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THE ECONOMIC AND NON-ECONOMIC ROLE OF LOCAL GOVERNMENT



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Abstract:-Local government is an integral part of a federal, democratic government. In a federation, the Central, State and Local governments have their own specific functions, all three working together to provide a decent level of existence for the citizens. Although the local body is the lowest level of government, its role in the national economy is crucial since it acts as an agent of development and provides certain services of immense importance to the people living under its jurisdiction, with a strong emphasis on popular initiative and participation. Local governments at present are required to play a very comprehensive role that includes both economic and non-economic functions.

Keywords:Economic and Non-Economic, Local Government, democratic government.

1.1 INTRODUCTION

The system of local government is found in every nation as part of its administrative structure, whatever may be its economic system and whether its form of government is unitary or federal. In either case, local government is the lowest in the scheme and also the smallest in jurisdiction (Rao NR 1986: 22)

1.2 DEFINITION AND MEANING OF LOCAL GOVERNMENT

Palgrave's Dictionary of Political Economy describes the term local government as 'best confined to denote the structure and operations of those smaller bodies which are needed to supplement the action of central authority.' The organs comprised under the designation 'local government' are completely subordinate to the central legislature but have received a delegated power for their special functions. 'Owing to the greater size of modern states, this process of delegation, scarcely required in the classical city state, has been largely carried out and is likely to increase in importance' (Higgs H (ed.) 1926: 624).

Montagu Harris describes a local government as 'that under which the people of the locality possess a certain responsibility and choice in the administration of local public affairs and in the raising of the required finance to meet their expenses.' He further says that 'Local self government connotes government by the local bodies, freely elected, which, while subject to the supremacy of the national government, are endowed in some respects with some power, discretion and responsibility and which they can exercise without control over their decisions by the higher authority' (Harris 1948: 2-9).

William A. Robson defines local government as 'In

general, local government may be said to involve the conception of a territorial, non-sovereign community, possessing the legal right and the necessary organization to regulate its own affairs. This, in turn presupposes the existence of a local authority with power to act independently of external control as well as the participation of the local community in the administration of its own affairs. The extent to which these elements are present must, in all cases, be a question of degree (Encyclopaedia of Social Sciences, Vol. IX-X: 574).

Another definition of local government has been given by Cole and Boyne who write that 'Local governments can be thought of as democratically elected bodies whose jurisdiction is of a local (rather than regional or national) scale, backed by powers to levy local taxes by which to exercise genuine discretion over service provision' (Cole and Boyne 1995, quoted in Bailey 1999: 2)

Although all local governments share the characteristics outlined above, they are not identical organizations. As Stephen Bailey points out, they may vary in both geographic and demographic size, and may not, in fact, have powers of local taxation. However, all local governments share certain essential features. 'The general conception of local government is one of a locally elected democratic statutory organization below the level of the state, province or region, providing public sector services to the populace within the area of its jurisdiction. This conception of local government is sufficient for economic analysis' (Bailey 1999: 2).

The nature of local governments is somewhat different in federal and unitary states. In a federal set up, constitutional and legislative power is divided between the federal government at the centre and the sub-national

governments in the regions, states or provinces. The functions, authority and responsibility of each level of government is different and is clearly spelt out in the Constitution itself. In a unitary system, all the authority and responsibility of governance is vested solely in the Central Government and the Local Government can only undertake activities which they are statutorily authorized to do by the Central Government. Any activity which is not specifically authorized by the Central Government is likely to be ultra vires (beyond the power) and so illegal (Bailey 1992: 2-3; Gupta 1970: 21).

M. Venkatrangaiya and Pattabhiram define a local government in a federation as 'the administration of a locality - a village, a city or any other area smaller than a state - by a body representing the local inhabitants, possessing a fairly large amount of autonomy, raising at least a part of its revenue through local taxation and spending its income on services which are regarded as local and therefore distinct from State and Central Services' (Venkatrangaiya and Pattabhiram 1969: 1).

It may be concluded that the essential attributes of local government are:

- 1) A legislative basis for its organization and functioning.
- 2) Some financial powers to raise revenue from and spend on the local community and
- 3) Defined authority to make local decisions in matters of local concern (Rao 1986: 23).

1.3 ROLE OF LOCAL GOVERNMENT

Local government is an integral part of a federal, democratic government. In a federation, the Central, State and Local governments have their own specific functions, all three 'working as partners in the great enterprise of securing a decent level of existence for all the nation's citizens' (Bhagwan 1983: 3). Although the local body is the lowest level of government, its role in the national economy is crucial since it 'acts as an agent of development and provides certain services of immense importance to the people living under its jurisdiction, with a strong emphasis on popular initiative and participation' (Bhagwan 1983: 3). Local governments at present are required to play a very comprehensive role that includes both economic and non-economic functions.

1.3.1 The Economic Role of Local Government

The economic functions of local governments include the following.

1. **Compensating for Market Failure:** Market failure at the local level may relate to emergence of local natural monopolies such as provision of water and sewerage services. These can be controlled by the local authority either by regulation or by public ownership (King 1984: 7; Bailey 1999: 7-8).
2. **Provision of local public goods:** The most important role of the local governments is providing essential local public goods, i.e. goods and services whose benefits are largely confined to local citizens and which can technically be provided on a small scale, such as fire protection or street

lights. They also provide local merit goods such as education and health services.

Local provision of local public goods is considered to be more efficient than central provision. Various reasons for this have been put forward. Firstly, there are local variations in preferences that the local authorities are likely to be aware of and therefore produce services whose quality and quantity vary from area to area in accordance with local tastes and preferences. A central government would tend to provide a uniform level of service all over the country, thus reducing the welfare of citizens. This argument was put forward by Oates as the Decentralization Theorem (Oates 1972: 11-12). Several other authors have echoed this idea of the superiority of local provision of some services which enable local governments to provide citizens with what they want (Marshall 1974: 20; Jones and Stewart 1983: 5; King 1984: 20-22; Bailey 1999: 19-20; Shah 2007: 9).

Secondly, it is possible that, by giving citizens what they want, local provision of public goods will improve the efficiency of resource allocation in the economy as a whole (New Palgrave Dictionary of Economics 2008: 173-176). Thirdly, decentralized provision of public goods may result in more experimentation and innovation in their production. Local governments would be more willing to try out new methods of service provision than central governments as they can try out the new method on a small scale and can also vary their taxes accordingly (Oates 1972: 12-13; Jones and Stewart 1983: 5; King 1984: 23). Anwar Shah also notes that due to local provision of certain goods and services 'interjurisdictional competition and innovation are enhanced (Shah 2007: 9).

Fourthly, taking this idea of variations in preferences further, Tiebout argued that citizens who are dissatisfied with the pattern of services in their own areas can, if they so wish move to areas where the pattern suits them better. This phenomenon is known as voting-with-the-feet (Tiebout 1956: 324-330). Thus if citizens are not provided with services according to their choice, it could result in large scale migrations that would ultimately result in people of similar tastes, needs and incomes living in the same area.

Lastly, local provision will be more efficient in providing local public goods and services since electors may become aware of the costs of the services in terms of higher taxes and hence be in a better position to weigh the benefits against the costs before voting for the improvement (Oates 1972: 13). If the service had been centrally financed, then the share of each community in the total cost of improvement would have been negligible. Each community would then be likely to lobby for more improvements since marginal benefits would be more than marginal costs. The resulting resource allocation would not then be efficient (King 1984: 23).

3. **Redistribution of income:** Although redistribution of income is usually undertaken by the Central Government, one way of effecting redistribution at the local level is the provision of essential goods and services to low income groups. Local provision of such goods will enable each local authority to adjust the quality and quantity of such goods to

suit local tastes (King 1984: 36-37). Another advantage of providing merit goods through the redistribution policy is that the rich would have less objections to paying taxes when they can see the benefits to the poor in their locality and could indirectly benefit themselves through higher education levels, better cleanliness, less crime, etc. (Bailey 1999: 9) Besides, local governments can more correctly identify which individuals are poor than the Central Government (Rubinfeld 1987: 628).

4. Economic Stabilization: It is generally argued that stabilization of the economy requires monetary and fiscal policies at the macro level. However, local governments can actively solve the problem of unemployment. Local governments can implement policies to counter local unemployment since they have first hand knowledge about the nature of this problem. A common policy to reduce unemployment is likely to be less effective if the causes of unemployment are different in different localities (Rubinfeld 1987: 627).

5. Balanced regional development: The problem of unequal development of different regions can be solved by attracting industry into areas where unemployment is high and incomes are low and by encouraging industry to move away from congested areas. Local governments can participate in this activity if the Central Government were to provide grants to local authorities in proportion to their needs and allow them to use these funds for incentives of their own choosing (King 1984: 40).

6. Economic Development: Economic development implies the attainment of a higher standard of living for the citizens. Local government plays a vital role in the process of economic development. First, it provides social services like health, education, etc., and economic services like roads, markets, water, etc., that are necessary for all economic activities. Second, the local government may itself participate in economic development by establishing trading, manufacturing and service undertakings like fair price shops, dairies, transport services, water supply, sports grounds, theatres, etc. Third, a local government serves as the best agency for executing the development plans of the higher tier governments in its own area (Bailey 1999: 24-25, King 1984: 17-18).

7. Participation: Decentralised administration promotes participation of the people in both decision-making as well as its implementation. Thus plans made for the development of the local area made with the participation of the people are not only more relevant but are enthusiastically implemented by the people as they feel a part of the whole development process. Centralised plans, on the other hand, may be less relevant for a particular area and the local people may feel that the plan is being imposed on them by a higher level government. Laski emphasises that 'local self-government offers the best opportunity to the people to bring local knowledge, interest and enthusiasm to bear on the solution of their problems' (Laski: 1961, p. 412).

1.3.2 Non-Economic Role of Local Governments

Local governments play an important role in the political and social life of the jurisdiction they represent.

Some of the areas where they contribute are described below.

1. School of Democracy: The success of a national democracy largely depends upon the success of democracy at the grass roots level. Most authors on this subject have emphasised that a healthy democracy is one in which people not just discuss various problems, but actually take an active part in managing their own affairs. The activities of the local government affect the people directly and closely and so evoke their interest and willing participation. This stimulates political consciousness and a sense of responsibility among the people (Bhagwan: 1983: 3).

2. Training Ground for Emerging Leaders: Local government is a valuable training ground for emerging leaders who start their political career at the local level and then progress to state and national levels where they hold positions of great responsibility where their decisions can affect the performance of the whole country. The basic training for the skills they require is acquired by these leaders at the local level (Sachdeva 2000: 15).

3. Popular Representation: Local government politicians tend to be more representative of the population than is central government, particularly in terms of the proportion of women and other marginalised groups holding public office. In a system of multi-level governments, politicians at the local level are likely to have a better understanding of voter's wishes than in a centralised system. They live and work in the areas where they are elected and are more likely to be familiar with local views and needs, and be more responsive to the public (King 1984: 22).

4. Efficient Management of Local Affairs: The members of the local government are local individuals who have been elected to the local body and hence are more conversant with and concerned about local problems as compared to higher level governments. Since the elected members live in the same area, they make decisions about situations known and seen by them and are aware that they themselves will be affected by the decisions they take. In handling local problems, members of the local government are aware of the solutions to these problems with the given resources at their disposal and can choose the one that will be most acceptable to the local population. Thus local governments are able to manage local affairs more efficiently and effectively (Jones and Stewart 1983: 5; Bhagwan 1983: 3).

1.4 CONCLUSION

To conclude, the importance of local government has been recognised by governments in all countries and some system of local government exists even though their responsibility and authority may be different in different countries and different economic systems. Particularly in countries having a federal (multi-level government) structure, local governments are indispensable due to their role in providing essential services to the population within their jurisdiction. India is one of the countries that have a long history of local government and where a vibrant local government system is seen at present.

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