

**THE ROLE OF LOCAL GOVERNMENTS
IN A UNITARY WELFARE STATE:
THE CASE OF NORWAY**

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OUTLINE

- The Nordic model of local government
- Responsibilities and financing of Norwegian local governments
- Reform discussion
- What will the future bring?

THE NORDIC MODEL OF LOCAL GOVERNMENT

- Local responsibility for welfare services
- Large local public sector
- Substantial tax financing, personal income tax
- Extensive tax and spending needs equalization
- Local democracy combined with an agency role in welfare services

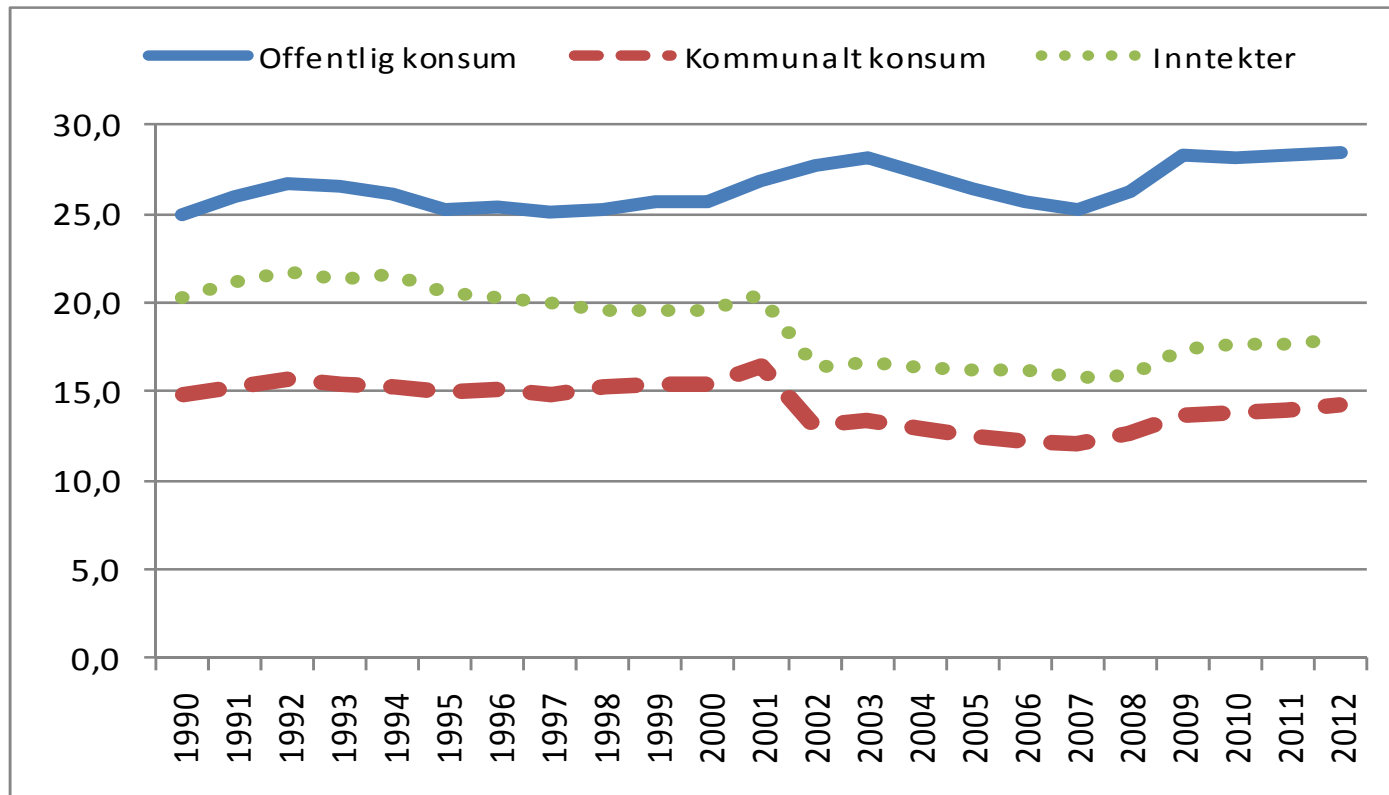
HISTORICAL BACKGROUND

- Building of the welfare state after WWII
- Locals responsible for services, central for transfers
- Not grounded in the theory of fiscal federalism, administrative federalism
- Amalgamation reforms in the 1950s and 1960s

THE NORWEGIAN SETTING

- The local public sector runs about half of public service production
- Since 2002 hospitals are a central government responsibility
- Revenues amount to 18% of GDP
- Around 20 % of the work force is employed in the local public sector

Total public consumption (---), local government consumption (---), and local government revenue (---)



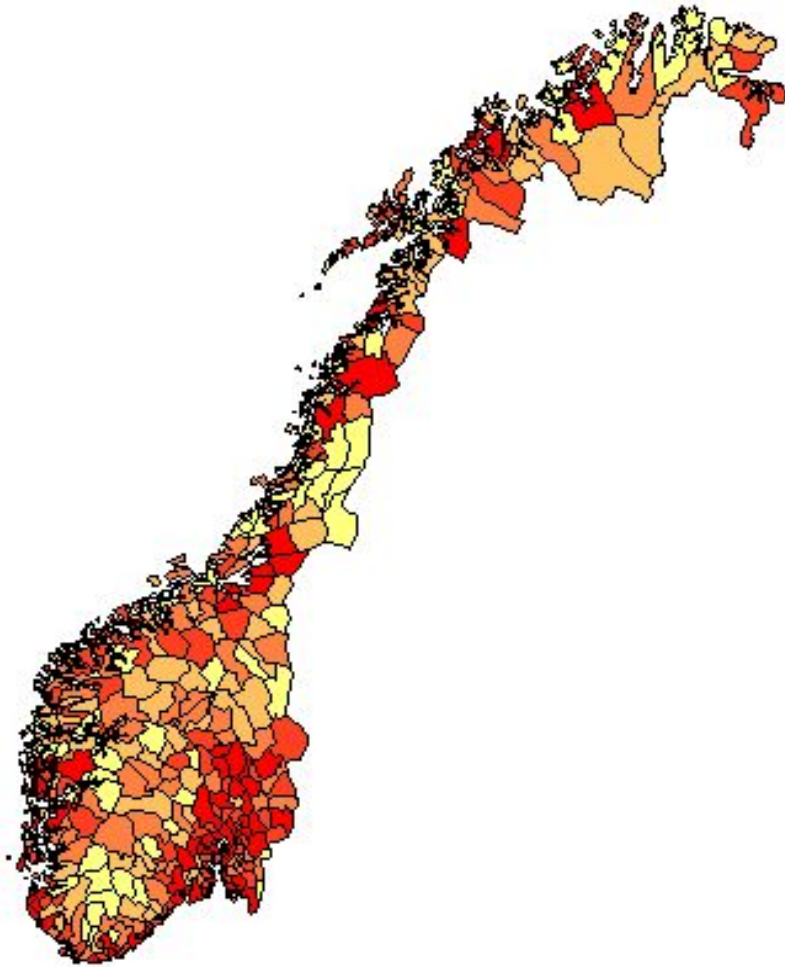
THE THREE TIERS OF GOVERNMENT

- Total population size is 5 million
- Three government tiers; central, county, municipality
- The 19 counties and the 428 municipalities constitute the local public sector
- The municipalities and the counties have the same administrative status
- The central government has the overriding authority

THE STRUCTURE OF LOCAL GOVERNMENTS

- Considerable variation in population size across the municipalities, from a few hundred to 600,000 (Oslo)
- Around half of the municipalities have less than 5,000 inhabitants
- The counties are a bit more homogenous, variation from 70,000 to 600,000
- All have the same responsibilities
- Oslo is both a municipality and a county






THE MUNICIPALITIES



Befolkningsutvikling, etter region, tid
og statistikkvariabel

tid: 2012K1

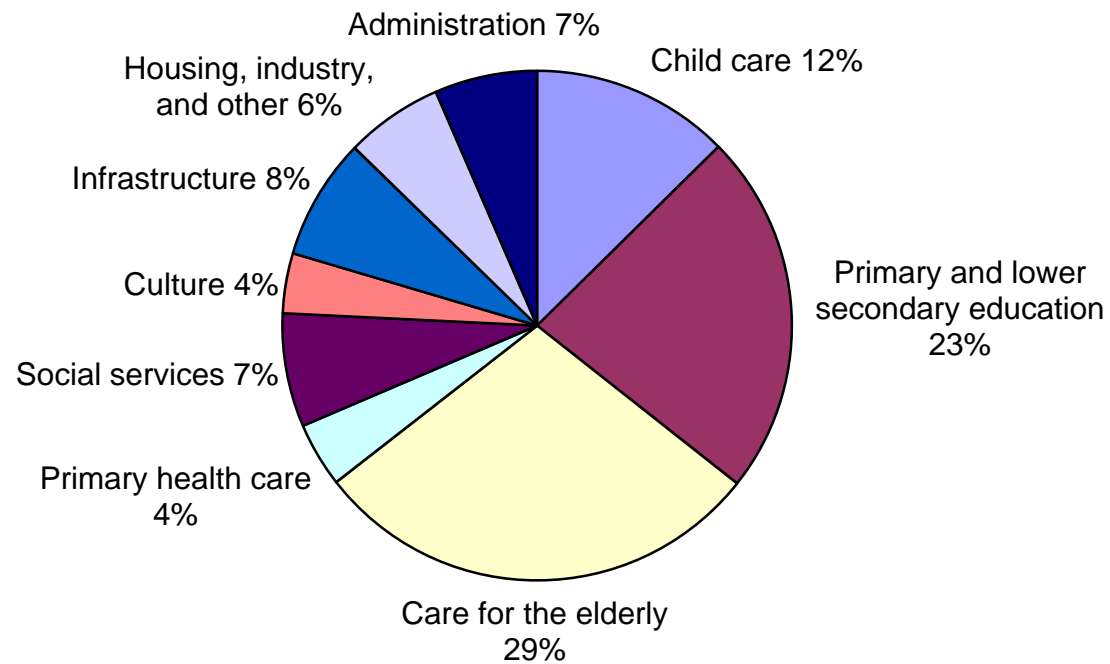
statistikkvariabel: Folketalet ved inngangen s

	0 -	1 738	(85)
	1 783 -	3 208	(86)
	3 228 -	5 992	(86)
	6 019 -	13 116	(86)
	13 258 -	613 285	(85)

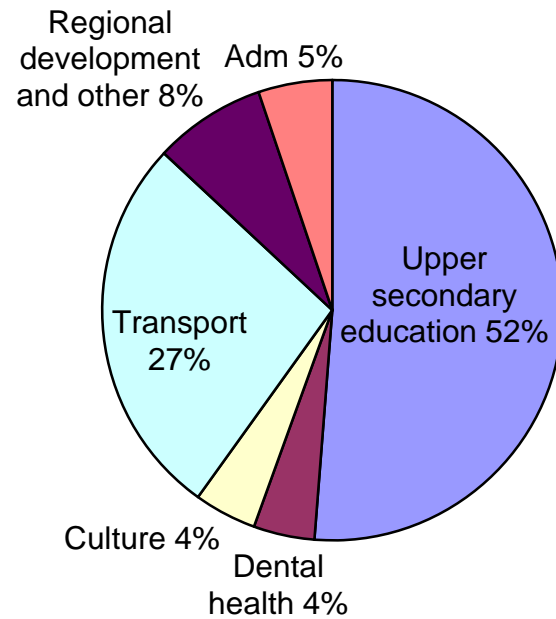
Datakilde: Statistisk sentralbyrå

Kartdata : Statens kartverk

MUNICIPAL RESPONSIBILITIES



COUNTY RESPONSIBILITIES



OVERVIEW OF FINANCING

Revenue source	Total	Municipalities	Counties
User charges	12.5	14.2	4.2
Taxes	40.1	41.8	31.7
Grants	42.2	39.5	55.7
Interest and dividend	3.3	2.7	6.3
Other	1.9	1.8	2.1
Total	100.0	100.0	100.0

THE TAX FINANCING

	<u>Municipalities</u>		<u>Counties</u>	
	Billion NOK	Percentage	Billion NOK	Percentage
Income tax	107.7	87.7	22.3	99.1
Wealth tax	6.7	5.5		
Property tax	7.1	5.8		
Natural resource tax	1.3	1.1	0.2	0.9
Total	122.8	100.0	22.5	100.0

REGULATION OF LOCAL TAXES

- The property tax is an optional tax for the municipalities, tax rate 0.2%-0.7%
- The natural resource tax, fixed amount per kWh
- All use the maximum tax rates on income and wealth (despite formal discretion)
- In practice local tax discretion is limited to the municipal property tax

THE GENERAL PURPOSE GRANT SCHEME

- The objectives are to
 - equalize economic opportunities
 - transfer resources
 - promote regional policy goals
- Conflict between equalization and regional policy goals
- The scheme equalizes and creates new differences

THE COMPONENTS OF THE GENERAL PURPOSE GRANT

Equalization

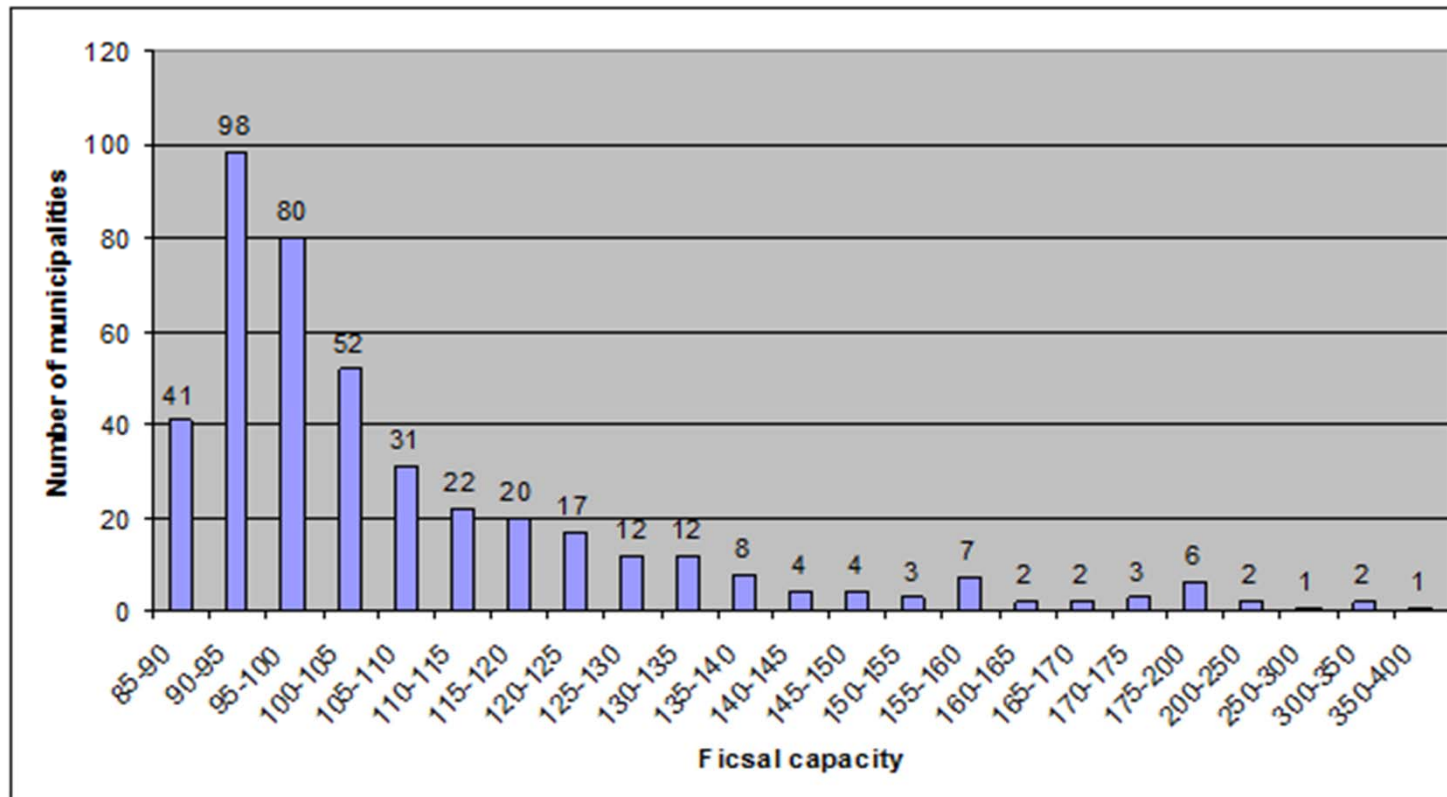
- Tax equalization (partial)
- Spending needs equalization (welfare services)
- Fast growing
- Large cities
- Discretionary

Regional policy grants

- Northern Norway
- Small municipalities
- Other rural municipalities

Regionally differentiated payroll tax

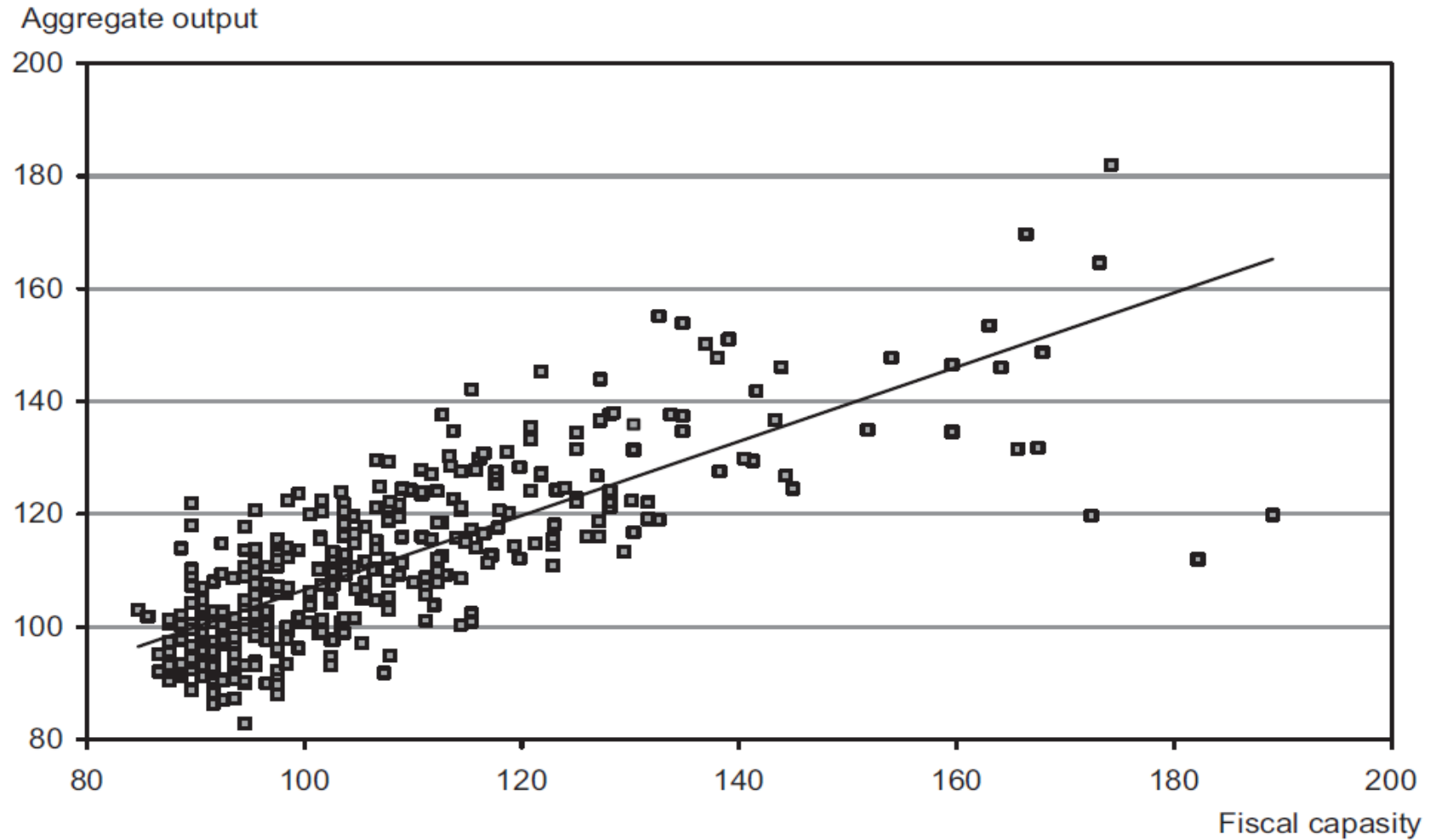
SUBSTANTIAL VARIATION IN FISCAL CAPACITY



THE THREE TYPES OF RICH MUNICIPALITIES

- Small, rural municipalities with large revenues from hydro power (not equalized)
- Small, rural municipalities that receive regional policy grants
- Urban municipalities with high levels of income and wealth taxes

FISCAL CAPACITY AND SERVICE PROVISION



REFORM DISCUSSION

- Local government responsibilities
- Local government structure
- Tax financing and tax discretion
- Accountability

Two alternative models

- A renewed model of administrative federalism
- A Nordic model of fiscal federalism

A RENEWED MODEL OF ADMINISTRATIVE FEDERALISM

- A continuation of the current model
- Welfare services more specialized and require more competence
- A new round of municipal mergers (Denmark is the role model)
- Larger municipalities can carry the welfare services and take on new tasks (high schools)
- More tax financing, strengthened local democracy and accountability

A RENEWED MODEL OF ADMINISTRATIVE FEDERALISM

- How to achieve municipal mergers?
- Government commission in the early 1990s, minimum size of 5,000
- Politically controversial, voluntary mergers
- The number of municipalities is reduced from 435 in 1994 to 428 in 2013
- No surprise, they are fully compensated through the grant system
- A national reform is needed

A RENEWED MODEL OF ADMINISTRATIVE FEDERALISM

- Not a quick fix that solves all problems
- Some services will still be too «large» for the municipalities (transport, hospitals)
- Regional level and/or national responsibility
- The new municipalities will be too «large» for some services

A NORDIC MODEL OF FISCAL FEDERALISM

- The burden of welfare services is lifted off the shoulders of the municipalities
- Less need for mergers, break-ups in some areas
- Less need for equalization, more tax financing
- Less central government control and regulation
- Reduced responsibilities, but with larger local influence
- What to do with the welfare services?

WHAT WILL THE FUTURE BRING?

- The municipalities will continue to be the main service providers in the welfare state
- Not central government take-over or broad privatization
- Municipal mergers will be on the agenda
- Move towards a renewed model of administrative federalism
- A Nordic model of fiscal federalism is unlikely to develop