

4. REGIONALISATION AND THE FUNCTIONS OF REGIONAL AND LOCAL GOVERNMENT

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4.1
Introduction

Despite the dramatic economic recovery over recent years, regional differences persist and are, in the case of some variables growing.² For this reason regional policy has gained added importance in government policy. An indication of this is the inclusion of specific regional objectives and policies in the National Development Plan 2000-2006.³ Also, as part of this, there has been a shift away from designating the whole country as *Objective 1* to a regionalised approach to Structural Fund aid.

The decision to divide the country into two regions for the purposes of EU funding has generated yet another level of local/regional administration. However, the establishment of two new regional assemblies and the previous establishment of the eight regional authorities in 1994 has not been accompanied by any meaningful reallocation of responsibilities between the different levels of government. This raises the question as to whether the responsibilities of the different levels of government have been allocated efficiently and whether there are too many levels of government.

This paper deals with the current roles of the various layers of local and regional administration in Ireland in terms of economic efficiency arguments. Within this objective it asks which regional development functions and policies should be carried out by each

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² For example there is clear evidence of divergence in regional Gross Value Added (GVA) among the regions. Furthermore, there are significant differences in industrial structure between the regions and counties (see Bradley and Morgenroth, 1999).

³ These are largely in line with the recommendations contained in the ESRI report on *Investment Priorities 2000-2006* (Fitz Gerald, Kearney, Morgenroth and Smyth, 1999).

layer of government. Such an analysis is not unique. For instance the roles and the financing of local government have been examined before in the Barrington Report (see Advisory Expert Committee, 1991). However, a re-examination of the issues is warranted for a number of reasons. First, the growing emphasis on regional development is likely to result in significant increases of funding for such regional development, and as such the institutional role of sub-national governments will become more important. Second, this analysis is warranted in context of the establishment of the regional authorities and regional assemblies which have taken place since the publication of that report. Finally, this analysis is particularly timely in the context of current moves to reform local government (see Department of the Environment and Local Government, 2000).

In order to focus the analysis we will draw particularly on the extensive literature on fiscal federalism, but will also refer to the literature on public goods and public finance. The literature on fiscal federalism is not simply concerned with the functioning of federations in the strict sense of the word but rather it encompasses all relations between different vertical levels of government. This literature is particularly interesting for the purposes of our analysis since it focuses on achieving economic efficiency through the appropriate allocation of roles among the different levels of government. Of course, arguments for and against decentralisation of government functions can be made based on other more political concepts, such as subsidiarity, local empowerment and political accountability. However, a full discussion of these arguments is beyond the scope of this paper and reference to the concepts is only made in passing.

The remainder of the paper is organised as follows. Section 4.2 reviews the results of the fiscal federalism literature regarding the role and financing of different layers of government, Section 4.3 outlines the current division of responsibilities among the different layers of Irish government and how the different layers are financed. In Section 4.4 changes to the assignment of responsibilities are considered and the final section will summarise the results of the paper.

4.2
Economic
Literature

In this section we outline the results of economic theory regarding the division of responsibilities among the different vertical layers of government. Here the focus is particularly on the literature on fiscal federalism, the main results of which will be discussed.

Before we turn to the division of responsibilities among the different layers of government it is useful to briefly outline the functions of government in general as well as the rationale and nature of regional policy.

As outlined by Musgrave (1959), there are a number of reasons why it is desirable to have a government. Specifically, he argued that without government an economy is unlikely to maintain high and stable levels of output, high and stable levels of employment and stable prices. He reasoned along Keynesian lines, that if an economy is left to its own devices this is likely to result in cyclical fluctuations in output, employment and prices as resources are under- or over-

utilised at different points in time. Resources are likely to be misallocated due to positive externalities in the provision of public goods or negative externalities arising from the allocation of other resources (e.g. pollution), market failures, incomplete markets and information failures. Thus, for instance defence or a justice system, which affect the whole population, could not be provided by individuals alone. Finally, he argued that without government there was unlikely to be an equitable distribution of income and resources. The distribution of income is likely to be inequitable since this depends on the ownership of resources as well as the structure of the economy and these will only yield an equitable outcome by chance. Thus, the functions of government can be summarised as being:

1. Stabilisation
2. Allocation
3. Redistribution

The rationale for regional policy can be established along similar lines. Regional policy is usually aimed at reducing unemployment, particularly in unemployment blackspots, tackling large regional income differences (poverty), reducing congestion, fostering a more balance geographical distribution of economic activities and promoting regional growth and development.

There are a number of reasons why regional differences in the unemployment rate require government intervention. First, if there are factors which reduce the mobility of individuals then market forces may not be sufficient to induce the unemployed of one region to move to a region where they would find employment. Similarly, investment may not move to regions with excess workers, perhaps since wages are determined through central bargaining which could result in regional wage levels not reflecting labour market conditions in that particular region. Finally, the long-term unemployed may effectively not be in the labour market due to skill shortages, and a high level of long-term unemployment may therefore not have a significant effect on the labour market. Thus, the failure of regional labour markets to work efficiently justifies government intervention that should aim to correct the allocative inefficiencies. Closely related to high levels of unemployment is a high level of poverty which is often concentrated in particular areas (see Nolan, Whelan and Williams, 1998). The alleviation of poverty can be achieved through labour market interventions, however, other redistributive policies will typically also be required.

Regional policy is usually aimed at increasing growth in the weaker regions. This is of course strongly linked to the issue of poverty and unemployment as well as congestion. The types of policy usually used in this regard include the provision of goods and services that make the region more attractive to investors, such as infrastructure. Furthermore, industrial policy is often used to increase regional growth, by providing higher grant rates (or subsidies) in weaker regions, and the provision of advance factories in order to entice industry into these regions. The argument for such regional policies can be made on efficiency grounds related to

the congestion issue outlined above.⁴ Furthermore, if particular regions lag behind the wage rates in these regions may be depressed. As a consequence, their more highly skilled mobile inhabitants may well migrate to the more prosperous regions (brain drain), leading to a negative cycle of cumulative causation, which can only be stopped through effective government policies.

The role of government then is to ensure that the weaker regions are attractive to industry. This can be achieved through the provision of those goods and services that are not provided by market activities, but which are required by industry in order to improve the attractiveness of a weaker region for industry. This may involve the provision of goods and services (either directly or through subsidies) which would not be publicly provided in the stronger regions. The literature on endogenous growth (see Hammond and Rodriguez-Clare, 1993) indicates that there are particular growth benefits through the development of infrastructure, research and development, and human capital, which create externalities that have a long-run positive impact on the growth rate of a region/country.⁵

The reduction of congestion such as road congestion tackles the allocative inefficiency caused by the unpriced negative externality associated with vehicle usage. Congestion should be viewed in a wider sense since this is likely to be the result of excessive agglomeration of both population and industry. For this reason policies that generate a more balanced distribution of economic activity and population will, apart from yielding more employment opportunities outside the large urban centres, also reduce congestion in these centres. As such anti-congestion measures can also help in fostering development in the less congested weaker regions. However, since there are positive aspects for industry in agglomeration, too much dispersal will result in a sub-optimal level of economic activity. As in the example of unemployment it is the market failure associated with the externality from vehicle usage that justifies government intervention. Similar market failures also occur in the case of pollution and the provision of public goods.

Overall the regional policies as discussed above are economically justified if they address these various market failures. Therefore, such regional policies should have a strong allocative character while there is a more limited role for redistributive policies. These policies may also fulfil a stabilisation role since they address regional differences which may be due to region specific shocks. As such they also fit into Musgrave's taxonomy which will be utilised again in the next section.

4.2.1 THE DIVISION OF RESPONSIBILITIES AMONG JURISDICTIONS

Which level of government best fulfils these functions? This question can be answered by identifying the reasons that make such interventions necessary and by identifying the type policy

⁴ Of course there are strong political grounds for regional policy.

⁵ This type of reasoning gave rise to the nature of the EU Structural Funds programmes.

interventions that are required to achieve the objectives (functions) of government. Of course, as a small open economy Ireland has only limited scope for effective independent policy interventions particularly in relation to stabilisation. Also, increasing European integration will further diminish the number of policy instruments that are available. These limitations are even more significant at the regional or local level.

Stabilisation

Stabilisation is often aimed at counteracting external shocks and usually requires macroeconomic policies using fiscal and monetary tools. However, local and regional government does not have access to monetary policy tools which severely curtails the scope of these levels of government to effectively stabilise the regional economy. Stabilisation is typically counter-cyclical which means that extra resources are used during a recession to stimulate demand while in times of plenty the involvement of government in the economy contracts.⁶ Since lower levels of government are usually forced to balance their budget they are severely constrained in pursuing such policies, except if they accumulate revenues during good times that will be used as a type of “stabilisation fund” during difficult times.⁷ If shocks are asymmetric, that is if they hit only one region without affecting the other regions in a country then centralised stabilisation allows the risk of suffering a shock to be shared between all regions (Alesina, Perotti and Spolaore, 1995). As such, central stabilisation policies act as a form of insurance.

Another reason why local and regional government’s effectiveness in stabilisation policies would be limited is due to the extreme openness of regional economies through trade, capital mobility and migration. This openness reduces the size of the Keynesian multiplier as the benefits of an intervention “leak” out of the regions.

All these reasons are likely to make stabilisation ineffective even when there are large differences in terms of unemployment or income between regions (see Rubinfeld, 1987). Overall this implies that stabilisation is best carried out at the central government level.

However, there are also arguments in favour of decentralised stabilisation policies. For example, if shocks are highly asymmetric there may nevertheless be a role for local or regional government in stabilisation policies.⁸ In such a situation the role of central

⁶ In practice Irish government policy is highly pro-cyclical which amplifies fluctuations in economic activity and prices (see Duffy et al., 2000 and Lane, 1998).

⁷ In the case where local or regional government can run deficits and where the central government will “bail out” regional government, a moral hazard problem emerges, which may lead regional governments to run a large deficit which later has to be paid for by all inhabitants of a country. For this reason many constitutions rule out deficits at the local or regional level. An exception to this is Germany (see Seitz, 1999).

⁸ Bayoumi and Masson (1995) find that the stabilisation policies carried out by national governments in Europe have been relatively successful. They thus argue against stabilisation

government may be severely curtailed since this may interfere with its general role of stabilising national output and employment and this may then require very specific interventions by the regional government (see Gramlich, 1987). Such reasoning may also give sub-national government a role in policies aimed at achieving convergence between the regions. This may require specific policies at the regional level, particularly in the weaker regions. Also, if stabilisation is carried out by central government then there exists a moral hazard problem since lower tiers of government may pursue policies which leave their territory more liable to shocks (Persson and Tabellini, 1996a).

Allocation

The allocation of resources was the subject of the classic contributions of Tiebout (1956), Olsen (1968) and Oates (1972). The Tiebout model is a highly stylised model in which individuals are mobile between jurisdictions and these jurisdictions provide different bundles of local public goods and taxes. The individuals then choose according to their preferences where to locate given the “fiscal bundles” provided by these local jurisdictions. If a particular jurisdiction is inefficient in the provision of public goods individuals would move away from it since this would lead to higher taxes. Here the existence of decentralised government is based on differences in preferences among the population whose mobility leads the different jurisdictions to compete for individuals. Each region will then be populated by a relatively homogenous population since individuals select where to live according to preferences and the fiscal bundles offered by the jurisdictions. It can be shown that such a mechanism would lead to an efficient outcome. However, subsequent research which has used more general versions of the Tiebout model show that under more realistic assumptions an efficient outcome is unlikely to be achieved (see Rubinfeld, 1987).⁹

While the Tiebout model is based on the mobility and preference of individuals it is also possible to make a case for decentralised government without assumptions about mobility. One argument is that central provision of public goods typically involves a uniform supply of these goods which ignores local and regional differences in preferences and requirements (see Oates, 1972). Such differences are best addressed at the local and regional level where they are more accurately identified. This is particularly the case if public goods are only of benefit at the local level, i.e. they are not pure public goods. In such a case, the roles should be assigned according to the extent of externalities which allows local governments to better design and target those activities with localised spillovers with more precision and therefore maximise well being (see Olsen 1968). This is encapsulated in the *Decentralisation*

policies organised at the central EU level. In how far this argument carries over to the role of regional government within countries in stabilisation policies is questionable.

⁹ The generalisations of the model encompass the inclusion of property market capitalisation of public goods provision, income differences, property taxes, congestion, moving costs and imperfect information (see Rubinfeld, 1987).

Theorem which was put forward by Oates (1972). This theorem states that the provision of local public goods, i.e. those for which the benefits are defined over a restricted geographic area, will never be less efficient if organised at the local/regional level than if organised at the national level.

The central government is then left with the role of providing those public goods which provide a benefit to every inhabitant of the country, such as defence or foreign affairs (see Gordon, 1983).¹⁰ The central government is also more useful if spillovers occur across the boundaries of the local communities which would result in the under-provision of the good or service since all the benefits are not taken into account by the lower tiers of government.¹¹ This inefficiency may be addressed by central government co-ordination of lower tier activities. In general, the literature suggests that the services which can be provided efficiently by lower tiers of government include education, police, fire protection, sanitation, recreation and public health.

Redistribution

The final role of government was identified above as redistribution, both between individuals within the regions as well as between regions generally. The latter encompasses the various regional policies which are aimed at improving aggregate measures of welfare for the poorer regions.

Redistribution between individuals involves taxing the richer section of the population, the revenue of which will then be spent on the poorer section of the population either in direct transfers (e.g. social welfare) or through subsidies (e.g. subsidised housing).

Of course redistribution is only necessary if the population is heterogeneous with regard to income. A version of the Tiebout model where individuals differ according to income but have the same preferences indicates that in such a case a high level of income homogeneity among the populations within the various regions will result, rendering redistribution unnecessary (Rubinfeld, 1987). However, such a clean solution does not exist in practice and thus the population is typically heterogeneous both in terms of income as well as preferences.

The case against decentralised redistribution policies can also be made without reliance on such stylised models as the Tiebout model. For example, if individuals are mobile between jurisdictions, a more generous level of redistribution would draw more poor people into the region if there are no obstacles to internal migration.¹² This would increase the burden on the richer section of the population in that region which then has an incentive to move

¹⁰ The fact that defence is not provided efficiently by decentralised decision making was shown by Olsen and Zeckhauser (1966).

¹¹ It is well known that such spillovers result in under-provision of public goods (see Cornes and Sandler, 1996, and Bougheas, Demetriades and Morgenroth, 2000).

¹² Empirical evidence appears to suggest that such mobility is indeed a factor (see Brown and Oates, 1987).

to a region where the tax burden is smaller. Consequently, there is an incentive for local and regional governments to minimise the level of redistribution which, if all jurisdictions act in this way, would result in too low a level of redistribution, unless central government sets some minimum standard. This outcome is particularly likely if the jurisdictions are small, thus increasing the possibility that its inhabitants migrate across its boundaries to another jurisdiction. Another argument against local redistribution is that if this is funded from the centre then such redistribution measures can be abused for political reasons, resulting in excessive redistribution (Alesina, Perotti and Spolaore, 1995).

However, an argument in favour of decentralised redistribution policies is that there may be greater concern at the local level about the local poor. The existence of such a “warm glow” effect makes redistribution a pure local public good which suggests that there may be some role for local and regional government (see Pauly, 1973). As such centralised redistribution fails to properly reflect local preferences due to the aggregation over preferences nationally (Alesina and Perotti, 1998). Also the identification of redistribution needs is likely to be more accurate at the local level, particularly if the allocation of resources to individuals involves means testing. Finally, centralised redistribution could lead to larger disincentive effects if rates are set uniformly across space. In such a situation replacement rates may be too high for individuals to seek work, especially if they live in an area with low wages.¹³

In summary however, the balance of the argument appears to be in favour of the view that redistribution should also be carried out largely at the central government level with perhaps a minor role for local and regional government. Furthermore, the role of local and regional government in stabilisation is also limited. However, the above discussion indicates that these levels of government have a significant role to play in the allocation of resources, particularly local public goods.

4.3
Local and
Regional
Government in
Ireland

This section is concerned with the number and functions of the different vertical layers of government. In addition to this a brief outline of issues relating to the financing of sub-national levels of government is provided. This issue is of direct relevance to this paper which is largely concerned with functions of sub-national levels of government, since the division of such functions has a direct bearing on the financing question.¹⁴

The economic literature suggests that the number of local governments should be decided on the basis of the extent of the benefits of the local public good and the scale economies in the

¹³ This is a case where government policy results in the type of market failure which government policy ought to remove. A solution to such a problem could involve varying the levels of redistribution according to the local cost of living.

¹⁴ This issue has been dealt with in a number of studies (see Foundation for Fiscal Studies, (1990), Advisory Expert Committee, (1991) and Ridge, (1992, 1994)).

provision of local public goods and services (see Olsen, 1968). Indeed such reasoning suggests that there should be one layer of government for every local public good if these have a differing geographical extent. However, more recently it has been shown that this is not the case and that instead local or regional governments should have jurisdiction over all market areas of all local public goods (Hochman, Pines and Thisse, 1995). This analysis also indicates that the provision of these local public goods should be financed through user charges and land rents (rates).

There are good reasons to suggest that the provision of local public goods should be financed through locally raised revenue. Otherwise, if local public goods provision is financed from central revenues, there is an incentive for local or regional government to extend the level of public services further than if it were financed from local revenues since the cost of this oversupply would be disproportionately borne by the inhabitants of other jurisdictions. Similarly, if central transfers are based on the output rather than the cost of production of local public goods which is usually not perfectly observed by central government then there emerge moral hazard problems which can result in some jurisdictions attracting higher transfers than are justified (Cornes and Silva, 1998). Thus, if local public goods are supplied through a decentralised government structure, the cost of provision should also, at least to a large extent, be borne at the local level.

Local charges are also justified due to externalities. Thus, for instance, the cost of supplying utilities such as water or waste disposal should be borne locally, since direct charges for these services will provide an incentive for individuals to minimise resource usage, such as water usage or waste production which adds to waste disposal problems.

Redistribution policies can be financed in a number of ways if they are decentralised. First, they can be financed entirely through locally raised revenue, which means taxing the rich in one region to give to the poor of that region (between individuals). This has the disadvantage that already poor regions have a smaller tax base than richer regions, and they will therefore have to tax their richer population more heavily if they want to provide the same level of redistribution as richer regions. As outlined above, this may give an incentive to the richer population to migrate to a neighbouring jurisdiction that has lower tax rates. Second, if redistribution is funded through intergovernmental transfers then this again involves one dimension only (between regions). In such a system the richer regions have an incentive to understate their wealth in order to pay less, resulting in under-insurance. Finally, redistribution through centralised social insurance involves transfers along two dimensions (between rich and poor and between regions). This makes the system less transparent since individuals can not observe whether their contributions go to their local poor or those in another region. In such a situation there will be over-insurance (Persson and Tabellini, 1996b).

Overall 5 layers of government can be identified which are distinguished through different spatial coverage. These consist of:

- 1 Central Government (15 Departments);
- 2 Regional Assemblies;
- 8 Regional Authorities;¹⁵
- 29 County Councils, 5 County Boroughs, 5 Borough Corporations;
- 49 Urban District Councils, 26 Boards of Town Commissioners.

Overall there are well over 100 governments (in the wider sense of the word) in Ireland of varying extent and power. In addition to these levels of government there also exist semi-state bodies and other authorities, such as Fisheries Boards, VECs, County Development Boards and Port Authorities that could also be added to this list of governments. Compared to jurisdictions of a similar size to Ireland, the number of regional and local administrations is very limited. For example, the German Federal State of Rheinland-Pfalz (population of 4 million) has no less than 2,344 “governments”!¹⁶ Other examples of jurisdictions with more sub-national government include the US State of Colorado (population around 4 million), which has 352 governments.¹⁷ The Netherlands (population of about 15 million) has 12 provinces and 548 municipalities and Denmark (population 5.3 million) has 14 counties and 275 municipalities.

Since the purpose of this paper is particularly aimed at the layers of government below the central level, the functions of these layers are outlined here, starting with those of the highest tier of regional government, the Regional Assemblies which were established in 1999 (Government of Ireland, 1999).

The main functions of the Regional Assemblies are to, promote co-ordination of public services, promote consideration of region wide effects of more local actions and to manage and monitor EC programmes of financial assistance. With the exception of the functions related to the managing and monitoring of EU programmes, the functions are very minor. Indeed it is these roles related to EU programmes that were the fundamental reason for the establishment of the Regional Assemblies, and this is the only clear distinction between the functions of the regional assemblies and the regional authorities. The latter were set up in 1994 (Government of Ireland, 1993) following the recommendation in the Barrington

¹⁵ The regional authorities are made up as follows: Border (Donegal, Sligo, Leitrim, Cavan, Monaghan and Louth); Dublin (Dublin, Dun Laoghaire-Rathdown, Fingal and South Dublin); Mid East (Meath, Kildare and Wicklow); Midlands (Longford, Westmeath, Offaly and Laois); Mid West (Clare, Limerick and Tipperary NR); South East (Carlow, Kilkenny, Tipperary SR., Wexford and Waterford); South West (Kerry and Cork) and West (Mayo, Roscommon and Galway). The regional assemblies are in turn made up of a set of regional authorities: (a) Border, Midlands and West, and (b) Dublin, Mid-East, South-East, Mid-West, and South West.

¹⁶ These consist of 3 administrative regions (Regierungsbezirke), 36 counties (Kreise) and 2,305 municipalities (Gemeinden).

¹⁷ These consist of 14 Planning and Management Regions, 63 counties and 275 municipalities.

Report (Advisory Expert Committee, 1991) and were given the functions recommended in that report.

Overall the functions of these two layers of regional government do not coincide with those suggested by economic theory since they do not involve the production or supply of public goods except for the possibility of achieving more co-ordination among the local authorities. This latter function however appears to be largely aspirational.

It should also be noted that the Barrington Report (Advisory Expert Committee, 1991) recommended that following a period of five years after their establishment the role of the regional authorities should be reviewed. Such a review was also to include the possibility of direct elections for the representatives on the regional authority which are currently appointed by the local authorities.

The functions of local authority are considerably more extensive and cover the areas of social housing, water supply, sewerage, refuse, pollution, recreation, fire protection, roads (other than national) and planning. These roles involve the supply of local public goods such as fire protection, the supply of congestable public goods such as roads and the supply club goods such as recreation. As such the functions of these jurisdictions are much more in line with those suggested by economic theory.

4.4 Some Suggested Changes

The previous section makes clear that the two layers of regional government have no significant functions while local authorities have more extensive functions. This suggests that these regional governments should either be abolished or should be given more functions if these are economically appropriate. This section is concerned with the latter. Also, the functions currently carried out by local authorities do not exhaust the list of possible functions. Thus, other roles that could be decentralised include public transport, health, policing, and transport infrastructure other than roads. A number of these functions are already being carried out on a decentralised basis by specific authorities, such as port authorities in the case of ports. However, there appears to be a lack of co-ordination between the different authorities, which should have been fostered by the regional authorities. But, since these have no real powers to enforce co-ordination, the functions should be brought into the remit of the local authorities and regional authorities according to the size of the market area of the goods and services produced. This argument also concurs with the results of Hochman *et al.* (1995) mentioned above which show that single function authorities are likely to be led to a globally inefficient outcome.

In many cases there exist significant spillovers of the goods and services provided by local authorities across their boundaries. The scope for such spillovers is increasing with high levels of commuting between counties and between regions. This suggests that the market areas of local public goods have been increasing.

This means that there is at least an increasing need for co-ordination or more correctly a re-allocation of responsibilities to the regional layers of government. However, this assumes that the boundaries of the existing regional bodies are drawn appropriately. There is evidence that this is in fact not the case (see Bradley and Morgenroth, 1999). Particularly the Dublin region is not well defined since the functional links of Dublin extend to the surrounding Mid-East region and beyond into counties Louth, Westmeath and Offaly.¹⁸ The drawing up of the Strategic Planning Guidelines for the Greater Dublin Area (Brady Shipman Martin, 1999) are a response to the implications of these functional links. However, the greater Dublin area as defined in that study does not encompass counties Louth, Westmeath and Offaly, which means that spillovers beyond the greater Dublin area are not accounted for. Furthermore, it is questionable whether these guidelines have had any real effect since the regional authorities have no power to enforce them.¹⁹ Overall this suggests that the regional authority boundaries ought to be redrawn on the basis of functional links.

The scope for devolution of additional responsibilities to the regional assemblies is limited due to their large extent which does not appear to coincide with the extent of any local public goods. However, for this reason these authorities may therefore be more suitable to take on some of the roles of central government.

Assuming the boundaries of the sub-national levels of government are drawn appropriately, which functions should these fulfil? More specifically, which level of government is best suited to deal with health, housing, education, water/sewerage/solid waste, fire protection, roads, public transport, police, industrial policy, environmental protection, redistribution, planning?

Currently the provision of health care is centrally financed but co-ordinated at the regional level through the health boards and the recently formed Eastern Regional Health Authority. As such health care has already been regionalised. However, there is little evidence that the health board and the health authority co-ordinate their programmes with either the local authorities or regional authorities. Indeed the boundaries of the Eastern Regional Health Authority do not coincide with that of the Greater Dublin Area (the Mid-East and Dublin regions). The reason to organise health care at a regional level stems from the fact that health care in general has public goods characteristics with large externalities. However, health care needs are best observed at a local level. Regionalised provision is therefore a compromise between capturing the externalities of provision and observing local needs.

There are a number of changes that should be made to the organisation of health care. As a first step these boundaries should be harmonised. Second, they should be linked with the regional authorities which, if their members are elected, will ensure greater

¹⁸ The primary reason for this is the high proportion of commuters from the surrounding counties into Dublin.

¹⁹ This seems to be suggested in the review of the Strategic Planning Guidelines which call for a review of local authority development plans (see Brady Shipman Martin, 2000).

accountability of the health boards. Furthermore, such a change would lead to efficiency gains in the planning of services since this would eliminate the need for separate population and other projections by both the health boards and the regional authorities.

Education is largely a national responsibility although there is local involvement through the Vocational Education Committees (VEC) and Boards of Management. General education policy should remain the remit of central government since education has nation-wide spillovers. Also, different standards of education could be a source of discrimination for people from certain regions.²⁰ One possible change would involve tying the VECs more closely to the local authorities so as to improve accountability and aid planning.

The provision of social housing has traditionally been the function of local authorities. There is little reason to change this since the benefits of social housing are local and since the assessment of social housing needs is most accurately carried out at the local level. Similarly, fire protection is best provided at the local level, again since the benefits are local and the needs are only locally observed.²¹

Land use planning has largely been the remit of local authorities and in particular county councils. However, the drawing up of regional planning guidelines for the greater Dublin area mark a departure from this. Furthermore, the National Spatial Strategy which is currently being drawn up it is hoped will impact on some aspects of land use planning at a wider level. In general, there is scope for a wider spatial strategy to be drawn up at the central level which then should be followed in the drawing up of regional plans (already a function of the regional authorities). The county development plans should be consistent with these regional plans and this should be strictly enforced. Furthermore, decisions that deviate from the county development plans should be referred to the regional authorities. Such a division of planning roles would leave the locally specific aspects of planning such as the granting of planning permission with the local authorities while ensuring that the actions of local authorities do not contravene national and regional objectives.

One area where all levels of government should be active is the area of environmental protection. The reason for this is that pollution can have effects which have a different spatial extent. Thus for instance an illegal dump has a negative local effect, while the pollution of a larger water course will have a regional effect while high levels of air pollution may affect the whole country.²²

There are significant spillovers across local authority boundaries of the provision of water, sewerage and solid waste disposal. For

²⁰ There is at least anecdotal evidence that such discrimination takes place in Germany where there are differing standards for education in the various federal states.

²¹ There should be some national minimum standards.

²² Indeed, such spillovers provide the rationale for international air quality agreements.

instance there is a move towards larger more regional solid waste facilities such as dumps and incinerators, which can be more efficiently managed than more local facilities. For this reason these services can be most efficiently co-ordinated at the regional level. There is a significant role for private companies to get involved in areas such as solid waste collection the actual production of these services is most efficiently carried out by private sector firms which either compete for business (in the case of refuse collection) or through competitive tendering (e.g. in the case of maintenance of water and sewerage works).

The fact that co-ordination is required has resulted in the setting up of the National Roads Authority, which has responsibility for all national roads, thus centralising responsibility. However, the planning and maintenance of the national roads network separately from the remainder of the road network can not be efficient. Furthermore, the co-ordination of other roads has not been formalised. Given the spillovers of the road network across local authority boundaries the planning and construction of roads is a natural task for regional government, particularly regional authorities, with a co-ordinating role for central government for the national roads network. Given the current travel to work patterns there is also a need to redefine the boundaries of the regional authorities so that spillovers between regions are minimised (the reason for allocating additional roles to the regional authorities). This is particularly important for the greater Dublin region which on the basis of commuting patterns extends beyond the Dublin and Mid-East regions. However, in addition to the co-ordination role for central government this should also become involved in anti-congestion measures such as congestion pricing in the major urban areas (especially Dublin). The reason for this is that such policies are unlikely to be popular with local and regional interests since they involve additional costs for the residents of these areas, while such policies would have wider benefits.

The rationale for the involvement of the public sector in public transport is based on the belief that some public transport services which are socially desirable would not be provided by market action. If such reasoning requires public sector involvement then this should be at the local level in the case of local public transport and at the national level in the case of national public transport, since the spatial extent of the spillovers from local public transport is very limited.

Police and justice are functions which have been decentralised in the USA. In Ireland police and justice are centrally decided upon with services organised along a regional and local level. While a policy of complete decentralisation, that is complete control over policing and justice by a local or regional government, is clearly feasible in as far as certain types of policing such as traffic police have localised effects, there are clearly benefits from central responsibility for the functions since this ensures consistency throughout the country.

Industrial policy should be centrally decided since a decentralised policy is likely to lead to competition between jurisdictions which is unlikely to be efficient.²³ Of course, industrial policy can still have a regional character, and this is efficiency enhancing if it tackles particular market failures, as was discussed above.

Redistributive policies, such as the social welfare system, are run largely on a centralised basis and as argued above this is entirely appropriate. There is however a small role for local government in the administration of means-tested benefits, which is already the case for example regarding the third level grants scheme.

4.5 Summary

In our review of the literature on fiscal federalism we have shown that there is a role for local and regional government in the provision of public goods and services. This review also showed that these levels of government should not be involved in any major way in stabilisation and redistribution policies.

Of the five vertical layers of government in Ireland, the regional assemblies and regional authorities do not fulfil any of the roles suggested by economic theory. Furthermore, there is scope to widen the set of functions currently carried out by sub-national levels of government. This suggests that there should be some rebalancing of responsibilities among these levels of government.

The central government should retain responsibilities for justice and law enforcement, industrial policy, redistributive policies, and education. The regional assemblies are somewhat artificial and should not gain significant powers. More functions should be taken on by the regional authorities which have an appropriate spatial extent to deal with health care provision, roads and other transport infrastructure, water, sewerage and solid waste. The local authorities should retain their role in the provision of fire protection, social housing and should gain the additional role of providing or co-ordinating local public transport. Finally, environmental protection and planning are areas in which all layers of government should be involved.

This “division of labour” among the layers of government encompasses some of the broad changes that may be required to make the Irish government more efficient. As such these suggestions should not be seen as a definitive list of all the desirable changes. Also, since the changes that are suggested here are very general in nature they do not cover the more detailed small-scale changes that need to accompany these more fundamental changes. Therefore, there is a clear need to conduct further research in this area.

In suggesting these changes I did not take into account the performance of the various layers of government in fulfilling their existing roles since I believe that such issues can be dealt with

²³ The literature on inter-jurisdictional competition is too extensive to review here. However, the work of Taylor (1992) or Mintz and Tulkens (1986) shows that such competition may be inefficient.

through proper monitoring and legislation. Similarly, some people might hold the view that the assignment of additional powers to the regional authorities creates yet another layer of government with the potential for inappropriate decisions and perhaps even corruption. Again such issues can be dealt with through proper legislation and controls. Of course, there is also an accountability deficit regarding both the regional assemblies and regional authorities, with their members nominated rather than directly elected by the people. Clearly, if additional powers are given to these bodies then they must also be fully accountable which requires their membership to be directly elected.

It is also important to point out that the public provision of goods and services does not immediately imply that these should also be produced by the public sector. Rather, on grounds of efficiency, the production of many publicly provided goods and services should be carried out by private firms which are awarded the contract to do so on the basis on an appropriate tendering procedure. This leaves government with the direct functions of planning, financing and monitoring functions. Thus, for instance, the design, building and maintenance of roads can be carried out efficiently by private firms, where this is contracted out through a tendering procedure, subject to standards which have been set in advance and which are monitored by the regional authority.

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