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

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Seminar at IMFG
University of Toronto
May 8, 2013
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 

- 0 - 1 738 (85)
- 1 783 - 3 208 (86)
- 3 228 - 5 392 (86)
- 6 019 - 13 116 (86)
- 13 258 - 613 285 (85)

Datakilde: Statistisk sentralbyrå
Kartdata: Statens kartverk
MUNICIPAL RESPONSIBILITIES

- Child care: 12%
- Primary and lower secondary education: 23%
- Care for the elderly: 29%
- Administration: 7%
- Primary health care: 4%
- Social services: 7%
- Infrastructure: 8%
- Culture: 4%
- Housing, industry, and other: 6%
- Other: 6%
COUNTY RESPONSIBILITIES

- Upper secondary education: 52%
- Transport: 27%
- Culture: 4%
- Dental health: 4%
- Regional development and other: 8%
- Adm: 5%

### OVERVIEW OF FINANCING

<table>
<thead>
<tr>
<th>Revenue source</th>
<th>Total</th>
<th>Municipalities</th>
<th>Counties</th>
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<tbody>
<tr>
<td>User charges</td>
<td>12.5</td>
<td>14.2</td>
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<tr>
<td>Taxes</td>
<td>40.1</td>
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<td>31.7</td>
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<tr>
<td>Grants</td>
<td>42.2</td>
<td>39.5</td>
<td>55.7</td>
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<tr>
<td>Interest and dividend</td>
<td>3.3</td>
<td>2.7</td>
<td>6.3</td>
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<tr>
<td>Other</td>
<td>1.9</td>
<td>1.8</td>
<td>2.1</td>
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<tr>
<td><strong>Total</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
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# THE TAX FINANCING

<table>
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<tr>
<th></th>
<th>Municipalities</th>
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<tr>
<td></td>
<td>Billion NOK</td>
<td>Percentage</td>
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<tr>
<td>Income tax</td>
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<tr>
<td>Wealth tax</td>
<td>6.7</td>
<td>5.5</td>
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<tr>
<td>Property tax</td>
<td>7.1</td>
<td>5.8</td>
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<tr>
<td>Natural resource tax</td>
<td>1.3</td>
<td>1.1</td>
</tr>
<tr>
<td>Total</td>
<td>122.8</td>
<td>100.0</td>
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</table>
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