

# Chapter 2

## Central reforms through local governments: Challenges and design Lars-Erik Borge

This is a revised version of a paper presented at the Copenhagen Workshop 2011. I am grateful for comments from the participants and in particular from my discussants Jiska Nijenhuis and Jørgen Lotz.

### 2.1. Introduction

---

In the Nordic welfare states, local governments are important providers of welfare services such as education, health care, and social services. Decentralization is combined with legal regulations to clarify the local responsibilities and to impose minimum standards for and rights to services. Financial equalization levels the playing field and limits variation in service standards across local governments. Decentralized provision is combined with national policies for redistributive welfare services.

Several justifications can be made for decentralized service provision. Local governments are better informed about benefits and costs of policy programs, and decentralization may therefore promote allocative efficiency. This is the essence of the so-called “decentralization theorem” by Oates (1972). Mobility between local governments (Tiebout 1956) may further increase allocative efficiency by making communities more homogeneous. Moreover, decentralization may promote cost efficiency by giving voters the opportunity to move out of inefficient communities and through yardstick competition.

The main justification for central government regulation is the merit-good aspect of welfare services. Education, health, and social services are not local public goods in the traditional sense, but redistributive

services that serve equity purposes (Boadway 2006, p. 357). From a national perspective, comparable provision of such services throughout the country is often an important policy objective, and central regulation of local governments can be understood as a means to achieve that objective. This line of reasoning is similar to Musgrave's (1959, p. 183) "entirely different view on federalism", where "fiscal federalism is interpreted to be an assurance to each citizen of the federation that special social needs such as elementary education will be provided adequately in all states." This "entirely different view on federalism" has by many observers been labeled "administrative federalism", see e.g. Schwager (1999).

Decentralization of the provision of redistributive welfare services means that local governments to some extent act as agents on behalf of the central government, and the central government typically becomes involved in the financing of the services. An important question is whether the different mandates imposed by the central government are sufficiently funded. The issue is discussed by several papers in this volume. Spahn (2012) reviews the German case, emphasizing the work of a government commission that was set up partly to investigate whether standards imposed by federal legislation would have financial implications for local budgets. Swianiewicz (2012) argues that standards and norms imposed by the Polish government have increased systematically over the past two decades, and that local governments are financially bound by them.

In this paper I discuss a related issue, the financing and implementation of national reforms in welfare services. The welfare services are developed over time, often in interplay between central and local governments. Some local governments are innovative in terms of developing services. The good services in some authorities are recognized by the central government and may inspire a national reform. In Norway, many examples of such reforms can be found in the educational sector. The expansion of primary education to 9 years, upper secondary education for everyone, before and after care for school children, and full coverage in kindergartens are examples of central reforms initiated by examples of local government innovation.

The rest of the paper is organized as follows: As an empirical background, section 2 presents tasks, financing, and regulation of Norwe-

gian local governments,<sup>22</sup> including a few brief remarks on historical service development. Section 3 discusses reform financing at the macro level, i.e. whether the reform is under- or overfunded. The specific reform implementation is discussed in section 4, with focus on the type of financing and legal regulation. Based on the analysis in section 4, section 5 provides guidelines for reform implementation. Section 6 concludes.

The analysis and discussion in sections 3-6 should be relevant beyond the Norwegian context. It clearly applies to other Nordic and European countries where local governments are responsible for redistributive welfare services. Also in the U.S. there is increasing attention on how state-local spending is affected by federal mandates in the areas of education, health, and public welfare, see e.g. Baicker et al (2012).

## 2.2. The Norwegian context

---

The responsibilities of Norwegian local governments have steadily expanded during the last 150 years. In the second half of the 19th century, local governments developed infrastructure related to water supply, sewage, garbage collection, gas and electricity supply, roads, and tramways, as well as welfare services within the fields of education and health care. Local governments were also engaged in housing policy and poverty relief. In the first half of the 20th century, many local governments introduced social security programs such as unemployment benefits and old-age pension. The expansion of responsibilities was partly a result of local initiatives and partly a result of central government mandates.

With the establishment of the welfare state after World War II, a clearer division of labor between central and local government emerged. The central government took over most local social security programs and established a national social security system,<sup>23</sup> while welfare services (education, health, and social services) remained local responsibilities. Expansion and equal access to welfare services were cornerstones in the construction of the welfare state. It became a central government responsibility to provide sufficient funds for the expansion. Intergovernmental grants and regulation of services increased to limit the variation

---

<sup>22</sup> Section 2 is largely based on Borge (2010, 2012).

<sup>23</sup> Social assistance is the only remaining transfer program at the local level.

in service provision across local governments. Although welfare reforms to an increasing extent are initiated by the central government, innovative local governments are important role models. Good services in some local governments receive attention and may become the seed of a national reform. Examples of such an interplay between central and local government is the extension of primary education to 9 years in the late 1960s, the right to upper secondary schooling in 1994, the lowering of the school age to 6 years 1997, the expansion of services and housing for the elderly during the 1990s, and full child-care coverage in the 2000s.

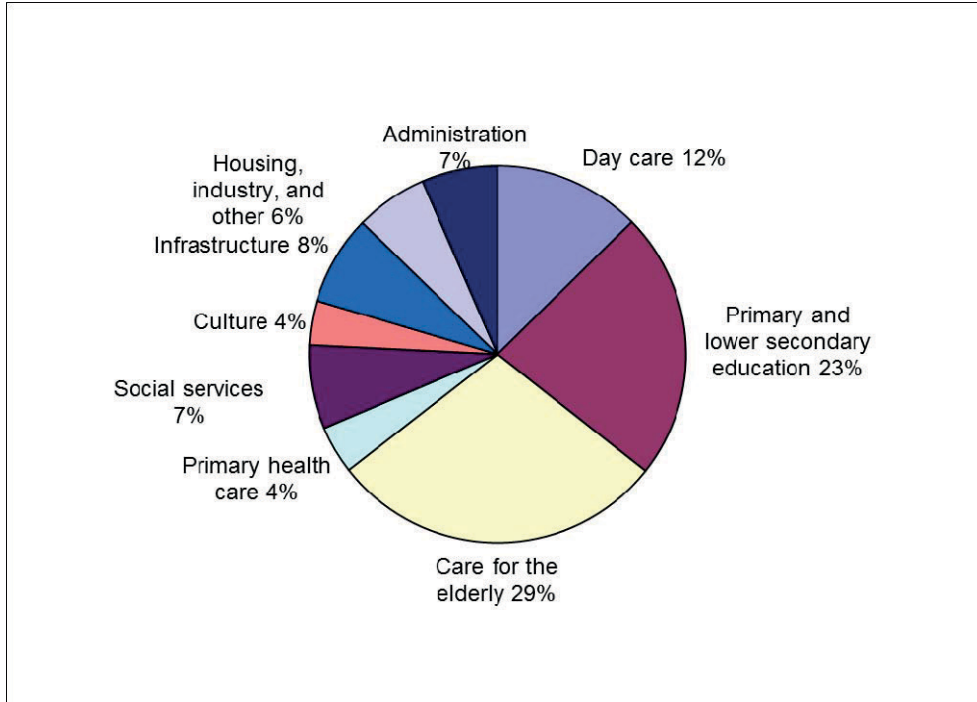
As of 2011, the Norwegian public sector is divided into three tiers; the central government, the county governments, and the municipal governments. The 19 counties and the 430 municipalities constitute the local public sector.<sup>24</sup> The municipalities and the counties have the same administrative status, whereas the central government has the overriding authority. The sector accounts for nearly 50 percent of government consumption, and their revenues make up nearly 20 percent of (mainland) GDP. Close to 20 percent of the workforce is employed in the local public sector.

Figure 2.1 provides an overview of the municipal responsibilities. It is evident that welfare services within the educational, health, and social sectors account for the bulk of expenditures. The welfare services under municipal responsibility are child care, primary and lower secondary education (1st to 10th grade), care for the elderly (nursing homes and home-based care), primary health care (general practitioners, health centers, and emergency wards), and social services (mainly social assistance and child custody). These services amount to  $\frac{3}{4}$  of the total budget. The more local services include a large number of activities, but make up less than 20 percent of the budget. They can be broadly categorized into culture (libraries, cinemas, sports facilities, etc), infrastructure (roads, water, sewage and garbage collection), and planning (including land use planning), industry, and housing.

---

<sup>24</sup> The capital Oslo is both a municipality and a county.

**Figure 2.1. Municipal service sectors, percent of current expenditures, 2010**

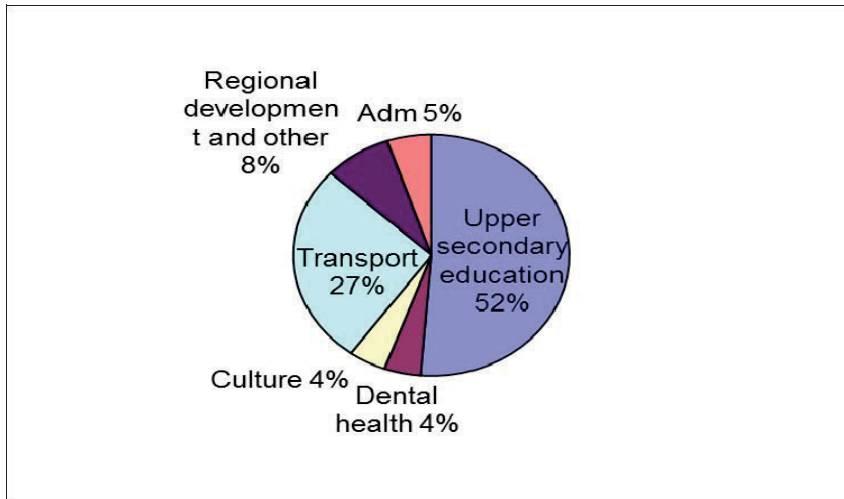


Note: The capital Oslo, which is both a municipality and a county, is excluded.

Source: Local Government Accounts, Statistics Norway.

The main responsibilities of the counties are shown in Figure 2.2. After the national government took over the responsibility for the hospitals in 2002, upper secondary education (general and vocational) has become the most important task for counties, amounting to around half of the total budget. The second largest service sector is transport (roads and public transport), which accounts for  $\frac{1}{4}$  of the budget. The remaining services are dental health (mainly for the young and residents in nursing homes), culture (libraries, museums, sports facilities, etc), and regional development (planning and business development). Together, the welfare services upper secondary education and dental services make up around 55 percent of county expenditures. However, if we consider county transport as part of a national infrastructure, this share increases to more than 80 percent.

**Figure 2.2. County service sectors, percent of current expenditures, 2010**



Note: The capital Oslo, which is both a municipality and a county, is excluded.

Source: Local Government Accounts, Statistics Norway.

Total local government revenue amounts to nearly 20 percent of GDP, and Tabel 2.1. gives an overview of the major revenue sources. Local revenues (taxes and user charges) amount to slightly more than 50 percent of total revenues, while grants from the central government account for a little over 40 percent. The main differences between the two local government tiers are that the counties are more dependent on central government grants, while taxes and user charges are more important for the municipalities. The municipalities apply user charges on a wide range of services, but technical services (water, sewage, and garbage collection), child care, and care for the elderly account for most of the revenue. User charges cannot be applied to primary and secondary education.

Income tax from individuals constitutes the dominating tax type, both for the municipalities and the counties. It accounts for nearly 90 percent of municipal tax revenues and nearly 100 percent of county tax revenues. The local income tax is a piggy-back tax on a national tax, and formally, local governments may choose their tax rate within a defined maximum. During the last 30 years, however, each and every local government has used the maximum tax rate. In practice, local tax discre-

tion is limited to the property tax, which is a voluntary tax for the municipalities.

**Tabel 2.1. The financing of the local public sector (%), 2010**

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

Note: Oslo, which is both a municipality and a county, is included in the figures for the municipalities. Interest and dividend for the counties include revenues from toll roads.

Source: Local Government Accounts, Statistics Norway and Committee for Assessment of Local Government Economy

The grant system consists of general purpose grants and earmarked grants. In 2010, roughly 30 percent of grant revenues were earmarked. From 2011, a large earmarked grant for child care was included in the general purpose grants scheme, and as a consequence the share of earmarking dropped to 10 percent.

It is the general purpose grant scheme that is most important for the distribution of revenue across local governments. The general purpose grant scheme was introduced in 1986 and has three main purposes; to equalize economic opportunities across local governments, to promote regional policy goals, and to transfer resources to the local public sector. Equalization is achieved through tax equalization and spending needs equalization and is based on objective criteria such as tax base, age composition, and socioeconomic factors. While tax and spending needs equalization promotes equality of service provision, the regional policy grants generate new differences. The justification of the grants is that rural and northern local governments should be able to provide better services than in the rest of the country in order to promote employment and population growth.

At the local level, decision-making is organized around the annual budget and the long-term economic plan. The long-term economic plan covers at least the subsequent four years and provides a forecast of revenues, expenditures, and priorities in this period. The main requirement is operational budget balance. In the budget, current revenue

must cover current expenditures, interest payments, and regular installments on debts. Actual deficits are allowed to be carried over, but as a main rule they must be “repaid” within two years. Local governments that do not obey the balanced-budget-rule are listed in the so-called ROBEK register and need to have their budgets and loans approved by the central government.

Most local government services are regulated by national legislation. National laws are in place for services such as child care, education, health care, and social services. The laws specify responsibilities for local governments and what the inhabitants can expect in terms of services. More detailed administrative regulations are specified by the relevant ministries. Local governments are also subject to monitoring and supervision by central government agencies.

### 2.3. Reform financing at the macro level

---

I will now turn to the discussion of reform financing. The point of departure is a situation where the central government is contemplating a reform of a specific welfare service provided by local governments. Recent Norwegian examples are the Knowledge Promotion Reform in primary and secondary education (implemented in 2006 to improve learning outcomes), expansion of child care to full coverage (2003-2010), and the Coordination Reform in health care and care for the elderly (starting in 2012). The first stage of a reform process is to estimate aggregate costs in order to assess whether the reform should be implemented or not. Different actors obviously have different interests with respect to calculation of costs. Here, I will distinguish between sectorial interests, local governments, and coordinating ministries such as the Ministry of Finance and the Ministry of Local Government.

Sectorial interests associated with welfare services are mainly concerned with the sectors’ own service. Overestimation of the costs would be in their interest if they can be sure that the reform will be approved, even with a high cost estimate, as this would yield the largest expansion of the service. The advantage of a low cost estimate is that the calculated benefit-cost ratio increases, and thereby also the chances that the reform will be approved. The risk is that the expansion of the service will be lower than if the reform is approved with a high cost estimate. However, for the sectorial interests an underfunded reform may yield a stra-

tegic advantage in local budgeting, as some of the underfunding may be covered by cut-backs in other sectors.

The local governments (and their association) have a strong interest in avoiding underfunding of the reform. It would mean that they would have to take part of the responsibility for a partly failed reform, and also for cut-backs in other sectors that may be a consequence of the underfunding. The most preferred outcome for the local governments is overfunding, as this will result in reduced pressure for high efficiency in reform implementation.

The coordinating ministries, the Ministry of Finance and the Ministry of Local Government, would like neither underfunding nor overfunding of the reform. Overfunding is not desirable for obvious reasons. Either fewer resources are available for other projects or taxes would need to be increased. It is less obvious that underfunding is undesirable. Underfunding has the short-term advantage of providing more “space” in the budget. However, since the reform is more likely to fail, there is a risk that more resources must be provided at a later stage. If so, it is better to provide sufficient resources from the outset.

Despite the conflicting interests, there is little disagreement in Norway over the principle that reforms (or new tasks) should be fully financed. On the other hand, there is no legal requirement that reforms must be fully financed. The central government can impose a new regulation or a mandate which increases local government expenditures without providing extra funds (unfunded mandates). As always, the devil is in the details. Agreement on principles does not preclude disagreement on the actual cost estimate. Such disagreement could be the result of disagreement on calculation methods and what type of costs to include in the calculations. The introduction of school start for 6-year-olds in 1997 may serve as an example of the latter. Most 6-year-olds were already in child care partly financed by local governments. An important issue is then whether savings in child-care costs should be deducted from the reform costs or not? The question is whether the mandate is fully funded as long as local governments can offer the same service level for children below 6 years as before the reform (in which case the saved child-care costs should be deducted), or whether it requires that local governments can offer the same number of child-care places as before (in which case the saved child-care costs should not be deducted)? In the

latter case introduction of school start for 6-years-old would also lead to increased child-care coverage for children below 6 years.

#### 2.4. Reform implementation at the micro level

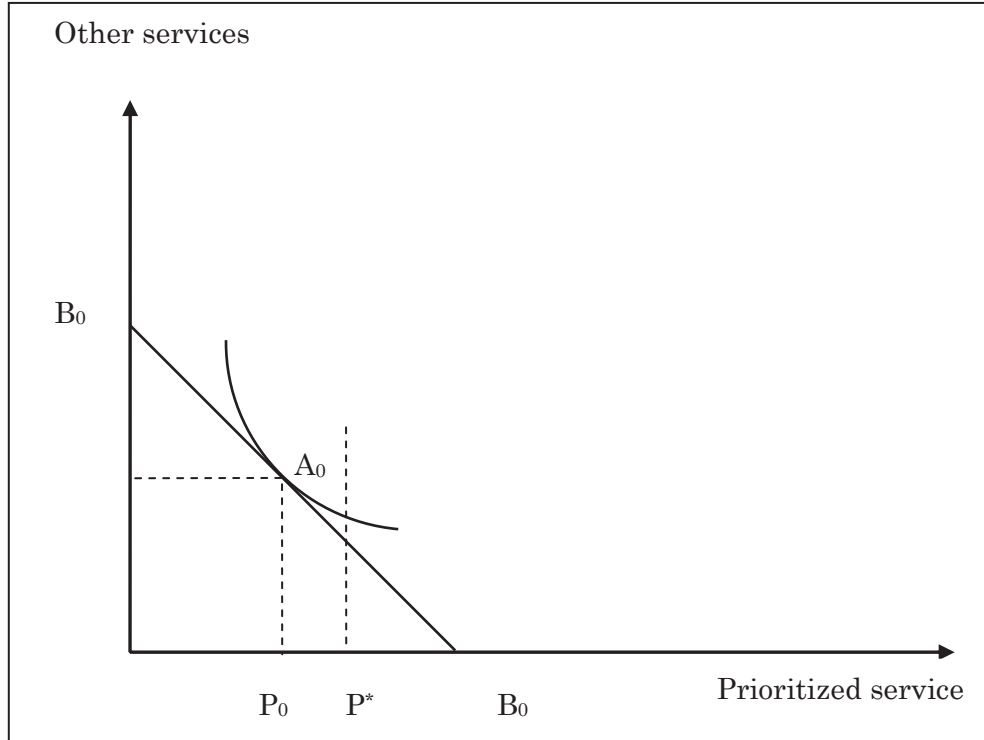
---

After the costs of the reform have been estimated, the next step is to facilitate implementation of the reform in individual local governments. The case is illustrated in Figure 2.3., which shows a local government providing two services; the prioritized service (P) and other services (O).<sup>25</sup> Initially the budget constraint is  $B_0B_0$  and the actual allocation is in point  $A_0$  with service standard  $P_0$  for the prioritized service. The central government wants to implement a better service standard, indicated by  $P^*$ . The issue is how to implement a reform of improving the service standard from  $P_0$  to  $P^*$ . In the following I will distinguish between legal means and matching grants.

---

<sup>25</sup> In the Norwegian setting with limited sub-central tax discretion it is reasonable to interpret O as other services provided by the local government. With tax discretion, other services would also include private consumption.

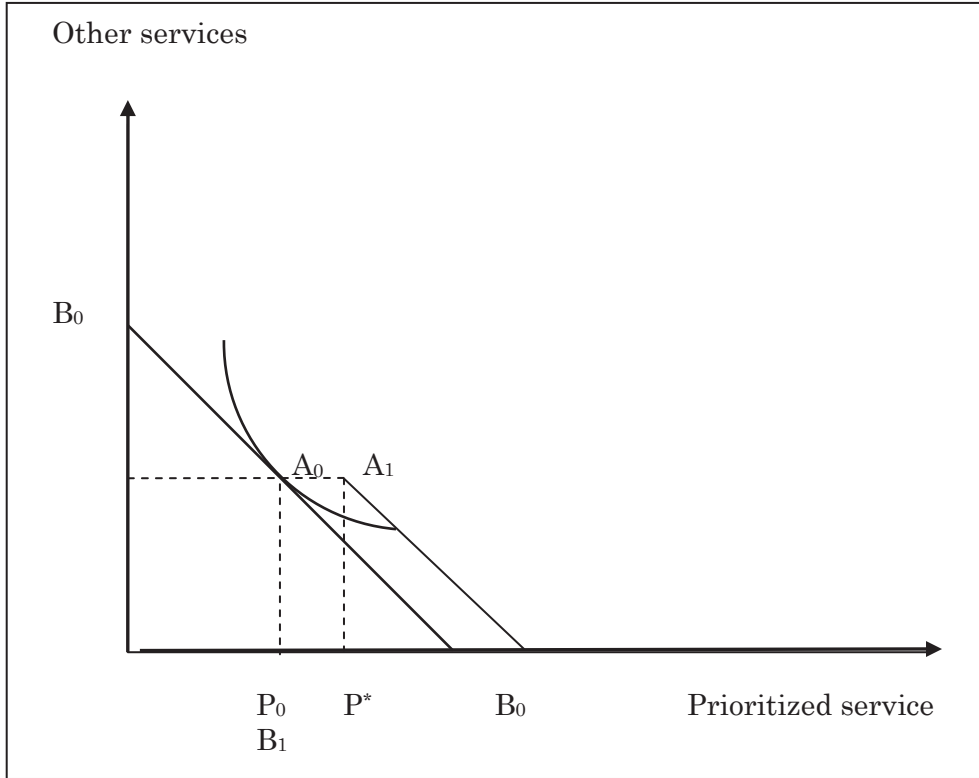
**Figure 2.3. The initial allocation**



#### 2.4.1. Legal means

Examples of legal means are minimum standards or defined rights to services. An example of a defined right is the right to education, while maximum class size is an example of a minimum standard. Reform implementation by legal means implies that the local government is forced to have a service standard of at least  $P^*$ . A requirement to provide  $P^*$  would typically be accompanied by more resources. Figure 2.4. illustrates a reform that is fully financed in the sense that the provision of other services will not be affected. Then the central government provides reform financing which yields the new budget constraint  $A_1B_1$ . The new allocation will be a corner solution in  $A_1$ . Given that legal restriction is enforceable, there is no need for earmarked reform financing.

**Figure 2.4. Fully funded reform by legal means**



In practice, the financing can be arranged in different ways. First, the same type of reasoning and calculation as shown in Figure 2.4. may be conducted for each and every local government. The central government would then calculate the extra resources that each local government needs to finance the reform without having to reduce the provision of other services. The advantage of this approach is that the reform is exactly fully funded in each local government. The main disadvantages are that it requires detailed information on current service standards and local cost conditions, and that those local governments which had high service standards before the reform are “punished” by receiving relatively small grants.

The alternative is to finance the reform by a general purpose grant that is distributed by objective criteria, ideally designed to capture the variation in spending needs for providing  $P^*$ . The total size of the grant could be based on more crude calculations of the national costs of the reform.

Given that this cost estimate is not too far from the aggregate reform cost, the reform will be underfunded in some local governments and overfunded in others. The reform will tend to be underfunded in authorities with low initial service standards and overfunded in authorities with high initial service standards. In a political context it may be problematic that the reform is underfunded in some authorities. It may weaken local support for the reform and reduce its legitimacy. The problem of underfunding in some authorities can be reduced or eliminated if the total grant exceeds the aggregate reform cost, but this has the obvious disadvantage of making the reform more costly for the central government.

A possible compromise is to base the initial grant distribution on calculations of actual reform costs in each local government and gradually move towards general purpose grants based on objective criteria. This would mean that the problem of underfunding of some local governments in the implementation phase is eliminated, while the “punishment” of authorities with high service standards before the reform is limited to the implementation phase.

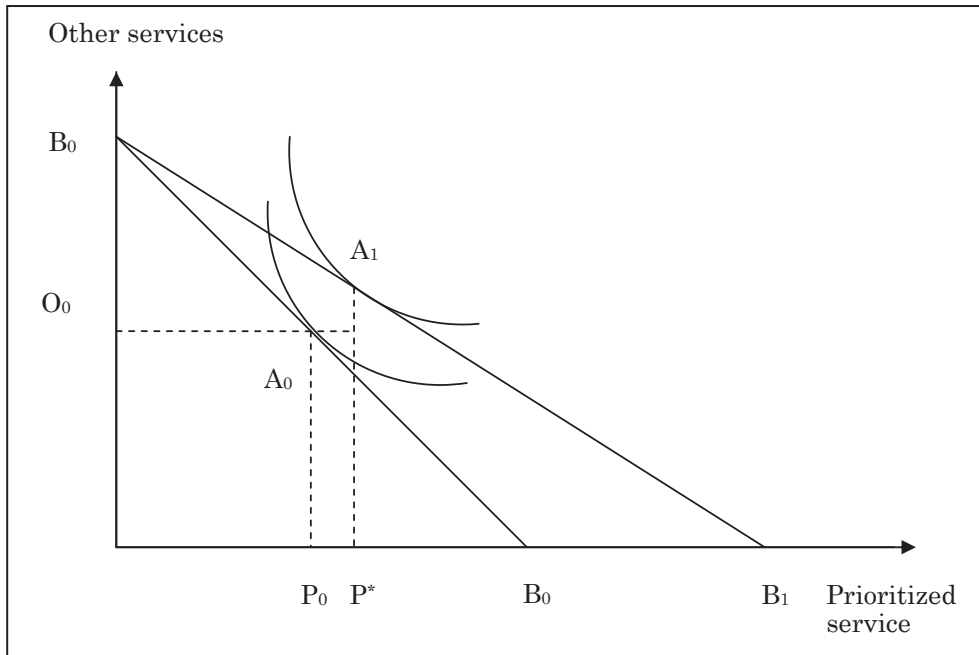
The transitional arrangement described above assumes that it is possible to calculate the actual reform cost for each and every local government. It could be objected that cost calculations along these lines are complicated and not feasible in practice. However, it has been used in Norway in several cases. A current example is that the central government is contemplating introducing a minimum teacher-pupil ratio in primary and lower secondary education. In each local government the reform cost is calculated as the difference between the number of teachers required by the new norm and the actual number of teachers. Similar approaches, although more complicated, have been applied to school start for 6-year-olds and the recent child-care reform.

#### **2.4.2. Matching grants**

The service standard can be improved through financial means without any legal regulation. A standard matching grant for the prioritized service will do the job as illustrated in Figure 2.5. The matching grant reduces the cost of the prioritized service relative to other services, and the budget constraint shifts to  $B_0B_1$ . Both the substitution effect and the income effect contribute to increased provision of the prioritized service. By using available estimates for the price elasticity of demand for the

prioritized service, the central government can set the matching rate such that the target  $P^*$  is achieved.

**Figure 2.5. Reform implementation through matching grants**



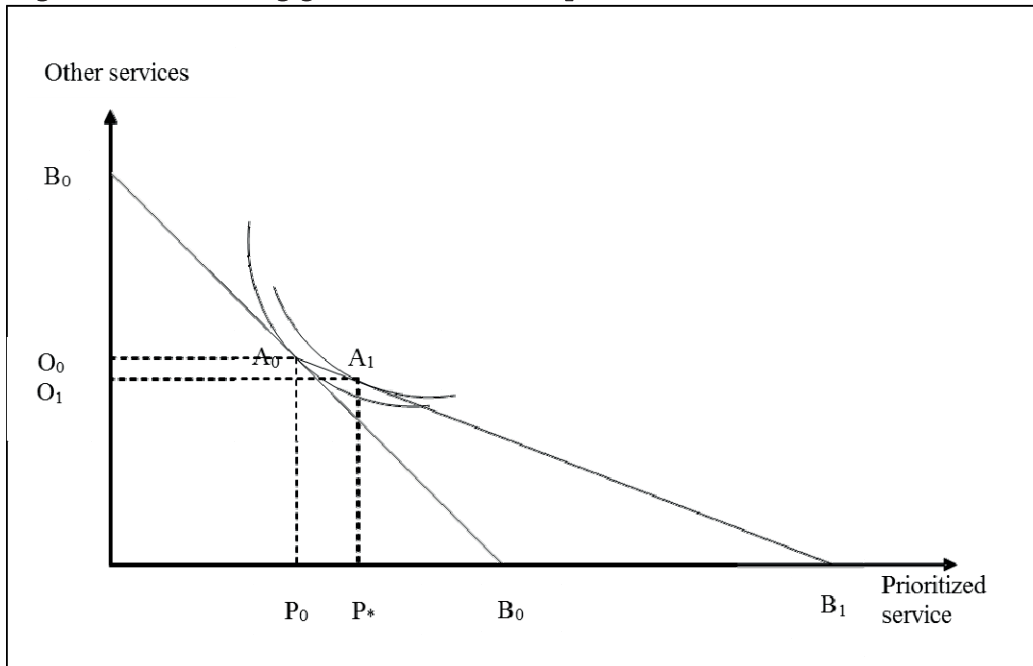
In general, the amount distributed through the matching grant will differ from the cost of the reform, i.e. the cost of increasing the service standard from  $P_0$  to  $P^*$ . It can be shown that the matching grant will underfund the reform if demand is price-elastic and overfund the reform if demand is price-inelastic.<sup>26</sup> Only if the price elasticity is  $-1$ , the reform will be exactly fully funded. Unfortunately for the central government, most empirical studies tend to find that demand for public services is price-inelastic.<sup>27</sup> A standard matching grant will therefore in most cases

<sup>26</sup> This is just the standard “leakage” results in another wrapping. If demand is price-inelastic, the matching grant will to some extent “leak” to other services.

<sup>27</sup> The U.S. literature is summarized by Oates (1996), who argues that the representative estimate of the price elasticity is in the range  $-0.2$  to  $-0.4$ . Also the Swedish studies by Aronsson and Wikström (1996) and Bergström et al (1998), as well as the Norwegian study by Borge and Rattsø (1995), find demand for local public services to be inelastic with respect to price.

be a costly way of financing reforms. This is the case illustrated in Figure 2.5., where a matching grant also leads to increased provision of other services. An additional complication is that the matching rates may need to be differentiated across authorities in order to reach the same target everywhere.

**Figure 2.6. Matching grants related to expansion of service standards**



Of course central governments dislike unnecessarily costly reforms, and may look for modifications that may reduce costs. One possible modification is to let the matching rate apply to an expansion of service standards only. This case is illustrated in Figure 2.6., where the new budget constraint is  $B_0A_0B_1$ . The new allocation ( $A_1$ ) will be south-east of the initial allocation in the segment  $A_0B_1$ . It is evident that the service standard will improve for the prioritized service, partly at the expense of other services. Again a proper matching rate can be calculated from information about the price elasticity of demand (in this case the compensated price elasticity). Also in this case the matching rates needs to be differentiated across authorities.

The amount distributed through the matching grant related to an expansion of service standards will be lower than the costs of the reform. This is illustrated in Figure 2.6. by the fact that provision of other services is reduced. The reform can be implemented by grants lower than the costs, but that will come at the expense of unintended cutbacks for other services. However, underfunding can easily be avoided by combining the matching grant with a general purpose grant.<sup>28</sup>

The different matching grant designs involve a trade-off between the amount of reform financing and a desire not “punish” authorities with high service standards before the reform. The standard matching grant represents a quite generous treatment of authorities with high service standards before the reform, since the subsidy also covers existing production. As a consequence, long-term incentives for innovation are not adversely affected. However, for the central government proper long-term incentives come at the short-term cost of overfunding the reform. Overfunding may be eliminated by restricting the matching grant to expansion of service standards, but this would mean that innovative authorities are more severely “punished”.

## 2.5. Guidelines for reform implementation

---

The previous section discussed two ways of implementing central reforms through local governments, legal means, and matching grants. If possible, implementation by legal means seems to be the preferred solution. With legal means, similar service standards can be achieved throughout the country in combination with a relatively uncomplicated financing scheme. The financing can be arranged by general purpose grants. The grant may be distributed according to actual reform costs in the implementation phase and according to objective criteria later on.

It is much more complicated to implement a national reform through matching grants. The matching rates must be differentiated across authorities in order to achieve the same service standards, and the local response must be predicted. There is also a worry that the complicated reform financing may be a more permanent feature of the grant system since the local authorities may reverse their priorities if the matching grant is abolished and the amount is distributed as a general purpose grant.

---

<sup>28</sup> The matching rate must then be reduced compared to the situation in Figure 2.4.

Both with legal means and matching grants the central government faces a trade-off between incentives and the amount of grants needed to achieve the desired service standards. The need for extra grants can be kept down by targeting grants towards authorities with low service standards before the reform. But then authorities with high service standards are “punished” for being innovative. Less “laboratory federalism” (see e.g. Oates 1999) and less future innovation may be the consequence. Given the restriction that the reform is not to be underfunded in any local government, the above analyses indicate that incentives for innovation can only be improved by granting more money and thereby overfunding the reform.

Overfunding of reforms is obviously not very attractive for the central government. But are there any alternatives? One possible alternative is to say that the reform should be exactly fully financed in aggregate, but not necessarily for each and every local government. The financing is arranged by a general purpose grant corresponding to aggregate costs and distributed on the basis of objective criteria. The reform will tend to be overfunded in authorities with high service standards before the reform and underfunded in authorities with low service standards. Innovative authorities are not “punished”, but that comes at the “cost” of underfunding in authorities with low service standards. The underfunding in authorities with low service standards may be problematic politically. The implementation of the reform may be delayed because some authorities must make cutbacks in other service sectors in order to finance the reform. Political noise in the media may be difficult for the central government to withstand.

It should be pointed out that consultations between the central government and an association representing the local governments may be helpful. The key is that the local government association may coordinate conflicting interests between its members. Authorities with low service standards would like the reform to be fully financed in each and every authority, while authorities with high service standards prefer a financing scheme where the present provision is not taken into account. The association could establish a compromise where the interests of both groups are taken into account.

Consultations between the central government and the Norwegian Association of Local and Regional Authorities (KS) have been formalized since 2001, but do not result in binding agreements. A main purpose of the consultations is to replace economic and law-based means with dialogue. The consultations have the potential to make reform implementation smoother. Borge (2009) argues that the recent child-care reform could have been carried out without a complicated matching grant system if it had been handled within the consultations, but only under the assumption that the consultations resulted in clear targets for coverage which were closely monitored in the process.

The conclusion that reform implementation through legal means is preferred to matching grants is based on the assumption that the service standard which is to be achieved can be clearly defined and written into law. This often is the case in the educational sector, where most examples in this paper are taken from. Right to schooling and right to child care apply to all and are easy to define in legal terms. Things are more complicated in other sectors like care for the elderly. The analogy to the educational sector would be that for instance all elderly above the age of 70 should have the right to 5 hours of home-based care per week, or that all above the age of 85 should be entitled to live in a nursing home. This type of legal regulation is clearly inappropriate. Resources would be wasted, because many people over 85 are still able to live in their own homes, and those under 85 in need of a nursing home may have to live in their own homes. The substantial variation in needs among the elderly is hard to write into law. This is acknowledged in legal formulations like the right to “proper care”, but such formulations are far too vague to calculate the necessary costs of obeying the law. As a result, the Norwegian experience is that matching grants are more common in care for the elderly than in education. We observe that matching grants are used from time to time to increase the capacity of for instance nursing homes. They may be effective in boosting service provision, but (as indicated by the analysis in previous section) they are unlikely to guarantee that specific minimum standards are achieved everywhere.

## 2.6. Concluding remarks

---

In countries where local governments provide redistributive welfare services, the central government cannot avoid some responsibility for outcomes and service development. Welfare reforms are often designed centrally and carried out locally. However, reforms may be inspired by

innovative local governments. When a central reform is to be implemented, there is consequently large variation in the starting point and thus reform costs. This paper has compared reform implementation through legal means and matching grants on the background of the Norwegian experience. It is argued that legal means seems to be the preferred solution when the right to services can be defined in an appropriate way. In both cases, however, the central government faces a trade-off between the amount of reform financing and incentives for service innovation.

## References

- Aronsson, T. and M. Wikström (1996), Local public expenditures in Sweden: A model where the median voter is not necessarily decisive, *European Economic Review* 40, 1705-1716.
- Baicker, K., J. Clemens and M. Singhal (2012), The rise of the states: U.S. fiscal decentralization in the postwar period, *Journal of Public Economics*, forthcoming.
- Bergström, P., M. Dahlberg and E. Mörk (2004), The effects of grants and wages on municipal labour demand, *Labour Economics* 11, 315-334.
- Boadway, R. (2006), Intergovernmental redistributive transfers: Efficiency and equity, in E. Ahmad and G. Brosio (Eds.) *Handbook of Fiscal Federalism*, Edward Elgar, Cheltenham, UK and Northampton, US, 355-380.
- Borge, L.-E. (2009), Konsultasjonsordningen mellom staten og kommunesektoren (Consultations between the central government and the Norwegian Association of Local and Regional Authorities), Report 05/09, Center for Economic Research, Norwegian University of Science and Technology.
- Borge, L.-E. (2010), Local government in Norway, in A. Moisiu (Ed.) *Local Public Sector in Transition: A Nordic Perspective*, Government Institute for Economic Research, Helsinki, 95-121.
- Borge, L.-E. (2012), Taxonomy of grants and local taxes: The Norwegian case, in *Measuring Fiscal Decentralization: Concepts and Policies*, OECD Fiscal Federalism Studies, Paris, forthcoming.
- Borge, L.-E. and J. Rattsø (1995), Demographic shift, relative costs and the allocation of local public consumption in Norway. *Regional Science and Urban Economics* 25, 705-726.
- Musgrave, R.M. (1959), *The theory of public finance: A study in political economy*, McGraw-Hill, New York.
- Oates, W.E. (1972), *Fiscal federalism*, Harcourt Brace Jovanovich, New York.
- Oates, W.E. (1996), Estimating the demand for public goods: The collective choice and contingent valuation approaches, in D.J. Bjornstad and J.R. Kahn (Eds) *The Contingent Valuation of Environmental Resources: Methodological Issues and Research Needs*. Edward Elgar, Cheltenham, 211-230.
- Oates, W.E. (1999): An essay on fiscal federalism, *Journal of Economic Literature* 37, 1120-1149.
- Tiebout, C.M. (1956): A pure theory of local expenditures, *Journal of Political Economy* 64, 416-424.
- Schwager, R. (1999), Administrative federalism and a central government with regionally based preferences, *International Tax and Public Finance* 6, 165-189.
- Spahn, P.B. (2012), Hidden constrictions on local autonomy: The case of standards and norms in Germany, chapter X in this volume.
- Swianiewicz, P. (2012), Poland: Between ideology of local autonomy and pragmatic convenience of central control, chapter X in this volume.