**Introduction:**

**Positioning in the Williamson-Jaffee Methodological Tree**

**Institutional Bias... with hidden number crunching and a policy agenda.**

- Public Choice
- Property Rights
- Agency Theory
- Transaction Economics

**The rhetorical tetrad**

- Facts (Units of observation)
- Links (Units of logic)
- Metaphors (Models and constructs)
- Narrative (Stories)

(Donald N. McCloskey « If you are so smart: the narrative of economic expertise, U. of Chicago Press, 1990)

**Primacy of local services...**

- Strong perceived utility of « local services »
  - Lawn and garbage (Water and Sanitation)
  - Law and order (Security and crime prevention)
  - Lanes, Streets and Roads (local transportation)
  - Lawn bowling, pools and ovals (recreation and leisure)
  - R coding (Zoning and value protection or creation)
  - Mushy-softy stuff (Crèches, Nursing homes, Women centres)

**Anteriority of elected local governments**

- Adelaide (1840) was the first elected governing body

- But never in the American Tradition of Local independence and fiscal autonomy (No «taxation without representation» stuff)

- Local governance : mostly financing of specific capital needs (Road trusts, Water boards, etc...)
Also regulatory responsibilities (Weights and measures, health codes, vehicle licensing) which were later, transferred to States and Federal Government

But, almost invisible...

Never involved in Constitutional discussions
Never mentioned in the literature and documents
Not part of the constitutional compact
Very late admission at the Big Boys table (a seat on the Council of Australian Government in 1990)

Very subordinate...

Creature of the State

High Court (1904) Sydney vs. Commonwealth:

« the powers {from the State} are exercised by the subordinate body as an agent of the power that created it »

Very strictly delimited powers until recently (1992)

Very limited capacity to borrow

Legal control from the State (eg: Wannaroo, WA)

States can obliterate, amputate, redesign borders and powers...

Very marginal in the Big $ Trough

<table>
<thead>
<tr>
<th>Revenues going to the Federal</th>
<th>78%</th>
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<tbody>
<tr>
<td>Revenues going to the States</td>
<td>18%</td>
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<tr>
<td>Revenues going to the LG</td>
<td>4%</td>
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In Canada 13%
In Germany 14%
In the USA 19%

And financially squeezed, between

1- Elastic + hot button expenditures

  expenditures growing and touchy : baby care, senior citizen centers, police protection, public libraries and local roads

2- Inelastic + hot button revenues

  revenues rigid and touchy: rates and user charges

3- And pressure to provide more and more services...
And now our metaphor

Fiscaltopia

- Putting the allocative functions at the optimal level of jurisdiction
- Choosing the more appropriate level of financing

- **Australian LG Fiscal Pathology**
  - Marginalisation of local governments
  - Fiscal dependency of State Governments
  - No intermediate level of governance between Fed and States
  - The correction of Horizontal inequities is not Tiebout optimal
  - Mismatch between Central and Periphery Revenue capacity («Vertical imbalance »)

Money is a liquid... it goes down, not up!

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<tbody>
<tr>
<td>Federal</td>
<td>78%</td>
<td>57%</td>
</tr>
<tr>
<td>States</td>
<td>18%</td>
<td>38%</td>
</tr>
<tr>
<td>Local Governments</td>
<td>4%</td>
<td>5%</td>
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Public agency problem

Canberra has the most of the money and not much to spend it on...

The periphery (States and Local) receive an important part of their revenues as fiscally and politically painless transfers

Thus... overspending and under accountability.

Why?

The Australian federation has been built by Actors who had no previous federal tradition

No real concept of local autonomy and representativity.

Still now reticence at leaving too much powers to LG and to see the Federal level deal directly with LG

Vertical Arrogance ...
Over reliance on the virtues of Economies of Scales

« LG are far too small to take advantage of economies of scale and substantial cost saving could be made if local governments units were amalgated »


Australian Therapeutic choices

- Transfer of spending powers
- Transfer of revenues
- Revenue Sharing
- Interjurisdictional grants

With the Centrally Monitored Money Reticulation system

- The Money Reticulation: channelling money from the Fed. to the LG
- From Fed. to States : the LG Financial assistance is allocated on a per capita basis (since 1995)
- From State to L.G : the Financial Assistance Grants are allocated on standardisation formula basis
- The Principles of the reticulation are defined at the Federal level (Local Government Act of 1995)

The amounts distributed

FAG Principles

Road Allocations

The results of the allocation (Excel table)

The author's favoured solution

- Autonomisation of revenues sources...
- through the Property tax and user's fees.
- Thus... we should pay higher property taxes...
- But less of the others

Property Taxation

- Rental Values are not the best indicator of Market Values
- Specially in a country where 90% of residences are owner occupied...
- And because of the extreme fuzziness of leasing information in the commercial sector...
- Not mentioning the very vague basis for pastoral and mining leased properties

Advantages of a full market value property tax
Reanimation of the Valuation profession

... and the Valuation Academic profession

Tax on capital values

Verifiable market adjustments

Progressive taxation (more or less...)

Capitalisation of property taxation

Possibilities of self-assessment

Of course... something else must give

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**Probability of realisation**

Zilch...

Very strong allergy to property taxation

Very strong allergy to "obvious" vertical and horizontal inequities

Nevertheless... the pressure will grow!

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**Decentralisation... trends and flavours.**

Post modern mood

Financial downloading from higher government levels

Leaders and grass root actors are getting better

Greater confidence and participation from the public

... and greater efficiency from local governments

... sharpened by greater public scrutiny and participation