

Subtheme Paper

The Functioning of Local Governments and their Relationship with Upper Levels of Government

George Mathew

Abstract

Local government can be understood as an initiative in all federal systems to enable democracies to represent both “numbers and interests” as adequately as possible. However, in most federal systems, there has been more emphasis on “institutional realities” than on “operational realities”. Consequently, there are some major challenges before federal polities with respect to local governments. Some federal systems have not risen above the level of mere decentralization, thereby not proclaiming local government as one of their constitutional features. Some have proclaimed local governments as constitutionally assigned institutions with substantial powers and responsibilities. Some have made them dependent on the federal government and constituent units. Some have merely talked of local governments without adhering to operative principles. Not all relevant powers have been transferred, but many now rest with local government institutions. The voluntary sector has also emerged as an important player for strengthening people’s institutions. Thus, the challenge of local government can be divided into two. First is the problem of the representative character of municipalities that are eager for a

greater say in decision-making. Second is the governance of villages and small towns where people have a bundle of problems. Strengthening local governments at these levels would boost the federal character of society and polity. However, the discussion in this paper is limited to relational issues between local governments and the other orders of government.

1. Introduction

Strong and autonomous local governments in a territorially vast country and socially diverse society are generally understood to be important grass roots institutions needed to support a federal polity. As a new emerging trend in federalism, at least in some countries, local government can be said to be the extension cord of a federal polity mainly due to its growing relevance for the people at the grass roots level. In other words, effective local government is a very healthy sign of the democratization process, which is an inevitable character of viable federalism in a country.

It is quite interesting to note that local government institutions, varying in form and practice in different countries, are mostly pre-political and pre-constitutional. Their growing need in civic and modern democratic societies clearly justifies their relevance in both the pre-modern and post-modern worlds. In ancient history, tribes, clans, and peoples established systems of local governance in most parts of the world, though there were extensive variations in their typology. Indian local governments (panchayats) are one outstanding example. Legacies of ancient forms of local governance exist even today in India, Mexico, the United States, Canada—particularly those of the indigenous peoples in the United States and Canada—and other federations.

Various conquests, wars, and impositions of modern administration under colonial rule resulted in the extinction or weakening of such ancient institutions of local governance. At the same time, monopolization of powers in a few hands and the building of empires and colonies brought about centralized administrative revolutions. Governments in modern times became urban-centric, pro-elite, and supportive of free-market economics and militariza-

tion. Their policies and actions were middle-class oriented, distancing them from the day-to-day needs of the rural people and urban underclasses and their institutions. The focus of modern governments was on centres of power politics, commercial activities, and means of accumulating coercive powers under the pretext of maintaining national security, public order, national boundaries, and supplies and services essential to the society. This trend resulted in the formation of strong national and provincial governments in many diverse societies, thus arresting the advance of local governments in many cases.

However, the principles of self-rule and shared-rule inherited in the doctrine of federal governance on one hand and the subsequent universalist surge of democracy in delivering benefits to the common people on the other hand became instrumental in reviving the institutions of local governments. The introduction of the universal adult franchise also became instrumental in compelling national elites to respond to the needs of the local people. For example, mainstream leaders of India's Freedom Movement sought the support of the rural and local masses by raising their hopes about renewed self-governance at the village-community level. The idea of "village republics" propounded by Mahatma Gandhi was characterized by autonomy and self-reliance for local management of resources. Thus, the spread of democracy, pluralism, and appreciation of diversity as both principles and values became a compelling factor for national and subnational governments to pay attention to the revival and strengthening of local governments.

Another factor was the failure of the national and subnational governments in many countries to have continuous access to the people at the local level after the citizens were formally empowered with the adult franchise. Moreover, globalization and the revolution in information technology necessitated the end of "isolationism" and promoted the need for good governance with particular reference to responsiveness. Thus, the natural response of federal democracies in countries having diverse societies was to create or strengthen institutions of local government in order to meet the needs of people who required responsiveness from their governments at the local level.

Questions facing the modern democracies included the following. What are the best remedies for overcoming the problems of local people far away from the national and subnational government capitals? How can local people be made responsible for their needs? How best can local governments legitimize their existence and relevance? How can societies ensure people's participation in development? What should be the spheres and jurisdictions of local governments? What role should be assigned to local governments by the constitution, the national government, and/or the state/provincial government? What should be the nature of relationships between local governments and the other, larger orders of government? Almost all the questions mentioned above run around the central theme of the relationships between local governments and regional and national governments.

2. Constitutional and Provincial Determination of Local Tasks

After the modern state became dominant, local government as the organizational form of self-rule got a competitor. Over the years, the tendency of modern national governments has been not to share sovereignty with local government but to share powers meant for local needs. This has resulted in conflicts and rivalries between local government and the federal government as well as subnational governments. However, local government has become a universal governing reality with a huge overhead structure that is a two-layered government, the impact of which can be massive. The need of the hour is a platform for local government to raise its voice vis-à-vis the other orders of government. Disputes arising between the federal and state governments about responsibility for a certain programme may lead to a non-funded mandate for local government.

The nature of the assignment of the tasks to be performed by local government determines its pattern of relationships with the regional and national orders of government. The constitutional status and legislative standing of local government determines the nature of its relationships with the other orders of government in most polities, which in turn explains their fiscal relations, inter-

dependence, dependencies, interventions, and one-sided bargaining. Constitutional entrenchment of local governments in federal constitutions and statutes might make this relationship easier and more functional.

2.1 *United States of America*

State and local governments in the United States are highly devolved and complex, both organizationally and fiscally. The US Constitution does not explicitly mention a long list of responsibilities of both the federal and state governments. There is only a list of powers delegated to the US government. The Tenth Amendment to the US Constitution states: “The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.” Thus, the states retain considerable powers that also include the power to establish local governments. Consequently, the organizational structure of local governments, their functional responsibilities, and their revenue powers differ across states, from highly centralized Hawaii to highly decentralized New Hampshire.

The US Bureau of the Census recognizes five basic types of local government. Three of these—counties, municipalities, and townships—are general-purpose governments in that each is intended to provide an array of public services. Two additional types of limited-purpose local governments also are recognized—school districts and special districts. With two exceptions, states are fully subdivided into counties, which generally perform many public services and rely on taxes, user charges, and intergovernmental transfers of revenues. The Census Bureau defines a municipality, which includes various forms of government ranging from a large city (e.g. New York City) to small towns and villages with few people. Municipalities may be located within a county but they may also cross county borders in some cases. The special district governments provide a limited number of services. They have sufficient administrative and fiscal autonomy to act independently from other local governments. They perform public services such as fire protection, cemeteries, housing, water supply, sewage services, and

drainage and flood control as well as capital intensive services like airports. With the exception of many special districts, various types of local governments have elected officials with differences in their structures. For example, municipalities can have three types of governing structures: mayor-council, council-manager, and commission.

2.2 Switzerland

In Switzerland, local governments, known as municipal governments, constitute the third order of governance after the confederation and cantons, and they are the chief feature of decentralized administration. According to Article 3 of the Constitution, all powers rest with the cantons unless the federal Constitution explicitly transfers a specific power from the cantons to the federal order. Such constitutional amendments are submitted to referenda and enter into force after they get approved by a majority of both voters and cantons. Constitutionally, municipalities only have a general residual competence. As a result, they can perform those tasks that are not reserved for the confederation and the cantons. Contrary to the Federal Constitution of 1874, the Federal Constitution of 1999 contains specific articles regarding municipalities. Under Article 50, the autonomy of municipalities is guaranteed within the limits fixed by cantonal law. Thus, a municipality is not an institution of federal law. It is the respective legislation of each of the 26 cantons that sets up the municipalities and defines their organization, competences, and resources, as well as the power of control and intervention of the cantonal authorities in municipal affairs, as did the new constitution of the canton of Fribourg in May 2002.

2.3 Canada

In Canada, a constitutionally entrenched subordination of municipalities to the provinces affects every aspect of municipal affairs. Recently, the federal and provincial governments demonstrated an interest in empowering local governments with definite authority and responsibility rather than regarding local governments simply

as institutions created by the provincial governments for provincially defined goals. Under Section 92(8) of the British North America Act, 1867, provincial governments have exclusive responsibility for making laws relating to their municipal institutions. Notwithstanding the provinces' exclusive jurisdiction over municipalities, the provincial governments have delegated to the municipal institutions the administrative power to adopt regulations over subject matters enumerated in Section 92 (exclusive legislative powers of the provinces).

The primary source of authority for local governments is a form of "municipal act" in most provinces; there are also hundreds of other provincial statutes that delegate power to communities. For instance, many financial and accountability provisions affecting local governments are found in provincial and territorial statutes. It should be noted that there is no constitutional recognition of municipal institutions as an order of government. Municipalities are creatures of provincial statute with only those powers conferred on them by the province. Accordingly, a municipality under the traditional regime of provincial "municipal acts" is like a "public corporation" created by the government for political purposes and having subordinate and local powers of legislation.

2.4 Australia

Like Canada, the Australian federation comprises two spheres of government—the Commonwealth and the states. The statutory status of local government in Australia and Canada resembles each other on several levels, partly because both had the same colonial patron in the past. Systems of local government existed under the colonial predecessors of Australia's states. In 1901, the federal Constitution recognized the colonies as the original states of the federation and preserved their constitutions, powers, and laws. Following federation, local governments remained subject to state law. Unlike Canada, each state in Australia has its own constitution, which can be altered by its parliament and sometimes by ordinary legislation. A state can create subordinate bodies, such as municipalities, hand over to them the protection of local interests and give them such

powers as may be necessary for the proper care of these interests. As a result, local government is the creation of the states, organized separately by each state in discrete systems of local government. The boundaries of local government areas, the constitution and powers of local government bodies, and the very existence of a system of local government are matters for the government and the parliament of each state.

Several similarities can be found between the systems of local government in the various states of Australia. Local governments are not mentioned in the Constitution of Australia. This marks a difference between Canada and Australia. A proposal to recognize local government as an institution of the federal set-up was defeated at a referendum in 1974. Despite this drawback at the constitutional level, local governments have a national presence in Australia, as local government was recognized in the constitutions of South Australia and Western Australia in 1984. By 2005, all state constitutions had done so. At least, such recognition offers greater scope to provide more effective protection for key aspects of the status, structure, and operation of local government. In each state, local governments have a top forum known as the Australian Local Government Association organized as a distinctly federal-type arrangement. It is the most effective lobbying agency benefiting local governments in various ways. The lobby also participates in the Advisory Council of Inter-Governmental Relations modelled on the former US Advisory Commission on Intergovernmental Relations.

However, in reality, local governments achieve relatively little effective protection. In fact, tensions have mounted due to the legitimacy of the elected local government on the one hand, and the responsibility of the states on the other. The logic of the former is that local government is accountable to its voters, and electors can respond to maladministration or worse at regular elections, voting local representatives out of office. The latter assumes that the state is responsible for significant deficiencies in the operation of local government and may intervene to ensure effective performance.

All state constitutions in Australia guarantee a system of local government, but only Victoria reflects the democratic significance

of local government. Only one state, Western Australia, guarantees the elected status of the system of local government without express reservations to allow parts of the system to be appointed, permanently or temporarily, or in the case of New South Wales, to provide that local government may be either elected or appointed. No state constitution guarantees any particular content for the powers of local government. In each case, the constitution explicitly leaves it to the state legislature to prescribe the powers of local governments from time to time. In four states, the constitution makes no attempt to prescribe an objective general standard for determining the powers of local government, referring only to the powers that the state parliament “considers necessary” for the government of the local areas concerned. In fact, the state constitutions provide only fragile protection for local government against arbitrary dismissal.

2.5 Germany

Länder and local governments exist in the Federal Republic of Germany. In all but one of the 16 *Länder*, the council system exists whereby each local government, in the form of a municipal council, is generally elected for a term of five years. However, this can vary between four and six years. Each council is headed by an elected mayor, known as the *Bürgermeister*, who acts as head of both the council and the administration. The tenure can vary from four to nine years. Common responsibilities of this tier include planning, water management, social welfare, and the construction and maintenance of schools. Some councils are also engaged in cultural affairs, economic development, and energy-related activities, depending on the *Land* set-up.

2.6 India

Local governments are guaranteed by the Constitution of India; they were included in 1993 by constitutional amendment. It was on 22 December 1992 that the Congress government passed the Seventy-Third Amendment, which gave panchayats a constitutional status. The amendment also institutionalized a three-tiered system

of panchayats (except for states with populations less than two million), with panchayats at the village, block, and district levels. It also stipulated that all panchayat members be elected for a five-year term in elections supervised by state election-commissions.

When the Constitution was adopted on 26 November 1949, Article 40 directed the government to establish panchayats (democratically elected village councils) to serve as units of local self-government. Most states began implementing this directive principle along the lines of the recommendations of a commission appointed by the Union government in 1957 under the chairmanship of Balwantrai Mehta. According to these recommendations, the popularly elected village council (gram panchayat) is the basic unit. Village council chairs, elected by the members of the village council, serve as members of the block council (panchayat samiti). A block is a large subunit of a district. In some states, blocks are coterminous with taluqs or tehsils. In other states, taluqs or tehsils are divided into blocks. The district council (zilla parishad) is the top level of the system. Its jurisdiction includes all village and block councils within a district. Its members include the block-council chairs.

Nearly three million representatives get elected every five years in these local governments. Women head about 198 district panchayats (out of about 537), more than 1,970 block (tehsil/mandal) panchayats (out of about 6,094), and about 77,210 village panchayats (out of 232,913). Likewise in the urban areas, they head more than 34 city corporations, 476 town municipalities, and 670 nagar panchayats. However, in many cases, traditions and paternalism have prevailed over female empowerment. Illiteracy, poverty, and social inequalities work as negative factors. Despite being listed in the national Constitution, local governments depend heavily on the federal and state governments for finance and budget allocations.

2.7 Spain

Local government is constitutionally recognized in Spain. There are two types of local bodies—provinces and municipalities—that work under Spanish regional states known as autonomous communities (ACs). Until 1985, the law of the dictatorship regulated

Spanish local governments. However, according to Article 137 of the Spanish Constitution, Spain is structured into municipalities, provinces, and autonomous communities. Local bodies are only granted the right to local autonomy, which is not specified in the Constitution. Constitutionally, priority was given to the recognition of the ACs and their effective powers. Local power was basically defined by statutory law, not only by state law but also by regional laws of the ACs, which have legislative powers over local governments in their statutes of autonomy.

The legal system of local government belongs to the concurrent jurisdiction of the Spanish state and the autonomous communities. The state is responsible for the fundamental regulations; the ACs are responsible for the non-fundamental regulations (the so-called development regulations). Spain's Constitutional Court also has substantiated this stand. Moreover, the Constitutional Court has conferred wide regulatory powers upon the state over local government to the detriment of the ACs. Special legal status was granted to cities having populations exceeding 500,000. Spain's membership in the European Union has also boosted the morale of local governments to address local needs with more autonomy. Municipalities also established the Forum of Municipal Development in 2002, which represents an agreement between the national government and three government associations serving as a forum to discuss legislation and issues related to municipalities.

2.8 Mexico

In Mexico, states contain municipalities of vastly different sizes. Mayors have municipal councils, which are indirectly elected for three years and cannot be re-elected. Mayors in Mexico are actually "municipal presidents". The federal government had, until the mid-1990s, control over the provision of most public services. Reforms in 1984 and 1988, however, enabled municipal governments to bring more federal money directly to the local level. An organization called "Local Governments for Autonomous Local Government" established their constitutions in 1994. It originally consisted of 18 mayors, with another 50 mayors later following suit. In 1996,

the organization's name was changed to the Association of Mexican Municipalities, with its first aim being the enhancement of local government autonomy.

2.9 *Brazil*

The 1988 Constitution of Brazil guarantees autonomy to state and municipal orders of government, the latter having mayors and city councils. The Constitution provides states with a wide remit of powers, including exclusive control of policing and criminal justice, while sharing responsibility for health, education, economic development, and infrastructure with the federal government. Municipal government must share all these responsibilities with federal and state authorities, except for transport, its only exclusive public policy responsibility. However, municipal government is often identified with having primary responsibility in some fields, most notably in pre-school education and the production of urban development plans where the population is greater than 200,000.

2.10 *South Africa*

In South Africa, the interim constitution of 1993 recognized local government as a tier of governance. The notion of "tier" was renamed "sphere" of government in the 1996 Constitution, which defines local spheres of municipalities covering the entire country. A municipality, moreover, has the right to govern, on its own initiative, the local government affairs of its community. Municipalities have administrative and legislative power with regard to 38 listed areas. Local government can participate in the National Council of Provinces, though without the right to vote. Both national and provincial legislation may intrude on areas of municipal responsibility.

Municipalities are subject to supervision, and intervention by provincial governments to assume responsibilities on behalf of a municipality is permitted by the Constitution. The supervisory function entails the establishment and structuring of municipalities, regulating the exercise of their competences, monitoring the exercise of those competences, and, in certain circumstances, intervening

in municipal affairs. The establishment and determination of the basic features of the municipalities in a province are done jointly by the Municipal Demarcation Board, the national government, and the provinces. National legislation determines the basic structure, operational system, and financial management of municipalities. National and provincial legislation further regulates the various areas of local competences. The provinces are constitutionally assigned to monitor local government to ensure that it remains within its jurisdiction; the national government does this on an implicit basis. Local government is duty bound to engage in extensive reporting.

3. Fiscal Relations

Theories of fiscal federalism ordinarily treat local government as a subordinate tier in a multi-tiered system and outlines principles for defining the roles and responsibilities of the various tiers of government. In most countries, airports, parking, water, sewage, and garbage collection are predominantly financed by fees, whereas social services are primarily financed from general tax revenues and intergovernmental grants. Infrastructure finance relies on a mix of sources that includes own-source revenues and reserves, charges, fiscal transfers, borrowing, and public-private partnerships. In most countries, significant help is available from higher-level governments in facilitating local government's access to credit markets. Indirect subsidies for state and local borrowing are available in the United States. In Canada, most provinces assist local governments with engineering, financing, and economic analyses of projects. In most of the federations, as in the United States and Canada, local governments are extensions of state governments. In a few cases, as in Brazil, they are equal partners with upper-level governments, and in exceptional cases, such as Switzerland, they are the main sources of sovereignty and have greater constitutional significance than the federal government. Thus, depending on the constitutional and legal status of local governments, state/provincial governments in federal countries assume varying degrees of oversight of the provision of local services.

Income taxes, property taxes, and fees are major revenue sources for local government. In Belgium and Switzerland, more than 80 per cent of tax revenues are derived from taxes on personal and corporate incomes. By contrast, in Australia, Canada, New Zealand, the United Kingdom, and the United States, property taxes contribute more than 80 per cent of local tax revenues. Austria and Spain rely on a mix of local taxes and fees. Intergovernmental finance is relatively less important in Austria and Canada. Local governments in many OECD countries typically perform agency functions for higher-level governments and have only a limited range of locally determined responsibilities, but in the United States, specific-purpose transfers (i.e. categorical grants) assume greater importance in local finances.

3.1 *Fiscally Dependent Local Governments*

In some federations, the dependence of local bodies on the upper-level governments is structured or sustained by the structures of intergovernmental relations between local governments and the upper levels. This has resulted in their complete subordination to the federal and state governments. The trend and pattern of relationships depend mainly on the autonomy factor, particularly on the part of local government.

3.1.1 *Canada*

In Canada, one finds about 4,600 municipal governments available in wide varieties—cities, towns and villages in rural areas, counties, and urban municipalities, but other forms include some regional and metropolitan municipal governments. In addition to these general-purpose municipalities, there are about 8,000 special-purpose local bodies, including boards and commissions. Most transfers to municipalities in Canada are provincial-municipal transfers. There are some federal transfers to municipalities under the Infrastructure Canada Programme for investment in local government in terms of sustainable-development initiatives. Other examples are the Green Municipal Enabling Fund, Green Municipal Investment Fund, and National Homeless Initiative. In

addition to federal transfers to local governments, the federal government spends money in cities for such things as settlement and language programmes for recent immigrants and also activities under the National Crime Prevention Programme and the Technology Partnership Programme. However, provincial government is the largest source of transfers to local bodies, and these transfers are divided into conditional and unconditional grants.

There is no local autonomy in transferring shares of federal or provincial revenues to municipalities. Under this option, an increase in revenues to municipalities depends on an increase in the sources of revenues. Under the second option, the tax base is determined by the federal and/or provincial governments at a uniform rate for municipal purposes, and funds collected are then distributed to local governments. Under the third option, each municipality can set its own tax rate based on its expenditure needs. Under the fourth option, municipalities levy their own local taxes (e.g. income, sales, and fuel). Four sources of revenue—income tax, sales tax, fuel tax, and hotel and motel occupancy taxes—are currently shared or could be shared with local governments. Therefore, it can be said that Canadian local governments do not have any constitutionally based revenue-raising authority. Today, the main sources of income for municipalities include the property tax, user fees, and grants from provincial governments. The local bodies are in a subordinate relationship vis-à-vis the provinces in that the latter has broad powers of supervision over local governments that are exercised as and when provinces deem appropriate. However, municipalities lobby the federal government, resulting in relatively modest federal funding for municipalities. Municipalities can also borrow from the provincial government. The Australian case is very much similar to the Canadian experience.

3.1.2 United States

The 87,576 local governments in the United States (as of 2002) owe their origins to the people of the states, which provide for local governments through their state constitutions. All 50 state constitutions have provisions on local government. Thereafter, the state

legislatures play big roles in working out the myriad details of local government. State and local governments are required to raise a substantial portion of their resources using their own taxing and charging powers. For the nation as a whole, more than 70 per cent of state general revenues are derived from their own sources; the portion of own-source local government revenues is approximately 60 per cent. Three broad-based tax instruments are used in most of the states to generate revenues for state and local governments: the sales tax, income tax, and property tax. The property tax remains a primary revenue source for local governments. Both the federal and state governments fund transfers to the local governments, resulting in some dependence of local governments on the other orders of government, though mostly state government.

3.1.3 *India*

India is one such example where local governments depend heavily on federal and state grants. Despite the constitutional entrenchment of local-government fiscal powers, these governments remain at the mercy of the federal and state governments.

3.1.4 *South Africa*

In South Africa, local governments have no right to levy an income tax, value added tax, general sales tax, or customs duty. They get revenue from conditional and unconditional transfers from the federal government. The federal and provincial governments exercise extensive supervision over local governments, which include structuring municipalities, regulating the exercise of their competences, monitoring their exercise of those competences, and, in certain circumstances, intervening in municipalities. The relationship of municipalities with upper-level governments resembles patron-client relations whereby both the federal and provincial governments have a constitutional obligation to support and strengthen the capacity of municipalities to manage their own affairs. Financial assistance mainly comes from the federal government in the form of conditional grants, leaving provinces to provide institutional and capacity-building support in South Africa.

3.1.5 *Brazil*

The dependence of local government on federal and state transfers is well established in Brazil. Because states are constituent federal units, they have an advantage over the municipalities by having their own sources of revenue.

3.1.6 *Mexico*

In Mexico, the vast majority of tax funds collected is appropriated by federal agencies, thus creating considerable local-government dependence.

3.2 *Fiscally Autonomous Local Governments*

Some federal countries provide substantial fiscal autonomy for local governments.

3.2.1 *Germany*

In Germany, regional administrative bodies include the regional planning associations, 323 rural districts, and 116 incorporated cities and municipalities, which form a part of rural districts. At the end of 2000, there were 13,897 municipalities. Tax revenues are distributed among the regional administrative bodies, using both their assigned revenues and their shared revenues. The political accountability for their expenditure is not defined clearly. The level of and criteria for social welfare are fixed by the federal government, but the disbursement of grants and examination of social demands and needs are the responsibility of local bodies. Moreover, the federal government delegates a huge number of administrative duties, mainly in the area of social security, to the *Länder* and local bodies and bears the expense of those delegations.

In the developed parts of Germany, tax revenues are the biggest revenue item, whereas in comparatively less developed *Länder*, municipalities are funded by grants because of their low income. Municipalities receive a fixed share of personal income tax and VAT revenues, and they are entitled to stipulate municipal assessment rates for the real property tax and the trade tax. This power ensures them at least some basic elements of fiscal autonomy. There are a

number of other petty municipal taxes, which include the alcohol tax, entertainment tax, dog-license tax, hunting license tax, fishing license tax, and second-home tax. According to municipal laws governing these taxes, municipalities are free to decide whether to levy each tax and at what rate.

In every *Land*, a local equalization system exists under which the *Land* government must transfer a portion of its tax revenues to local authorities under an arrangement called “obligatory tax sharing”. In addition, the *Länder* give local authorities a share of further revenues, such as grants from the equalization system among the *Länder*, grants from the federal government because of economic weakness, and proceeds from the motor-vehicle tax.

3.2.2 Switzerland

In Switzerland, there are 2,815 municipalities and communes in 26 cantons. Local autonomy is assured by the constitutional arrangement under which all tasks not subject to federal or cantonal jurisdiction fall to the municipalities. This principle is known as subsidiarity. In the case of the failure or inability of the municipality to take up the tasks, they are transferred to the cantonal government. Moreover, the management of financial and administrative affairs belongs to municipalities. Fiscal sovereignty belongs to the federal government, but municipalities certainly enjoy fiscal autonomy. They have their own tax revenues and receive grants-in-aid (13 per cent of their total revenues). This means that 87 per cent of municipalities’ revenue comes from their own tax sources. Their share of total public expenditure is 30 per cent, and they also raise approximately 30 per cent of all public revenue. Municipalities have a right to exist, freedom to choose their own political structure and administration, freedom to legislate, plan, and implement their activities, the right to impose taxes, the power to act in all areas not covered by the federal government and the cantons, and the right to judicial protection of autonomy.

4. Conclusion

The workings of federalism in the countries discussed above shows that local governments have a role in the governance system. In no

country has the final word been said on decentralization and the functioning of local governments as well as their relationship with upper levels of government. Such relationships are evolving processes. In some countries, the process is dynamic; in others, it has been static for quite some time.

The most serious hurdle in the way of full realization of this process lies in the fiscal dependence of local governments on their state/provincial and/or federal governments. Fiscal dependencies are, in some cases, structural in nature. In younger federations, in order to spread the wave of decentralization further down to the grass roots, the relations between the local governments and the national and provincial governments have to undergo a transformation. Constitutional provisions are seen by the protagonists of local government in countries like India as a necessary condition for achieving this goal. Again, in the emerging federations, for the municipalities and rural local bodies to achieve real self-governance and act as the third order of government is a major task. When the local governments come under the provinces or the states, the tensions between them are a major issue as well. Here, the safeguards are the national constitution's provisions and, ultimately, the judiciary.