has direct impacts on the provision of financial grants. Grants should bridge fiscal gaps, reduce regional and fiscal disparities, compensate for benefit spillovers, provide stable incomes, and allow specific policy programmes.

Most countries rely on intergovernmental transfers and grants. In some countries, these transfers are fixed by revenue sharing arrangements. In other countries, central government decides about the occasional grants. National grants have been growing since the 1960s. There are two reasons for this development. Since the 1960s, local government has become the main service provider especially in the social welfare states. National government provides special public grants in this regard. In most countries in the 1990s, hyper urbanization and demographic change led to regional disparities. National government was seen as the coordinator to implement fiscal equalization. Not all local representatives complain about the lack of local autonomy. At the local level, grants are seen as less politically painful forms to raise revenues.

Relative to grants, fiscal autonomy can be described by three factors. Fiscal autonomy is in the highest when local communities can freely determine their own tax base and tax rates.

a. The proportion of grants in the total revenue budget.

In countries such as the United Kingdom, the Netherlands, and Ireland, more than 70% of local government resources are derived from these intergovernmental transfers. Generally in OECD, more than 30% of the local resources come from the governmental transfers.

- b. The character of the grant. Transfers can be conditional as a special-purpose grant or unconditional as a general grant. Since the 1980s, special-purpose grants have been criticized more and more often. OECD surveys show that those local governments responsible for transfers performed better and could increase their local expenditure records. A trend towards block grants has developed.
- c. The formula used to distribute grants. Fiscal independence is strongly related to local government's discretion over locally raised tax. Local government in Norway and Finland receive similar shares of the general government's tax revenues, but Finnish local governments sets its own tax rate. Whereas, Norwegian municipalities have to accept the revenue split decided at the national level.

Local governments in the UK, the Netherlands, Ireland, Spain, and Italy receive more than 70% of their local revenues in grants (Caulfield 2000). In countries such as Canada, Denmark, and Belgium, half of the local government revenues are grants. In New Zealand, Austria, and Australia, these are less than 20%.

In developing countries such as Brazil, China, Indonesia, and Uganda, transfers from the national level towards the local level are responsible for an important share of more than 50% of the local budget. In countries like Chile and in general, 20% to 40% of the total local revenues are transfers. In South Africa, transfers make up less than 20% of the local budget.

2) Most federal systems allow municipalities an autonomous income and a local tax base. To a degree, municipalities may have their own communal fiscal income. Heterogeneity and diversity in local government fundings is tremendous. The number of local taxes and the way local taxes are allocated to local government reflects the different roles of local government. In some countries, a certain percentage of national or provincial taxes are allocated directly to the local level. In some countries, there are negotiations between the different spheres of government which have to discuss this revenue sharing formula, that is the contributions and percentages of all spheres of government (intra-governmental or intra-spherical distribution).

Autonomous local taxes allow the local community to define the tax base and the tax level. In most cases local taxes focus on local business and local homeowner-ship.

The most important local government tax is property tax. Income taxes focus on the profit made by individuals and companies. In OECD countries, average income tax comprises around 41% of all local taxes (Caulfield 2000). All local taxes are important aspect in countries such as Chile and India, accruing to more than 50%. That part of local taxes is much lower in Argentina and South Africa (around 40%). In Brazil, it is a little bit more than 20% and in Uganda around 10% of the local revenues come from taxes. In countries such as Uganda, Brazil, and China, these are important and make more than 60% of the taxes. Whereas, they are much less important in Chile and in South Africa (less than 30%) (Sah 2006).

The ways in which tax is distributed among the different spheres of government differ. According to Germany's intergovernmental arrangement, local government gets a certain percentage of all income tax. In Belgium, separate tax rates within a central tax system exist. Sweden allows separate rates and structures. Switzerland goes one step further and has separate local tax systems.

In relation to the property tax, income tax is seen as less progressive. Flat income taxes are regarded as regressive and result in complex rebate systems. However, inflexible property tax is often seen as the most controversial because of its resistance to growth and because of its high visibility.

The major trend in some OECD countries is a decline in the incomes of local government. In most countries such as Britain as in most other countries with a dominant property tax and also in some federal systems, tax revenues have declined. With the exception of Norway and other Nordic countries in Continental Europe and also in Japan, local taxes are growing. In Japan as well as in Finland, central governments are strong. With the exception of Denmark, in most countries such as France, in the Netherlands, in Italy, and in Spain, local government taxes declined in the 1990s. When it comes to tax sources, Japan relies totally on local taxes.

When it comes to the different tax rates, Anglo-Saxon influence in the developing world cannot always be shown (Sah 2006). In countries such as South Africa and Indonesia, property tax makes up more than 60% of the local tax base. Property tax makes up only 30–40% of the local tax base in Brazil and Argentina. It is low (around 20%) in countries such as India and Uganda and very low in China—less than 5%. Only some countries, such as Uganda and Brazil, focus on personal income tax. In most countries, other taxes—which are not very important in the OECD countries—are predominant.

3) The second autonomous local income source are tariffs (non taxes). Most municipalities may define the level of local tariffs regarding their services. Thus, fees for water, sewerage, electricity so as public transport etc., are important sources of local income.

In countries such as the UK, Netherlands, Austria, Germany, Switzerland, and Finland, important parts of local government revenues are derived from fees and charges (non tax incomes). Post Washington Consensus reform focused on fees and user charges as highly efficient and politically acceptable. The new public management debate focuses less on redistribution and more on a philosophy that presumes local public services should be charged for. In countries such as Finland, this kind of revenue has doubled since the 1980s. In France, Norway, the Netherlands, and Spain, there has been a certain amount of growth. In Sweden, the UK, and New Zealand, these incomes have declined. In the Anglo-Saxon context, one reason might be the strategy of privatization where incomes of local government enterprises became less important.

4) In most countries, following the "Washington Consensus", the strategy of privatization and a strategy of "lean state" achieved momentum from the middle of

the 1980s. Those municipalities owning local companies, buildings, and other facilities often outsourced services and sold local state facilities and buildings. This money was often used for short-term shortages in the local budget. Once outsourced and sold, it became difficult to buy back facilities when needed. Some public sector enterprises were mismanaged and some were not profitable (transport) but some produces profits. After privatization, these profits no longer accrued.

5) In some countries, local government was allowed to take out loans. It can be seen that in the 1980s, later in the 1990s, and during the 2008 crisis, some municipalities are affected by high interest rates and a kind of debt spiral. Thus, these municipalities have lost the ability to pay back the debt and interest in the long run. Strong austerity programmes and external interference were needed to stabilize the budget.

4. Conclusions

Despite its level of federalism, local government systems can be categorized into countries with less and countries with more autonomy. The size of the local communities differ widely.

In the developing societies as well in OECD countries, similar trends seem to prevail. There is societal change. Worldwide, there is demographic change. Due to better health systems and nutrition, elderly people dominate the OECD countries ("grey society"). In developing countries, birth rates are still high and life expectancy is low (also because of HIV/Aids) causing youth dominance. Secondly, a socio-economic change becomes apparent. Structural unemployment leads to multi-occupationality and the necessity to rely on different incomes. Migration and a lack of integration reinforce a fragmented society. Finally, a socio-cultural change is important: New consumption and recreational patterns strengthen individualization and a lack of social capital.

This leads to special problems for local government. There seems to be a financial crisis. In most countries, this crisis becomes apparent due to lack of finance (unfunded mandates) and lack of own resources. Often, a management crisis can be attested. Local administrations are often confronted by tax payers' verdicts regarding lack of service delivery, lack of capacity, nepotism and corruption. A crisis of political competencies can be shown. Due to dominance of central government or regional government and other private institutions (private enterprises), public sector loses control (privatization). This leads to a crisis of legitimacy. Increasing expectations but also a stronger orientation towards private consumption causes political apathy, cynicism and political disinterest. Finally, a crisis of participation becomes obvious. There is a worldwide trend towards low turnout in elections. In South Africa like in some other countries, this is a hidden process because voter turnout is related to the number of registered voters, which is decreasing.

Three reform trajectories: "Territorial, fiscal and functional reforms"; "Management reforms" and "Political reforms".

The trend is from government to governance. In local politics, there is on one hand a world wide trend towards management reform (territorial functional and internal "New Public Management Reform" while on the other hand, political reforms implement new participatory instruments such as referendums and direct elections of the mayor (see table 1, see Kersting 2005 Kersting/Vetter 2003). Direct elections of mayors are the trend in a number of countries such as Germany, Norway, London and Zimbabwe. Stronger mayors are functional under (New) Public Management strategies which require a stronger head of the executive. This leads to problems such as the strengthening of local administration (Executive Mayor) in relation to the council, a new legitimately strengthened Mayor who often cannot be recalled, the cohabitation phenomenon, a party dominated local political system, and a new type of populist candidates. Also, there are new instruments such as Local Referenda. Finally, good governance strategies allow new dialogical instruments such as forums, future search conferences, advisory boards, and citizen juries

In the old democracies, with the exception of France, territorial reforms took place mostly in the 1970s. Territorial reform is important in developing democracies. Functional reforms are mainly a devolution of functions. In addition, the capacity of funding becomes crucial. The trend towards decentralization is often accompanied by a growing mismatch between the fiscal responsibilities of local government and functional competencies. Here, fiscal reforms are important. Countries differ in the main focus of the tax base, income tax or property tax, and the dependence on intergovernmental grants, and their influence on taxation. There is a trend from conditional to unconditional grants. There is also a trend to more local taxes and a tendency from local property tax to income tax.

The higher fiscal constraint in most of the countries is caused by a loss of grants, the loss of own tax revenues, and a loss of user charges caused by privatization. Devolution is incomplete and inappropriate if fiscal autonomy is lacking and unfunded mandates cause mismatch between competencies and financial resources.

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