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**Local Government Fiscal Behaviour and Intergovernmental
Finance in a Period of Slow National Growth:
A Comparative Analysis.**

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**Local Government Fiscal Behavior and Intergovernmental Finance
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A Comparative Analysis**

by

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Since the late 1970s the fiscal condition of local government in the advanced western nations has been the subject of substantial research (see, for example, Newton, 1980; Sharpe, 1981; Levine et al, 1981; Rose and Page, 1982; OECD, 1983; Wolman, 1983; Clark, 1983; and Clark, 1985). While most analysts are careful to avoid suggesting that local fiscal problems are universal, there is, nonetheless, widespread agreement that many local governments are facing serious fiscal difficulties. Newton, for example, writes (1980, p.5) "Local financial problems are widespread enough to be treated as a general malaise which besets many, if not most, nations in the industrialised Western world". OECD (1982, p.8) reports that "In virtually all OECD countries, many municipalities have faced an increasing difficulty in matching urban financial resources to expenditure needs during the 1970s". They conclude (p.135) that "The imbalance between local revenue capacity and expenditure needs is likely to persist". Clark and others (Clark, 1984; Hellstern, 1985) have organised a fiscal austerity project designed to examine responses to local fiscal austerity in a large number of Western countries.

Most of this literature views fiscal stress as a product of rapidly increasing local expenditures and a relatively unbuoyant local tax base (see Sharpe, p.24; Newton, ch.2; OECD, pp.103-104). The inter-governmental grant system is seen in much of the earlier work as a mediating factor, a national government response to alleviate fiscal stress. Thus, for example, the OECD report states (1983, p.118) that

"The introduction and expansion of intergovernmental grants to local governments is perhaps the strategy that has been most widely used by higher levels of government in trying to deal with urban fiscal problems".

However, the expansion of intergovernmental grants occurred in a context of national economic growth. The slowdown in national growth provides a very different setting. In these circumstances the pressure on national government expenditure is widely believed to be transferred to local governments through reductions in intergovernmental grant. Intergovernmental aid thus becomes a cause of, rather than a response to, fiscal stress. Certainly the highly publicised grant reductions in both the United States and the United Kingdom have lent credence to the operation of such a mechanism.

The primary objective of this paper is to examine changes in inter-governmental finances and the behaviour of local governments during a period of slow national economic growth compared to a previous period of relatively rapid growth. First, we wish to examine the extent to which the impact of slow national growth is transmitted to local governments through reductions in expenditure at the national level, reductions which are concentrated in intergovernmental grants as a highly vulnerable part of national government budgets. We then switch our focus to the local level to examine how local governments have been affected by grant change and what kinds of revenue and expenditure adjustments they have undertaken in a slow growth period.

In order to examine these questions we have analysed data from 9 nations over a six-year period, 1976-1982. The nine nations include five unitary states - the United Kingdom, France, Sweden, Norway and Denmark - and four federal states - Australia, Canada, West Germany and the United States. All fiscal data are taken from the **International Monetary Fund's Governmental Finances Yearbook, vol.VIII**. The data cover all local governmental units rather than solely city or municipal governments; as a consequence many of the differences in governmental functions, both within and among countries are controlled for.

We begin by dividing the six years into two periods: 1976-79, a period of reasonable national economic growth for most countries, and 1979-1982, a period of relative stagnation. Real GDP grew by an average of 8.66% for the nine countries during the first three-year period, but by an average of only 1.93% during the latter period. In every case except that of Australia, the rate of GDP growth during the latter period was less than half that of the earlier period: in Australia it was 53%.

TABLE 1

	% GROWTH IN REAL GDP		
	1976-79	1979-82	Difference (79-82) - (76-79)
Australia	8.44	4.54	-3.90
Canada	7.76	0.04	-7.72
Germany	3.54	0.64	-2.9
United States	15.42	1.96	-13.46
United Kingdom	6.84	-1.68	-8.52
Sweden	3.99	1.63	-2.36
Norway	13.82	4.18	-9.64
Denmark	8.22	2.44	-5.58
France	10.23	3.68	-6.67
Mean	8.66	1.93	-6.73

National Government Expenditure

Despite the uniform slow-down in real GDP growth between 1979 and 1982, the rate of national government real expenditure growth actually increased in four countries (Canada, Germany, France and the USA) in the latter period compared to the earlier. In four other countries (the UK, Sweden, Norway and Denmark) the rate of national expenditure growth exceeded the rate of GDP growth. In all 9 countries, national government expenditure was a higher percentage of GDP in 1982 than it was in 1976, and in every country except Australia it was a higher

percentage of GDP in 1982 than it was in 1979. In short, it appears that despite the decline in economic growth in all the countries between 1979 and 1982, national government expenditure continued to grow, no doubt reflecting at least in part the increased spending on unemployment and public assistance which are automatically called forth during times of economic downturn.

Nonetheless, the fact remains that while national government expenditure continued to grow in six of the nine countries, it grew at a slower rate in the period of slow economic growth (1979-82) than in the earlier expansionary period (1976-79). The average national expenditure growth rate of all nine countries was 13.0% during 1976-79, but only 10.42% for 1979-82. (However, this means that, while the rate of GDP growth fell by 78.5% between the two periods, the rate of national government expenditure growth fell by only 20.5%).

TABLE 2

National Expenditure Growth. GDP Growth Compared

	% Real National Expenditure Growth		% real GDP Growth
	1976-79	1979-82	1979-82
Australia	11.73	1.72	4.54
Canada	8.07	11.02	0.04
Germany	7.09	9.41	0.64
USA	8.54	17.25	1.69
UK	6.73	5.05	-1.68
Sweden	21.17	12.31	1.63
Norway	22.33	9.42	4.18
Denmark	21.01	17.04	2.44
France	10.51	10.56	3.68
Mean	13.02	10.42	1.93

In addition, there appears to be no direct linear relationship between the performance of the national economy and the response of national government expenditure. Two of the three countries with the lowest rate of GDP growth during the 1979-1982 period (Germany and Canada) actually

increased their rate of national government expenditure, while two of the countries with the highest rates of GDP growth (Norway and Australia) had the biggest reductions in the rates of national government expenditure in 1979-82 as compared with 1976-79 (See Table 2)

National Government Grant to Subnational Governments

Despite real increases in national government expenditure between 1979-1982 in all of the nine countries, national government grants to subnational governments actually declined in real terms in five of them. Only in the three Scandinavian countries and France did real grants actually rise over this period. Indeed in some countries the grant decline in real terms over these three years was precipitous: in excess of 18% in the US, nearly 15% in Germany, and above 9% in Canada. Even in two of the three Scandinavian countries, grant, while increasing, did so at markedly lower rates than had been the case in the previous three years. In Sweden central government grant rose only by 4.3% in 1979-1982 compared with 19.9% in the previous three years, whilst in Denmark the comparable figures were 7.4% and 17.1%.

TABLE 3

% Change 1979-82 (Real Terms) in Grant, Expenditure and GDP

	National Govt. Grant	Nat. Govt. Expenditure	GDP
Australia	-1.34	1.72	4.54
Canada	-9.07	11.02	0.04
Germany	-14.98	9.41	0.64
USA	-18.35	17.25	1.96
UK	-5.96	5.06	-1.68
Sweden	4.30	12.31	1.63
Norway	23.04	9.42	4.18
Denmark	7.42	17.04	2.44
France	8.52	10.56	3.56
Mean	-0.71	10.42	1.92

How were changes in expenditure on grant related to changes in national government expenditure as a whole and to changes in GDP? In every country except Norway the rate of change in national government grant was lower than that of national government expenditure and in most cases markedly lower. Even where national expenditure as a whole experienced substantial increases (US, Canada and Germany), grants were severely reduced. Clearly grants appeared to be singled out as a target for expenditure reductions by national governments. Was this practice any more marked in the era of slow economic growth (1979-1982) than it was in the previous three years?

TABLE 4

Expenditures and Grant Changes Compared, 1976-79; 1979-82

	Change in Exp. (1976-79) (1976=100)	Change in grant 1976-79 (1976=100)	Ratio Grant/ Expend. Change	Change in Exp. (79-82) (1979=100)	Change in Grant 1979-82 (1979=100)	Ratio Grant change to Expenditure Change
Australia	111.73	116.78	1.05	101.72	98.66	0.97
Canada	108.07	98.99	0.92	111.02	90.93	0.82
Germany	107.09	113.40	1.06	109.41	85.02	0.78
USA	108.54	111.34	1.02	117.25	81.65	0.69
UK	106.73	85.98	0.81	105.05	94.04	0.89
Sweden	121.17	119.88	0.98	112.31	104.39	0.93
Norway	122.33	110.42	0.90	109.42	123.04	1.12
Denmark	121.01	117.09	0.97	117.04	107.42	0.92
France	110.51	122.64	1.11	110.56	108.53	0.98
Mean			0.97			0.88

Between 1976 and 1979 national government grants grew rapidly in real terms in seven of the nine countries, declining in the other two. If we compare the ratio of the rate of grant change to the rate of expenditure change, we find in seven of the nine countries that grants grew less relative to total expenditure in the slow-growth era than is the case in

the rapid-growth period. On average the rate of increase in grant was 0.97 times that of the rate of increase in national expenditure during the period 1976-1979, but 0.88 times during 1979-1982. Thus it does appear that central governments reduced grants in relation to other public expenditure under conditions of greater central government expenditure stress. But even here we find anomalies. Canada, Germany and the United States all had greater rates of national expenditure increase between 1979 and 1982 than they did between 1976 and 1979: yet in all three cases the ratio of grant growth to expenditure growth declined. In Norway, on the other hand, the rate of expenditure growth fell in 1979-1982, yet grant increased as a proportion of national expenditure. In these cases at least it appears that the change in the relative importance of grants as a proportion of total national spending was due to factors other than pressure on aggregate central government spending, factors such as possible changes in government, political ideology and priorities.

Local Government Finances

We now turn to the local level to examine the extent to which the changes occurring at the national level have affected local fiscal circumstances. How has the role of grant as an element of local government revenues changed? It is important to remember that in federal systems central government grants go to state as well as to local governments and that local governments also receive grant from states as well as central levels. Thus the total grant received by local governments is not an identity with the total national government grant distributed to sub national governments.

Local Government Grant Receipts

Grant receipts of local governments actually declined in real terms in five of the nine countries (Canada, Germany, US, UK and Sweden) between 1979 and 1982. On average for the nine countries local grant receipts

rose by 7.32% in real terms between 1976 and 1979 compared to 2.13% between 1979 and 1982; a decline of over 5 percentage points in the rate of change between the two periods (see Table 5).

TABLE 5
% Real Grant Change

	1976-1979	1979-1982	Difference
Australia	-6.35	2.79	9.14
Canada	13.39	-9.22	-22.61
Germany	16.27	-5.14	-21.41
USA	-4.04	-0.23	3.81
UK	-12.01	-5.99	6.02
Sweden	6.99	-3.27	-10.26
Norway	11.41	24.40	12.99
Denmark	17.11	7.52	-9.59
France	23.12	8.29	-14.83
Mean	7.32	2.13	-5.19

To what extent did the presence of intermediate level governments in federal countries make a difference to this pattern? First, it does not appear that local governments in federal countries fared better on the whole than those in unitary systems. In three of the four federal countries local government grant receipts actually declined or remained stable in real terms between 1979 and 1982, whereas only two of the five unitary countries (UK and Sweden) experienced a decline. In two of the four federal countries the rate of increase in grant was lower in 1979-1982 than in 1976-1979: this was true in three of the five unitary countries. Indeed local governments in the federal countries experienced on average a larger decline in the rate of grant receipt in the second period compared to the first (-7.78 percentage points) than did all the unitary countries (-3.12 percentage points). (See Table 6)

TABLE 6

Mean % Change Real Local Government Grant Receipts

	1976-1979	1979-1982	Difference
Federal countries	4.82	-2.95	-7.78
Unitary countries	9.32	6.19	-3.12

To what extent did the existence of the intermediary level of government nonetheless protect local government in the federal systems, in the sense that they might have fared worse in the absence of state level grants? It appears (Table 7) that in Australia state level grant behaviour at least partially protected local governments from the effects of national level grant cutbacks, whilst in Canada state grant cutbacks were much less severe than those at the national level. In the US, however, both federal and state grants were reduced at approximately the same rates. Two points are worth making in explaining these results and the difference among federal countries. First, revenues of state level governments were affected by slow economic growth just as were revenues of the federal governments, although the exact impact would be determined by differences in the tax bases of federal and state level governments in each country. Second, state grants are often not made for the same purposes as federal grants; thus the "demand" or need for grants by the local government system may differ from the two superior levels, and these differences are, in turn, likely themselves to vary from country to country.

TABLE 7.

% Change in Grant Receipts, Local Governments in Federal Countries

	Total Grant	State Grant
Australia	2.79	23.77
Canada	-9.22	-3.17
Germany	-5.14	N.A.
USA	-0.23	-0.55

We have now traced the path by which national economic decline might affect local government through the reduction of intergovernmental grant revenues. We have found many of the possible connecting links somewhat weaker and more tenuous than we might have expected. Nonetheless, in five of the nine countries the rate of increase in total local government grant receipts was less during the period of economic slow-down than in the previous expansionary period, and, indeed, in five of the countries (though not the same five) real grant receipts actually declined.

Slow national economic growth can, of course, affect local fiscal circumstances more directly by restricting the growth of the local tax base. The effect will vary depending on the exact nature of the tax base, but presumably those countries dependent on relatively buoyant local income and consumption taxes would be most susceptible to economic decline whilst those dependent on the relatively unbuoyant property tax would be less vulnerable. It would be useful to be able to analyse the impact of national economic trends on local tax bases and then to examine local government behavioural responses: to what extent did local governments take discretionary action to increase their own source revenues and to what extent did they reduce expenditures?

However, local tax revenue is a product of both the base on which local taxes are levied and of changes in the rate imposed. Unfortunately our data do not permit separate analysis of these components: we can only examine gross changes in local tax revenue. Comparing these changes amongst countries thus reflects not only changes in the base and the rates, but also the extent to which local governments have the discretion to change rates or expand the base, together with any changes in the assignment of tax bases amongst the various levels of government.

Local Tax Revenues

In six of the nine countries, the rate of increase in local government tax revenue from 1979 to 1982 fell precipitously as compared with the rate of increase between 1976 and 1979, suggesting the impact of national economic slow-down on the base and relatively little effort to respond with discretionary action to increase tax revenues. Only in France and the UK did the rates of change in local tax revenues increase substantially in the latter period (see Table 8)

TABLE 8

Changes in Local Tax Revenue and GDP Compared, 1976-1982

	% Change		Difference (1979-82)-(1976-79)	GDP Difference (1979-82)-(1976-79)
	Local Tax Revenue			
	'76-79	'79-82		
Australia	9.03	0.69	-8.94	-3.90
Canada	19.47	2.00	-17.47	-7.72
Germany	7.19	-8.79	-15.98	-2.90
USA	-4.04	-0.23	3.81	-13.46
UK	5.29	18.17	12.88	-8.52
Sweden	30.22	3.64	-26.58	-2.36
Norway	8.31	3.47	-4.84	-9.64
Denmark	16.84	1.89	-14.95	-5.58
France	1.78	4.67	2.89	-6.67

In order to determine the relationship between national economic slow-down and local tax revenues we regressed the difference between the rates of increases in tax revenue in the two periods against the difference between the rates of GDP growth. The correlation was substantial ($r = -.67$) and in the wrong direction! The greater the decline in national GDP growth, the lower was the decline in local tax revenue growth. But, it must be emphasised yet again that the dependent

variable is tax revenue, not tax base, so that local governments in some countries, but not others, have responded to slow-growing local tax bases by increasing tax rates.

By simple inspection, it appears that those those countries (with the exception of Canada) which suffered the greatest slow-downs in local tax revenues were those whose local tax system depended heavily on local income tax (the Scandinavian countries and Germany). Countries whose local governments relied more heavily on the property tax (USA, UK) were much less affected.

What was the relationship between grant change and tax revenue change? Did local government systems which had suffered the greatest loss in grant revenue respond by increasing local tax revenue to make up the difference from local taxes? As Table 9 shows, Britain, Sweden and Canada all had real declines in grant revenue and real increases in local tax revenue. British local government suffered a real grant decline of £539m (in constant 1975 £), but increased tax revenue by £768.7m; Swedish local governments lost 668m crowns in grant, but

TABLE 9

% Change in Local Grant and in Tax Revenue 1979-1982

	Grant	Tax Revenue
Australia	2.79	0.69
Canada	-9.22	2.00
Germany	-5.14	-8.79
USA	-0.23	-0.23
UK	-5.99	18.17
Sweden	-3.27	3.64
Norway	24.40	3.47
Denmark	7.52	1.89
France	8.29	4.67

increased tax revenues by 1940m crowns, and Canadian local governments lost \$768m in grant but increased local tax revenues by £118m. On the other hand, German local governments suffered a substantial decline in both grant and local tax revenues, while French, Danish and Norwegian local governments gained revenue from both sources. In short, the general pattern seemed to be increases in real local tax revenue irrespective of changes in grant receipt.

Total Revenue

In only one of the eight countries for which useable total revenue data are available did total revenues actually decline in real terms, whilst in all but one country (the UK) total revenues increased less rapidly during the period of economic slow-down than in the prior period. On average local revenues in the eight countries increased by 8.84% during 1976 to 1979, but by only 2.45% from 1979 to 1982.

TABLE 10

% Change in Total Local Government Revenues

	1976-1979	1979-1982	Difference (1979-82)-(1976-79)
Australia	9.09	3.14	-5.95
Canada	-3.30	-5.19	-1.89
Germany	10.67	0.51	-10.15
USA	4.64	2.21	-2.43
UK	-1.78	3.80	5.58
Sweden	22.54	5.77	-16.77
Denmark	17.90	3.19	-14.71
France	10.97	6.13	-4.84
Mean	8.84	2.45	-6.39

To what extent did local revenues simply reflect changes in the national economy, that is in the growth rate of GDP? In four countries, (Australia, Germany, the United States and Denmark), it appears that local revenue growth roughly tracked GDP growth. In two countries (the U.K. and Sweden) local revenue growth exceeded GDP growth, and in one country (Canada) local revenues declined sharply (-5.19%) whilst GDP remained unchanged.

TABLE 11

% Change in Local Revenues and in GDP, 1979-1982

	Local Revenues	GDP
Australia	3.14	4.54
Canada	-5.19	0.04
Germany	0.51	0.64
USA	2.21	1.96
UK	3.80	-1.68
Sweden	5.77	1.63
Denmark	3.19	2.44
France	6.13	3.56

Revenue Strategies:

In order to understand how local government systems adjusted their revenue behaviour during the 1979-1982 period, it is necessary to examine the performance of the individual revenue sources relative to each other. Accordingly we have calculated the changes in total real revenue and revenue by source for each country.

One of the most prevalent patterns that emerge is the importance of increases in non-tax revenues (primarily fees and charges) as an adjustment strategy. Germany, the US and Sweden all suffered substantial losses in real grant which were more than compensated for by

increases in non-tax revenues. Australian local governments reduced taxes in real terms, but gained nearly five times the loss through increases in non-tax revenue.

TABLE 12
Changes in Real Revenues 1979-1982¹
(Millions of National Currency Units)

	Total Revenue	Grant	Tax	Non-Tax	Receipts from Sale of Capital Assets
Australia	87.97	22.15	9.02	43.28	13.52
Canada	-1276	-1132	174	N.A.	N.A.
Germany	511	-1981	-423	2851	65
USA	4686	-4785	-177	9648	N.A.
UK	921	-691	1238	-622	995
Sweden	7143	-1068	2564	5881	-235
Denmark	3607	4262	856	-157	-1353
France	10,190	5960	3250	1130	420

N.A. = Not Available

In the UK, local government grant reductions were countered by very substantial increases in tax revenues, raising in aggregate nearly £550m more than the grant loss. This result was partially the consequence of withdrawal of central government grant in order to punish "overspending" local authorities. There were also very large increases in capital receipts due primarily to the sale of public (council) housing, but these were in turn partially offset by a decline in the amount of non-tax revenue over what might have been expected. This decline was presumably partly a result of lost rental incomes from those housing units sold. Australia, Denmark and France all received increased grant payments and also increased their own tax revenue by lesser amounts.

¹

Total Revenue Data are not available in useable form for Norway

Canadian local governments suffered substantial declines in real grant which were offset by only modest gains in tax revenue: it was the only country in which local government revenues actually declined in real terms during the 1979-1982 period.

As a consequence of these adjustments, grant as a percentage of total revenue - a measure of the extent to which local government is "dependent" on higher levels of government - declined in five countries (Canada, Germany, USA, UK and Sweden) between 1979 and 1982, but increased in the others.

TABLE 13
Grant as a % of Total Revenue

	1976	1979	1982	Change 1979-82
Australia	26.3	22.3	22.4	0.1
Canada	42.6	49.9	47.8	-2.1
Germany	29.7	31.2	29.5	-1.7
USA	42.8	44.7	41.5	-3.2
UK	53.0	47.5	43.0	-4.5
Sweden	30.3	26.3	24.1	-2.2
Denmark	50.4	50.0	52.2	2.2
France	39.0	43.3	44.1	0.8

During the previous three-year expansionary period, grant had risen as a percentage of total local revenue in four countries (Canada, Germany, USA and France), but declined in four other countries (Australia, UK, Sweden and Denmark). This suggests the relationship of grant dependence to slow economic growth is weak as indeed are any generalisations about whether "grant dependence" was declining or increasing during the period under study.

Total Expenditures

Total expenditure is made up of both current and capital spending. Unfortunately, since capital spending is at least partially debt-financed, the total expenditure data cannot be matched directly with the revenue data in the previous section, since the revenue data exclude receipts from debt financing. This distinction explains the apparent anomalies between the rates of change in total revenues and in total expenditures in many of the countries.

Three of the eight countries for which we had useable data experienced real declines in total expenditure between 1979 and 1982, and every country except France had lower rates of total expenditure increase in this period than compared with the previous one. On average, total real local expenditures in the eight countries increased by 6.93% from 1976-1979, but by only 1.73% between 1979 and 1982.

TABLE 14
% Change in Local Government Total Expenditure

	1976-1979	1979-1982
Australia	9.40	-2.58
Canada	2.43	-0.35
Germany	10.61	1.10
USA	1.44	1.22
UK	-4.12	-6.64
Sweden	10.57	7.11
Denmark	21.90	8.59
France	3.19	5.42
Mean	6.93	1.73

Nonetheless, local government expenditures increased as a percentage of GDP between 1979 and 1982 in six of the eight countries, though the percentage share of GDP taken by central government expenditure increased by even more over the same period in all eight countries. In short, the economic slow-down did curtail the growth of government spending, but public spending in most countries nonetheless grew more rapidly than the economy as a whole. In addition, to the extent that economic decline did result in the retrenchment of government spending, its impact appears to have been felt more heavily at the local government level than at the national level.

TABLE 15

Percentage Point Change in Local and National Government Expenditure
As a % of GDP, 1979-1982

	Local Government	Central Government
Australia	-0.05	0.46
Canada	0.61	3.80
Germany	0.16	0.49
USA	0.05	3.57
UK	-0.30	4.97
Sweden	1.51	4.29
Denmark	1.13	6.62
France	0.54	5.56

Current and Capital Spending

Local capital expenditure actually fell in real terms between 1979 and 1982 in five of the seven countries for which we have data and grew at a slower rate than did current expenditure during that period in six of the seven countries (Australia is the exception).

This appears to be a continuation of an existing trend. Even during the previous 1976-79 "expansionary" period, real local capital expenditure declined in three of the five countries for which data are available and increased at a slower rate than did current expenditure in all but one country (Germany).

TABLE 16

% Real Change Capital and Current Spending, 1976-79; 1979-82

	1976-1979		1979-1982	
	Capital	Current	Capital	Current
Australia	-3.64	22.54	19.09	4.91
Germany	10.72	-11.69	-15.72	35.68
USA	-15.39	2.32	-6.76	2.42
UK	-25.84	2.22	-21.60	-3.45
Sweden	N.A.	N.A.	-0.41	8.10
Denmark	2.28	21.90	-40.61	8.59
France	N.A.	N.A.	4.68	7.82

CONCLUSION

First, we must emphasise what cannot be concluded from our research. Our data are for local government systems in the aggregate within each country. Obviously there may be substantial variation in the fiscal circumstances and behaviour of individual local governments or types of local government within each local government system, and about this our data can tell us nothing. In particular, we can come to no conclusions concerning the fiscal situation of the largest cities and whether or not an urban fiscal crisis exists. Neither can we say anything about regional variations in local government fiscal circumstances within a country.

What does our data analysis suggest about the "local fiscal crisis" and some of the more commonly held propositions associated with this concept?

1. Have the problems of slow national economic growth resulted in a reduction in national government grants to subnational governments? There is no universal pattern. In five of the nine countries national grants to subnational governments declined in real terms between 1979 and 1982. In France and the Scandinavian countries, however, real grant increased during this period.

2. Were local governments in federal countries insulated from national government grant reduction through compensating grant increases from state level governments? Here there are mixed results. State grant increases in Australia compensated for federal grant cutbacks. In Canada, state level grant reductions were less severe in percentage terms than were federal government grant reductions. However, in the United States, state level grant reductions were marginally more severe.

3. Did local governments suffer severe reductions in revenue during the late 1970s and early 1980s? Only one of the eight countries for which we have useable data experienced real declines in revenue between 1979 and 1982. However, all but one country had slower revenue growth in 1979-1982 compared to the previous three-year period.

The way in which local governments adjusted their behaviour to bring about real revenue growth, albeit at a reduced rate, varied substantially. Four of the nine countries actually had real increases in grant revenue. Local tax revenues increased in seven of the nine countries. And non-tax revenues (fees and charges) increased considerably in several countries, particularly the United States, Germany, Australia and Sweden.

4. Did fiscal pressure on local governments cause a decline in the level of services provided? If real expenditure change over a three-year period can be taken as a proxy measure of service change, the answer is decidedly mixed. Of the eight countries for which there was useable data, real expenditure reductions at the local level occurred in only three, with the United Kingdom (a reduction of 6.67%)being the most substantial. However, all but one country had lower rates of local expenditure growth than in the previous three-year period.

5. Did local governments protect current expenditures at the expense of capital expenditures? In general local governments did, although this response was a characteristic of the "expansionary" period as well as the slow-growth period.

6. Was there a local fiscal crisis? Obviously the answer to this depends on what is meant by "fiscal crisis". The data tell two different stories. The first story is concerned with whether real local revenues and expenditures declined or increased. In most countries local revenues and expenditures were higher at the end of the period (1982) than at the beginning (1979). Local fiscal crisis does not feature in this version of the tale. The second story, however, is concerned with rates of change of real local revenues and expenditures. In most countries the rates of increase were much higher in 1976-1979 than in the following period. This version of the story focuses on the slow-down in growth and the difficult adjustments this caused local government systems. Local fiscal crisis sounds less out of place in this context, with many local governments facing severe problems of adjustment.

Perhaps the most intriguing finding which emerges from our analysis of these data is the great variability in the behaviour of the local fiscal systems of the nine countries over the time period studied. This variation persists even when the countries are divided into federal and unitary systems: indeed the distinction appears to have little utility in accounting for differences in local government fiscal behaviour. Some

of this variation may be due to differences in the assignment of functional responsibility among different levels of government among the countries. Thus, where the cost of social security (public assistance) expenditures is registered on local government budgets, as in the Scandinavian countries, one would expect local government expenditures to have a tendency to increase rather than fall during hard times, as opposed to the United Kingdom, where social security payments are central government responsibilities.

In addition, some of the differences could be due to the degree of discretion local governments are permitted by superior level governments in determining their own revenue and expenditure levels. Local governments in Germany have very little control over the tax rate they impose because rates for most taxes are nationally determined through the tax sharing system; local authorities in some American states have state-imposed limitations on either (or sometimes both) revenues or expenditures, and local authorities in the UK had penalties in the form of grant reduction imposed on what the central government viewed as "overspending" during the period under review.

The assignment of tax bases to local government may also have affected revenue behaviour. Some local government systems have much more diversified local tax bases than other systems. In addition, as already noted, those systems dependent on property taxes, a relatively "unbuoyant" revenue base, may do better in terms of raising revenue during slow growth low-inflation periods than their counterparts dependent on income or consumption taxes.

These "structural" differences may explain some of the differences in the behaviour of local fiscal systems. However, it is likely that much of the differences may be due to differing expectations about the proper role of local governments and the importance of the services they provide and to differences among countries in the local tax/expenditure trade-off preference. Such differences remain a fertile field for additional research.

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