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**Agency, Allocation and Distribution -
Evidence on
the Motivation of Central to Local Transfers
by
Moore McDowell**

Working Paper No. 88/6

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Erratum

The t-statistic in row 4 of Table 1 System A 1972, should be (reading across):

(2.663) (-7.117) (10.567) (.138) (.565)

330.02 IR
UMI

INTRODUCTION

For the most part, the literature on fiscal federalism, whether prescriptive or descriptive, concentrates on the optimal allocation of taxing and spending functions to "higher" or "lower" tiers of government. A secondary issue has been the question of inter-tier transfers, which, by definition, arise when for structural reasons the allocation of taxing and spending functions by tier of government do not coincide, but which could arise for reasons quite separate from the exigencies of a cost minimising design for political structures.

The purpose of this paper is to offer some evidence to establish the motivation and consistency of motivation behind central-local transfers in the Irish Republic during the last decade in which a grant-aided fiscal federalist structure with substantial local taxes existed. Its relevance today lies in the implications of this motivation for reforms of local government finance in general and, in particular, for the widely canvassed proposal to introduce a locally variable property tax.

In part I of the paper a methodological basis is offered for distinguishing between possible motivation by the central government in making grant-payments to subordinate local authorities, and testable hypotheses are constructed. Part II contains the results of a set of cross-section estimates on data for the Republic for the year 1960, 1965, 1969 and 1972. Part III offers some conclusion which can be drawn from the results obtained, and suggests some policy implications.

I.

We start from a given political structure, rather than an inquiry into its optimality. In this structure, a central government has to decide on the assignment of taxing and spending responsibilities to subordinate, but exogenous, local authorities, and, by implication, on the volume (if any) of transfers between tiers of government.

This framework is quite different from that assumed in a large part of the literature, and is adopted because for historical and constitutional reasons in the Irish context the structure of government has proved extremely durable (in contrast to the U.K., where local government has been extensively re-structured as recently as the early 1970's, and to the U.S., where local political initiatives permit a much greater degree of structural change as incorporation, dis-incorporation or municipal mergers make the structure flexible).

In such a framework it is reasonable to assume that the fiscal structure observed is one which reflects the (dominant) central government's objective function (which may reflect either voter preferences or politicians' or bureaucrats' preferences) given the constraint of the existing political structures. If this is the case, it should be possible to infer the government's objective function from the pattern of taxation and transfer which it operates.

The most widely held basic assumption about central-local relations is that the Government is concerned primarily with conventional economic efficiency: minimizing the administrative and excess burden costs of taxation and public spending (see, for example, the survey in Brown & Jackson 1986, ch.9). The polar opposite assumption which will be examined in this paper is that the central government chooses the tax-transfer mix as a mechanism implicitly or explicitly designed to further its own allocative or redistributive objectives. The first of these may be described as the "agency" hypothesis; the second the "allocation-distribution" hypothesis.

The Agency hypothesis

Taxation and public spending necessarily involve administrative, avoidance and excess burden costs. Given an exogenous political structure, taxing and spending responsibility will be assigned by central government in such a way as to minimise the sum total of these costs per unit of public sector "output".

For expenditure programmes, overall costs reflect administrative scale economies and economies in effectiveness of spending - loosely, the efficiency with which expenditure is targeted to secure policy objectives. If administrative scale economy problems are not dominant it might reasonably be supposed that over a wide range of expenditure programmes areas decentralised (local) authorities would have a cost advantage relative to central government. This arises from a comparative advantage in the acquisition of local information, and in the costs of monitoring performance and of controlling spending.

This suggests leaving spending decisions, or at least spending control, at local level. Even if the level of spending on any area were to be centrally determined, local authorities would be charged with executing the policy. Inter-area and intra-area distribution problems apart, the decision on the level of spending could also be left to the local authority provided that it was also given powers to raise the necessary taxation.

Unfortunately, with a given structure of local government, it is extremely unlikely that the avoidance and excess burden costs of taxation would be minimised if the local authorities were made responsible for raising the taxes necessary to finance the spending programmes assigned to them to take advantage of their superiority in expenditure cost minimising, (unless one assumed that local authorities areas were homogeneous in terms of population, income distribution and so on, in which case taxes would plausibly be uniform or between local authority area).

If expenditure and expenditure per head by programme varies as between local areas, to require the given local authorities to raise the necessary

revenue would inevitably mean inter-area variations in tax rates. This, in addition to the administrative costs of having many separate tax jurisdictions, would necessarily imply substantial avoidance and excess burden costs.

Consequently, central government, desiring to minimise expenditure and tax related costs, and using local administrations as its expenditure agents, will be obliged to make transfers out of centrally raised tax revenues to its agents to finance the excess of local spending over remaining local sources of revenue. The primary motivation of the grants is overall expenditure efficiency. They exist because it is less costly overall to use local administrations as agents of central government spending.

Finally, there is the local public good problem, which is most severe when the geographic and economic dimensions of local jurisdictions are exogenous. Exogeneity means that even if one believed in principle in Tiebout (1956) solutions to the optimal provision of collective goods, spillover and similar effects would make local financing of local public goods sub-optimal, thus eliminating the ear-marking of taxes as an efficient solution. If a local advantage in production of local public goods is presumed, and if the local area exogeneity rules out local finance of production of local public goods via some theory of clubs type exclusion mechanism, conventional economic efficiency requires central government transfers to meet the cost of some or all local production.

The Allocation-Distribution Hypothesis

The alternative approach to analysing central-local transfers is based on an implied assumption that, independent of economic efficiency considerations, the expenditure levels and mixes of local authorities, and the method of financing them, are themselves arguments in the objective function of central government. In this case, the central government might use transfers to local government, for example, as a direct mechanism for income redistribution, or it could structure its grants in such a way as to alter the relative tax-price of particular forms of local authority expenditure in order to induce desired changes in overall resource allocation by affecting the supply and demand conditions influencing local authority decisions. If the agency hypothesis would be described as being in the tradition of Hancock's "scientific state" description of the Irish Free State in the 1920's (Hancock, 1942), the allocation-distribution hypothesis could be said to be in the tradition of self-interested behaviour models of public sector activity.

The Model

In order to choose between these motivations (to the extent that they are mutually exclusive), it's helpful to formalise them in such a way as to provide testable hypotheses.

The agency hypothesis would suggest that the main determinant of the level of central government grant to local authorities should be the level of local authority expenditure and its composition. As a proportion of local spending, grants should be invariant except in so far as the composition of local spending varies across local authorities. In terms of grants per head of population, grants per head should be explicable in terms of local expenditure per head and the composition of that expenditure. To the extent that other influences substantially affect the ratio of grant to spending the acceptability of an agency motivation is weakened.

Allocation and redistribution motivations for grant financing of local authorities suggest alternative patterns of determination. In the case of allocation, one would expect both grants per head and grants as a proportion of local spending to be sensitive to the composition of local authority spending. The level of local authority spending per head could plausibly affect both the proportion which is grant financed and the level of grant per head for allocative reasons to the extent that one believes in non-constant costs of local authority outputs. If scale economies dominate, grant involvement could be reduced as local spending is increased and vice versa. The opposite would apply if scale dis-economies were important.

If the allocation objective is to lower the local tax price of certain locally produced public sector outputs, then both grants as a proportion of current spending and the level of grants per head would vary positively with spending per head.

For distribution we would expect to find a strong independent connection between local income per head and the level of grant per head, if conventional ideas about income re-distribution are presumed. We would also expect to

observe an influence of the composition of local spending on the level of grant-support: authorities undertaking a higher proportion of re-distributive spending would, *cet. par.*, be offered a higher level of grant per head. Redistributive motivations alone offer no reason to relate grants per head, or grants as a proportion of local spending, to the level of spending per head; such an influence should be captured by the composition of local spending. Turning to grants as a proportion of local spending, redistribution simpliciter would imply that the principal determinant of the level of grant finance would be the proportion of local spending devoted to redistributive purposes.

Two possible general specifications of a model of grant financing of local authorities suggest themselves. In the first place, one would use a specification which treats grants received per head as the dependent variable. Alternatively, the dependent variable could be grants as a proportion of spending. In the first case, the previous discussion suggests three independent variables as possible determinants of grants received: income per head, spending per head and the composition of spending; in the second case, the suggested independent variables are the composition of spending and, possibly, the level of spending (to capture scale effects).

One further possibility, of course, might be considered for inclusion, namely, a political support variable, to test for any consistent "pure" political determination. This could arise either because the party in power at the central level actively seeks to subsidise areas where it has support, or because of a response in terms of political support for existing spending policy, or because central government responds to local pressure from party activists.

Bringing these considerations together enables us to propose two possible basic relations, testing of which should help to establish the importance of the different possible motivations:

$$(i) \quad G/N = f_1 (Y/N, X/N, D/X, P) ;$$

and

$$(ii) \quad G/X = f_2 (X/N, D/X, P) ;$$

where G = grants received, Y = income, X = local spending, D = the "distributional" component of local spending, P is a political support variable and N is the local population.

Examination of these relations, however, indicates problems for estimation if linear techniques are used. These arise because: (a) both expressions contain values for X/N and D/X as independent variables; (b) the dependent variable in each case is a ratio, the denominator of which appears on the RHS.

If one linearises equation (i), and ignores the fourth RHS variable for the moment, the result is an expression of the form

$$(iii) \quad G/N = a_0 + a_1 Y/N + a_2 X/N + a_3 D/X$$

By manipulation, this can obviously be made to yield a non-linear expression for G/X :

$$(iv) \quad G/X = a_2 + a_0 (X/N)^{-1} + a_1 (X/Y)^{-1} + a_3 D/X (X/N)^{-1}$$

Similarly, linearising (ii) above to give

$$(v) \quad G/X = b_0 + b_1 X/N + b_2 D/X$$

implies, after manipulation the following expression :

$$(vi) \quad G/N = b_0 X/N + b_1 (X/N)^2 + b_2 X/N D/X$$

This makes it a doubtful exercise, to say the least, to estimate and compare linear versions of both (i) and (ii), since each contains as a nested hypothesis a non-linear specification of the other. To circumvent this problem, and given data on both G/N and G/X, the following approach seems legitimate.

To estimate the size, sign and significance of the a_i and b_i , use a single set of estimators encompassing both the initial linear specification of (i) and (ii) and its nested non-linear specification for the other expression, in each case estimating the original and nested expression simultaneously. This enables us, in principle, not only to evaluate the a_i and b_i , but also to offer some conclusion on the over-riding administrative motivation behind the system. That is, whether or not the political motive is predominantly agency, allocation or distribution, does central government establish guidelines and make its disbursements on the basis of determining a desired level of grants per head or does it attempt to meet some target value of grants as a proportion of local spending. In other words, is the system designed to approximate in effect to the theoretical model of a block-grant, or is it chosen as a revenue and expenditure sharing model, with consequent implications for the efficiency of local authority.

With these considerations in mind, the procedure adopted was to test two systems of equations on data series for G/N and G/X for the 26 counties using the information available (see below) from local government statistics and other sources for 4 years between 1960 and 1972. The two sets of equations tested were¹ :

$$(A) \quad G/N = a_0 + a_1 Y/N + a_2 X/N + a_3 D/X + a_4 P$$

$$G/R = a_2 + a_0 (X/N)^{-1} + a_1 (X/Y)^{-1} + a_3 D/X \cdot (X/N)^{-1} + a_4 F_1$$

and

$$(B) \quad G/R = b_0 + b_1 X/N + b_2 D/X + b_3 P$$

$$G/N = b_0 X/N + b_1 (X/N)^2 + b_2 D/N + b_3 F_2$$

¹Note (i) the dependent variables in line 2 of (A) and line 1 of (B) are the ratio of grants to local revenues; local authorities are supposed to balance their current budgets, and the data refer to local current receipts and expenditure. As a 'target' of policy grants as a proportion of revenue seems more appropriate than grants as a proportion of expenditure, since the latter is dependent on the degree to which local authorities respect their budget constraint.

(ii) the political variable in line 1 of both (A) and (B) is the Fianna Fail share of the 1971 local authority total valid poll (see part III), while that in line 2 of (A) and (B) is a composite variable. In line 2 of (A) it is or the inverse of local spending divided by FF support; in line 2 of (B) it is level of spending per head weighted by FF share of the vote.)



II ESTIMATION - DATA AND RESULTS

The data used refer to 4 years during the period 1960 to 1972. There are two reasons for this choice of data set. In the first place, this work originated in a study on the role property taxes in the financing of local government (McDowell, 1988), and the possibility of the introduction of a new local residential property tax. Consequently, the data used reflected the last 10 years or so during which the domestic rate system was operational and intact, leading up to the reduction and final abolition of domestic rates between 1973 and 1978. Data limitation prevented the inclusion of later years in the study because no figures have been published which provide estimates of county incomes for the period since 1973. The manner in which the county income data produced by the ESRI for the years 1960, 1965, 1969 and 1973 were presented (on a county-by-county basis, not distinguishing between counties and the urban areas within counties) made it impossible to disaggregate the data below the county level, although data on grants, spending and the composition of spending are available at a very disaggregated level.

Local government returns, published annually by the Department of the Environment, provide a detailed breakdown of financial resources and expenditure programmes by local authority area in Ireland. The system of programme area financial accounting used makes it possible to identify accurately (in accounting terms) total central government grant finance, even when, for example, grants are made to urban district or borough councils, which in turn make grants to the county councils in whose jurisdiction they are located. Data for county councils, therefore, reflect all "own" and grant sources of funds. Census data (1961, 1966 and 1971) were used to get per capita figures.

The county incomes data used are nett of transfers, to avoid any spurious correlation between grants and county incomes. Gross and nett figures were prepared and published by the ESRI and NESCI in the relevant papers.

To examine the possibility of a "pure" political influence, the share of the major political party, Fianna Fail, in local government elections was used. F.F. was in power at central level for all the period from which observations were drawn.

Ideally, for each of the four years included a separate index of political support should be provided. This was not possible. In the first place, while general elections took place in two of the four years (1965 and 1969), parliamentary constituency boundaries do not coincide with local government boundaries, so that local authority area support cannot accurately be inferred from general elections data. Local authority elections took place in 1962 and 1967. Only for 1967, however, are detailed data available on party support by local authority area from the Department of the Environment. During the whole period, therefore, one is left with only one reliable observation by county on party support. The crudeness of using this index for all four years is to some extent offset by the overall stability of party support during the 1960's.

To create the composition series, current local authority spending was divided into two categories, one labelled allocative, the other distributive. In the distributive category was included spending on health, housing and education, on the basis that local spending in these areas was (and remains) primarily aimed at improving the real income of lower income groups. The balance was treated as allocative.

The ESRI & NESI income data for 1973 were used as the income variable for 1972, there being no income estimates for 1972 available, and the allocation of both spending and taxing responsibilities to local authorities having been substantially changed in 1973.

Using this data set, the two equation systems outlined in Part II were estimated using OLS subject to the constraints on the coefficients implicit in the specification (e.g. the constant in equation 1 of system (A) was constrained to be equal to the coefficient on $(X/N)^{-1}$ in equation 2 and so

on). The values for the coefficients are given in tabular form in Table 1. (t-statistics in brackets).

SYSTEM A									
	a_0	a_1	a_2	a_3	a_4	F	DW	SEE	\bar{R}^2
1960	11.456 (3.223)	-.051 (-6.227)	.481 (5.652)	-9.483 (-2.257)	.060 (1.492)	29.537	1.337	.791	.806
1965	6.352 (1.069)	-.062 (-8.698)	.659 (8.197)	7.025 (1.818)	.441 (.709)	65.153	2.342	1.365	.903
1969	10.414 (1.499)	-.081 (-10.057)	.873 (7.473)	7.910 (.820)	$.2 \times 10^{-4}$ (.915)	60.117	2.151	2.477	.896
1972	24.192 (3.895)	-.060 (-5.151)	.703 (3.323)	.970 (1.287)	.081 (.321)	8.916	1.232	4.776	.535

SYSTEM B									
	b_0	b_1	b_2	b_3	F	DW	SEE	\bar{R}^2	
1960	1.674 (9.927)	-.021 (-3.666)	-1.437 (-6.079)	$.3 \times 10^{-3}$ (1.420)	12.601	1.907	.066	.563	
1965	-.591 (-2.367)	.009 (2.631)	.461 (1.912)	.016 (4.205)	5.525	2.131	.098	.335	
1969	-.956 (-3.359)	.023 (5.547)	.066 (.147)	.016 (3.523)	10.296	2.349	.103	.508	
1972	.085 (.326)	.007 (2.725)	-1.002 (-3.820)	.012 (2.881)	5.867	2.066	.103	.351	

Table 1

Since it might be the case that the simultaneous estimation of G/N and G/CR subject to these constraints might substantially bias the values of the coefficients obtained, G/N and G/CR were also estimated separately and independently to provide a guide to the impact of the constraints and the simultaneous estimation. The results (although theoretically mutually inconsistent, as already explained) are contained in table 2.

Table 2

G / N									
	a_0	a_1	a_2	a_3	a_4	F	DW	SEE	\bar{R}^2
1960	11.106 (2.722)	-.048 (-5.228)	.464 (4.611)	-10.159 (-2.132)	.078 (1.666)	28.011	1.509	.816	.812
1965	2.828 (.384)	-.058 (6.144)	.677 (7.009)	7.481 (1.607)	.087 (1.126)	59.386	2.403	1.431	.903
1969	14.280 (1.077)	-.084 (-6.630)	.810 (5.049)	8.060 (.626)	.012 (.824)	54.295	2.127	2.607	.895
1972	52.247 (3.895)	-.058 (-5.151)	.417 (3.323)	-18.881 (-1.287)	-.063 (-.321)	16.250	1.881	3.962	.709
G / R									
	b_0	b_1	b_2	b_3		F	DW	SEE	\bar{R}^2
1960	1.222 (3.843)	-.011 (-1.423)	-1.446 (-5.228)	.006 (1.795)		14.793	1.964	.064	.623
1965	-.730 (-2.529)	.019 (3.662)	.455 (1.529)	.013 (2.995)		7.792	2.072	.093	.449
1969	-.926 (-2.776)	.022 (4.317)	.072 (.138)	.014 (2.798)		9.598	2.326	.107	.508
1972	.560 (1.844)	.002 (.510)	-1.159 (-3.833)	.009 (1.869)		7.566	2.538	.099	.441

From the arguments in section I, it is possible to establish a set of prior expectations on the signs of the a_i and b_i which should emerge from the statistical analysis, depending on the choice of agency or allocation/

Table 3

Prior Expectations on the signs of the a_i and b_i

$a_i:$	a_0	a_1	a_2	a_3	<u>Hypothesis</u>
	0	0	> 0	>= 0	<u>Agency</u>
	> 0	< 0	> 0	> 0	<u>Allocation / Distribution</u>
$b_i:$	b_0	b_1	b_2		
	> 0	0	>= 0		<u>Agency</u>
	0	> 0	> 0		<u>Allocation / Distribution</u>

distribution as the goal of central government transfers. These are contained in Table 3. In the case of the sign on a_2 under an allocation/distribution hypothesis, the distribution aspect alone should yield us a zero, unless the issue of constant or non-constant costs were discussed. The tax-price aspect of allocation, however, should suffice to ensure a positive relation between grants per head and spending per head.

In Table 4 is contained a tabulation of the characteristics of the coefficients which emerged from the test equation systems, together with the prior expectations on those signs.

Table 4

<u>EXPECTED</u>		<u>OBSERVED</u> (System A)			
Agency	Alloc/Distr	1960	1965	1969	1972
a ₀	0	> 0	(>0)	(>0)	> 0
a ₁	0	< 0	< 0	< 0	< 0
a ₂	> 0	> 0	> 0	> 0	> 0
a ₃	> 0	< 0	> 0	(>0)	(>0)

<u>EXPECTED</u>		<u>OBSERVED</u> (System B)			
Agency	Alloc/Distr	1960	1965	1969	1972
b ₀	> 0	0	< 0	< 0	(>0)
b ₁	0	> 0	< 0	> 0	> 0
b ₂	> 0	> 0	< 0	> 0	(>0)

The bracketed signs are those of coefficients not significantly different from zero at the 90% level. The coefficients on the political variables are not included, as they are not relevant to the choice of basic hypothesis.

III INTERPRETATION AND IMPLICATIONS

One of the interesting results which emerges from tables 1 and 2 is the poor performance of the political variable as an explanatory variable in terms of grants per head across counties (system A in T.1 and G/N in T2). This requires some explanation in terms of its much stronger showing in terms of grants as a proportion of local financial requirements (system B in T1 and G/R in T2). The values for b_3 in B/T1 might reflect a spurious correlation, since the coefficient is constrained by being that of composite variable (the share of FF in the 1967 TVP weighted by local spending per head) and a simple variable (vote share), and, therefore, could be said to be dominated by the spending per head effect. In the simple, unconstrained estimate of the b_i (T2), however, the political variable is significant at the 95% level in 2 of the four years, and marginal at the 90% level in the other two. Given that the latter two are the estimates for 1960 and 1972, while the independent variable is for a year occurring between the former (1967), this suggests that party political support had some influence on, or was influenced by, the degree to which local authority spending was financed by transfers from the central exchequer. When, however, one examines the T1A/T2 G/N estimates, there is no evidence of any connection between the level of transfer and the political complexion of the local area.

What rationale might be put forward to explain away this apparent political contradiction, namely that the level of grants appears unconnected to political support, but that the proportion of grant finance is connected? Tentatively, the following is suggested: cet. par. a high value of G/R implies a low ratio of local taxation to spending; a high level of grants, if accompanied by a high level of spending could still involve a high ratio of local taxation to spending. If the level of spending by area is what is desired (by the median voter?), then the key to political support will be not the level of grant per head, but the ratio of grant to spending, the inverse, roughly, of the ratio of taxation to spending. This, of course, is not compatible with an agency model of the determination of local/central taxation and spending assignment, and it is to this central issue that one must now turn.



It must be said that neither of the two contending basic models is 100% borne out by the empirical results. The two possible specifications, in terms of grants per head and grants as a proportion of spending, show substantial differences in performance. The G/R specification is only very weakly supported, under either hypothesis, given the inconsistency of the signs of the b_i found in the empirical results. Even ignoring t statistics, the agency hypothesis is supported by all three b_i in none of the years, and by none of the b_i (consistently) over the four years. The same is true for the allocation/distribution hypothesis under this specification of the central government's chosen transfer mechanism. In general, however, the latter does better than the former: allowing for the t-values, the allocation/distribution hypothesis obtains sign support in five out of twelve instances; the agency hypothesis obtains only one, unless the lack of prior expectations on b_2 is said to be compatible with any result.

The G/N specification of the transfer mechanics in (T1A and T2 G/N,) while far from perfect, performs much better both in terms of generating the expected signs and in explanatory power in R^2 terms when the allocation/distribution hypothesis is assumed. This strongly suggests that whatever the basic hypothesis as to the central government's objective, its policy mechanism is based on transfers in terms of grants per head of the population. Equally, if this mechanism is assumed, the sign results in Table 4, with the exception of the sign of a_3 (on which more later) strongly support the allocation/distribution hypothesis. The interpretation, then, which can be put on the results is that of the four possible combinations of target and choice of instrument, the evidence favours an allocation/distribution model of central/local transfers, and a grants per head instrument of policy.

The performance of the a_3 coefficient deserves some comment, because it is possible to derive tentative policy implications from it in the light of the rest of this paper in the context of proposals to re-introduce local property taxation.

If the argument so far is broadly accepted, then the statistical evidence may be said to be broadly consistent with the following structure of

central/local fiscal relations, and with their relationship to political attitudes. In the Republic, the overall motivation of central transfers to local government, during a period when locally variable property taxes on residential property were in place, was dominated by issues of allocation and income redistribution. Elsewhere (McDowell, 1988) it has been argued that the income redistribution target was not simply the traditional one of transferring from rich to poor, but was also influenced by a willingness to transfer resources from urban to rural areas. The goal of redistribution, however, did not extend to tailoring grants per head by local area in such a way as to reflect the ratio of distributive to non-distributive local spending. Thus, local authorities, wishing, or obliged politically to increase the ratio of distributive to total current spending were obliged in effect to finance any extra spending for this purpose from own resources, which effectively meant from rates.

The principle administrative mechanism whereby all this was achieved was by using agricultural rates relief as the main basis of central-local transfers. Programme related subsidies were not effectively biased towards redistributive spending. Therefore the burden of increases in such spending were bound to fall on the shoulders of local property tax payers. This not only helps to explain the connection between the proportion of spending which was grant financed and political support, but also throws light on the rates revolt of the late 1960's and early 1970's. This latter has often been castigated as irrational - but loses any such quality when it is realised that local property taxes were being used as a means of redistributing income within local authority areas under a system where universal suffrage would influence spending to be financed by a tax on a minority. The political implications of this for the viability of a re-introduced local property tax hardly need to be spelt out in detail. It is a common-place (cf Musgrave & Musgrave 1987 ch 24) of the economics of fiscal federalism that in general it is inappropriate to assign the function of income redistribution to subordinate tiers of government if it is to be financed from local sources of taxation. Implicitly, then, restoring such a source of taxation to local authorities would be appropriate only to the extent to which it was earmarked for non-distributional expenditures.

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APPENDIX : Data on Incomes, Grants and Expenditure by County, 1960; 1965; 1969; 1972/3
 Col. 1 : Income per head £; Col. 2 : Grants per head £; Col. 3 : Grants as a
 proportion of total current revenue; Col. 4 : Current spending per head £; Col. 5 :
 distribution proportion of spending; (Col. 6 : FF share of TVP, 1967)

1960	1	2	3	4	5	6
ARLOW	174	9.33	.480	18.95	.550	34.25
AVAN	141	12.19	.627	20.07	.502	41.39
LARE	153	12.44	.612	18.94	.525	50.70
ORK	191	9.18	.463	19.26	.530	38.33
ONEGAL	133	10.17	.602	16.42	.461	47.92
UBLIN	249	5.03	.225	21.39	.627	33.86
ALWAY	149	10.36	.569	17.78	.559	47.95
ERRY	154	8.94	.587	16.22	.543	46.29
ILDARE	192	7.84	.400	18.49	.533	39.48
ILKENNY	171	7.55	.375	19.89	.557	39.93
EITRIM	128	13.13	.706	18.51	.445	40.36
EIX	159	10.18	.508	19.89	.482	39.63
IMERICK	181	8.90	.420	18.22	.552	44.11
ONGFORD	135	11.70	.522	21.44	.523	34.56
OUTH	189	7.46	.391	19.27	.531	38.36
AYO	130	8.84	.642	13.76	.545	46.39
EATH	171	10.38	.499	19.35	.545	41.51
ONAGHAN	144	12.85	.613	22.95	.432	35.71
FFALY	165	8.95	.515	17.11	.546	39.54
OSCOMMON	137	12.75	.623	19.86	.413	43.49
LIGO	144	10.28	.542	17.93	.532	39.08
IPPERARY (N & S)	177	9.72	.483	20.51	.527	40.82
ATERFORD	187	10.07	.435	22.56	.572	39.86
ESTMEATH	159	9.98	.459	21.34	.582	37.78
EXFORD	162	8.74	.509	17.02	.544	38.57
ICKLOW	179	9.88	.484	19.15	.525	35.50

1965	1	2	3	4	5
CARLOW	238	14.74	.551	27.50	.613
CAVAN	213	21.28	.679	31.80	.784
CLARE	229	18.05	.653	28.85	.519
CORK	282	9.50	.407	23.55	.458
DONEGAL	187	16.40	.657	25.47	.509
DUBLIN	367	3.89	.168	23.00	.529
GALWAY	216	17.53	.584	28.82	.590
KERRY	216	15.40	.609	25.42	.576
KILDARE	267	15.77	.561	27.89	.558
KILKENNY	249	19.32	.600	31.18	.570
LEITRIM	176	22.35	.756	29.32	.505
LEIX	205	19.42	.563	32.67	.518
LIMERICK	271	9.07	.384	24.54	.478
LONGFORD	190	23.59	.669	39.82	.556
LOUTH	279	12.51	.451	26.70	.624
MAYO	185	16.51	.650	24.95	.561
MEATH	234	17.97	.611	29.90	.526
MONAGHAN	211	19.17	.664	28.78	.635
OFFALY	221	16.25	.640	25.88	.565
ROSCOMMON	194	22.79	.700	33.07	.511
SLIGO	206	16.88	.636	28.14	.555
TIPPERARY (N & S)	253	19.57	.609	31.42	.530
WATERFORD	282	9.76	.392	25.04	.482
WESTMEATH	227	18.02	.553	33.13	.531
WEXFORD	225	16.61	.601	27.94	.558
WICKLOW	257	12.95	.523	26.48	.585

1969	1	2	3	4	5
CARLOW	336	25.12	.587	40.41	.617
CAVAN	290	32.11	.723	43.55	.562
CLARE	329	28.48	.687	42.88	.598
CORK	387	11.26	.351	34.05	.460
DONEGAL	253	26.85	.681	39.46	.571
DUBLIN	511	5.25	.141	36.76	.573
GALWAY	285	27.63	.676	40.80	.691
KERRY	300	24.50	.645	39.20	.615
KILDARE	379	22.61	.594	37.32	.572
KILKENNY	329	26.59	.539	46.85	.619
LEITRIM	233	39.93	.828	47.04	.552
LEIX	288	28.89	.645	44.47	.555
LIMERICK	363	12.07	.366	33.13	.497
LONGFORD	267	36.79	.710	51.86	.576
LOUTH	400	20.48	.502	41.71	.588
MAYO	260	30.22	.754	41.24	.593
MEATH	302	25.89	.611	43.20	.576
MONAGHAN	305	30.26	.664	43.52	.573
OFFALY	298	23.60	.648	36.15	.564
ROSCOMMON	264	36.63	.777	47.70	.542
SLIGO	291	28.96	.701	41.34	.582
TIPPERARY (N & S)	345	24.85	.581	44.73	.550
WATERFORD	379	11.92	.348	34.96	.527
WESTMEATH	301	26.80	.613	46.89	.640
WEXFORD	312	23.72	.608	42.42	.530
WICKLOW	338	22.61	.561	39.59	.549

1972	1	2	3	4	5
CARLOW	647	20.52	.415	47.11	.474
CAVAN	582	37.76	.656	48.75	.381
CLARE	628	28.93	.589	48.98	.395
CORK	741	15.16	.306	50.84	.465
DONEGAL	506	23.96	.569	42.25	.388
DUBLIN	908	9.24	.162	56.01	.523
GALWAY	580	23.08	.538	45.05	.458
KERRY	593	21.92	.516	41.72	.413
KILDARE	726	20.77	.473	43.02	.442
KILKENNY	688	23.43	.402	48.71	.466
LEITRIM	583	25.42	.548	45.19	.427
LEIX	471	41.08	.728	53.29	.343
LIMERICK	716	17.71	.349	47.30	.498
LONGFORD	530	32.72	.575	55.51	.416
LOUTH	714	13.09	.299	43.24	.522
MAYO	519	26.40	.653	37.28	.447
MEATH	643	21.44	.456	45.27	.469
MONAGHAN	631	28.10	.580	49.94	.389
OFFALY	599	20.21	.485	28.37	.251
ROSCOMMON	565	35.60	.660	51.89	.409
SLIGO	579	28.75	.598	47.90	.343
TIPPERARY (N & S)	680	26.23	.505	49.34	.401
WATERFORD	759	17.62	.323	50.23	.514
WESTMEATH	604	24.54	.452	49.13	.490
WEXFORD	633	20.24	.427	47.27	.412
WICKLOW	696	19.21	.416	31.26	.569

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