Local Public Finance – An International Comparative Regulatory Perspective

RENÉ GEISSLER, GERHARD HAMMERSCHMID
and CHRISTIAN RAFFER (Eds.)
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Book review by TANJA FATUR ŠIKIĆ*
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The regulation of local public finance is an issue of increasing importance. Local governments provide a wide range of public services, ensure critical infrastructure, and are key to citizens' trust in government. However, budgetary constraints and overarching regulations affect their functioning and often impair them significantly. The number of budgetary regulations is increasing and the quality of their implementation is also increasing. Considering how important local public finance regulation is to both centralised and federalized national governments, there is surprisingly little research on local government finance from a comparative European perspective and, in particular, on its effective regulation.

The book *Local Public Finance – An International Comparative Regulatory Perspective* brings together the work of forty experts in the disciplines of political science, economics, and public administration who approach the topic of local financial regulation at different levels and in different contexts in Europe. The book's editors are highly respected professors and scholars from Germany: René Geissler is a professor of public management at the Technical University of Applied Sciences in Wildau; Gerhard Hammerschmid is a professor of public and financial management at the Hertie School and Director of its Centre for Digital Governance in Berlin, and Christian Raffer is a local government finance expert at the German Institute of Urban Affairs in Berlin.

As can be seen from the title and subtitle of the book, almost all chapters deal in one way or another with the problems of financial decentralisation and financial regulation. Despite the numerous publications by experts and scholars on the regulation and supervision of local government, there is still a lack of clarity about the concept of a modern regulatory and supervisory framework. Most authors have focused on the research question: Which drivers have influenced the development of local public finance regulatory systems and how regulatory systems have changed over time as a result of the 2008 crisis?

In addition to an introductory text written by editors Geissler, Hammerschmid and Raffer, the book contains eighteen more chapters organized in three parts: Concepts of Regulation, Bailouts and Insolvency, and Local Public Finance in Times of Crisis. The chapters include tabular and graphical presentations as well as reference lists.

In the introduction, the editors explain that this volume is guided by a discussion of two key concepts: financial decentralisation and financial regulation. They define financial decentralisation as the process of reassigning expenditure functions and revenue sources to lower levels of government. They define financial regulation as all forms of national authority that are intentionally used to influence the revenue and spending patterns of local governments. This interference inevitably leads to a restriction of local autonomy and is therefore a thoroughly controversial political issue.

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In the first part of the book, titled *Concepts of Regulation*, the authors introduce the basic ideas and concepts of fiscal regulation, present new evidence from country cases and comparative analyses and suggest policy guidelines based on lessons learned from best practices. All seven chapters in the first part of the book show that fiscal crises, EU legislation, administrative traditions and path dependencies strongly influence the development of local public finance regulatory systems. After the 2008 financial crisis, local fiscal rules are common in all EU member states, with the fiscal balance rule and borrowing and debt constraints being the most widespread. The main conclusion is that well-designed local tax structures prevent cyclical revenue fluctuations and reduce the need for local public finance regulation.

According to Raffer and Ponce, an interesting paradox has emerged: countries with strong fiscal stability (e.g., the Scandinavian countries) tend to have less stringent regulatory systems, while countries with a history of financial instability in local governments (e.g., Hungary, Italy) have more restrictive regulatory systems. The authors suggest that this may indicate that fiscal regulation has limited impact, that its implementation only follows budget crises rather than preventing them. Denmark, on the other hand, seems to have taken a different path, as evidenced by high fiscal autonomy in the early 2000s and declining freedom in recent years.

As for the public finances of local governments, Bronić et al. found that EU accession was an important historical driver for countries' regulatory systems and has improved the quality of public administration in general. EU accession was a catalyst that led to stricter fiscal control in Slovenia and Croatia than in Serbia.

De Widt et al. point out that the different approaches in England and the Netherlands reflect different perceptions of risk in each country. In England, strict budget rules reduce the likelihood of a fiscal crisis. Each local government must ensure that planned expenditures for a single year do not exceed total revenues. In the Netherlands, by contrast, the focus is on ensuring that local government borrowing and borrowing costs remain sustainable by taking into account the related concepts of debt ratios, solvency and liquidity.

According to Roesel, government authorities in Austria and Germany monitor local governments continuously and closely, but financial supervisors are linked to political parties, which leads to collusion and contributes to less sustainable fiscal management. Both countries have already begun introducing reforms that shift the fiscal supervision of local governments from politically or locally aligned supervisors to more independent authorities.

Turley, Raffer and McNena point out that differences across countries must be carefully considered when designing appropriate local tax rules. The choice of rule or set of rules depends on the country's circumstances, economic structure and initial conditions, the wider intergovernmental fiscal framework, and the priority given to various policy objectives.

In the second part of the book, titled *Bailouts and Insolvency*, the authors take a closer look at the bailout practices that have been used at the local level in Europe. This part not only discusses insolvency regimes as alternatives to municipal bailouts, but also shows how they are currently operating in Hungary, Italy, Switzerland, and the United States. It appears that fiscal decentralization carries the risk that subnational governments will act in the belief that a higher level of government will bail them out if they get into trouble. Fiscally responsible behaviour by subnational governments seems to depend on a balanced mix of policy measures, in particular the provision of sufficient financial resources, adequate fiscal supervision, early intervention mechanisms, and sufficiently unattractive bailout rules. It seems that local fiscal autonomy must be limited to some extent to prevent local profligacy. It is interesting to note that in Germany, despite the existence of strict budgetary frameworks and fiscal equalisation systems, local budget crises have been a phenomenon for decades. As an institutional response, most German states have introduced bailout packages to restructure municipal finances. Person and Geissler evaluated the impact of local government bailouts on fiscal performance and came up with a structure of bailouts referring to institutional design, timing, and scope. However, the authors noted that "fiscal supervision changed state-local relationships and constrained local democracy in several ways. It remains an open question whether local governments are willing to accept fiscal and political constraints on a permanent basis, even in times of poor economic conditions".

In the third part of the book, titled *Local Public Finance in Times of Crisis*, the authors address the issue of global crises and their impact on local governments, taking a closer look at the practices used in Europe after the 2008 crisis. They compare the responses of local governments in Greece, Germany, Italy, and the United Kingdom. Taken together, these five chapters show that central governments need to adopt different strategies to deal actively with the local financial crisis. They highlight the importance of local governments' financial resilience. Drawing on large-scale surveys and comparative case studies, they describe how the institutional context affects local governments' ability to anticipate, absorb, and respond to financial shocks. Fiscal regulations can force local governments to build anticipatory capacity. However, fiscal frameworks and major policies such as austerity measures can also weaken local government capacity. Wortmann and Geissler have studied the direct and indirect effects of the 2008 crisis on twenty one European countries. They argue that the strengthening of local public finance regulation was a direct result of this crisis and the related changes in EU legislation. However, even though local finances have recovered or at least stabilized in most countries, local levels find themselves having less local autonomy.

The shortcomings of this book are indicated by the impression that chapters would "work" better in journals than in a book; often the same ideas and recommendations are repeated. Also, some of the chapters are written in a very academic manner and are difficult to understand if one is not familiar with the topic. All three editors are experts in the field of local public finance and are co-authors of some of the chapters in the book. The book lacks a list of abbreviations and an index of terms. These additions are particularly important in the area of increasingly complex public sector regulation and the use of a number of abbreviations in this context. In this sense, the breakdown of meta-language in public finance is certainly a useful addition for readers, especially those who are not part of the already professional public.

The book is somewhat challenging for readers. It is not intended for quick reading as it fully discusses a variety of topics in detail. Some parts might even need rereading. In the context of the terminology used and the writing style, a professional terminology is used that makes it difficult for non-professional readers. Therefore, a list of abbreviations and an index of terms would be helpful.

In conclusion, the book *Local Public Finance – An International Comparative Regulatory Perspective* contains a number of interesting cases on local public finance in EU countries, giving the reader a complete overview of the problems and solutions of the local public finance system. Moreover, it can be used as complementary reading in postgraduate courses in local public finance systems and can also be very useful for researchers working in this field. Accordingly, it could become essential reading for researchers, students, and all other professional publics interested in local public finance topics.