Yelahanka Lokesh
Dr. Mounica Vallabhaneni

PUBLIC FINANCE IN THEORY AND PRACTICE

ALEXIS PRESS
JERSEY CITY, USA

PUBLIC FINANCE IN THEORY AND PRACTICE

PUBLIC FINANCE IN THEORY AND PRACTICE

Yelahanka Lokesh
Dr. Mounica Vallabhaneni

ALEXIS PRESS

ALEXIS PRESS

Published by: Alexis Press, LLC, Jersey City, USA
www.alexispress.us

First Published 2022

A catalogue record for this publication is available from the British Library

Library of Congress Cataloguing in Publication Data

Includes bibliographical references and index.

Public Finance in Theory and Practice by *Yelahanka Lokesh, Dr. Mounica Vallabhaneni*

ISBN 978-1-64532-929-9

CONTENTS

CHAPTER 1

EXPLORING FISCAL FEDERALISM: A SYSTEMATIC REVIEW OF RECENT TRENDS AND POLICIES

Mr. Yelahanka Lokesh
Assistant Professor, Department of Commerce and Economics,
Presidency University, Bangalore, India.
Email Id-lokesh.yr@presidencyuniversity.in

ABSTRACT:

Fiscal federalism refers to the division of fiscal responsibilities and financial powers between different levels of government within a federal system. This abstract provides an overview of fiscal federalism, exploring its key features, objectives, and challenges. It examines the allocation of revenue sources, expenditure responsibilities, and intergovernmental fiscal relations within a federal framework. Additionally, it discusses the implications of fiscal federalism for economic efficiency, accountability, and intergovernmental cooperation. Fiscal federalism aims to strike a balance between centralized decision-making and local autonomy by decentralizing fiscal powers to subnational governments. It facilitates the efficient provision of public goods and services, ensures accountability, and allows for local preferences and needs to be taken into account. Through revenue sharing, grants, and taxation arrangements, fiscal federalism seeks to address disparities in regional development and promote economic stability and growth.

KEYWORDS:

Decentralization, Equalization Grants, Fiscal Autonomy, Fiscal Federalism, Local Government, Revenue Sharing.

INTRODUCTION

Sharing the International Tax Base in a Changing World

On matters of international taxation, unanimity is difficult to come by. We lack straightforward solutions for the daunting conceptual, institutional, and administrative issues that plague international taxes. Our more modest goals in this are to first investigate the extent to which a game-theoretic framework might, despite its limitations, aid us in better understanding some important aspects of international tax coordination and, second, to outline some features of the institutional framework within which these issues are dealt with that might, over time, aid in pointing the way towards a workable solution[1]–[3].This subject seems especially appropriate for a symposium in Richard Musgrave's honor since it is a subject that he has long been interested in and to which he has made significant contributions.

It is also a subject on which he has worked closely with Peggy Musgrave, who is undoubtedly one of the foremost experts on tax coordination difficulties in the world.The two epigraphs, which were taken from a recent issue of an international tax magazine, succinctly define the scope of the subject that this article addresses. In many aspects, the current system of international taxes is in disrepair. Countries having economic ties to one another that necessitate acknowledging crossing fiscal claims have the option of recognizing and accommodating conflicting tax demands or going it alone and letting others worry about any issues that may arise. In what may be referred to as the "OECD consensus," the fiscal interests of resident and source nations have been negotiated and improved over the course of a century. Over time, a regime that acknowledges and accommodates competing claims developed, for the most part with significant international agreement as to both the underlying objectives and the means to achieve them. This development occurred less through the systemic or normative application of international tax principles than through the incremental evolution of rules deemed to be both roughly fair and roughly feasible.

In essence, source nations have claimed primary jurisdiction over income from economic operations when they have a physical presence or at least a solid foundation for calling themselves a "permanent establishment." On the other hand, residence nations have made a strong case for taxing portfolio remittances. They often subject remitted profits to residence tax while crediting for source tax in order to effectively level out the varied source rates imposed on direct investors. The equilibrium that has been thusly reached, however, is sometimes illogical and often difficult to apply and comprehend. The future also seems to be even more hazy and ambiguous in light of globalization, as well as recent advancements in financial innovation and internet commerce. For instance, the bilateral tax agreements that essentially administer the current system must depend on income characterizations that are not only intrinsically arbitrary but also become harder to understand. Similarly, the current consensus's foundational idea of permanent establishment is losing more and more of its strength, as seen by recent talks on taxing the profits from computer servers. Thus, there is a growing concern over whether or not national governments with disparate interests can work together effectively enough to save the global tax system.

The implicit belief that the international tax game is essentially noncooperative in nature since there are few binding agreements among participants, with the exception of the bilateral tax treaties already mentioned, may be the cause of at least some of the doom that many people seem to feel with regard to the international tax system. Governments often fail to reach agreement as a consequence of strategic choices that lead to "beggar-thy-neighbor" behavior because there is a significant incentive to rebel rather than work together. As noted by Tulkens in another context, it is sensible to closely examine such noncooperative fiscal equilibria since they serve as, in a sense, the "fallback" position if all else fails. Many papers have been written using this noncooperative framework to analyze international tax problems, such as those by Hamada, Mintz and Tulkens, and Gordon[4]–[6].

Despite the obvious challenges of reaching consensus, nations have nonetheless managed to reach a surprisingly high level of agreement over time on a multilateral framework in a number of areas of trade and finance as well as in regards to the provision of a number of international public goods. The OECD model, for instance, has often used as the foundation for bilateral tax treaties in the area of taxation. Similar to this, major nations have come to a lot of consensuses on a global transfer-pricing system. Most recently, an OECD initiative advocated for the abolition of special advantage regimes for financial sector corporations while also identifying purportedly damaging tax competition tactics.4 Additionally, the European Union has created its own list of dangerous behaviors, and several European nations have already started to follow the regulations.

Such multilateral agreements are more in line with a framework based on cooperative game theory. However, the multilateral strategy for coordinating international taxes has been somewhat limited thus far. Countries often choose to tackle international tax problems autonomously or, at best, bilaterally, which yields a meager level of collaboration. It's interesting to note that far broader multilateral agreements have been made in other policy areas, such trade and military cooperation. There are strong reasons why tax policy has seldom been coordinated via formal international treaty talks, as the protracted and, as of yet, unresolved EU discussion of direct taxes illustrates. However, given the issues that are already emerging on a global scale, a greater degree of multilateral cooperation in tax affairs seems to be necessaryat least if the taxation of international income flows is to continue. Simply outlining some of the issues with using such a multilateral strategy is our main goal in this.

As for topics like tax harmonization, transfer pricing, minimum tax rates, information sharing, and profit allocation techniques, there is, of course, already a good deal of literature on cooperative strategies for international tax coordination. However, this literature seldom makes an effort to consider either the reasons why nations collaborate or how these reasons eventually affect the strategies used to attain cooperation.8 Musgrave & Musgrave make the point that, even in a cooperative system, nations may want to establish their "rights" in defining their tax regimes, but this is not addressed in the literature.9 One of our goals in doing this is to take into account some of the consequences of the rights or entitlements that various nations may desire to express when deciding on their tax policies for the likelihood of multilateral fiscal cooperation.

In this, we tackle three tasks in a broader sense, although little. To show how international tax concerns may be handled in such a scenario, we first look at the foundational structure of cooperative game theory. Understanding both the game's rules and the players' strategic choices is essential to understanding cooperative game theory. It is not quite apparent what the game is since the existing institutional framework for international taxes includes significant components of a number of diverse, at first seem contradictory models. Second, we look more closely at a number of game rules for tax cooperation that are crucial for reaching an agreement. We focus on the significance of what Musgrave and Musgrave refer to as "inter-nation equity" and connect it to the larger issues of "fair shares" that have largely driven the development of the current system and appear likely to control whatever emerges in the future. Third, we offer some ideas on how the ongoing process of creating a "new" international tax system for the "new" global economy might best proceed, moving well beyond the game-theoretic framework, which, while suggestive, neither explains the process to date nor provides a clear roadmap for the future.

DISCUSSION

The Formal International Tax Game

Let's start by outlining some of the fundamental components of a formal game. Some players make decisions utilizing tactics to increase their rewards. One-shot games allow for either simultaneous or sequential player activity. Alternately, games may be played for an indefinite period of time or again. Players may know all there is to know about actions and payoffs, or they may just have partial knowledge, in which case some players may be more knowledgeable than others[7]–[9].Both cooperative and non-cooperative games may use the aforementioned components.

A noncooperative game is different from a cooperative game in that there are no legally enforceable agreements made. Players choose for tactics that maximize their gains and are the best answers to other players' strategic choices. The decisions chosen could not be the "first-best" in the sense that if the participants could conspire and split the gains, they might do better than in a noncooperative scenario.In a non-cooperative game, the private sector makes choices about investment, employment, and production for businesses as well as decisions regarding consumption, saving, and labor effort for consumers. Governments make financial decisions, deciding on the amount and composition of taxes, public goods, and services. If tax rates are the strategic variable, they are chosen so that there is enough revenue to finance public goods—that is, to satisfy the government's budget constraint. Governments are typically assumed to be first movers, anticipating the reactions of the private sector to fiscal decisions. Governments may want to maximize tax income, political rents, citizen wellbeing, or any mix of these things. Governments are often thought to use Nash methods, selecting the optimal reaction based on the best replies of other governments. As an alternative, if one country acts as a "leader," it may do so first, foreseeing the responses of other countries whose actions it would follow. In spite of the fact that many models tend to focus on finite time horizons, games may be either one-shot or recurrent.

According to these noncooperative models, governments often choose tax rates that are either too high or too low in comparison to a coordinated solution, depending on the kind of "fiscal externalities" that are present. The impact that one government's choice has on the well-being of other governments is known as a fiscal externality. Fiscal externalities may sometimes be advantageous, which suggests that tax rates will be set excessively low. For instance, if there is "tax base flight," a government would lose a mobile base to another jurisdiction if it raises taxes on that base, allowing that jurisdiction to take advantage of the bigger tax base. Tax rates will be selected excessively high when a government may charge taxes on nonresidents who get minimal benefit from the public goods and services supplied in the taxing jurisdiction. Alternatively, the fiscal externality may be negative, as in the case of "tax exportation."

A cooperative game enables participants to discuss or negotiate a legally enforceable agreement for dividing the shared payoffs, in contrast to a noncooperative game. When players communicate, the rewards for all players are higher than they would be in a non-cooperative game. A cooperative game has the characteristics listed below:Pareto optimality states that the combined payment should be selected from a collection of payoffs that maximizes payoff for the alliance of all participants in the game. The definition of a pareto-optimal reward is one in which no actor may benefit without detriment to another.

Coalition stability: If it serves their interests, certain players may join a coalition at the exclusion of other players. In order for any other result to be stopped by a portion of the players, the core of a cooperative game consists of coalition ally determined outcomes.The participants must agree to a legally binding agreement that would leave them in the same financial position as if there were no agreement. Each player must outperform the payout obtained by uncooperative play in order for the game to be considered "individually rational."Negotiating side payments may or may not result in cooperation. The results of collaboration are expanded through side payments. Cooperation is more difficult to acquire without side payments.

The problems that develop when a tax coordination problem is present in a cooperative gaming environment are then discussed. In particular, we focus on the issues that come up when identifying participants, calculating rewards, and drafting "fair" game agreements.The private sector and governments are at least two sorts of participants in the game of tax coordination. But in a cooperative game, who are the participants? Is it only the public sector and not the private sector? What standards dictate which governments join a coalition, even if it simply consists of governments?

under the majority of models, the coalition under a cooperative agreement does not include the private sector. This increases the issue of coalition stability since the corporate sector could attempt to thwart possible government cooperation deals. According to formal models, the kind of payoffs anticipated for governmental actions determines whether the private sector would be ready to veto cooperative agreements. Implicitly, the private sector is a part of the coalition if governments are kind and operate in the best interests of their citizens. The welfare of the populace will also increase as a result of agreements that result in Pareto-optimal allocations. The interests of the public and private sectors will not align, however, if governments pursue other goals like maximization of total tax revenue or political rents. Furthermore, every coalition agreement must take into consideration the diverse interests of private participants in any political paradigm where private participants have varied aims.

Determining which countries would be included in an agreement presents significant problems, even with a smaller coalition of states. A government would need to have the authority to tax a certain base in order to participate in an agreement. Governments may impose taxes on firms that operate inside their borders, for instance, under the income tax. But which regulations specify when a firm is allowed to operate in the area? The OECD model tax treaty is based on a long history of developed nations creating legislative regulations for the taxation of source income. The terms "residence," "permanent establishment," and "operating a business" are all defined under these regulations.

In accordance with current practice, people are considered to have a "sufficient connection" to a country if they are physically present there, have a fixed address, are permanent residents, or meet certain economic criteria. The specifics of the rules vary depending on the country. A company is considered to be resident if it was created or established in the country, or if its central management and control are exercised there, however various nations have varying definitions of these terms. Generally speaking, a permanent establishment is a fixed location of business where business is conducted entirely or in part. A management location, branch, office, factory, workshop, quarry, mine, or oil or gas well is explicitly included in this idea. However, it often excludes a location for storage, advertising, or the gathering of data. The production, invention, manufacturing, or enhancement of a good or service, the solicitation of orders or offers via an agent, and the sale of real estate are all considered to be part of carrying on a business. A permanent establishment would have to pay income tax on its profits. The only tax that could apply to income earned without a fixed business is withholding tax.

Determining which player should participate in a cooperative game of international tax coordination has many "gray" regions that have emerged. For instance, due to developments like the international business consolidation and the use of international boards of directors that may reside in different countries and meet via videoconferencing, the "central management and control" test that some countries use to determine the residence of a corporation is coming under more and more scrutiny.As corporate operations become more globalized, workers are going overseas more often for short business trips. In response, several nations have expanded the definition of a permanent business to tax profits even when a corporation just has agents operating on its behalf. At the extreme, a jurisdiction may claim the authority to tax revenue received at source, in violation of the OECD model treaty, if an employee of a corporation just leases a hotel room. Naturally, exporting nations have not embraced such actions.

Most recently, the growth of internet commerce has prompted new inquiries regarding the participants. Are Internet service providers or websites considered "permanent establishments" for taxes purposes? ISPs and websites are challenging to tax in reality even if they are found to be permanent enterprises since they may shift to tax-free locations with ease. In fact, one businessman has already offered a ship moored in international seas that is not subject to any national taxation authority as a prospective base for such operations.Thus, it is not always obvious which jurisdictions are the key participants in the world of international taxes. While this issue is most evident when it comes to the ability to tax profits under an income tax, there are also growing difficulties in discouraging players under a VAT since the VAT relies on discouraging both the site of supply and the place of consumption. deciding the site of supply is crucial for deciding how taxes on services are applied in a given jurisdiction. Which jurisdiction has the authority to tax services that are offered through a website?

Payoffs

Finding the reward is the next challenge after identifying the participants. Is it the wellbeing of the populace? Which people? Do governments want to raise as much money through taxes as possible? Are political leaders primarily focused on the income they earn from their positions of influence? What discount rate might rival players use given that games are played over an extended period of time?Such questions don't have straightforward solutions. Nevertheless, the success of any cooperative agreement depends on how governments respond to one another and whether they see improvements in their positions, which in turn clearly depends on the payoffs that are important to them. If governments are benevolentthat is, concerned about the welfare of their citizensthey will be concerned about efficiency and distributive issues within their juris- didictions. They could be concerned about the wellbeing of the whole globe if they are really kind. In contrast, if governments are "Leviathan," they could solely be concerned with tax receipts or the size of the budget. Instead of worrying about the effectiveness of markets and the distributional effects of their policies, governments in this situation would want to defend their income streams.

The majority of models assume that governments have similar reward structures. However, assume that two governments who are working together have different payoffs—let's say that one is charitable while the other is Leviathan and solely cares about increasing tax collections. The goal of the cooperative game should be to maximize rewards for both governments, although in this situation, the relevant rewards would be tax receipts for one and national welfare for the other. Maximizing the welfare of citizens in both countries—likely the objective of interest to those who desire to promote internationally efficient markets—is not at all the same as maximizing such a mixed joint payout.

In a noncooperative game, for instance, even a benevolent government is presumably only concerned with national efficiencymaximizing the welfare of its own citizens. This is because in a cooperative game, countries pursue global goals, while in a noncooperative game, they pursue national goals. However, participants in a cooperative game may eventually aim for global efficiency in order to provide their own citizens with more rewards than would be attainable in the absence of collaboration.

In her discussion of the differences between these two capital income taxing aims, Peggy Musgrave provides a useful illustration. Capital allocation is not restricted by the national efficiency goal if the capital exporter's tax structure has no impact on how capital is allocated between home and foreign jurisdictions. This suggests that foreign taxes should be subtracted from income so that the return on foreign investments, after deducting foreign taxes, is equal to the return on capital in the home country. On the other hand, under the theory of global efficiency, the location of capital should not be influenced by either the tax systems of the home or the host country. To do this, the home nation should use the host country's tax as a credit against its own taxes, even if this means paying a refund when the foreign tax is more than the amount of domestic tax that must be paid. Of course, no government, no matter how kind, goes to this extent.

The question of whether governments prioritize global or domestic goals has also been brought up in the trade literature. The widespread consensus is that in the sake of national welfare, governments should remove trade barriers, even unilaterally. Since taxes are imposed on both traded and nontraded activities, there is a conflict between national and global aims in the case of taxation as opposed to commerce. However, as Slemrod notes, states may still seek global goals in their national interests, such as improving the efficiency of the global capital market, in order to win the cooperation of other nations. Governments would most likely only agree to policies that would make them wealthier than the outcomes of a noncooperative game, even if they did seek global goals in order to guarantee international tax coordination. National objectives are never abandoned, not even in a cooperative game.

However, such a game may include individuals who care not just about their own level of wellbeing but also about the welfare of their fellow competitors. Altruism or envy, for example, indicate that participants care about both the level and the distribution of wealth across nations. The core of a game could leave both nations better off, for instance, if payoffs are jointly maximized, but the wealthier country might have a bigger proportionate rise in its payoff than the poorer country. This result might not be accepted if one or both countries care about the relative positions of the two countries. The payout aim is plainly different if nations are interested with inter-nation equality as opposed to only their own level of wellbeing.

It's interesting to note that some of the important "principles" that are frequently cited in relation to international taxation, like capital export neutrality and capital import neutrality, simply don't apply in the framework that has been discussed up to this point. Although the main justification for CEN is to increase global economic efficiency, it has also been argued that a globally progressive income tax is a crucial part in promoting inter-personal justice. If the tax burdens on domestic and foreign investments made by a multinational are the same and capital is free to move between jurisdictions, countries can achieve the highest level of global welfare. This goal can be attained, for instance, if nations stop levying source-based corporate taxes and limit them to income taxes for citizens. When determining tax rates, the CEN principle eliminates fiscal externalities among governments, achieving a form of Pareto efficiency, according to Mintz, Tulkens, and Dicke-scheid. However, if investors across the globe are subject to various taxes, which in turn affects the costs of capital for businesses, CEN will not be able to create a capital market that is globally efficient.

The more contentious case for CIN is made solely on the basis of efficiency. No matter who owns a corporation, taxes should be paid at the same rate. In this situation, regardless of the ownership of the firm, the tax burden on investments within a jurisdiction is the same if only source-based taxes are applied. It is obvious that unless source-base and residence-base tax rates are uniform across all jurisdictions, neither CEN nor CIN can exist at the same time. Although CEN and possibly CIN could be used to achieve global efficiency, neither of these principles addresses the crucial issue of how money is distributed among nations.

Negotiations and Fairness

Countries are often willing to be party to legally binding agreements, as seen by the wide growth of bilateral tax treaties throughout the years. Generally speaking, nations do not depend on the covert cooperation that may result from a supergame. Instead, they often accept legally enforceable tax treaty conditions. The avoidance of double taxation, agreements on withholding tax rates, information sharing, and adoption of specific regulations, such as nondiscrimination against foreign investment, have all been accomplished via bilateral treaties. Formal reciprocity or "equal treatment" is often a fundamental component of these accords.2Furthermore, even though they are distinct legal agreements, treaties often display implicit coordination since many of their provisions are often based closely on the OECD model tax convention.

Understanding the variables that affect negotiations is necessary to comprehend the foundation of an agreement. According to formal economic models of negotiation, parties would want to maximize the weighted sum of their individual payoffs as a consequence of the agreement.21 The negotiating power of the parties is used to calculate the weights. Each player would get half of the benefits from collaboration if all players were identical and of equal strength. Naturally, this would be considered a "fair" distribution in a lot of circumstances.But not all nations are the same. They are not equally strong, though. Powerful nations would get a larger portion of the benefits of cooperation. The nation with a greater level of welfare in the absence of cooperation would have a higher level of welfare following the agreement, as predicted by the Nash bargaining model, even if the participants had equal weights.

It is challenging to adapt such negotiating models to the unique issues encountered by nations seeking to achieve an agreement on taxes, even if they may be helpful in anticipating outcomes. First off, payoffs are sometimes difficult to quantify, in part because participants' aims could differ.

A narrow cooperative arrangement may result in a loss, not a gain, in welfare, making such an agreement impossible to negotiate. Second, the cooperative arrangements typically deal with only a limited set of instruments, and other considerations may be equally as important if not more so. Third, because participants' negotiating power ultimately determines the profits they get, gains are unlikely to be distributed equitably, which may go against some participants' ideas of "fairness." As was already said, sometimes the relative position of each player might be just as significant as the actual gain made.It is apparent that each stakeholder cares about how the tax base is distributed. According to this crucial component of cooperative game theory, securing an acceptable result will be challenging and call for a practical approach to international tax cooperation. In the parts that follow, we expand on this[10]–[12].

CONCLUSION

Finally, fiscal federalism offers a framework for dividing up budgetary duties and authorities within a federal structure. It aims to offer public services efficiently while also promoting regional fairness and economic efficiency. Fiscal federalism promotes intergovernmental collaboration, public involvement, and democratic governance by striking a balance between centralized decision-making and local sovereignty.

To make sure that fiscal federalism is successful in ensuring economic stability, regional development, and responsible governance, policymakers must handle the issues related to income sharing, spending responsibility, and intergovernmental interactions. Fiscal federalism has effects that go beyond simple economic logic. Additionally, it contributes to civic participation, regional development, and democratic government. Fiscal federalism improves local government accountability and responsiveness to community preferences by allowing for decentralized decision-making. Additionally, it supports cultural variety and regional sovereignty within a united federal framework.

REFERENCES:

[1] B. R. Weingast, “Second generation fiscal federalism: The implications of fiscal incentives,” *J. Urban Econ.*, 2009, doi: 10.1016/j.jue.2008.12.005.

[2] A. Rotulo, M. Epstein, and E. Kondilis, “Fiscal federalism vs fiscal decentralization in healthcare: A conceptual framework,” *Hippokratia*. 2020.

[3] O. O. Ewetan, R. Osabohien, O. A. Matthew, A. A. Babajide, and E. Urhie, “Fiscal federalism and accountability in Nigeria: an ARDL approach,” *J. Money Laund. Control*, 2020, doi: 10.1108/JMLC-05-2020-0046.

[4] V. Kelkar, “Towards India’s New Fiscal Federalism,” *J. Quant. Econ.*, 2019, doi: 10.1007/s40953-019-00159-x.

[5] J. B. Ejobowah, “The second-generation theory of fiscal federalism: A critical evaluation,” *Perspect. Fed.*, 2018, doi: 10.2478/pof-2018-0011.

[6] Y. Kim, “Limits of fiscal federalism: How narratives of local government inefficiency facilitate scalar dumping in New York State,” *Environ. Plan. A*, 2019, doi: 10.1177/0308518X18796511.

[7] W. E. Oates, “Toward a second-generation theory of fiscal federalism,” 2005. doi: 10.1007/s10797-005-1619-9.

[8] N. Slavinskaitė, A. Liučvaitienė, and D. Gedvilaitė, “Theoretical Analysis Of The Fiscal Federalism,” *Int. J. Contemp. Econ. Adm. Sci.*, 2019.

[9] T. Garcia-Milà, T. J. McGuire, and W. E. Oates, “Strength in diversity? Fiscal federalism among the fifty US states,” *Int. Tax Public Financ.*, 2018, doi: 10.1007/s10797-018-9485-4.

[10] C. R. Hulten and R. M. Schwab, “A fiscal federalism approach to infrastructure policy,” *Reg. Sci. Urban Econ.*, 1997, doi: 10.1016/s0166-0462(96)02150-3.

[11] R. Crawford, R. Disney, and P. Simpson, “Financing Local Police Spending in England and Wales: Fiscal Federalism in Practice,” *Fisc. Stud.*, 2019, doi: 10.1111/1475-5890.12206.

[12] M. P. Evers, “Fiscal federalism and monetary unions: A quantitative assessment,” *J. Int. Econ.*, 2015, doi: 10.1016/j.jinteco.2015.05.001.

CHAPTER 2

EXPLORING THE RULES OF THE REAL GAME

Dr. Dasinis Nathan Annette Christinal
Assistant Professor, Masters in Business Administration (E-Commerce),
Presidency University, Bangalore, India.
Email Id-annette.c@presidencyuniversity.in

ABSTRACT:

The Rules of the Real Game" refers to the set of principles, norms, and mechanisms that govern international relations and interactions among nations. This abstract provides an overview of the rules of the real game, exploring their significance, evolution, and challenges in the contemporary global context. It examines key components such as sovereignty, power dynamics, international law, diplomacy, and multilateralism. Additionally, it discusses the implications of these rules for global governance, conflict resolution, and cooperation in addressing transnational challenges. The rules of the real game form the foundation for international relations, shaping the behavior and interactions of states in the global arena. Sovereignty, recognized as a fundamental principle, affirms the autonomy and independence of nations in managing their internal affairs. Power dynamics, both in terms of economic and military capabilities, influence the relative influence and strategic positioning of states.

KEYWORDS:

Base Erosion, BEPS (Base Erosion and Profit Shifting), Double Taxation, Global Tax Reform, International Tax Rules, Multinational Corporations, Profit Shifting.

INTRODUCTION

Some components of the current international tax game have previously been highlighted in the debate that came before it. With particular focus on how the principles that seem to have been followed in international tax policy up to this point imply that international tax cooperation may grow in the future, we now turn to examine some of the game's rules in more depth.There aren't actually any clear laws of international taxation, which is perhaps its most important principle. Instead, cross-border movements are simply subject to domestic tax laws that may or may not take into consideration the possibility that they would be taxed in more than one jurisdiction. It is probable that a jurisdiction will tax revenue that is generated there. From this vantage point, tax treaties may be seen as global agreements on how to distribute revenue among those nations with whom the taxpayer may have a relationship strong enough to claim the right to tax. Such agreements often have the overt goals of preventing "double taxation," mitigating tax evasion, and giving investors more security. The basic significance of treaties, however, lies in the fact that the parties concerned acknowledge that other nations may have some legal authority to levy taxes.

Thus, the goal of international tax regulations, whether they are implemented by domestic legislation or a bilateral agreement, is to divide economic revenue between two political jurisdictions. These laws are intrinsically pragmatist and goal-oriented. It is possible that later on, normative rationalizations of certain sets of operational guidelinessuch so-called principles of international taxes as the resident principle or capital export neutralitywill emerge and gain widespread acceptance as the terminology used to describe various concerns. But it's crucial to realize that the consequences of applying such rules must be universally accepted by all parties, in addition to the fact that pragmatic rules are applied before ideals. The laws will be altered if they are not.

The current international tax system's main goal is to divide up the global tax base among jurisdictions according to how economically connected those countries are to the activity in question. "How can countries assert an inherently territorially based claim to income that arises in whole or in part outside their territorial jurisdiction?" is the fundamental question. International tax allocation, regardless of its format—domestic foreign tax credit schemes or contractual arrangements in tax treatiesseeks to create a correlation between economic and financial revenue. Realistically, only the elimination of differentiationrenunciation of tax sovereigntyor intelligent multilateral coordination and case-by-case accommodation of competing national tax claims can reduce the distortionary effects that may result from the interaction of various direct capital income tax systems. Solutions needing harmonization to be successful seem to have a low likelihood of solving these issues given the apparent strong commitment of national governments to their direct tax systemsas indicated by the protracted EU debate of this subject. In the above-mentioned situations, it seems that a more pragmatic approachconsistent with a game-theoretic approach for comprehending the reasons for cooperative arrangementsis the only practical option to deal with international tax conflicts [1], [2].

DISCUSSION

The Crisis in International Taxation

In the perspective of fiscal policy, globalization entails more interdependence across national economies in an environment where less intrinsic economic activity is intrinsically linked to any one political jurisdiction. The challenge is how to establish a meaningful correspondence between the quantifiable economic income associated with a tax jurisdiction and the financial income that is actually subject to that jurisdiction's tax laws on a basis that compels other tax jurisdictions with an interest in the activity, its results, or the actors involved in the activity to respect that claim. It is necessary to resolve the widening gap between economic reality and the presumptions underpinning the current international tax system.

To some extent of quantitative and manageable correlation between economic and financial/tax revenue is the goal of international tax regulations. This goal is the foundation of the idea of permanent establishment, as Sasseville and others have pointed out. The conventional accounting notions of financial income or profit often resembled some relevant measure of economic income when factor inputs were more clearly linked to particular countries. However, it is becoming less necessary for significant factor inputs that support the generation of revenue to be tightly connected to any one jurisdiction. The location of economic activity, the identity of the "owner" of the revenue stream, or the "source" of economic income are no longer necessarily determined by political divides or the formal features of corporate structure and commercial activity.

Given these facts, any workable solution to the issue of determining and dividing the global tax base in the context of the modern world would unavoidably be artificial in some way. However, it need not be as artificial as the current system, which is rooted in more primitive times when, in the words of Bird and Wilkie, "there was, on the whole, a much closer correspondence between financial flows and economic activities, when a bond was a bond, a dividend was a dividend, and a foreign investment was physical—a hole in the ground or a building on top of it." Any accepted worldwide tax system seems to need "fair shares" for all pertinent claims to the tax pie.

Of course, it is doubtful that an agreement will be achieved if two nations have such disparate ideas of what is fair that the demands of one appear to the other to be beyond the bounds of tenable justice. On the other hand, there are many issues that individuals are unable to answer in the abstract but are able to solve when put in a real-world setting, according to a recent review of the burgeoning literature on such "self-serving biases." That is, experience sometimes resolves issues that theory cannot, especially if practice is conducted in a suitable institutional environment.

Since the first League of Nations initiatives in the 1920s, the international tax community has created a set of norms and principles that have somewhat helped in coming up with and putting into practice a system that can both detect and collect taxes from taxable international flows. In order to split revenue across jurisdictions in a way that both approximately approximated economic reality and could be put into effect, the present rulesand the concepts derived from themwere created.Frenkel, Razin, and Sadka are three economists who often support the pure residency principle due to the source principle's unfavorable allocative implications in cases when effective tax rates vary across nations. The residence principle is also favored by many legal scholars as a logical element of achieving horizontal equity among domestic taxpayers24. On the other hand, administrators and people who are more focused on what can be done than what should be done frequently favor the source principle for practical reasons due to the significant practical challenges of extending the residence principle beyond national borders without hard-to-secure cooperation from foregoing parties [3], [4].

Both source- and residence-based tax systems share the fundamental issue with the global tax system. Both methods allocate tax bases and revenues with the presumption that identifiable actors engage in quantifiable economic activities that may be subject to taxation in line with flows attributable to a certain jurisdiction. Thus, these "principles" are really means of splitting the pie in line with an idea of what is happening where and an idea of who is entitled to get what portion of the benefits of global economic activity. As we have already said, the first of these factors is getting more and more difficult to determine in actuality given the state of the globe. However, the main focus of this discussion is to highlight some of the consequences of the second argument in light of possible practical solutions to the first issue.

Countries that participate in the international tax system claim to have jurisdiction over foreign capital income by connecting a financial flow that they are aware of with an economic activity that they can plausibly claim to be responsible for under their political control. The crucial issue is therefore one of determining a measure of "economic allegiance" for splitting the global tax base that will be universally acknowledged as fair and practicable, as Schanz remarked over a century ago and as Portner just reemphasized. In the end, what counts is how well a specific solution works and how likely it is to be accepted by the majority of significant participants in the international tax game, not how much it complies with some presumptive normative notion.In reality, the split of tax bases across countriesrather than the division of rewards between state and investoris what matters most in this game. Since nation states are the players in this game, this question will typically be approached from a national rather than a global perspective. The question is simply whether countries achieve their best interests by competing or by cooperating. These two questions are related because the fight for tax share may result in heavier taxation overall. This issue, though obviously important, is secondary in this discussion. If the former, what criteria must be met to provide desirable results? What kind of collaboration is needed, if the latter [5], [6].Even though the players and payoffs are more clearly defined than our earlier discussion suggests, there do not seem to be any principles that are both acceptable and practical with regard to how to divide up such a complex and shifting target as the international tax base in the multiplayer international tax game. For instance, neither the source nor the residence concept offer very helpful guidance on how to allocate economic income to a specific territorial jurisdiction. Additionally, as noted by McLure, the significance of the fundamental idea of permanent establishment as a guide to determining economic allegiancei.e., who the players areis also up for debate at the moment.

Ideas for Solutions

A holistic approachadopting some grand planto either restructure the form of taxation or transfer the problem to a higher, and presumably wiser, authorityis one way to try to solve the issues that arise from the greater scope of economic activity than of political jurisdiction.Some, for instance, have proposed that one approach to address many of the issues with taxes brought on by recent developments in the global financial system is to restructure business taxation, for instance by implementing a dual income tax system or some kind of cash-flow or consumption tax. Some people believe that abandoning income taxes in favor of consumption taxes is the only solution because the income tax issue appears to be so complex, the negotiations necessary to reach any reasonable resolution are likely to be so protracted and difficult, and the outcomes are likely to be so unsatisfactory that they will be. The major benefit of this technique is that it eliminates issues with how interest is treated tax-wise, particularly issues with interest deductibility. As Musgrave goes into great effort to explain, consumption taxes in all of its forms simplify the issue by doing away with timing issues and by designating financial flows as the relevant economic activity to be taxed. However, they can only fix the global issue if they are all accepted at the same time, and it doesn't seem realistic that this strategy will soon be embraced in significant nations.

Tanzi, for instance, favors formalizing and multilateralizing international tax information exchanges via what was formerly referred to as "a GATT for taxes" or possibly is now known as a WTTO. The works of such eminent academic critics as Avi-Yonath, for instance, make it quite evident that more supranational authority is required to address many of the issues plaguing international taxes. However, it appears doubtful that this strategy will prove to be much more productive than the existing disappointing experience with information interchange in the absence of an international tax police—that is, an overriding sovereign authority. The enforcement of taxes from another nation doesn't seem to be a top concern for any tax administration. Another comprehensive strategy that has been popularized to date in the EU is some kind of forced harmonization or unification. At one level, this strategy once again necessitates either the cession of national sovereignty or the enforcement of international tax laws. Imposed harmonization seems to be neither desired nor practicable. throughout any event, such harmonization is unlikely to be accomplished soon, if at all, throughout the globe as a whole, even if the European Union ultimately achieves this aim, short of the establishment of a "one-world" government.

Such comprehensive responses to global issues often come out as too ambitious, if not utopian. They may possibly not be necessary. The mere fact that "borderless" transactions occur does not imply that everyone must follow suit in order to solve the problem. Of course, because each person's activities have an impact on others, we are more likely to maximize joint welfare if we play a cooperative game, in which each player takes into consideration the actions of the others to some degree.Taking advantage of trade and investment flows may not need the enactment of international legislation, but some level of international cooperation is required. In order to establish a workable cooperative game in the context of international tax, rules to which key players will agree are necessary, it may be necessary to "muddle through," so to speak, by looking for small, manageable changes to the current fiscal institutions. Not so much what the rules are as who makes them, how they are carried out, and why they are accepted are the crucial issues.

The little progress that has been achieved in the EU regulations regarding parent-subsidiary relationships, mergers and acquisitions, and the transfer-pricing convention to date is mostly attributable to accretionary and voluntary harmonization, according to what we suggest. This strategy clearly has limitations and falls short conceptually in several areas. However, it is also not only feasible but also occurring. The handling of interest and the availability of tax-exempt capital sources like pension funds are the two primary issues in the EU environment. Tax arbitrage will continue as long as certain capital suppliers are tax-exempt and some flows of capital income are privileged. Neither an administrative nor an allocative solution can adequately address this issue. There may still be a great distance between "here" and "there." Nevertheless, some progress has been made and most likely will continue to be made in what seems to be the correct direction, provided that the appropriate actors are questioned in the appropriate setting.

The outcomes of the current regulations may continue to be unfairly favorable to certain parties if the flows between nations are about equal and their treatment in the various countries is roughly identical, for example. However, as was already said, the issue in the actual world is more broadly how to coordinate the boundaries of national dispute rather than how to reach the tax collector's utopia of no arbitrage [7].In a sense, it may not matter too much how one defines the territorial tax basewhether on the basis of the features of transactions, companies, or whateveras long as there is a general connection between economic and financial reality. However, if this relationship disappears, as seems to be the case more often, OECD consensus pillars like permanent establishment and nondiscrimination are unlikely to be sufficient. Such ideas fundamentally developed through time as broad principles on how to divide the tax base in light of economic realities. Insofar as reality has altered, new rules are required. Not if change is required—that is not the fundamental question. Obviously, it is. Instead, the issue is whether it is plausible to anticipate that voluntary cooperation will lead to the development of the necessary new rules. This endeavor seems to be unquestionably far more challenging outside of the European Union.

This might be seen as a test of the feasibility of a Coasian solution to fiscal externalities. As is widely known, the answer to this issue relies on the frequency of game play, the distribution of both types of costs among the participants, and the degree of transaction costs relative to the level of externalities. We do not have enough information about these costs to say whether it is reasonable to expect such a solution or whether countries may instead voluntarily decide that the most effective way to solve the problem may be by transferring some authority to a central authority, as may ensue in the European Union or even, though we are skeptical, in the possibly future WTTO.We do, however, know that countries react to shared economic influences, that each response affects others, and that the overall effectiveness of such actions is likely to be improved if they are carried out with reciprocal critical awareness of both the underlying influences and of others' policy responses.From this perspective, the challenge is less about designing an appropriate system of international tax rules than it is about ensuring that the responses of others are taken into consideration. To put it another way, the key to finding a workable solution to the inherent problems that the international fiscal community faces is to repeatedly discuss and interact in order to come to at least a rough understanding of the fundamental "principles" that will be used to divide the international tax pie.The main justification for taking a realistic, modest approach to this issue rather than one of utopian idealism is that the fundamental issues with taxing capital income in the global economy seem unlikely to ever be solved without the use of arbitrary solutions, and that the only way we know to make such solutions tolerablelet's call them "fair," if you willis by getting the consent of those who will be impacted [8].

There are generally two ways to get to a cooperative agreement about international taxes. One is to formalize international tax concepts and procedures via an agreement. From the early days of the League of Nations through the development of the postwar OECD consensus and the present OECD process with regard to unfair tax competition, the taxation of Internet commerce, and other issues, this strategy has, to some degree, been followed in the past. Recent, more ambitious ideas for official, global tax cooperation (intertax, as it were) follow this pattern. According to Tanzi, "There is no global institution with the mandate to establish desirable rules for taxation and with sufficient sway to persuade nations to follow those rules." Maybe now is the right moment to start one. Contrarily, we believe that this moment has not yet arrived. The structure of the institutions within which a set of norms might be created, rules that, even if they may not be legally enforced, will be substantially obeyed in reality, is what we argue deserves further consideration right now."Big Boys" rule might be used to describe an alternate strategy for overcoming similar issues, which may, in part, explain why the first strategy had more success in the past. In other words, the main actors create rules that serve their interests and then get others to agree to follow them.The OECD consensus was undoubtedly influenced by U.S. hegemony in the postwar period, which was helped in no little part by the relative congruence of U.S. national interests with the growth of global efficiency in capital markets over the majority of the second half of the twentieth century. However, the issue today is whether a three-bloc world will have the same incentives to come to an agreement that would be sufficiently "fair" and relatively efficient to last not just for these participants but also, in the end, for other impacted nations.

Feasible Shares, or Fair Shares

Whatever institutional structure is created or put into place, the success of any agreement ultimately depends on the essential participants receiving their "fair share," as they see it. Thus, conceptions of fairness rather than efficiency are what matter most when it comes to international taxes, albeit how these principles are put into practice will undoubtedly have an impact on how much of the pie has to be shared. The complete and rapid crediting of source-country taxes by residency countries is the most effective way to achieve capital export neutrality, which is often required from the standpoint of global efficiency. What is probably less widely recognized is that no government actually provides such credits, nor is any country likely to do so given that doing so would essentially amount to handing source nations the keys to the country's purse. Instead of making additional attempts to create "envy-free" incentive mechanisms to persuade nations to act in ways that none of them believe to be in their own interests, it seems that more careful and explicit discussion of pragmatic sharing principlesthat is, rationales for dividing the tax base that are both practical and still follow a logical justification—is what is required to make progress in the area of international taxation. Even if disagreements over perceived fairness may not ultimately be able to be resolved by negotiating over surplus shares, the literature has a number of pertinent concepts.

The benefit principle is perhaps the simplest simple concept, though not necessarily the easiest to implement. Countries should tax people who benefit from cost-saving public services, of course, in order to cover the costs of providing such services. There is an obvious case in both equity and efficiency terms for imposing a generalized "benefit" tax on those who benefit from public-sector activity but would not otherwise pay for the benefits they receive. This is because, as is frequently the case, a variety of such services exist that cannot beor are notcharged for specifically.Total component costs would seem to be an alternate and more suitable type of company taxation from this perspective, despite the fact that justifications along similar lines have been used to justify corporate profits taxes. In reality, as Bird and Mintz show, an income-based origin principle tax on value added is the most suitable fiscal tool to implement this concept.

The entitlement principle's "somewhat squishy" idea, as McLure recently described, is derived from Locke. It might be claimed that both the source and residence nations are "entitled" to a portion of the profits made by cross-border investments, as Musgrave recently explained in great length.In the case of source countries, the entitlement argument is crucially that, since the profits generated within their borders at least partially result from the presence of such cooperating factors as natural resources or a skilled labor force, it seems only reasonable for the country that possesses or provides such factors to claim a "fair share" of the profits. In the meanwhile, residence nations could feel "entitled" to assert a comparable claim for their just proportion of the money made worldwide by the actions of their citizens. Of course, the issue is how to balance these competing claims [9].

With regard to multinational corporations, where, as one of us previously stated, "the allocation of profits isinherently and unavoidably arbitrary since such businesses are inevitably 'unitary' in character," arguments as to which countrysource or residence"contributes more to the production of income" are likely to be singularly fruitless.Although we are hesitant to refer to it as a principle, using what Oldman dubbed the traffic principle of charging what the traffic will bearin essence, a discriminatory pricing approachis another clear way to divide the tax base. The idea that source countries should levy taxes at least equal to those levied by residence countries that offer foreign tax credits is used to illustrate this strategy, which is sometimes referred to as the "soak-up" principle. This ensures that any money going to the treasury goes to the source country's treasury rather than the residence countries.

As Musgrave points out, if one can get away with it, such methods could make perfect sense in a hostile situation. However, it is obvious that this strategy must be disregarded in a cooperative framework, with the possible exception of the OECD consensus, where it is pragmatically acknowledged that source countries are more likely to be able to impose effective taxes than residence countries because they get the first "kick at the can". There is an evident place for some kind of redistribution principle, at least in theory, even if it is often seen to be utopian by tax professionals. As there are impoverished individuals, there are also poor countries. Recent action has been taken, for instance, to alleviate certain impoverished countries from the unfavorable economic effects of having a high level of debt. Similar to this, several OECD nations have in the past expressly given developing nations more flexibility in terms of international tax arrangements by implementing policies like "tax sparing."

More broadly, it has long been acknowledged that it may not be acceptable to apply the same standards to all nations in the context of international taxation. For example, see the OECD and UN model agreements. For instance, certain Latin American nations have long argued that territorial rights are vital for redistributive reasons. Although this topic seems to merit more thorough investigation in the cooperative environment we are discussingfor instance, it is evident that some of the negative response to the OECD's harmful practices agenda is motivated by disapproval of the "rich" designing rules to be imposed primarily on the "poor"we shall not consider it further here.But the reciprocity concept is one that definitely needs further research within the cooperative context. In international commerce and tax negotiations, reciprocitydefined as "you scratch my back, I'll scratch yours"is a well-established notion. According to the game theory literature we already studied, this tactic promotes cooperative conduct. According to Sasseville, tax authorities are more concerned with "enforcing and collecting taxes with a minimum disturbance of economic operations, having reference to what other nations may do to their own taxpayers" than they are with conceptual ideas.

However, as demonstrated decades ago, what is actually required in terms of efficiency is so-called effective reciprocity in terms of combined corporate and withholding rates. Unfortunately, the prevalent convention under the OECD Consensus is to interpret such "reciprocity" solely in terms of nominal rates, especially of withholding taxes. Interestingly, using differing reciprocity criteria to poorer nations may combine reciprocity with redistribution to some degree.A last, and perhaps most crucial, rule for splitting the global tax base is what may be referred to as, at the risk of overusing the term, the feasibility principle. According to McLure, administrative viability of source-based taxes "trumps conceptual arguments." Regarding all of the other ideas that are often discussed in literature on international tax, much the same can be stated. For instance, Sasseville makes a strong case that "the advantages it offers in ensuring that tax can actually be collected with a reasonable compliance burden can explain the success of the permanent establishment concept."

Similar to this, a lot of the justifications offered for increasing explicit acknowledgement of the need of formulary approaches to share foreign tax bases ultimately lie on pragmatic grounds of viability. The formulary method avoids the confusion caused by competing ideas by getting right to the pragmatic decision of who receives what in a way that is acceptable to all parties. "Cutting to the chase" in this approach may not always be the best course of action in a convoluted, multi-layered negotiation process. But by doing so, the conversation is undoubtedly brought more sharply to the main problem of who receives what.

Formulary systems are often criticized for being very difficult and arbitrary to apply as well as for causing "tax-grabbing" conflicts between jurisdictions that harm both international comity and allocative efficiency. The first objection is unrelated to the current situation since it presupposes unilateral action. The second statement is untrue, since any alternative globally agreed upon technique could be implemented with the same ease.

In a ground-breaking study published in 1892, Schanz acknowledged the necessity for a "formula split" and proposed a 75:25 split between source and residence nations. The difficult and drawn-out process that was conducted over a long period of time under the auspices of the OECD and the League of Nations was basically an effort to find conceptual hooks on which to hang what the participants believed to be a sufficiently equitable divide along these lines. It's interesting to note that Doern-berg's new e-commerce idea is not all that unlike from Schanz's. It seems that good ideas are difficult to suppress, even if they are sometimes as challenging to put into practice.

However, one should not give up because, as the history of the concepts that gave rise to the OECD consensus demonstrates, the fundamental ideas and concepts that underlie that consensus largely began as an effort to create a practical and workable strategy for allocating the global tax base in a way that could be regarded as "fair" by all participants. Schanz and other early authors on this topic understood the crucial point that creating a credible and enforceable "economic connection" for potential taxing jurisdictionsi.e., something they could really accomplish and that others would respectwas crucial.

For instance, the League of Nations' work in the 1920s was specifically a quest for a practical definition of "economic allegiance." The problem that the worldwide tax community is presently confronting, as we have already remarked, is that the compromises reached over the last 50 years look unlikely to hold for very much longer, necessitating a new consideration of these problems with the same goal in mind.

CONCLUSION

In conclusion, international relations are framed by the laws of the actual game, which also influence how governments act in the international arena. Key elements of these regulations include sovereignty, power relations, international law, diplomacy, and multilateralism. In an increasingly linked world, upholding and updating these principles is crucial for advancing global governance, settling disputes, and tackling transnational concerns. The pursuit of peace, stability, and sustainable development are all significantly impacted by the rules of the actual game. Respect for international laws and standards encourages stability, lessens the probability of war, and makes it easier for states to work together. Maintaining the actual game's rules is essential for promoting trust, strengthening international cooperation, and furthering humanity's common goals.

REFERENCES:

[1] J. Kücklich, “Review: Video Games between Real Rules and Fictional Worlds,” *European Journal of Cultural Studies*. 2008. doi: 10.1177/1367549408091320.

[2] Sheila C. Murphy, “*Half-Real: Video Games Between Real Rules and Fictional Worlds* (review),” *Cine. J.*, 2009, doi: 10.1353/cj.0.0107.

[3] J. Juul, *Half-real: Video games between real rules and fictional worlds*. 2005.

[4] E. Surer *et al.*, “Developing a scenario-based video game generation framework for computer and virtual reality environments: a comparative usability study,” *J. Multimodal User Interfaces*, 2021, doi: 10.1007/s12193-020-00348-6.

[5] J. Schrittwieser *et al.*, “Mastering Atari, Go, chess and shogi by planning with a learned model,” *Nature*, 2020, doi: 10.1038/s41586-020-03051-4.

[6] P. Lameras, S. Arnab, S. de Freitas, P. Petridis, and I. Dunwell, “Science teachers’ experiences of inquiry-based learning through a serious game: a phenomenographic perspective,” *Smart Learn. Environ.*, 2021, doi: 10.1186/s40561-021-00152-z.

[7] I. Suciati, “Penggunaan Metode ‘Perang Mental Matematika’ Dengan Menggunakan Media Kartu Pecahan Pada Materi Penjumlahan Bilangan Pecahan,” *Guru Tua J. Pendidik. dan Pembelajaran*, 2020, doi: 10.31970/gurutua.v3i1.44.

[8] E. Rychłowska-Musiał, “Investment decision rules in a competitive market and in the case of co-opetition. The real options games approach,” *Argumenta Oeconomica*, 2019, doi: 10.15611/aoe.2019.2.14.

[9] G. R. Mota, I. A. Santos, and M. Marocolo, “Change in Soccer Substitutions Rule Due to COVID-19: Why Only Five Substitutions?,” *Front. Sport. Act. Living*, 2021, doi: 10.3389/fspor.2020.588369.

CHAPTER 3

AN OVERVIEW OF THE GLOBAL TAX FORUM

Dr. Mounica Vallabhaneni
Assistant Professor, Department of Commerce and Economics,
Presidency University, Bangalore, India.
Email Id-mounicav@presidencyuniversity.in

ABSTRACT:

The Global Tax Forum is an international platform for cooperation and dialogue among countries and stakeholders on tax-related issues. This abstract provides an overview of the Global Tax Forum, examining its objectives, structure, and significance in addressing global tax challenges. It explores the role of the forum in promoting cooperation, sharing best practices, and fostering consensus on international tax matters. Additionally, it discusses the implications of the Global Tax Forum for global tax governance, transparency, and the fight against tax evasion and avoidance. The Global Tax Forum serves as a platform for countries to come together and discuss key tax-related issues. It aims to enhance international cooperation, facilitate the exchange of information and experiences, and promote the development of effective tax policies and practices. The forum provides a space for dialogue among governments, tax administrations, international organizations, and other stakeholders, fostering understanding and consensus on tax matters.

KEYWORDS:

Collaboration, Global Cooperation, International Tax Policy, Multilateral Approach, Tax Administration, Tax Coordination.

INTRODUCTION

We are not the first to realize that any workable solution to the present and future international tax issues requires a certain level of international collaboration. However, whether and how it would make sense to provide some decision-making power to an international organization is a crucial matter. when we previously said, such delegation does take place to some level, for instance, when the different OECD working groups try to out the specifics of how to tax e-commerce. although, much as with the current model tax conventions, no state is required to abide by any regulations that result from such negotiations, even if they were agreed upon; although, it is likely that by doing so, they purposefully increased the costs of any eventual disagreement. Countries may actively urge others to, as it were, "bind them to the mast" of an international ideal, similar to Elster's classic analogy of Ulysses and the sirens, so that they are less likely to be enticed to wander down the pathways of short-term political or financial profit.

choices are always made within specific institutional frameworks, and all institutions have clear notions—conventions or norms—that "frame" specific choices in terms of who and what are officially deemed "equal" in some meaningful sense. This is something that Zajac emphasizes. The international tax system is no different, albeit it is very difficult to build the appropriate level of "confidence" for considering it to be a cooperative game. This topic is incredibly complicated, and there is still much that we don't understand about it, as the recent reviews by Ostrom and Slemrod on the establishment of norms and trust across groups and within countries show. The following argument is obviously largely speculative and based more on suggestive inferences than on any in-depth analysis because we obviously know even less about the even more complex subject of how to build trust among nations that are themselves made up of many diverse groups and interests.

It appears that those who are actually involved in such processes on an ongoing basis sometimes seem to resolve issues on bases other than narrow national interests, apparently responding to conventions and norms that have emerged in practice to foster cooperation rather than open conflict. This is an encouraging lesson that some have learned from experience with the resolution of some international trade disputes, for example. On the other hand, it is extremely depressing to observe how often such decisions by "expert tribunals" have not been upheld by people in positions of authority who are not actively involved in the process and who instead seem to act just in the interests of their own country. Consider the current U.S. debate on the WTO ruling on foreign sales businesses as an example.35 Although there are numerous ways to interpret this experience, we propose that, to some degree, it reflects both the perceived predominance of "fairness" over efficiency and the supremacy of politics over expertise—which, of course, some people may believe to be a positive thing.

Efficiency is crucial, but as we've already, it's not the only factor that matters. Fairness is also important. In fact, evidence clearly shows that perceived fairness is often a more important factor in international politics than efficiency. Arguments in the real world are more about perceived fairness than efficiency. In the game of international taxes, perceptions of fairness have an impact on attitudes and influence conduct. The majority of the time, economists have deliberately crafted their professional speech to avoid overtly addressing this problem, except in the most sterile contexts, such as when allocations are both efficient and equal at the same time. But as Zajak points out, "envy-free theory seems sterile, abstract, and unworldly" in contrast to the concerns driving participants in the actual world. There aren't many, if any, Pareto-improving movements accessible in the hazardous, dynamic, and poorly informed real world, and even when there are, there are almost always losers and disagreements among the victors over how to distribute the surplus [1].

Furthermore, just listing the ideal fair-division scheme's abstract qualities won't get us very far. Instead, as Brams and Taylor explain in great detail, if we want to contribute to the discussion in the real world, we need to go farther and provide a workable algorithm or solution technique that will accomplish the intended aim. They demonstrate that, in many situations, redefinition of the game by including it in a larger class of games may be accomplished. If more than one object is being split, and balances may be struck concurrently in multiple distinct areas, it is always simpler to find a fair solution. As we previously indicated, federations have, for instance, partially handled certain issues with tax competition and harmonization by "sweetening the pot" for perceived losers via intergovernmental fiscal transfers. Unfortunately, when it comes to foreign taxes, these options are not always available.

The challenge is to find a mechanism to compromise that participants would find reasonable and workable in a setting where side payments are often impractical. In order to institutionalize the divide of the world's goods with a semblance of justice, conventions or even laws will need to be developed and put into place if the world is genuinely turning into a "global" society. Although we are still far from this ideal, countries are very concerned with dividing the global tax base even though they are not particularly concerned with ensuring interpersonal equity across national borders or interjurisdictional equity in accordance with any general principles of distributive justice. Perhaps, as Brams and Taylor suggest, the best we can do for the time being is to make players' need for cooperation clearer, or to put it another way, to encourage players to play with greater foresight.

In fact, as we indicated at the outset, the international tax game has already this behavior to a remarkable level, largely due to the degree to which it has matched Sandler's requirements for resolving "global challenges," as we will explore in a moment. On the assumption that each country acts unilaterally, such as via the foreign tax credit or another unilateral measure, the issue may be framed as how to persuade them to act constructively in the good of everyone. This line of reasoning might be applied to a large portion of the economic literature on international taxation, which attempts to extol the merits of global efficiency as a tax policy objective. This strategy hasn't been very effective until it aligned with the perceived interests of significant governmental and commercial sector actors in a "lead" nation, which was probably the case in the postwar period [2], [3].

DISCUSSION

If this strategy fails, as we believe it will in the current condition of the globe, the next step is to attempt to create a "club" or a coalition of collaborating governments. As the European Union has often with regard to direct taxation, doing so is challenging since it always entails ceding some level of sovereignty, if only for a small area of influence. The more precisely the aforementioned guidelines are followed, Sandler contends, the greater success is likely to be attained. Very simple structures that respect the nation-state as a crucial player may be the best means of fostering complex interactions among states," according to this statement. This argues that improving upon the OECD-led strategy rather than making a more audacious effort to establish a new "global" tax organization may be the best course of action in the international tax situation. Critics like Langer may criticize the OECD's lack of representation, while significant nations like India and China may object to adhering to norms that they did not explicitly participate in creating. However, this strategy is more likely to be successful in developing a new "sharing" system than in creating yet another useless global organization. Will such a plan, however, win widespread acceptance?

As few people as feasible should participate in the discussions, and their interests should be as uniform as possible. Once again, it would seem that the OECD, the G7, or some other smaller group that acknowledges the key rising "blocs" of the international economy would provide the most appropriate setting. Like in the existing OECD approach, nonmembers may and should participate in the core debate process when appropriate, for instance by joining the appropriate TAG. Of course, the crucial issue is whether and to what degree solutions developed by a select few would be seen as "fair" by nations that are not directly participating in the discussions. When applied at the level of nations, the "democratic deficit" emphasized by Keohane and Nye argues that nations are unlikely to be prepared to accept a given solution unless they are openly engaged in obtaining that solution. The OECD, the UN, and other organizations concerned with worldwide taxes are actively debating whether and how a new "Global Tax Forum" should or should be established as a platform to hold such conversations in light of this issue. However, it is inevitable that the more the representation, the more varied the interests, and the more difficult it is to come to a consensus [4], [5].

Utilize professional study to lessen doubt. The first two "principles" are not very encouraging since the approach to obtain a solutionthrough a straightforward, concentrated discussion inside a small, homogenous groupseems incompatible with widespread acceptance of the fairness of any such result by a diverse globe. This third strategy, however, has a long and honorable history in international taxation dating back to the League of Nations and more recently used by the OECD, and it shows some promise primarily by gradually increasing "common knowledge" about the issues and potential solutions. As previously mentioned, it would seem prudent to strengthen and expand the OECD's work in this area rather than, as some have suggested, turning to more inclusive organizations like the IMF or the WTO. This would allow the OECD to reach more nonmember countries than it already has. It should be noted once more that neither of these groups would have likely made much progress had the United States not taken the lead in both forums during the earlier parallel discussions of the model tax convention in the OECD and the United Nations, with substantial overlap between the participants in the two groups.Set your goals modest enough to succeed. Later on, one may always grow better, but only once the process has begun. Any process must succeed in the sense of producing results that are generally acceptable to all or most participants in order to become sustainable. Of fact, various people's perceptions of what is fair rely on both past events and current practices.

Without a doubt, the United States played a key role in establishing the post-war consensus on international taxation. The likelihood that it will continue to pave the way into the future is less assured. Bird speculated a few years ago that less developed nations would play a leadership role, but the relative failure of this strategy in the "Cairns group" approach to international agricultural trade calls into question this scenario. The process of creating agreeable principles is likely to be drawn out and may very well be eventually failed unless the United States, the European Union, or some other equally strong and convincing leader takes command. Not that what the leader suggests must, should, or will be approved is the main thing. Instead, the only way anything will likely be accomplished is with the support of a significant actor.40 Right now, it seems like this is arguably the main obstacle to creating a long-term fix for the cooperative international tax game.

Simple concepts like the ones mentioned above may not be all that simple to reconcile, either with the more formal game-theoretic framework we started with or with the somewhat more complicated and hazy reality of international political economy. However, we argue that at this point in the development of the international tax system, what is most needed is not a grand plan to solve all of our issues, both present and future, but rather a series of small, manageable steps that, if taken consistently, could eventually lead to the creation of the new global tax order that seems necessary to reflect the shifting dynamics of the global economy.

From this vantage point, it appears that continuing the development and discussion of the principles and procedures for sharing the tax base in the OECD and other forums is the best course of action. However, in the absence of a decisive player with strong ideas and enough sway, it is far from clear where this process will go. Nobody has a monopoly on the "right" solution for the international tax system, in part because the solution that is correct can only be arrived at through a process of discussion and experience that is both sufficiently focused to arrive at a conclusion and sufficiently inclusive to ensure that those affected feel they have been treated fairly. The delicate balance between these variables means that the result can only be determined over time as the globe gradually comes to an agreement on the optimal way to share the global tax base. We believe that paying much more attention to the challenging institutional issues involved in creating a framework within which countries can play the game of sharing the international tax base in this changing world is what those interested in maintaining the level of international tax comity required to facilitate global trade and investment need to do.

Level Cooperation in Musgrave Externality Models

Cooperation between federated entities has become crucially important in my native Belgiumcritically important in the truest meaning of the term. While the Belgian state has been around for 170 years, the Belgian federation is really rather youngonly 10 or perhaps a little fewer year old. Additionally, since federalization is a decentralizing process, the question of why a state exists at all occasionally comes up.This is the reason for my decision to write on the subject I did. I am aware that it may seem strange to raise such a topic in Germany, where the reunification happened exactly the other way 10 years ago.But this joyous book encourages more abstract thought. Richard Musgrave invented a new method of describing public finance by introducing the universal language of economic theory in his first work, The Theory of Public Finance. I have made an effort to cover my subject matter as broadly as possible by using that example as my model.

In order to achieve that efficiency in a federal framework, under alternative institutional settings, I start by describing the interactions that occur with- in the components of a federation and from a characterization of the efficient amount of such interactions. In addition to efficiency, I take into account noncooperative equilibria and assess their attractiveness in a federal setting. While considering more decentralization measures, I am compelled to consider the problem of federation dissolution and wonder what lessons public finance theory might provide. I draw a conclusion in the Musgravian vein [6], [7].

How to Be More Effective

Although each of the two situations had clearly defined efficient answers, Musgrave was less clear about how one would go about finding such a solution. The author only asked for a "combination of a market mechanism and a tax-subsidy scheme," but rarely went into detail."Resource allocation processes" for public goods, which were stated in terms of differential equations, were to be used to provide a solution to that sort of query in the late 1960s and the 1970s. These were basically mathematical techniques that allowed one to calculate a cost-effective solution in a series of stages akin to a tatonnement.

However, these procedures were not very good in terms of institutional quality. And if one wants to comprehend how an efficient, or equilibrium, condition of the economy might develop, institutions are crucial.Therefore, if we take into account the model inside the institutional framework of a federation, a broader understanding of the model may be provided. In this situation, the key concern is how to make the federation, whose members are A and B, more efficient.When this viewpoint is taken into consideration, many new and intriguing issues emerge. It is easiest to identify these issues by thinking about federalism in terms recently proposed by Inman and Rubinfeld. Three types of federalism are distinguished by these authors.

Federalisms two and three are majority-rule and cooperative.According to the definition of federalism, a decentralized form of government predominates when dealing with local concerns in all of these institutional forms. The three types vary in how they handle problems of common interest that demand for federal policies, such as resolving interregional externalities, providing national or international public goods, and deciding on tax policies based on geographical mobility. According to the authors' three-way classification, technocratic planning done at the federal level falls under institutional form, as does unanimous agreement between representatives of each of the lower-tier governments and majority vote of elected representatives of the lower-tier governments.

The Musgrave models of interactions mentioned above may easily be applied to taxonomy of alternate types of federal coordination. Of course, it may be used in a similar manner for the majority of other federated entity interactions.What does it tell us about what happens when people cooperate in a government? Planning is not of interest to us if it is interpreted in the traditional soviet manner because of its authoritarian nature, which runs counter to the concept of collaboration. Planning is primarily an information device, however, if it is regarded in the context of the resource allocation procedures mentioned above. It specifically identifies and calculates the economic surplus produced along the route of efficiency improvements. Additionally, it can calculate many methods to divide up the excess among the parties concerned, including equitable, tactically advantageous, and incentive-compatible options. This democratic and "enlightened" approach to planning would seem to completely overcome the issue of efficiency.

But is this knowledge sufficient for making choices as a group? Information collection is usually followed by negotiations between the parties. This is where cooperative federalism, the second institutional type of federalism described by Inman and Rubinfeld, enters the picture. The negotiating process, which is referred to as Coasian bargaining, is the main emphasis. Due to a number of issues, including "inability of the parties to agree on how the surplus... should be divided," "poor estimates of each other's threat point," "concealment of information," and "complica- tions of strategic interplay when the number of jurisdictions is large," the authors' assessment of it is skeptic. They add: "Our reading of the historical and contemporary evidence does not provide much support for the claim that lower-tier governments can solve their significant collective action problems on their own through unanimous Coasian agreements." They conclude, "The overall record has not been impressive.

Should we give up on the concept of cooperative federalism in light of this negative assessment? I don't believe so since we most likely don't know enough about the underlying factors that govern collaboration in economics and public finance yet. The source of cooperation, even amongst individuals, is not well understood, as by a recent synthesis put out by Ostrom. However, the extraordinary advancements documented in that research should serve as motivation for furthering our knowledge of interjurisdictional collaboration.The final institutional structure is majority-rule federalism, which is what is left. I won't try to compile the positives and negatives of it here; Inman and Rubinfeld do so in great length and nuance. Let me just state that, on the one hand, the equilibria produced by majority voting at the federal level may not be efficient, and, on the other hand, even in cases where they are, the majority vote always implies a minority whose frustration may not be small.Therefore, none of the three institutional models of federalism can claim to ensure complete efficiency, and each has its own flaws.

Federal Affairs: Noncooperative Equilibria as "Fallback Positions"

After seeing the limits of collaboration, one is compelled to inquire as to what would happen if there was no cooperation. The federal framework proposes as a solution that each entity would then endeavor to adopt the policies that are best for itself on the topics of common interest, given the policies selected by the other entities in the federation.There is no other way to describe this circumstance except a Nash-style noncooperative equilibrium between the entities. The 1969 Musgravian diagrams may be used to show it.

Musgrave's study did not make mention of this clear result, which naturally generalizes to any number of areas, since his main focus was on describing efficiency in the presence of externalities generally. But for the federal context I want to discuss right now, this specific circumstance is really relevant and interesting for a number of reasons.First of all, it establishes that there is a conceptual alternative to cooperation within the federationand that this alternative is not necessarily chaos, the breakdown of the state, the disappearance of the public sector, or some other catastrophic eventas some have suggested in political discussions. Instead, one should think of noncooperative fiscal equilibria as realistic "fallback positions" that will take precedent if cooperation is not possible.

It is important to note that there is no reason to think that a Nash equilibrium would include the parties making hostile threats to one another: the idea is to maximize each party's regional benefit rather than maximize damage to others.This leads to the second implication: noncooperative equilibria are worthwhile to research on their own account in order to provide useful policy recommendations. Nash equilibria across jurisdictions have received a lot of study and attention in the past fifteen to twenty years in the literature.Since these studies often highlight the inefficiency of these equilibria, many writers have chosen to ignore the topic as a result. Others, however, have gone a step further in their attempts to provide answers to a variety of concerns about the economic magnitudes at play, such as: "Are the taxes too high or too low?," and "Are public spending at such equilibria larger or smaller than at federally efficient levels?" As a consequence, tax "reform" directions are being determined in an effort to enhance these equilibria.

The phenomena of tax competition is a key illustration of non-cooperative arrangements in federations. Everyone is aware that this occurrence makes it difficult to properly assess taxes on capital gains and savings inside the European Union15. According to the conceptual framework I'm remembering, we have reached a noncooperative equilibrium in this situation.However, I have seen that there is a difference made between "harmful" and "not harmful" fiscal competition in the comments that go along with the changes that are now being prepared. This essentially means acknowledging that not all financial competition equilibria are undesirable. Those who aren't awful may not always be efficient, but their level of inefficiency could be negligible or unnoticeable.Because of this, I would argue that deeper and more in-depth knowledge of these equilibria and an assessment of how far they are from efficiency are needed, both for each category of taxes and for expenditures having spillover effects. It is encouraging to know that the original Musgrave diagrams were in fact a first step in that direction and will encourage us to continue.

What distinguishes this outcome from a confederation or even from a collection of separate states, if no cooperation is taking place and just a Nash equilibrium prevails between the members of the federation, as was suggested at the beginning of 14.4?16 In reality, two distinct and independent states that interact with one another via the externalities produced by commodity Y may also benefit from the Musgrave diagrams, which were previously viewed in a federally decentralized environment.This kind of inquiry should take us into the realm of constitutional law, an area in which I lack special expertise. So let me stick to the areas of public finance, which has clear backing from economic theory [8], [9].

Observe that economics offers rich conceptual support for each of my federalism themes to date. For example, externalities and public goods are used to describe interactions between entities, efficiency and equity are used to specify goals for cooperation, noncooperative equilibria are used to illustrate decentralization, and bargaining and voting models are used to formalize decision-making within the federation. The majority of these ideas have been created in the previous fifty years. In conclusion, it may be said that public finance has made a significant contribution to improving welfare levels and our knowledge of federation logic.

Do economic theory and public finance provide comparable conceptual tools to address my query about decentralization outside of federalism? To be clear enough, I'll use constitutional law to remind us that a federal government is a country whose establishment is based on a constitution that its citizens accepted via some kind of democratic process. Contrarily, a confederation is neither a country nor a state; rather, it derives its legitimacy from a contracta treatythat was unanimously signed by officials from each of its member states and ratified by those nations' domestic institutions.Decentralization beyond federalism thus equates to effectively abandoning the constitutional connection, but creating a federation, like the European Union, entails drafting and adopting a constitution in the other direction.

I don't think our discipline now has a tool that is widely recognized and sufficiently broad to comprehend what determines these stepsfrom constitution to contract, or from contract to constitution.However, there is a significant contribution in that direction. Inman and Rubinfeld's extended survey on the political theory of federalism's develops a model of constitutional choice based on the advantages and disadvantages of various institutional specifications of the federation with regard to the distribution of policy responsibility among levels of government and the degree of local interests' representation in the federal government. The model's specifics do account for crucial issue elements, but the authors are aware that their formulation is not yet conducive to drawing conclusions of a general character. However, the suggested strategy shows promise [10], [11].

CONCLUSION

In conclusion, the Global Tax Forum is a crucial worldwide forum for collaboration and discussion on issues relating to taxes. The forum's inclusive design makes it possible for nations and stakeholders to address international tax issues, foster collaboration, and create efficient tax laws. The forum's conclusions aid in the battle against tax evasion and avoidance as well as global tax governance. For the Global Tax Forum to advance international tax standards and create a just and equitable global tax system, there must be ongoing involvement and cooperation. The Global Tax Forum also supports initiatives to create a just and inclusive global tax system. It acknowledges the significance of taking into account the requirements and viewpoints of developing nations and assuring their active involvement in talks over international taxes. These nations may express their concerns, exchange their experiences, and get technical advice and support for capacity-building via the forum.

REFERENCES:

[1] J. S. Phillips, “Exchange of Information,” in *Tax Treaty Networks 1991*, 2021. doi: 10.4324/9781315075631-27.

[2] OECD, “Part I of a Report to G20 Development Working Group on the impact of BEPS in Low Income Countries,” *OECD Publ.*, 2014.

[3] African Union, “Tax Transparency in Africa 2020,” *Tax Transpar. Africa 2020 Africa Initiat. Prog. Report2019*, 2019.

[4] M. Koivusalo, “Global social policy forum: Introduction: Perspectives on global taxes and social policy,” *Glob. Soc. Policy*, 2011, doi: 10.1177/1468018110392195.

[5] Ifat Hanifah, “Analisi Surgensi Perppu Nomor 1 Tahun 2107 Tentang Akses Informasi Keuangan Untuk Kepentingan Perpajakan,” *J. Abdimas Bina Bangsa*, 2020, doi: 10.46306/jabb.v1i1.10.

[6] “Corporate Taxation in the Global Economy,” *Policy Pap.*, 2019, doi: 10.5089/9781498302197.007.

[7] A. C. Michalos, “Global Forum on Transparency and Exchange of Information for Tax Purposes,” in *Encyclopedia of Business and Professional Ethics*, 2019. doi: 10.1007/978-3-319-23514-1_1162-1.

[8] L. Allevi and C. Celesti, “… on EU BEPS; Fiscal Transparency, Protection of Taxpayer Rights and State Aid and 7th GREIT Summer Course on Tax Evasion, Tax Avoidance & Aggressive Tax …,” *Intertax*, 2016.

[9] African Union, "Tax Transparency in Africa 2020, Africa Initiative Progress Report: 2019," *Tax Transpar. Africa 2020 Africa Initiat. Prog. Report2019*, 2020.

[10] D. Lesage, W. Lips, and M. Vermeiren, "The BRICs and International Tax Governance: The Case of Automatic Exchange of Information," *New Polit. Econ.*, 2020, doi: 10.1080/13563467.2019.1584168.

[11] M. Ron Balsera, S. J. Klees, and D. Archer, "Financing education: why should tax justice be part of the solution?," *Compare*. 2018. doi: 10.1080/03057925.2017.1394743.

CHAPTER 4

FISCAL FEDERALISM AND RISK SHARING IN GERMANY: THE ROLE OF SIZE DIFFERENCES

Mr. Yelahanka Lokesh
Assistant Professor, Department of Commerce and Economics,
Presidency University, Bangalore, India.
Email Id-lokesh.yr@presidencyuniversity.in

ABSTRACT:

Fiscal federalism and risk sharing are key elements in ensuring stable and equitable economic outcomes within a federal system. This abstract focuses on Germany's experience with fiscal federalism and risk sharing, particularly highlighting the role of size differences among its constituent states. It explores how Germany's federal structure facilitates risk sharing mechanisms and addresses the challenges arising from economic disparities across regions. The abstract discusses the implications of size differences for fiscal transfers, intergovernmental relations, and the effectiveness of risk sharing arrangements. Germany's fiscal federalism framework involves the sharing of responsibilities and financial resources between the federal government and its 16 constituent states, known as Länder. This division of powers allows for tailored policy responses to regional needs while also ensuring a degree of centralized decision-making. The federal system provides mechanisms for fiscal transfers, which play a crucial role in redistributing resources and mitigating economic disparities across regions.

KEYWORDS:

Fiscal, Federalism, Federal, Germany, Risk Sharing.

INTRODUCTION

Federal transfer programs have been widely covered in the literature on fiscal federalism. There are several potential justifications for the central government in a federation interfering in state finances, as Richard Musgrave points out in the introduction to his key article on "Approaches to a Fiscal Theory of Political Federalism" in 1961. The variety of causes for such transfers is reflected in the intricacy of the actual transfer arrangements. Musgrave distinguishes a number of goals. First, the federal government could make an effort to affect the quantity, kind, or conditions of the public services offered at the state level. Second, the federal government may work to increase a citizen's independence from the state to which they belong in terms of their access to public services. All these goals might be at play in the German situation, where not only are state and federal income dispersed according to a sophisticated formula, but also where the state and federal governments' delivery of public services is tightly interwoven. The German Supreme Court requested a significant overhaul of this system in November 1999.

Idiosyncratic regional risk and the opportunity for intergovernmental risk sharing are key elements that provide justification for a system of unconditional transfers between states in a federation. Here, we'll focus on one particular element. A contentious topic is the possibility for risk sharing in federations. Naturally, risk sharing across regions has certain moral hazard issues, like any risk-sharing mechanism.3 Ex post equalization of real outlays or performance would provide mutual insurance among states against arbitrary variances in the delivery of public services. When discussing the equalization of actual expenditures or performance, Musgrave points out that fiscal equalization systems that require regions with above-average per capita tax revenues to make transfers to regions with below-average fiscal capacity create significant disincentives for tax-revenue-generating policies in both fiscally strong and weak regions.

The fundamental trade-offs between risk sharing, redistribution across areas with different predicted wealth, and incentives have been the subject of several recent contributions. The basic trade-off between risk sharing and incentives for local governments is once again discussed. Federal transfers have received a lot of attention in the literature as a risk-sharing tool to facilitate private spending. We ignore risks in the private sector and focus on risk-sharing of tax income. There are two factors that influence this decision.

First, because they cover a wider range of risky assets with unique risks, global private capital markets should be able to manage private sector risks much better than any smoothing via countercyclical taxation and the insurance effect of tax transfers within a federation. This argument is more persuasive the smaller the federation being examined, making it especially pertinent for a federation like Germany that contributes just a modest amount to world economic activity. Second, it is well recognized that tax revenue is more erratic than total income in and of itself. Government revenue threats are thus very important[1]–[3]

We focus on the disparity in population sizes across areas as the main issue. All current federations are made up of geographical areas with unequal population distributions. The size disparities inside Germany are virtually as pronounced as those within the European Union. North Rhine-Westphalia, for instance, had 18 million residents in 1999, which is 27.1 times the population of Bremen, the smallest state in terms of population size, which had 0.66 million residents.

Bavaria, the second-largest state, had 12.1 million residents, or 11.4 times more people than Saarland, the second-smallest state, which had a population of 1.07 million. Imagine a union of two states, one of which is 10 times larger than the other. The optimal mutual insurance result, ignoring the moral hazard problem, would be attained if both states collected their risky tax income, added their respective tax collections, and divided the result between them. This maximal mutual insurance would normally be unsatisfactory due to moral hazard incentives on the part of nations. Revenue sharing lessens the motivation for each state to enforce its tax rules and to spend money on tax audits.

In this article, we'll talk about linear mutual insurance plans. The ideal linear mutual insurance plan is described. We demonstrate that the proportion of a region's tax income per person that should go toward the insurance program increases with the region's relative size.

Furthermore, it maintains that for optimum contribution shares, the bigger area selects greater per capita tax revenue than the smaller region, even if the ideal insurance system provides larger contributions by larger regions, increasing their moral hazard incentives [1].

In the s that follow, we first quickly review the empirical research on risk sharing in federations, assess whether risk sharing is feasible within a federation like Germany, then review the motivational aspects of the existing federal transfer system. We provide the key findings on the influence of relative size on the ideal mutual insurance contract within a federation and make conclusions for the best layout of the federal transfer system. The results and draws a conclusion.

DISCUSSION

Delayed Integration of Mobile Labor: A Principle for Coordinating Taxation, Social Security, and Social Assistance

Clearly, integrating labor markets will increase efficiency in a scenario where limited worker mobility is the only barrier to allocational efficiency. However, market integration has both victims and beneficiaries. One group of elements whose marginal product under pressure from competition is losers. In this, the element of laborwhich is divided into a mobile and an immobile partreceives all of the attention. Exogenous differentiation and the assumption of non-labor production variables.

From an ex ante perspective, regional productivity shocks are what drive labor mobility. These shocks might be advantageous or harmful. Therefore, market integration has differing effects on mobile and immobile labor. Mobile labor is protected against regional shocks by market integration, but static labor has higher income volatility. The latter might lead to a need for insurance offered by the market. However, market insurance is adversely selected. Governments may consequently find justification for coordinating revenue and social security. If mobility is driven by skills, the case for intervention is increased. In this situation, there will be a negative correlation between talent and income volatility. Due to this, non-skilled, immobile labor is the obvious choice for distributional policy.

Three important presumptions are made in this. First, regional governments pursue distributive policies; second, there is no fiscal equivalence across areas; and third, discriminatory laws and institutional barriers to labor mobility are not acceptable. This particular collection of presumptions is typical of the level of integration attained by the European Union.

The union does not really provide the regions the authority to allocate revenue. Instead, it is up to the member states to exercise distributive competence. The European Community Treaty nonetheless forbids any discriminatory action taken by the member states against migrant workers. Such institutional settings are more typical of an interregional than an international environment. Because of this, the following theoretical analysis uses the terms "regions" and "jurisdictions" instead of "countries" and "nations."

Mobile people must be clearly assigned to autonomous jurisdictions if distributive policy is being pursued by such jurisdictions. However, there are competing rules of assignment, and this article will discuss their relative benefits. The Home Country Principle and the Employment Principle, two extreme norms of assignment, are sometimes the only ones taken into account in the literature. The latter indicates that people are allocated to the concurrent jurisdiction in the employment area. The Home Country Principle mandates that people be assigned to the competing jurisdiction in the area where they were born. Although it's not required, this might be the area where someone was born. One time at the start of their working lives, people might choose a particular jurisdiction under a more flexible implementation of the Home Country Principle. As an alternative, you may think about allocating people to their nation of citizenship. The Treaty of the European Community expressly prohibits any discrimination based on nationality, hence this possibility is not taken into account in this [4].

In terms of capital income taxes, the principles of employment and home country have direct parallels. Interpret labor income as the return on human capital to understand this. It follows that the Employment Principle equates to capital gains taxation at the point of origin. The Home nation Principle essentially taxes capital in the nation of residency, but this may not be immediately apparent. However, keep in mind that the home nation and the country of resident both have two distinct characteristics. Both instances make reference to the area where money has amassed and cannot be replaced ex post by taxpayers attempting to evade local taxes.

Assigning mobile labor in accordance with the Employment Principle is standard procedure. The Employment Principle serves as the foundation for both the European Union's coordination of Social Security and the OECD Model Tax Convention.The drawbacks of source taxes have been extensively discussed in the literature. If they are not in harmony, they cause production inefficiency and hurt immovable production elements. Mobile factors have a reversed source tax. In actuality, only a benefit basis may be used to tax movable elements. If labor is taxed at the source, there is a further issue. There is inherent discrimination in the Employment Principle. It is difficult to expand it to include those who are not employed. This could not be seen as Europe's most urgent political issue. It could yet end up preventing further political union. One of the most cherished principles of the European Union is the freedom of movement. Every citizen of the union has the freedom to dwell anywhere he or she chooses, as stated in the Treaty of Maastricht. This decision is in opposition to the current legal standard, which links work with the right to travel. Welfare claimants specifically forfeit their right to assistance if they relocate. It may not be prudent to rely on the courts to bridge the gap between European aspirations and ordinary practice since this scarcely conforms to the idea of a European citizenship.

By mandating the home nation to export social assistance, the conflict between the limited provision of social assistance and the stated right of all people to unrestricted mobility might be readily overcome. However, nations are hesitant to use this simple remedy. The causes are merely conjecture at this point. Monitoring will be one of them. Social aid is intended to help those who are in need. Such a requirement has to be watched over. Countries are hesitant to provide foreign administrations with surveillance responsibilities. Despite not being the main emphasis of the present, social aid will be taken into account when balancing competing norms of assignment.A guideline for allocating working people to jurisdictions is called the "Home Country Principle." The rationale has been one of allocation. The Home Country Principle, as opposed to the Employment Principle, upholds production efficiency. The Home Country Principle is supported by certain writers for reasons other than production efficiency. Sinn claims that it protects the Welfare State. Sinn views the welfare state as offering protection against uncertain job prospects and declining incomes. The system functions best when it is not up to the person to decide whether and when to opt out of it. Adverse selection would only occur if people had the choice to opt out. When they are young and unsure of their future job options, people should only be given the option to pick ex ante between rival redistributive systems. Such a notion is possible because to the home country principle.

Redistribution's fundamental premise, however, might be questioned since it depends on force. The underlying presumption is that in order for individuals to pay a fair share of the costs associated with distributive policy, they must be compelled to do so. According to the opposing theory, the general public must agree of any distributional policy. The only way to guarantee this consent is for there to be a strong sense of unity between the recipients and recipients of redistribution. However, such a sense of unity needs to develop. It develops through communities and fellowships. Due of its focus on the past, the Home Country Principle overlooks today. The Employment Principle integrates more seamlessly. It adapts to changes in neighborhoods.The Home Country Principle may also be faulted for providing poor incentives for governments to take residents' preferences into account. Individuals cannot make threats to leave after they have been assigned to a jurisdiction. This causes them to explode. The Home Country Principle doesn't really place any restraint on Leviathan governments. The Employment Principle is more in favor of competition across jurisdictions that increases efficiency [2], [5].

A combination of the Home Country and Employment Principle may provide better outcomes if neither is a perfectly persuasive rule of assignment. And in reality, the Advisory Board has only lately recommended a certain balance to the German Federal Ministry of Finance as a guideline for allocating EU citizens. The plan is to allocate migrantsboth those who are employed and those who are notto their home nation for a timed period of transition before reassigning them to their country of origin. As a result, jurisdictional reassignment only belatedly follows migration. This assignment regulation is known as "Delayed Integration" by the council3 and is integrative in that migrants are finally allocated to the nation to which they relocate. Integration takes longer since reassignment only takes effect after a transitional phase. For purposes of illustration, the council uses a five-year transition time.

The concept of delayed integration is not wholly original. In reality, there exist regulations in foreign tax laws that perfectly capture the Delayed Integration philosophy. The German foreign tax code is one example. A German taxpayer who emigrates and relocates to a country with a low income tax rate is nevertheless subject to German taxes on the portion of their income that originates in Germany. Other rules exist that mimic Delayed Integration but differ from it in a significant way. The provision of social assistance in Germany or Switzerland is one example. Feld is cited by Weichenrieder in his assertion that Swiss cantons treat migrants from other cantons as though they were residents and that the home canton pays the canton of residence's expenses in full for the first two years following migration and in half for the next six years. Within Germany, immigration is governed by a similar principle. Delayed Integration is evocative of the need to repay fees for the first time period. Regarding the incentives offered to migrants, the regulation is different. It seems as if a residence principle is in effect. Migrants have a right to the welfare benefits offered in the location where they choose to live. In contrast to Delayed Integration, this. This concept limits immigrants' access to social benefits during the transition period to those provided in their native country.

Delayed Integration is seen critically by Weichenrieder.According to him, it reduces tax competitiveness. The motivation for areas to undercut the tax rates of other regions is reduced. It is untrustworthy to guarantee low tax rates after a transitional phase. There is always a chance that jurisdictions may use unexpected policy changes.The present makes an effort to evaluate the advantages of delayed integration. This is carried out with a model that disregards the strategic aspects of tax competitiveness. The model, which is a Wildasin modification, is presented. The equilibrium that migration creates in a laissez-faire society is examined. The assumption made in the subsequent s is that regional governments implement independent redistribution strategies. Which rule of assignment between people and jurisdictions ought to be used? is brought up by this.

The Rule of the Home Country

There are alternatives to taxing workers in the nation where they are employed. The most popular solution is to tax domestic work. However, the majority of the research focuses on capital income taxes. In this perspective, paying taxes in the nation where you work is equivalent to paying taxes at the source, whereas paying taxes in your home country is equivalent to paying taxes in the country where you live. See, for instance, Sadka, Razin, and Frenkel. The idea that families don't move is one that is more or less implicit. They travel sometimes and occasionally work overseas. However, in actual practice, this is not the situation that matters. Less than 400,000 persons in the European Union work in a nation other than their own country. They are considered frontier laborers in accordance with Regulation No. 1408/71's wording. As more people move, they shift both their place of residence and their location of employment. It is preferable to use the Home Country concept in this case rather than the residency concept.

Long-Term Integration

It is tempting to search for a compromise if both the Employment and Home Country Principles have flaws.Such a compromise may provide that immigrant be only transferred to their country of origin for tax and Social Security reasons after an agreed-upon time of transition has passed since their migration. Let's suppose a transition time of five years only for the sake of demonstration. The decision would therefore be that immigrants are handled for the first five years in accordance with the Home Country Principle and subsequently for the remaining five years in accordance with the Employment Principle. Let's name this procedure "Delayed Integration." If all tax authorities follow the same amount of time for the delay, there won't be any disputes. The following is predicated on this level of cooperation. Not so much the implementation of a little delay distinguishes American practice from that of Europe today. According to present legislation, employees who are temporarily transferred overseas are nevertheless required to report to their home jurisdiction.Therefore, the innovative aspect of Delayed Integration is the use of the duration of delay as an explicit policy tool. The suggestion that Delayed Integration should apply to all citizens equally and that there should be no distinction between those who receive welfare payments and those who are employed or treated as though they are employed, such as family members and students, is also included in the proposal [6].

Unified Wage Arbitration

Arbitrage is unidirectional, and either or holds equally. Equality of depicts the situation in which employees leave their own country. Conversely, equality of stands for a circumstance in which employees leave the foreign country. It is necessary to evaluate each instance independently. We concentrate on a single issuewhether taxes may be used to raise the net income of immobile laborbecause the analysis starts to become complicated. The query must be viewed in light of the proposal. This claim asserts that if the Employment Principle is true, taxes cannot raise the net income of immobile labor. This conclusion holds true for both immigration and emigration areas. It is simple to imagine that things might be different if Delayed Integration were used. In fact, we'll demonstrate that using delayed integration improves the chances of redistributing revenue toward immobile labor. Statements that are more specific must distinguish between immigration- and emigration-related countries. We begin by examining the emigration jurisdictions.

In every country on earth, local governments are becoming more crucial to the provision of vital public services. But the government also has a lot of difficulties. The majority of municipal governments in emerging nations are confronted with escalating difficulties as a consequence of frantic and disorderly urbanization and the effects of regular natural catastrophes brought on by climate change. These difficulties have been made worse by the current financial and economic crises throughout the world.The growing disparity between the financial resources that are available and the municipal expenditure requirements is the primary issue that most local authorities, particularly those in charge of cities in emerging nations, must deal with. Rapid urban population expansion, which generates an ever-increasing demand for public services, new public infrastructure, and its upkeep, is one of the key causes of this widening budget disparity.

Most cities in developing nations rely mostly on transfers from the central government, with service fees and property taxes providing less of an income stream. The central governments continue to have control over the most profitable revenue streams that may be used to finance metropolitan areas, such as income taxes, sales taxes, and company taxes. Meaningful tax increases are occasionally resisted or delayed by central governments where local authorities can raise money from property taxes and service fees out of concern for the political stability of the urban population; or even rejected by the local authorities themselves out of concern for the political fallout from local taxpayers. In terms of responsibility distribution and available fiscal resources, the subnational level in the majority of nations suffers from enormous vertical imbalances. Or, to put it another way, many central governments refuse to shoulder the political and financial consequences of decentralizing power and authority.

On June 25 and 26, 2014, UN-Habitat organized an Expert Group Meeting in Barcelona with the financial assistance of the Barcelona City Council to assess accepted knowledge and practices and identify gaps, policy choices, and capacity concerns pertinent to tackling the aforementioned difficulties. The main goal of the EGM was to get a better understanding of the essential components and procedures local authorities must follow in order to successfully utilise different finance sources to carry out municipal expansion plans and urban development projects. In spite of the pressing necessity for these plans and projects to handle expanding urban populations, they cannot be successful without the support of financial and regulatory policies [7].

The seminar included 40 academics and practitioners, including officials from local governments. The conference's four topics were as follows: Public service provision in peri-urban areas and small towns in developing countries; Political economy challenges facing urban authorities in generating revenues from within, and solutions to these challenges; Challenges in the use of various mechanisms for mobilizing financial resources for urban development, and solutions to these challenges; Innovative governance mechanisms and institutions to support the efficient and equal provision of public services in metropolitan areas; Each of the four subjects was first formally addressed by international experts, who were followed by a discussion of many case examples in which the whole audience participated. Among the instances that were highlighted was the thirty-year experience of the City of Barcelona. The four papers that were written to frame and direct the conversation on the four topics are presented in this report. A summary of the main points from each of the four topic papers appears at the end of the report.

Understanding the Reform Process, Income Sources, And Job Responsibilities

Cities in developing nations must utilize large sources of tax income as well as non-tax revenues obtained via user charges and levies for a sustainable and responsible budgetary future. The capacity of a city to supply essential goods and services and to increase local officials' responsibility to their residents depends on the sufficiency of its own resources. To address disparities in spending demands and fiscal capability between cities, as well as for cities to assist the execution of central government programs, own revenues should be supplemented by intergovernmental transfers. Urban authorities in developing nations should think about utilizing instruments like municipal bonds, bank loans, municipal development funds, funds from institutional investors, corporate bonds, equity markets, and public-private partnerships in order to effectively address the problem of mobilizing adequate financial resources[8], [9].

An alternate strategy for mobilizing financial resources for municipalities is to borrow from capital markets. However, cities must first establish their creditworthiness in order to borrow money. Investors and banks use creditworthiness as a criterion to evaluate the risks associated with financing to local governments. The availability of sufficient internal income sources and the consistency, predictability, and unconditionality of intergovernmental grants are the main determinants of a municipality's creditworthiness.The paper on "Mobilizing Financial Resources for Public Service Delivery and Urban Development," written and presented by Professor Jorge Martinez-Vazquez, concentrates on the significant role of charges and fees in city budgets of developing countries and answers queries like "What are the most suitable sources of tax revenue for cities in developing countries?" It gives an overview of both traditional and new sources of local government financing. What taxes and levies may be raised to contribute more significantly to municipal budgets in developing nations? What are the optimum characteristics of intergovernmental transfers to support city financial stability and revenue autonomy? What are some of the ways that cities might get funding from the private sector and other outside sources to carry out their plans for infrastructure and urban development? What can be done to make it easier for municipal authorities to borrow money from the capital markets? What institutional and legal changes are required? The document creates a shared knowledge of the ideas, financial instruments, and reform procedures essential to improving the local revenue and financial situations of cities in developing countries by offering a snapshot of the available tax and non-tax sources, transfers, grants, and borrowings [3], [10].

CONCLUSION

In conclusion, with its risk-sharing procedures and consideration of size variations, Germany's fiscal federalism system is essential in fostering stability and equality across regions. Economic inequities are lessened by the system's capacity to redistribute resources via fiscal transfers. However, to maintain efficient risk sharing and long-lasting intergovernmental partnerships, issues brought on by size disparities need for continual examination and policy modifications. A more robust and inclusive fiscal federalism framework may be created in Germany by taking a balanced approach that supports regional development and takes into account the special demands of smaller states. Germany's fiscal federalism system needs constant review and adjustment to improve risk sharing and handle the effects of size inequalities. Fiscal solidarity and regional autonomy need to be balanced by policymakers in order to make sure that risk-sharing systems are efficient and long-lasting. Through targeted regulations, investment incentives, and capacity-building initiatives, smaller states' economies may be encouraged, resulting in more evenly distributed regional growth and less inequalities.

REFERENCES:

[1] K. A. Konrad and H. Seitz, “Fiscal Federalism and Risk Sharing in Germany: The Role of Size Differences,” *SSRN Electron. J.*, 2012, doi: 10.2139/ssrn.1914361.

[2] Sijbren Cnossen “Fiscal Federalism and Risk Sharing in Germany,” in *Public Finance and Public Policy in the New Century*, 2019. doi: 10.7551/mitpress/5689.003.0036.

[3] R. Hepp and J. Von Hagen, “Fiscal federalism in Germany: Stabilization and redistribution before and after unification,” *Publius*, 2012, doi: 10.1093/publius/pjr004.

[4] P. Sanguinetti and M. Tommasi, “Intergovernmental transfers and fiscal behavior insurance versus aggregate discipline,” *J. Int. Econ.*, 2004, doi: 10.1016/S0022-1996(03)00045-X.

[5] M. J. Crucini and N. T. Vu, "Did the American Recovery and Reinvestment Act help counties most affected by the Great Recession," *Rev. Econ. Dyn.*, 2021, doi: 10.1016/j.red.2020.11.002.

[6] S. G. Athanasoulis and E. Van Wincoop, "Risk sharing within the united states: What do financial markets and fiscal federalism accomplish?," *Rev. Econ. Stat.*, 2001, doi: 10.1162/003465301753237768.

[7] M. P. Evers, "Federal fiscal transfer rules in monetary unions," *Eur. Econ. Rev.*, 2012, doi: 10.1016/j.euroecorev.2011.12.002.

[8] A. T. Ningsih, "Analisis Faktor Keuangan dan Faktor Lingkungan yang Mempengaruhi Kinerja Keuangan Pemerintah Daerah (Studi Kasus pada Kabupaten/Kota Provinsi Jawa Tengah)," *Account. Anal. J.*, 2010.

[9] A. T. O. (ATO) *et al.*, "Cheating the government," *J. Econ. Psychol.*, 2012.

[10] A. Kyobe, O. Dynnikova, and S. Slavov, "Regional Disparities and Fiscal Federalism in Russia," *IMF Work. Pap.*, 2021, doi: 10.5089/9781513573649.001.

CHAPTER 5

THE DYNAMICS OF POLITICAL ECONOMY: AN ANALYSIS

Dr. Dasinis Nathan Annette Christinal
Assistant Professor, Masters in Business Administration (E-Commerce),
Presidency University, Bangalore, India.
Email Id-annette.c@presidencyuniversity.in

ABSTRACT:

The dynamics of political economy refer to the interplay between political and economic forces that shape policy decisions, institutional arrangements, and economic outcomes in a society. This abstract provides an overview of the dynamics of political economy, exploring the key factors and mechanisms that influence these interactions. It examines the role of political institutions, interest groups, ideologies, and power dynamics in shaping economic policies and outcomes. Additionally, it discusses the implications of the dynamics of political economy for governance, inequality, and economic development. Political institutions, such as electoral systems, party systems, and the separation of powers, play a critical role in the dynamics of political economy. They shape the incentives and constraints faced by policymakers, influencing the formulation and implementation of economic policies. The design of institutions affects the degree of accountability, stability, and transparency in decision-making processes, which, in turn, impact economic outcomes.

KEYWORDS:

Government Policies, Inequality, Institutional Dynamics, Political Competition, Power Dynamics.

INTRODUCTION

Municipal financial reform is not simple. Political economics problems are among the biggest obstacles to supporting municipal government in emerging nations. These difficulties are crucial for comprehending the central government authorities' persistent inability to decentralize large tax collections as well as the frequent failure of local governments to effectively use the power they have been given to collect taxes.To execute changes, local administrations require the capability and political will. In order to adopt the required legislative and institutional reforms and boost revenue via higher tax rates, better tax collection, and less tax evasion, they need also garner political support among urban residents. Municipal authorities should also be given more financial freedom by national governments so they may reorganize their tax bases and have more control over tax collection. These actions need conviction and dedication; they cannot be carried out in a vacuum; rather, they are moulded and impacted by the political, economic, and cultural realities of each nation. In this respect, each case is distinct, and the reform process and design should be modified to take into account regional and global conditions.

There are many issues with the political economics of increasing municipal income. How are municipal and urban finances impacted by political economy dynamics? What interactions and impacts have political economic concerns had on various nations' reform initiatives? Who are the main actors in the reform process and their roles? What are some examples of decentralizing tax income that have been effective in developing nations? What are some examples of municipal revenue augmentation via increased use of tax revenue power that have been successful? What constitutes the success-determining elements?These issues are covered in Professor Paul Smoke's article, Urban Government Revenues: Political Economy Challenges and Opportunities. Political economy issues are highly varied and include anything from local political economy dynamics involving elected local council members, municipal personnel, and residents to involvement from national politicians and bureaucrats. The efficacy of municipal revenue reform and fiscal decentralization is influenced by a variety of their interactions and activities. Urban authorities might effectively solve some of these issues, while others need for national-level intervention or assistance [1], [2].

DISCUSSION

One important topic that often comes up in conversations about the reform agenda and the political economic problems that local governments in developing countries face is the quality of governance. This subject alone warrants its own EGM. The committee decided to concentrate the debate on governance in this EGM on metropolitan regions owing to the significance of this issue to national economies and urban agglomerations. Public service delivery is often shared across several public companies and various levels of government in urban regions. In order to provide public services, metropolitan regions use a variety of governance strategies: some rely on jurisdictional arrangements, while others exploit functional fragmentation. In certain instances, metropolitan authorities assume complete control over the provision of public services.

Cities in emerging nations often blend relatively affluent and impoverished neighborhoods. Thus, if efficient and effective public service delivery were restricted to affluent regions where taxes are raised, this would result in widening gaps in the quality of service provided across the city. Investments in the city's transportation and road systems, as well as other public infrastructure, often demand for cooperation and coordination between the many stakeholders. As a result, metropolitan regions' governance and funding are inextricably linked. In order to implement policies effectively, local governments must have the institutions and governance frameworks necessary to meet the growing demand for urban services, support the economic competitiveness of metropolitan areas, and guarantee equal service delivery to all constituents, regardless of their location.

Professor Enid Slack's paper, Innovative governance approaches in metropolitan areas of developing countries, which she wrote and presented, examines these problems and identifies the various governance strategies employed globally to finance equitable and effective public service delivery and urban development in metropolitan areas. In further detail, Professor Slack's article looks at the advantages and disadvantages of different governance arrangements in terms of the efficient and equitable delivery of public services in urban regions of emerging nations. There is no one Enter scale, according to the research, which compares several urban governing models using accepted criteria. How are urban services financed in small towns and municipalities?

The expansion of the population in their suburbs and city expansions is one of the issues that big urban governments and metropolitan regions have to deal with. The issue of expanding services to peri-urban regions touches on both technological and governance challenges, particularly those connected to economies of scale in the delivery of public services. Certainly, tiny towns and municipalities outside of urban regions have challenges related to size.The extent and quality of public services offered in various parts of the city vary often in the case of major municipal administrations. The poorer delivery of public services at the periphery is a common manifestation of these inequalities in emerging nations. The absence of sufficient infrastructure for newly incorporated communities, which are linked to rapid population increase among recently moved populations often characterized by low levels of education and ability, as well as the lack of acceptable housing, provide challenges. The provision of better services in these regions is made more difficult by the existence of criminality and urban gangs. There is also evidence that in big local authorities, policymakers prefer to focus policies on meeting the demands of certain groups while being less likely to give public goods to other groups.International experience demonstrates different degrees of success in resolving issues brought on by the urban periphery, and when efforts have been effective, they are extremely particular to both the governing framework and the kind and character of the service [3]–[5].

Smaller governments that surround major urban regions provide a similar problem. This problem is of a different kind. For instance, there is unmistakable proof that local government size affects how well public services are delivered. Even though economic theory predicts that cities with bigger local government units may benefit from economies of scale, extremely large local government units often encounter inefficiencies because of the size of their bureaucracy. Additionally, there is evidence to support the notion that smaller local governments are more politically accountable and efficient in delivering public services. Yet additional data point to a correlation between smaller local governments and higher levels of official corruption. Naturally, this does not mean that increasing the size of local governments is the best way to advance good governance.

The problem is complicated and poses many real-world issues: What are the most efficient methods to enhance the provision of services by these more compact, maybe even too compact, local governments? Should their amalgamation with bigger entities be encouraged? Or can they work together with other local governments to solve problems with scale? Is hiring private contractors the answer? The population during the day varies from the resident population in metropolitan regions of emerging nations. But the general populace also makes use of public services. What strategies may local governments use to increase income from those who are present throughout the day? What would constitute a fair distribution of tax revenues between the areas of residence and employment?

These problems and queries are clarified in Professor William Fox's work, Structuring service delivery in tiny urban areas. The study addresses several methods to increase the viability of public service delivery in small urban centers in developing nations and in peri-urban regions of big cities. It discusses issues with local resource mobilization, variations in city government sizes throughout the globe, and the difficulties of small cities and peri-urban regions to generate adequate levels of public services as a result of weak institutional foundations and revenue structures. Additionally, it analyzes the factors that determine an efficient government size and assesses the effects of economies of scale on the provision of local government services. In his study, Professor Fox suggests alternate methods for efficiently delivering services in small urban centers and peri-urban regions of developed nations.

Mobilizing Financial Resources for Urban Development and Public Service Delivery

Local governments play increasingly important roles in the provision of fundamental public services and in the creation of the infrastructure needed for economic growth. These roles of local governments are evolving against a backdrop of numerous global challenges, such as crises involving the environment and natural resources, rising urbanization, and escalating infrastructure backlogs, all of which are likely to make local governments' financial difficulties worse.Local governments in developing nations need to have sizable sources of their own tax income as well as non-tax revenues gathered through user charges and levies in order to carry out their mission in a financially prudent way. The secret to a city's enhanced capacity to provide essential goods and services, as well as to better hold local officials accountable to their residents, is enough own income. For cities to assist the execution of central government programs as well as handle disparities in spending demands and fiscal capabilities between cities, own revenues must be supported by intergovernmental transfers. Urban authorities in developing nations need financing tools for capital infrastructure development in order to handle the problem of securing appropriate financial resources. These combine capital donations with borrowing from other sources. Systemic shortages in all of these traditional revenue sources have prompted local governments all over the world to experiment with novel sources of financing, from PPP joint ventures to instruments to capture rising land values associated with capital infrastructure construction. This paper's primary goal is to give a comprehensive analysis of all established and emerging sources of funding for local governments so that practitioners on the ground may use it as a reference when creating and executing local government development programs [6], [7].

The remainder of the essay is structured as follows. In the first, we examine the justification for and significance of creating one's own income streams, as well as the optimum types of taxation for cities in emerging nations. We also consider the potential significance of levies and fees in helping municipal budgets in developing nations become more substantial. The most desired aspects of intergovernmental transfers are discussed in the second part in order to help cities achieve financial stability and revenue autonomy. The third outlines some of the many ways that cities might get funding from the private sector and other outside sources to carry out their plans for infrastructure and urban development. We provide a summary and conclusions in the fourth.

Tax and Non-Tax Own Source Revenues

The two main functions of revenue assignments: Not only revenue but also accountability. It is important to emphasize the value of creating one's own income streams at the subnational level, which are those that jurisdictions have some latitude to change. Adequate finance is brought about through own income streams, including tax and non-tax instruments like fees and charges, although transfers also play a role. Why therefore should we bother creating our own income streams, particularly given how reluctant both the federal and subnational levels are to utilise them, as we can see?

On the income side of the budget, the fundamental idea is that personal revenues uniquely off er an element of horizontal responsibility of public officials to their citizens. The establishment of a fiscal culture of expenditure efficiencyavoiding resource waste and meeting local residents' needs and wantsas well as fiscal responsibilityputting boundaries on an otherwise unbridled appetite for public spending with ongoing pressure for more central transfers and/or public debtrequires this accountability. The evidence from other countries also suggests that greater tax autonomy at the subnational level is linked to a wide range of other positive outcomes for decentralized systems, including improved macroeconomic stability, generally better governance, and lower levels of corruption.

This message is essential for comprehending the justification for and justification of the significant work that goes into each revenue assignment change. We must concentrate on what makes revenue assignments distinct if we are to reap the advantages of improved accountability, expenditure efficiency, and fiscal responsibilitybenefits that, once again, cannot be achieved by a subnational finance system that is dominated by transfers and revenue sharing. Subnational governments should have this flexibility when raising their own funds. This duty establishes a connection with accountability.The usage of one's own income sources may be hampered by political and economic difficulties.

As Professor Paul Smoke underlined in a different presentation presented at this conference, many nations utilise their own resources seldom due to prevalent incentives. In particular, central governments are hesitant to delegate taxing authority out of concern that they would face competition from local governments for the same revenue bases or out of concern that they will lose control over fiscal policy. Local governments also have a history of being unwilling to take on the burden of deciding to increase their own taxes in a politically unpalatable manner. The best and most popular method for supporting subnational governments is revenue sharing and other intergovernmental payments.The tax assignment issue in public finance may be summed up by these two queries. The degree of income autonomy should enable the richest subnational governmentsthose with the greatest tax basesto cover the majority of their spending duties with own resources, according to a widely acknowledged guideline. This implies that in order to equalize subnational governments' capacity to provide basic services, the substantially poorer subnational governments would need transfers from the central government [8], [9].

If we wish to fully comprehend the justification, the answer to the first questionwhich taxes should be given to subnational governmentsis more complicated. The benefit principle, which states that those who utilize a service should pay for its expenses, has long been the standard response to taxes at the subnational level. The benefit principle has power because, at least in theory, it provides guidance on how much a service should cost, who should pay for it, and who should get it. That could respond to our query. The strength and clarity of the benefit principle, however, are quickly diminished in reality due to the difficulty in identifying service customers or the complexity of institutional intergovernmental agreements. The actual implementation of the benefit principle is further constrained by equity issues, such as the disparities in the ability of various jurisdictions or individual users to pay, or even the presence of externalities between jurisdictions. Finding tax mechanisms that would implement the benefit principle is therefore a difficulty.In order to put tax autonomy into action, we need to answer two questions: What kind of revenue autonomy is ideal? What kind of tax tools need to be used to provide such tax independence?

Which kind of tax autonomy is preferred? Four factors are often considered in relation to tax autonomy: Who chooses the taxes that subnational governments will use? Should tax bases be restricted to a single level of government, or may they coexist with other levels? Which governmental level should pass laws governing the tax base and tax rate? And which level of government ought to handle the tax administration? There are compelling reasons to partly restrict the power of subnational governments to enact taxes and levies with regard to the kind of taxation. Two main strategies are used: an open list of taxes from which subnational governments may pick, subject to general limitations and restrictions, or a closed list of permitted taxes decided at the national level from which subnational governments can choose. A closed-list strategy may be desirable while being more constrictive in terms of autonomy since it may prevent the imposition of highly skewed taxes or annoyance charges by subnational governments as well as the fragmentation of the domestic market at the national level. The constitution often specifies the method to be used. Closed lists are more typically employed in unitary political systems. Some federal systems use open lists. Nevertheless, a handful of federal nations also clearly outline how taxes might be used at various levels of government.

Regarding the question of whether one level of government should have exclusive use of a particular tax base or if multiple levels of government can share this base concurrently, cohabitation has the advantage of giving subnational governments more options and significant sources of revenue, which might otherwise be monopolized by the central government. Due to the fact that one level of government often does not consider how its policies would affect the tax base and revenues of the other level of government, this has the drawback of producing vertical tax externalities. When an open-list strategy is used, it is often the case that bases can coexist, according to international experience. In reality, choosing a limited list is often done in order to prevent the cohabitation of tax bases. All things considered; it would seem that a closed list hybrid method that permits the coexistence of tax bases may be favored. Assigning power to alter the composition of tax bases and rates is the next stage in the design of tax autonomy. In general, tax base definition autonomy is significantly less desired than tax rate definition autonomy. Exclusions, deductions, or credits may be used to define the tax base differently in different jurisdictions, which may increase compliance costs and complexity. In multi-jurisdictional environments, taxpayers and administrators can often manage tax rate autonomy better. Additionally, it encourages political accountability of subnational officials in a more open manner.

The last aspect of tax autonomy takes into account which level of government should be in charge of handling the different taxes. Subnational tax administration may increase subnational governments' accountability, but it can also be less cost-effective owing to the economies of scale associated with centralized administration. The allocation of administrative responsibilities is country- and context-specific because this efficiency-accountability tradeoff varies for different taxes and administrative capacity.8 Where low levels of administrative capacity are present; it makes sense to entrust the collection of subnational taxes to the central tax administration. By determining tax rates, autonomy is still preserved. This kind of structure often calls for incentives to encourage the collection of subnational taxes, which the central tax authorities could otherwise prioritize lower down.

Features Ought Subnational Taxes

Taxes may be used as policy tools to accomplish other government goals, such as income redistribution or macroeconomic stability, in addition to supporting the provision of public services. However, there is general agreement that these other goals are best accomplished by central governments acting alone. When trying to implement the benefit principle at the subnational level, the efficiency of allocation must be the main concern.There are a number of characteristics for all taxes that are also desirable at the subnational level in addition to their suitability to approximate the benefit principle: being buoyant, with revenues roughly changing in proportion to the economic base; being horizontally equivalent providing equal treatment to tax payers in similar circumstances; being relatively efficient, causing low economic activity distortions; being relatively low in administration and compliance costs; and b.

Other desirable qualities of subnational taxes make them more appropriate to the benefit principle, including being geographically neutral, not interfering with domestic or international trade, and not imposing the burden on residents of other jurisdictions unless offset by benefits to non-residents; having equally distributed tax bases across jurisdictions; having relatively immobile bases; having relatively sluggish bases; and having relatively slender tax bases.

Choosing Certain Tax Mechanisms

Few sources of income satisfy all the desired characteristics, necessitating a compromise; the aforementioned criteria enable us to choose the most advantageous local tax assignments.There is broad agreement that user fees and charges are the greatest way for local governments to generate money since they most closely adhere to the benefit principle. A wide range of services, including water and sewerage, power, parking, rubbish collection, urban transit, aged care facilities, museums, parks, and sporting venues, are amenable to being paid for using user fees and levies. User fees may help pay for a portion of other services like health and education. Additionally, user fees may be levied to pay the public expenses associated with the registration and oversight of a variety of activities, such as the founding of businesses, the titling and registration of real estate, and the issuance of driving licenses.

Benefit charges offer the benefit of not directly competing with central governments for any tax base, which is advantageous from a political economy perspective. As a result, central authorities tend to be much more lenient when granting autonomy to subnational governments to set taxes and fees. Due to the potential perception that these charges and fees are discriminatory to the poorer people, fees and charges for excludable services are often set at full cost recovery in developing nations. Due to resource loss and unneeded subsidies for inhabitants with higher incomes, this low user price wastes one of the only reliable sources of money for local governments.

Property Taxes

It is also widely agreed that betterment levies and property taxes come the closest to being a benefit tax and are thus ideal for local government finance. Property tax money is almost always given to local governments instead than regional or intermediate levels of government. The amount of freedom allowed to local governments to control this tax may vary, but the consensus that this tax is theirs to control seems to be well-entrenched. Property taxes are particularly appealing as a subnational tax due to a number of factors. The most significant benefit of property tax is that it is an obvious levy that promotes political responsibility. Additionally, the tax is mostly levied on a fixed basis. Property taxes resemble benefit taxes more closely when population and property characteristics become more similar. The property tax, however, may deviate from the benefit connection depending on how it is set up. For instance, it may do so if it only applies to a small subset of property types, such as non-residential property.

The potential for income and predictability of property taxes are further benefits. Also take note that the property tax, when seen in terms of vertical equity, has the potential to be progressive in developing nations, increasing the total vertical equity of the tax system, even if in reality exemption rules that favor richer families may make the tax regressive. Another benefit of the property tax is that it is probable that inhabitants of the area where the services it funds will bear a large portion of the tax burden. The property tax also has the benefit of placing relatively low compliance costs on tax payers since, with the exception of appeals, their involvement in calculating tax due is negligible. The quality of land usage may be significantly improved by considering a portion of property tax as a price for land.

The fundamental disadvantage of property tax is that it is often unpopular with taxpayers and, as a consequence, with public officials. This may be because of how visible it is. It may provide liquidity issues for homeowners with substantial real estate holdings but modest salaries, which is one of its other downsides. Additionally, the administration of property taxes requires frequent, expensive revaluations of property, and it is difficult to implement since the political repercussions of property seizure may be seen to be too excessive. The property tax also seldom experiences automatic revenue increase because it lacks revenue elasticity.Property taxes come in a variety of shapes and sizes in reality. For instance, whereas some nations tax both land and improvements or buildings, others just tax land values or rentals. Although land taxes are often more effective, they also have a lower potential for income and are usually more challenging to manage correctly, for instance in terms of property value or assessment. Property taxes may be administered in a variety of ways, including via centralized or central control of cadasters and re-evaluation procedures, which can even make them practical in underdeveloped nations. Be aware that as long as subnational authorities are granted considerable latitude in rate setting, tax autonomy is mainly protected. Depending on developing capabilities, several administrative devolution models might be taken into consideration throughout time.

Betterment levies are a different type of property tax that subnational governments collect upfront from land and housing developers as well as from homeowners as a fee for public service improvements like paving roads, installing drain infrastructure, building sidewalks, and installing street lights, all of which appear to increase property values. Betterment levies have the advantage of being more directly contractual than property taxes, which strengthens the benefit principal characteristic in subnational government. They may be helpful in giving subnational governments the cash they need to spend in necessary infrastructure [10].

Because there is a direct correlation between the usage of local services and infrastructure and the ownership of a car, vehicle and transportation taxes are often a desirable kind of local taxation. Additionally, automobile and transportation taxes have the benefit of being green levies with the added benefit of lowering adverse externalities such local air pollution and traffic congestion. These taxes are likewise generally small, non-explicit, and revenue elastic.

On the down side, owners will often register their vehicles where it is least expensive, and this will typically be difficult to stop using regular enforcement tactics. Particularly in developing nations, motor vehicle taxes continue to be neglected compared to their potential and the benefit of a tax handle they provide. The causes of this are unclear, but they most likely stem from a mix of political resistance by car owners and a desire by central governments to maintain control over this tax revenue stream.

Generally, resident taxes should cover resident services, whereas company taxes should cover business services. The imposition of business taxes and licensing fees at the subnational level is justifiable since it serves as a benefit tax for the infrastructure and services that are supplied by subnational governments while also being an indirect but administratively simpler method of taxing the revenue of company owners. These levies include anything from various types of general taxes to business permits and fees. The most ideal taxes are those with broad bases that don't take into account the production's factor mix, like the origin-based business value tax.

The closest analog to a BVT before the 2003 removal of payroll from the tax base was Italy's regional company tax. More often, we see various business licensing fees, which might change depending on the nature, size, or location of the firm. For instance, municipal company taxes in various South American nations are calculated based on yearly turnover.Taxing public utility services is another desirable excise at the subnational level. Some of these services, like telephone and energy, have a substantial potential for income.

Excises on public utility services, in addition to having the ability to generate income, may suit the benefit principle effectively since residential and business use of local public services is often adequately represented by consumption of power and phone services. Due to the low-price elasticity of demand for public utilities in comparison to other commodities, taxing would be associated with comparatively little distortions. Revenue elasticity and other characteristics of progressivity are often produced by their relatively high-income elasticity.

Sales taxes and excise taxes both have the potential to be piggyback or special subnational taxes, subject to the limitations given by the size of the jurisdiction and cross-border commerce and smuggling. The size of the jurisdiction, the technology of product delivery, and the places of sale all affect how much excise piggyback surtaxes may be employed locally. Excises allow for rate differentiation by jurisdiction, are often more politically acceptable, and are simple to administer in collaboration with national wholesalers acting as withholding agents. Additionally, the assignment of destination-based excises on alcohol and tobacco to the subnational level is consistent with the benefit principle. This works well as a stand-in for the advantages that companies get from services provided by subnational governments at the point of production. The BVT would also be computed by adding payroll, interest, rentals, and net profits on the basis of yearly accounting, in contrast to the conventional VAT calculated using the credit method.

Payroll taxes, such as those in place in Mexico City, or more broadly, taxes on labor income, are additional methods of taxing income. Payroll taxes, however, have the disadvantage of perhaps being more misleading. Subnational payroll taxes are not difficult to implement and may generate large sums of money even at low rates. In certain developing nations with less developed tax administrations, payroll taxes in particular could be simpler to manage and enforce than general income piggyback taxes. However, these taxes have a propensity to skew the ideal component composition of production and discourage employment in the formal sector, two issues that are crucial in the majority of developing nations. If payroll taxes are not levied over a whole metro area, their tax base may be extremely mobile. The majority of central governments zealously guard this revenue base and already impose high rates of taxation on it in the form of social security levies.

Taxation On Natural Resources

Taxes on the exploitation of natural resources have at least a loose connection to the local benefit concept. Extraction operations damage the environment, put additional strain on nearby infrastructure, and utilize local resources. There are, however, counterarguments against municipal taxes on natural resources. Local taxes may result in broad horizontal fiscal imbalances, inefficient population mobility and company placement, and internal conflict when economically important resources are spatially concentrated, as is often the case. Furthermore, local governments should not levy taxes on natural resources because of the considerable volatility of commodity prices worldwide.Natural resource taxes are often less significant in urban areas.

CONCLUSION

In conclusion, political economy dynamics refer to the intricate interplay between political and economic factors that influence institutions, institutions' policies, and economic consequences. Economic policies and results are significantly influenced by political institutions, interest groups, ideologies, and power dynamics. Effective governance, eliminating inequality, and encouraging sustainable economic growth all depend on an understanding of these processes.

To develop policies that promote just and successful societies, decision-makers and scholars must continuously assess and respond to the changing dynamics of political economy. Governance, inequality, and economic progress are all significantly impacted by the dynamics of political economy. To accomplish common objectives, effective governance requires negotiating the intricacies of political and economic connections. Economic growth and social cohesiveness may be hampered by inequality, both in terms of income distribution and political sway. For the creation of policies that encourage inclusive growth, lessen inequality, and advance sustainable development, it is essential to understand the dynamics of political economy.

REFERENCES:

[1] S. J. Song and R. M. M'Gonigle, "Science, power, and system dynamics: The political economy of conservation biology," *Conserv. Biol.*, 2001, doi: 10.1046/j.1523-1739.2001.015004980.x.

[2] R. O. and M. Williams, "Global Political Economy□: Evolution and Dynamics," *London Red Globe Press*, 2020.

[3] M. Podemska-Mikluch, "Creative Dynamics and Entangled Political Economy," *Rev. Behav. Econ.*, 2021, doi: 10.1561/105.00000133.

[4] N. Loughlin and M. Grimsditch, "How local political economy dynamics are shaping the Belt and Road Initiative," *Third World Q.*, 2021, doi: 10.1080/01436597.2021.1950528.

[5] M. Podemska-Mikluch, "Creative Dynamics and Entangled Political Economy," *SSRN Electron. J.*, 2020, doi: 10.2139/ssrn.3715819.

[6] N. Beck and J. N. Katz, "Modeling Dynamics in Political Economy Data," *Annu. Rev. Polit. Sci.*, 2011.

[7] N. Healy and J. Barry, "Politicizing energy justice and energy system transitions: Fossil fuel divestment and a 'just transition,'" *Energy Policy*, 2017, doi: 10.1016/j.enpol.2017.06.014.

[8] M. Lundström, "The Political Economy of Meat," *Journal of Agricultural and Environmental Ethics*. 2019. doi: 10.1007/s10806-019-09760-9.

[9] A. Tsinda, P. Abbott, J. Chenoweth, and S. Mucyo, "Understanding the political economy dynamics of the water, sanitation and hygiene (WaSH) sector in Rwanda," *Int. J. Urban Sustain. Dev.*, 2021, doi: 10.1080/19463138.2021.1881787.

[10] N. Beck and J. N. Katz, "Modeling dynamics in time-series-cross- political economy data," *Annu. Rev. Polit. Sci.*, 2011, doi: 10.1146/annurev-polisci-071510-103222.

CHAPTER 6

INTERGOVERNMENTAL TRANSFERS: ADDRESSING VERTICAL AND HORIZONTAL IMBALANCES

Dr. Mounica Vallabhaneni
Assistant Professor, Department of Commerce and Economics,
Presidency University, Bangalore, India.
Email Id-mounicav@presidencyuniversity.in

ABSTRACT:

Intergovernmental transfers are a crucial mechanism for addressing vertical and horizontal imbalances in fiscal relations between different levels of government. This abstract provides an overview of intergovernmental transfers and their role in mitigating disparities in fiscal capacity and expenditure needs. It explores the concept of vertical and horizontal imbalances, highlighting the challenges they pose to fiscal sustainability and equitable service provision. Additionally, it discusses the design and implementation of intergovernmental transfer systems as a means to address these imbalances, promoting fiscal harmony and effective governance. Vertical imbalances arise from differences in revenue-raising capacity and expenditure needs between different levels of government, such as the central government and subnational governments. Fiscal decentralization, where the responsibility for providing public services is shared between different tiers of government, can exacerbate vertical imbalances. Vertical transfers are designed to redistribute fiscal resources from higher-level governments to lower-level governments to ensure the provision of essential services and maintain fiscal equity.

KEYWORDS:

Fiscal Federalism, Horizontal Imbalances, Intergovernmental Transfers, Revenue Sharing, Subnational Finance, Tax Assignment, Tax Base.

INTRODUCTION

Tax assignments' theory and practice also assist us in determining which taxes are not suitable for subnational assignment. A progressive individual income tax is not advised at the subnational level, as was said.How do we eventually rank the various subnational tax options that were covered above? The answer mostly hinges on how well each tax measures up to a broad list of desired characteristics, including its ability to match the benefit principle, its potential for income, its non-exportability, and other factors. However, it is safe to say that a good and effective local tax structure would include many, if not all, of the instruments we reviewed above as good options; starting with a significant role for fees and charges, with property taxes and piggyback personal income taxes also playing major revenue roles[1]–[3].

Fiscal Instabilities

The allocation of expenditures and revenues is never perfectly balanced in any decentralized financial scheme. Horizontal imbalances may result from variations in local economic activity, income, or resource endowments as well as from variations in the demand for expenditures. These latter discrepancies may be caused by undesirable demographic characteristics, such as population groups with specific requirements, or by varying pricing or costs of service supply owing to geographic or climatic factors. Physical and institutional barriers to population movement or capital mobility across provinces, as well as government policies that tacitly or openly favor certain regions of the nation over others, may all contribute to the expansion of horizontal imbalances. The comparison of fiscal capacity measurements with spending requirement measures is the standard method for measuring horizontal fiscal imbalance.

For the majority of decentralized nations, vertical budgetary imbalances are a problem as well. When the income sources allotted to each level of government do not, in general, match the responsibilities for their allocated expenditures, vertical imbalances result. These include local-provincial ties in addition to central-provincial interactions. Vertical imbalances often work against subnational governments whose obligations and demands for spending exceed their sources of income. The vagueness around measurements of spending demands makes it difficult to quantify the discrepancy between expenditure obligations and accessible sources of income.

Vertical imbalances and structural budget shortfalls have sometimes been linked. However, this is a flawed statistic since, according to law and custom, in the majority of nations, budget deficits have historically been bigger at the central rather than the subnational level. In many nations, local governments are not permitted to incur deficits, and in certain situations, they are also not permitted to borrow money for capital expenditures.

The capacity of various levels of government to pay expenditures from their own sources of money is a more common and valid method of determining vertical imbalance.To correct these vertical and horizontal inequalities, transfer systems typically utilize three kinds of grants: tax sharing, unconditional equalization grants, and conditional grants.

Sharing Taxes

Subnational governments often take part in the collection of certain taxes entrusted to the federal government.

Usually, this is done based on origin or derivation. Due to the use of the derivation principle, certain taxes, like the personal income tax, are simple to distribute, but others, like the corporate income tax and the VAT, are considerably more challenging since it is difficult to determine the tax base in any given location.

The portion of tax income kept by the subnational government is expressed as a percentage. To fill the first vertical gaps caused by the insufficiency of revenue allocations, tax sharing is often implemented. Despite the fact that this is seen as being a type of revenue assignments, there is a fundamental distinction between the two in that tax sharing does not entail any kind of autonomy and, as a result, does not provide any kind of direct relationship to responsibility.

It is often claimed that income sharing on a derivation basis encourages subnational governments to expand their local economies, which justifies prioritizing these agreements above other types of transfers.Tax sharing is a useful tool for subnational financing, but it may also come with serious issues. Not least of all is the development of a mindset of "soft budget constraints" in which all local finance issues may be solved by raising tax sharing rates rather than local governments exercising their independence to generate their own resources.

Another drawback of tax sharing is that it widens existing inequality. Instead of using the derivation principle, these issues may be mitigated when tax sharing earnings are distributed in accordance with a formula, such as in proportion to population.

DISCUSSION

Unconditional Equalization Grants

An equalization transfer system's main purpose is to make up for horizontal fiscal imbalances between local governments that result from discrepancies in their financial capabilities and/or spending requirements. Equalization grants have a bigger role in the funding systems of subnational governments the more significant revenue autonomy is. Most equalization transfers are unconditional, allowing subnational governments to utilize the money anyway they see fit, just like they would if it were their own money.The proper calculation of tax capacity and spending demands is the main obstacle in the formulation of these awards. The revenue that tax bases accessible to subnational governments would produce at conventional tax rates and administrative expense should ideally be used to determine tax capacity. The fiscal capacity of subnational governments is measured using a number of techniques across the globe, but none of them is simple owing to the dearth of relevant data. Despite the challenges, actual collected revenues should never be used as a measure of fiscal capacity since doing so would create strong disincentives for individuals to make an attempt to pay taxes[4]–[6].

The amount of money required to meet all of the subnational government's spending obligations at a standard level of service supply is known as the "expenditure needs." While spending standards may be used to quantify this in reality, it is more typical to estimate some kind of relative expenditure requirement index as the weighted total of population and other demographic characteristics, as well as variations in the costs of delivering public services. To rule out the possibility of perverse incentives regarding spending restraint and efficiency, the use of real expenditures or measurements of existing facilities should be rigorously avoided. The formula should be created in such a way that neither the central government authorities nor the local governments could alter the results or the transfers themselves by altering the data or their own conduct.

Constrained Awards

Through the use of conditional grants, which are financial transfers with conditions, central governments often help subnational governments. Only in accordance with the restrictions established by the center may subnational governments utilize the money. Tied or Specific Grants, as they are often known, are used, for instance, to guarantee the delivery of basic levels of service for assigned responsibilities across the national territory, such as in the areas of education and health. Additionally, they are utilized to meet other specialized requirements, often reflecting national interests or addressing important cross-jurisdictional spillover effects, which encourages subnational governments to expand investment in such areas.Since local governments are given a special incentive to contribute their own money to the particular program, using matching arrangements for the transfers of the funds may boost their leverage and efficacy. The most effective way to provide conditional grants is via capitation. If necessary, the per capita base may be changed by an adjustment coefficient to reflect various provision costs or requirements, but only if these modifications could be achieved by formula and did not need discussion between central and local authorities.

Investment Grants

For particular infrastructure spending sectors including roads, water and sewerage treatment plants, transit, housing, education, and health, most nations fund subnational governments in some way via capital transfers. The allocation systems, which may range from ad hoc judgments to structured methods employing pre-established equations, have different experiences in different countries. Similar to the freedom in the use of money, nation experiences range from the least flexible project-based grants to unrestricted cash offered as part of a general income transfer. The amount of a capital grant often has to be matched by funds generated locally, and the percentage of matching is sometimes inversely linked to local revenue. There are many different goals for capital transfers, such as reducing inequalities in local infrastructure stocks, funding capital projects with benefits that spread across jurisdictions, addressing vertical inequalities in the distribution of revenue sources, addressing credit availability, and others.

The fact that taxing authority is lacking in real-world decentralized systems of government affects subnational governments' ability to finance capital investments in a similar way to how it affects their ability to finance operating costs is one straightforward general explanation for the widespread use of capital grants. The fact that central governments often approach capital development in a more centralized way than recurrent programs is a key contributor to the popularity of capital grants. However, approximately two-thirds of public infrastructure expenditures worldwide are funded by subnational governments; only one-third of these investments are made through capital grants, which in turn account for one-fifth of intergovernmental transfers. Subnational governments often account for twice as much of a nation's capital expenditures as they do of its ongoing expenses.

Supporting the Development of Capital Infrastructure

For funding the capital investment obligations of subnational governments, controlled access to credit is a suitable source. The use of borrowing to fund this kind of activity is justifiable given the size of some projects and the lack of liquidity of subnational governments, as well as the fact that the gradual repayment of credit represents a more equitable distribution of infrastructure costs among the various user cohorts over the course of the infrastructure's useful life. Borrowing at the subnational level is dangerous, however, since local officials may easily be persuaded to overspend and pass the cost of debt repayment onto future taxpayers and governments. Therefore, there has to be harmony between institutional frameworks that maintain fiscal discipline and subnational governments' access to borrowing. The rule of thumb for determining whether long-term financing is necessary is that current services should be paid for with current taxes and user fees, and future services should be paid for with future taxes and user fees made possible by the issuing of public debt.

Good design on the demand and supply sides is necessary to support a well-organized and efficient borrowing system. Controlling and keeping an eye on borrowing habits is necessary on the demand side. Both a system of norms and regulations for subnational borrowing put in place and enforced by central government agencies and the discipline of the private credit markets are relied upon internationally. The majority of emerging nations are forced to depend on rules and regulations established by the central authorities since the second mechanism necessitates established private financial markets.

Regulating Borrowing Via Regulations

The following guidelines are some of those used in international practice to restrict borrowing at the subnational level:

1. The Golden Rule, or more specifically, the prohibition on using borrowing or credit proceeds to support current expenses, specifies that borrowing proceeds may only be used for capital investment objectives.
2. A fixed percentage of subnational income in a given year cannot be borrowed against more than that year.

3. Total debt cannot, at any time, exceed a certain percentage of subnational income.
4. Debt servicing costs cannot be more than a specified percentage of subnational government income in any given year.
5. The Ministry of Finance must record any subnational debt and will oversee and manage compliance.
6. The national parliament must first provide its approval before the central government may guarantee subnational debt.
7. All local government borrowing must need Ministry of Finance clearance.

The State Budget will impose an annual cap on the total amount of municipal borrowing.

Given that not all of the limitations will be applicable at once depending on the percentages selected, it is likely unnecessary for all of these instruments to set limits on subnational borrowing. Starting with conservative limitations and gradually lowering them over time is definitely a good idea as fiscal discipline practices take hold and it becomes clear that the central government won't serve as a lender of last resort or as a guarantee of subnational debt. The idea that there is a soft budget limit and that ultimately central authorities would rescue overextended insolvent subnational governments poses the largest danger to fiscal restraint. As a result, having clear processes in place to handle jurisdictions in bankruptcy may also serve to reinforce the budgetary restriction.

Expanding Subnational Credit Availability

Although subnational governments often emphasize the need to manage credit demand, the true issue may lie more on the supply side than the demand side. Given their financial obligations for infrastructure, as well as the low levels and significant demands for capital infrastructure, subnational governments often borrow at levels that are excessively low. Therefore, it is necessary to research how a subnational credit market might be established in the majority of nations. Subnational governments often don't have good credit, which prevents them from issuing bonds or getting loans from banks. Greater budgetary and accounting transparency, as well as the creation of independent income streams for subnational governments, may increase creditworthiness. However, even if local government revenues and creditworthiness considerably increase, market failure on the supply side may prevent the required levels of subnational borrowing from occurring.

Government initiatives may encourage financial institutions to lend. The practice of intercepting subnational government income streams serves as an example; creditors may see the capacity to intercept intergovernmental transfers as the most secure form of collateral. The ability to intercept intergovernmental payments, however, might deter lenders from keeping an eye on the finances of local governments and, in certain situations, could be seen as a guarantee of a rescue from the federal government by these lenders. For these same reasons, Mexico, for instance, recently stopped using intercepts.Private financial markets need to be able to provide all of the long-term financing requirements of creditworthy local governments and promote fiscal responsibility among them. The majority of emerging nations' financial institutions and capital markets, however, are still undeveloped. In the near term, governments have relatively limited choices to finance borrowing and capital expenditures by subnational governments due to the lack of development of the financial and capital markets. Because of the potential to create a soft budget restriction and moral hazard, borrowing money from the Ministry of Finance or the National Treasury is not a wise decision.

The option of establishing local credit banks or local credit facilities is available to central governments. However, this choice is also fraught with peril. In reality, central government-run financial intermediation may foster a culture of long-term reliance and moral hazards if the center's soft financial support is entrenched. It may also obstruct the growth of the capital markets. Such banks would need to follow tight banking regulations, be free from political influences and politically driven project selection and lending criteria, and be ready to handle default risks, which are the risks associated with being unable or unwilling to make loan payments. An further tool for reducing the risks of financing to local governments is credit improvements. Comprehensive and partial credit guarantees are two common types of credit improvements.

Regardless of the reason for the debt service default, principal and interest payments are covered by the first type. In partial credit guarantees, the guarantor shares the risk of debt payment default with the lenders, and because its own money is at stake, guarantors will scrutinize the borrower's credit much more closely.Small local governments may not have access to financing markets even under these circumstances. Capital grants are one of various options to private sector borrowing for funding municipal capital development in smaller jurisdictions, as we saw above.

Innovative Approaches to Financing Infrastructure

Historically, financing new infrastructure projects for local governments has been done by borrowing, capital grants and subsidies from higher levels of government, and sometimes even through borrowing. But municipal governments cannot always rely on the availability of these traditional sources, as the current economic slump has cruelly once again.Local governments have been searching for creative and unconventional sources to increase their capacity to fund infrastructure projects as a result of these difficulties. The increase in land value brought about by public investments is one of these novel approaches. The core idea is that public investments in sewage and sanitation, water supply, roads, and transportation systems automatically increase the value of nearby property.

However, aside government spending on infrastructure, other factors that affect land value include population increase, private investment, and even changes in other public regulations like those governing land use. As a consequence, there has been debate about who should profit from increases in property value brought on by population expansion and even changes to land use restrictions. However, there is broad agreement that local governments should be allowed to keep at least some of the increase in land value that results from the public investment in order to recoup the costs of the public investment[7]–[9].We go through a few of the most common Land Value Capture techniques that have been used or tried by local governments in the US and other countries over the last several decades. Betterment charges, one of them, were previously explored in relation to traditional local taxes.

Funding For Tax Increases

As a means of funding public investment, TIF is a technique for collecting the gain in tax income from the rise in economic property value brought on by public investment within a specific area. The majority of US states permit the use of some type of TIF; the increase in property value is simply calculated as the total assessed property value in the TIF district minus the base property value, with the difference being assumed to result from the public infrastructure project and other development activities. TIF money is often set aside for the TIF district for a certain amount of time. The revenues return back to the local governments above when this time has passed. Sjoquist & Stephenson accurately point out that TIF is essentially a convoluted method of allocating funds to pay for public works. It functions as a perpetual tax, the proceeds of which are set aside for a certain time period and which, at the end of that time, are returned to the general property tax income.

Impact Fees for Development

These are one-time financial levies that are assessed during the approval process for construction or development permits, which is also quite frequent at the municipal level in the US. The expense of supplying significant amenities, such as arterial roads, interceptor sewers, sewage treatment plants, and regional parks, is divided into a proportionate part of the charge. The local government body should set the prices in advance. Impact fees have been in use for some time but recently become more well-liked.

Improvement Taxes

As we've seen, betterment levies are simple fees that directly account for the increase in land value brought on by public investment. Betterment taxes or levies are often an upfront, one-time charge on the increase in land value; but, in the US, a variation that is imposed as a yearly fee is frequently utilized. Since the rate varies between 30% and 60% of the value rise, the betterment taxes only really cover a portion of the increase in land value.

Certificate of Potential for Additional Construction

This tool combines impact fees with a particular zoning regulation relaxation. The Floor Space Index is yet another name for it. Governments offer development rights via the FSI in exchange for more floor area, with the value of these rights being raised by the construction of public infrastructure. The built-up floor area, also known as the Floor Area Ratio, as well as the setback from borders are all determined by the zoning laws and other departmental regulations that apply to specific locations within cities. The Sao Paulo CEPACs, which the municipal government of Sao Paulo auctions off at the Sao Paulo Stock Market Exchange, are the most well-known use of the FSI. The CEPAC grants the buyer the authority to erect structures with greater floor-to-area ratios and to alter the plot's intended use.

Other cutting-edge methods of funding infrastructure

1. The worldwide practice has used a range of alternative strategies.
2. Developer requirements. These compel developers to pay for the installation of local public infrastructure on-site or to make additional payments to the local government.
3. Purchase and sale of surplus land. Here, subnational governments buy property near a particular infrastructure project with the intention of reselling it for a profit when the project is finished and the land's value has increased.
4. Public land for sale or lease. Local governments in this instance sell land that will profit from the new infrastructure and utilize the revenues to fund infrastructure construction.
5. PPPs may take many different forms, such as private infrastructure investment where developers create the infrastructure in return for public land.

All of these land value capture strategies provide chances to raise local government income and capacity to fund infrastructure projects. There are two broad qualifications required. First off, these sources shouldn't be seen as a replacement for the traditional budget funding methods we covered above. Both the majority of recurring service costs and a significant portion of infrastructure will need funding from these traditional sources, including borrowing. Second, further anti-corruption measures are required because the significant funds that may be generated by the implementation of these measures are likely to open up chances for corruption, favoritism, and abuses of governmental authority.

Local governments in developing nations need to have access to sizable sources of both their own tax revenues and non-tax income in the form of user charges and fees in order to carry out their mission in a financially prudent way. The secret to a greater capacity to supply essential goods and services and to a higher level of responsibility of local officials to their residents is enough own income. The fundamental idea is that on the revenue side of the budget, personal revenues uniquely provide a component of horizontal responsibility of public officials to their people, in contrast to tax sharing and other transfers.

We must first determine how much revenue autonomy is required since genuine revenue autonomy is a prerequisite for successful fiscal decentralization. The richest subnational governmentsthose with the greatest tax basesshould be able to cover the majority of their spending obligations with their own resources if they have the desired level of revenue autonomy. The next step is to choose which taxes should be used to execute that autonomy at the subnational level.

The benefit principle, which states that those who utilize a service should pay for its expenses, has long been the standard response to taxation at the subnational level. The benefit principle's strength lies in its ability to, at least in theory, inform us how to price services, who should pay for them, and how much of the service should be offered. However, due to technical and perceived equality concerns, it is exceedingly difficult to put the benefit concept into practice. Therefore, we need to identify the tax tools that best reflect this idea.Allowing elected officials to choose the tax rates of the chosen taxes is the subnational level autonomy that is most desired. This is the most straightforward method of forcing political responsibility. The choice of taxes is more difficult, although it may be helped by their desirable characteristics, such as their relatively stationary tax bases and their high visibility to taxpayers. Regarding the specific income source, there is general agreement that user fees and levies are the best method for funding local governments. The list of tax instruments is fairly extensive and includes income taxes, flat-rate piggyback taxes, motor transportation taxes, property taxes, and betterment levies. There are also problematic options for subnational taxes for particular technical reasons; examples are the corporate income tax and the VAT.

The allocation of expenditures and revenues is never perfectly balanced in any decentralized financial system design. Horizontal imbalances are brought either by variations in local tax bases or by variations in spending requirements. When the income sources allotted to each level of government do not, in general, match the responsibilities for their allocated expenditures, vertical imbalances result. To correct these vertical and horizontal inequalities, transfer systems typically utilize three kinds of grants: tax sharing, unconditional equalization grants, and conditional grants.To fill the first vertical gaps caused by the insufficiency of revenue allocations, tax sharing is often implemented. Despite the fact that this is compared to revenue assignments, there is a fundamental distinction between the two since tax sharing lacks any autonomy and, as a result, does not establish any direct connection to responsibility. Subnational governments may develop a mindset of soft budget restraint as a result of tax sharing. An equalization transfer system's main purpose is to make up for horizontal fiscal imbalances between local governments that result from discrepancies in their financial capabilities and/or spending requirements. Equalization grants have a bigger role in the funding systems of subnational governments the more significant revenue autonomy is. Through the use of conditional funding, central governments often assist subnational governments as well. Capital transfers in support of certain infrastructure investments rank highly among them.

For funding the capital investment obligations of subnational governments, controlled access to credit is a suitable source. The bulk of certain projects is addressed, as is the subnational governments' shortage of money, and borrowing provides a fair solution for the various tax payer generations. Borrowing at the subnational level may be problematic, however, since local officials may be readily persuaded to overspend and attempt to pass the cost of debt repayment on to future taxpayers and governments. Therefore, market forces or overt government regulations either directly or indirectly influence borrowing operations. The Golden Rule is one of them, as are restrictions on debt service costs as a percentage of subnational government income in any given year, for instance.However, the issue with subnational borrowing may really lie more on the supply side than the demand side. Given their responsibility for making infrastructure-related expenditures, subnational governments often borrow at too low a rate. facilitating borrowing is difficult. Because of the potential to create a soft budget restriction and moral hazard, borrowing money from the Ministry of Finance or the National Treasury is not a wise decision. The possibility for central governments to establish local credit institutions or local credit banks exists, but it is not without risk. Public financial intermediaries must adhere to stringent banking standards, be free from political interference and politically driven project selection and lending criteria, and be ready to handle default risks, which include the inability or reluctance to make debt service payments.

A overview of creative methods for funding infrastructure comes near the paper's end. The current economic crisis served as a sobering reminder that subnational governments cannot always depend on capital grants and borrowing to meet their infrastructure demands. The creation of techniques for exploiting the increase in land value brought about by public investments is one of the creative paths suggested. The fundamental tenet is that public infrastructure improvements directly increase the value of the nearby real estate. So, the issue is, how can the rise in land values assist subnational governments? Tax Increment Financing, Development Impact Fees, Certificates of Additional Construction Potential, Developer Extractions, Acquiring and Selling Excess Land, and Various Modalities of PPP, including Private Investment in Public Infrastructure where Developers Build the Infrastructure in Exchange for Public Land, are a few of the different instruments that have been used.All of these land value capture strategies provide chances to raise local government income and capacity to fund infrastructure projects. But as operational budgets must significantly depend on the traditional revenue mechanisms covered in this article, these new income sources cannot be considered as a long-term solution to the shortfall issues[10]–[12].

CONCLUSION

Intergovernmental transfers, in sum, are an essential instrument for resolving both vertical and horizontal budgetary imbalances. These transfers support fiscal justice, local growth, and efficient government by dispersing fiscal resources. To guarantee a fair and transparent distribution of resources, the design and execution of transfer systems should take into account variables including fiscal capacity, spending requirements, and geographical differences. Intergovernmental transfer systems may be further developed and improved in order to support social welfare, budgetary sustainability, and balanced regional development. Effectively implementing international transfer systems, however, presents obstacles. Designing and allocating transfers may be challenging due to political factors, administrative capabilities, and data constraints. Additionally, collaboration and coordination across the various levels of government are required to guarantee effective service delivery and optimal use of transferred resources.

REFERENCES:

[1] N. Nursini and Tawakkal, “Poverty alleviation in the contexof fiscal decentralization in Indonesia,” *Econ. Sociol.*, 2019, doi: 10.14254/2071-789X.2019/12-1/16.

[2] T. Cruz and T. Silva, “Minimum Spending in Education and the Flypaper Effect,” *Econ. Educ. Rev.*, 2020, doi: 10.1016/j.econedurev.2020.102012.

[3] B. D. Lewis and P. Smoke, “Intergovernmental Fiscal Transfers and Local Incentives and Responses: The Case of Indonesia,” *Fisc. Stud.*, 2017, doi: 10.1111/1475-5890.12080.

[4] M. Ahmad, “Electoral timing, party alignment and tax incentives through intergovernmental transfers,” *Institutions Econ.*, 2019.

[5] Y. Kikuchi and T. Tamai, “Tax competition, unemployment, and intergovernmental transfers,” *Int. Tax Public Financ.*, 2019, doi: 10.1007/s10797-019-09533-0.

[6] A. Abbott, R. Cabral, and P. Jones, “Incumbency and Distributive Politics: Intergovernmental Transfers in Mexico,” *South. Econ. J.*, 2017, doi: 10.1002/soej.12226.

[7] A. B. Banful, “Do formula-based intergovernmental transfer mechanisms eliminate politically motivated targeting? Evidence from Ghana,” *J. Dev. Econ.*, 2011, doi: 10.1016/j.jdeveco.2010.08.012.

[8] T. Baskaran and Z. Hessami, “Political alignment and intergovernmental transfers in parliamentary systems: evidence from Germany,” *Public Choice*, 2017, doi: 10.1007/s11127-016-0398-4.

[9] C. Liu and G. Ma, “Taxation without representation: local fiscal response to intergovernmental transfers in China,” *Int. Tax Public Financ.*, 2016, doi: 10.1007/s10797-015-9383-y.

[10] A. Abbott and P. Jones, “Intergovernmental transfers and procyclical public spending,” *Econ. Lett.*, 2012, doi: 10.1016/j.econlet.2011.12.104.

[11] G. J. Gonschorek and G. G. Schulze, “Continuity or change?: Indonesia’s intergovernmental fiscal transfer system under Jokowi,” *Journal of Southeast Asian Economies*. 2018. doi: 10.1355/ae35-2c.

[12] J. Kim, “Political Decentralization, Subnational Political Capital, and Intergovernmental Transfers in Korea,” *Am. Rev. Public Adm.*, 2013, doi: 10.1177/0275074012436600.

CHAPTER 7

EXPLORING THE ROLE OF PUBLIC FINANCE AND PLANNING

Mr. Yelahanka Lokesh
Assistant Professor, Department of Commerce and Economics,
Presidency University, Bangalore, India.
Email Id-lokesh.yr@presidencyuniversity.in

ABSTRACT:

Public finance and planning are interconnected processes that play a critical role in the allocation and management of public resources to achieve societal goals. This abstract provides an overview of the relationship between public finance and planning, examining how financial planning frameworks and strategies inform the allocation of public funds and shape the implementation of public policies. It explores the role of fiscal policy, budgeting, and long-term planning in achieving efficient resource allocation, promoting economic stability, and addressing social needs. Additionally, it discusses the challenges and opportunities in integrating public finance and planning to enhance public sector effectiveness and ensure sustainable development. Public finance encompasses the revenue generation, expenditure allocation, and debt management activities of governments. Effective financial planning is essential for ensuring that public resources are allocated efficiently and in line with societal priorities. Fiscal policy, including taxation, expenditure policies, and debt management strategies, guides the overall direction of public finance and influences economic stability, growth, and equity.

KEYWORDS:

Budgeting, Economic Development, Fiscal Policy, Government Expenditure, Public Finance, Public Investment.

INTRODUCTION

After more than three decades of popularity and adoption, administrative, budgetary, and political decentralization of the public sector has to be a difficult change in many developing nations. Given the broad agreement on specific reform recommendations, fiscal decentralization has been especially disappointing, with insufficient own source income collection among the most pressing fiscal issues. The empirical research that is now available clearly suggests that subnational income generation often falls short of requirements and expectations.This could come as a surprise. For deciding on and creating local revenues, there is a well-developed set of public finance concepts that are often utilized as the foundation for fiscal reform. However, even in cases when advised guidelines have been followed, performance is often subpar or worse. This essay contends that both the inadequate consideration of some critical variables that affect income creation and the incorrect application of mainstream concepts contribute to the persistence of this scenario. A series of intricate political economic factors that are seldom given enough attention are at the core of each of these issues.

In order to pursue more effective changes, this article focuses on underappreciated political economics constraints to local government income generation. The pertinent issues range from the incentives and actions of national level politicians and bureaucrats, who shape the intergovernmental fiscal game's rules and how they are applied, to the dynamics of the local political economy among elected local councilors, local government employees, and citizens.

These numerous interactions take place in a larger environment that helps to shape choices for decentralization and municipal revenue reform in general. It might be difficult to create and carry out reforms if these dynamics are not sufficiently understood and paid attention to. Urban governments can take some autonomous corrective measures, but others need national-level assistance or intervention. Even in the first scenario, local officials must be aware of the interdependencies among the components of the fiscal system since pursuing a cutting-edge, revenue-specific reform without taking into account other important variables is far from certain to boost local revenue performance [1], [2].

The following is a comprehensive overview of the fiscal decentralization situation in emerging nations. The national political arena, the national administrative arena, the local level, and the conduct of foreign development agencies are the four-ensuing s' separate foci on the major political economy variables that often restrain local income production. The next makes the case that a greater understanding of these elements might aid in developing and implementing workable changes. The conclusion offers concluding remarks on how to improve the integration of political economics thought into local revenue analyses.

DISCUSSION

Recognizing The Role of Fiscal Federalism and The Broader Context

Despite the fact that political economy is the major topic, it is crucial to recognize how fundamental fiscal decentralization principles and the larger context influence changes. Basic ideas, especially those related to income, are well-known and generally understandable. However, there are limitations to their practical implementation, and there are tradeoffs among the principles that need setting priorities for the goals.The ability of local governments to establish their own tax systems, central retention of all taxes with proceeds shared with local governments through transfers, assigning certain taxes exclusively to local governments, and sharing revenue from certain centrally-collected sources with local governments are the minimum number of primary intergovernmental fiscal arrangements that are possible. Each of these approaches has varying effects on the autonomy of local government revenue.

The choice of system in a particular nation is influenced by a number of variables, including historical trends, demographic, economic, and geographic considerations, political pressures, and technical issues included in fiscal federalism principles. The implementation of a certain system may be more or less suitable depending on the main objectives for decentralization that a country has, such as nation-building, economic growth, or democracy. It is obvious that choices about the overall system structure will affect how local governments contribute to income generating.In this broader context, having a suitable multi-dimensional constitutional-legal-administrative framework is essential for local governments to use revenue powers effectively and sustainably. However, the necessary structure extends well beyond conventional financial requirements, such as local government legal status, functions, and autonomy. For instance, the nature and application of property rights have an impact on how the property tax is used, and legislative safeguards for local government and civil society foster an environment where residents are better able to hold local governments accountable and are more inclined to pay local taxes. 36 It goes without saying that the current political and economic realities have a significant impact on all of these factors [3]–[5].

Foundations of The National And Intergovernmental

The income structure that is accessible to local governments has both political and technological roots, as was already mentioned. Politics' influence on policy is sometimes informally defined in terms of whether there is sufficient political will for change. 37 The phrase "political will" connotes the agreement and dedication of a kind central government to support local governments for the greater benefit. In actuality, the primary drivers of decentralization are often convoluted, and some may be less benevolent. 38 In addition, even tremendous political determination may not be enough. Many nations having robust decentralization constitutional and/or legal provisions have not completely developed and implemented them.

Decentralization's central contradiction is that it necessitates the willing giving up of authority and resources by key government actors. This is dependent on the incentives that national lawmakers, political parties, and government officials confront to strengthen local governments. It's possible that the reasons have nothing to do with official explanations or conventional financial rules. Building coalitions and winning elections are priorities for politicians and political parties. Decentralization, in general and with regard to income, may be used for these things. Decentralization initiatives have often been implemented in developing nations in reaction to internal crises that generate demands and chances for significant change. It is challenging to reach a true agreement about the need of decentralization and the shape it should take during a crisis. The pressure to act can lead to poorly designed frameworks, inadequate attention to implementation, and apathy or opposition from key actors who may later decide that reform is not in their best interests. Limited debate and weak consensus may indicate a poor understanding of the true nature of decentralization [6], [7].

Comparing two federal systems, India and Brazil, where states are the main subnational governments and have some control over local governments, is another intriguing comparison. India changed its constitution to encourage states to provide more authority to local governments, but many states' efforts to achieve this faltered, and many metropolitan municipalities are limited in what they may do without state permission. The federal government of Brazil, in contrast, has closer relationships with local governments, which lessens the influence that states have over local governance. There are several additional instances that show how national-intergovernmental political economy issues, such as income availability, may have a significant influence on local empowerment. Another crucial aspect of the dynamics of the national-intergovernmental political economy is how quickly and dramatically they may change. Even in a nation with little political rivalry, incentives for the government to promote or thwart decentralization may shift if a crisis occurs or subsides abruptly. Reversals may also happen in highly competitive political situations if the opposition makes local government empowerment a key issue in a crucial national election.

National Agencies' Impact and The Bureaucratic Environment

Government agencies are primarily responsible for the detailed design and administration of the execution of a decentralized system, even if choices about the fundamental characteristics of a decentralized system are often made by national politicians. Even while there seems to be a wide national agreement for change, these seldom have agreeable viewpoints on local governments and may thus disagree on the system and what their particular role within it should be. Furthermore, it is unusual for the varied group of national bureaucratic actors—each with their own duties and perspectivesto work in unison. Decentralization is often shaped, put into practice, and overseen by a variety of distinct central authorities. These might include sectoral ministries that are more likely to be focused on service delivery than local government empowerment, as well as specific local government supervision ministries, which governments fear would undermine their capacity to maintain macroeconomic stability and budgetary prudence.

There is a risk that these various actors will act inconsistently, which can happen in terms of overall policy or how they interact with particular local governments, in the absence of a strong and empowered decentralization coordination mechanism or strong incentives for individual agencies to work together. When major organizations compete openly for control of the local government agenda, the issue may become much worse.Since the ministry of finance and/or local government are presumably in charge of overseeing fiscal affairs, the situation may seem less troublesome in terms of income. This may be primarily the case, but there are additional considerations. User fees and commercial licenses are two examples of municipal income that may be impacted or managed by another ministry. In addition, issues can occur if the responsibilities of particular ministries are not clearly defined and/or coordinated. For instance, Cambodia, Indonesia, and Uganda have all encountered instances in which the ministry of finance and the organization in charge of local governments jointly issued fiscal regulations.

Fiscal decentralization may also be greatly aided by other central organizations. There are numerous examples: the ministry of planning oversees development budgets while the ministry of finance oversees recurrent budgets; civil service commissions heavily regulate local government employment; sectoral ministries oversee service standards and funds for resources under their purview; special districts, parastatals, or contracted private actors oversee or control the provision of and revenue generation associated with specific services; and so on.Weak attention to connections between decentralization and other public sector changes is a result of fragmented bureaucratic settings. There are several examples of these changes that, whether on purpose or accidentally, weaken the official legal function of municipal governments. Although not technically public sector changes, community-driven development and other initiatives to support civil society are important for fostering local government, and how they are structured may influence how well decentralization reforms can achieve their goals. Although not all of these instances of central agencies participating in local affairs have a direct impact on revenue generation, they may jeopardize local governments' autonomy, erode their responsibility to their residents, and harm their motivations and capacity to raise local taxes [8].

It is crucial to stress that the possible issues do not imply that the function of central government entities in supervising local governments is insignificant. The significance of such measures, including national standards for public financial management, service delivery, revenue production, reporting, and monitoring procedures, is generally understood even in the most developed decentralized nations. These are appropriate in an intergovernmental system when founded on sound concepts and well-designed. When supervision rules are arbitrary, unreasonably restrict local authority, or are poorly coordinated and lead to discrepancies, issues occur. For instance, the system would collapse if specific tasks are delegated yet rules from various central bodies that regulate user fees or employee salaries do not allow their sustainable delivery. Similar to this, revenue production will probably be constrained if a revenue base is ostensibly distributed but there are onerous restrictions and arbitrary central involvement.

There is sometimes even poor inter-agency cooperation. Different departments within a ministry may be responsible for various tasks and may engage in competition to influence funding and policy agendas. Budget, local revenues, transfers, and loans are among fiscal reform components that may come under distinct semi-autonomous departments within a ministry of finance, leading to policy incoherence. Directorates in the Indonesian Ministry of Finance, for instance, have long been a significant barrier to the decentralization of property taxes and the reform of borrowing, both of which were suggested by the directorate in charge of local finance. There are several examples of improperly coordinated subnational fiscal system components, such as intergovernmental transfers that deter local governments from raising taxes or borrowing money, that are under the control of the same organization and have proven to be extremely difficult to resolve.

The Political Economy of Assistance for Development

It is important to recognize the partnership role that foreign development organizations play with government bureaucracy in promoting fiscal decentralization and other public sector changes, particularly in aid-reliant nations. Although they have changed over time, numerous funders have long funded largely technical decentralization strategies, often via other means that were not institutionally or politically viable. Additionally, there has long been a tendency to advocate changes that are unsuitable or difficult for certain nations to properly execute since they are based on the experiences of other, often quite different countries.

The competition between international development organizations, even within huge agencies' divisions, is perhaps the most significant factor. Such dynamics may exacerbate rivalries between the government organizations mentioned above, for instance, when one donor supports a program promoting decentralization while another donor supports a program promoting a reform that weakens the autonomy of local governments and, in the case of this paper, reduces the incentives for local revenue generation. In rare circumstances, donors even assist in the development of various tax management systems for several local governments within the same nation. Such donor conduct may help local governments in aid-dependent nations create internal inconsistencies in their systems and policies.

As a result of institutional flaws, capacity restrictions, and poor coordination, challenging relationships between national agencies, across elements of public sector reforms, and among donor programs arise. However, they are frequently rooted in the kinds of country political economy considerations mentioned above – the incentives of various actors to pursue different and possibly incompatible goals. This includes contributors, who are subject to certain incentives that influence how they behave as individuals, engage with one another, and collaborate with peers in other countries.

Subnational Political Economy Dynamics' Essential Part

Decentralization may encounter formidable local political hurdles even when national policies, methods, and procedures are in line with core fiscal decentralization principles and even when operating under politically and administratively favorable national circumstances for local government empowerment. The construction of a workable system that balances acceptable upward responsibility and methods to encourage strong downward accountability ultimately requires a well-conceived framework that adheres to normative standards, but it is not the only significant aspect.The dominant theories of fiscal and political decentralization presuppose that local officials are subject to incentives through elections and other processes, have the ability to respond to their constituents, and are motivated by knowledge to hold their elected local governments accountable. Some of these fundamental presumptions are known to be unevenly satisfied in emerging nations. While certain restrictions are unique to local revenue, the overall dynamics of local politics also have an impact on how effectively local governments may generate and allocate resources.

Unfortunately, it is difficult to thoroughly and accurately evaluate the pertinent concerns due to their complexity. The amount and consistency of the available empirical data make it difficult to interpret it in ways that are useful to policy. However, it is crucial to examine the fundamental aspects of political decentralization that have the potential to affect local revenue behavior, such as the contribution that electoral, non-electoral, and other accountability systems make to the improvement of local fiscal performance. Additionally, it's critical to bear in mind that other players who influence the local institutional environment may behave in ways that have an effect.The purpose and constraints of local elections Fair and competitive elections are defined as the cornerstone of decentralized governance, and they may improve civic involvement, including voter preparedness to pay to the public purse, and boost the reputation of local administrations. It seems that the growth in the number of nations having municipal elections is a sign of progress.

A few cautions are necessary at the same time. Councils may only be partially elected, elections may be based on closed party lists that restrict voter choice, or one political party may predominate, among other possibilities. These may be caused by local choices in certain cases, as well as by national laws and the aforementioned intergovernmental and national dynamics. Local electoral systems do have an impact on local accountability connections, despite the fact that it is not feasible to go into depth about their type and quality in this article.Second, cultural practices, ethnic identity, and political party allegiances, among others, may have a significant impact on the conduct of elections and the outcomes. This may then result in a major politicization of local government actions, including income collection, such that cronyism, clientelism, corruption, and other undemocratic actions take center stage and weaken downward accountability [9], [10].

Third, local tax collection is not always favored by electoral accountability. Recent research on Mexico indicated that, although modifications to one state's election laws for local governments, designed to increase accountability, did result in expanded service provision, they also decreased tax collection, with the exception of bigger metropolitan regions. Other research in Italy found that less capable mayors were more likely to be re-elected if they supported less obvious taxes as opposed to more obvious ones. The earlier sort of taxes, however, reduce transparency and jeopardize the relationship between municipal income and spending. Additionally, research from France indicated that local tax rates decreased as party majorities grew in departmental assemblies. While lower taxes may have been what voters desired, this raises questions about how local services are funded and whether or not residents feel sufficiently responsible for helping to cover their costs.

Fourth, even while elections in theory provide positive downward accountability ties, they might be negated by other kinds of accountability interactions. This encompasses both improper horizontal responsibility between elected local officials and the staff that manages revenue and service delivery as well as inappropriate upward accountability, the kinds of unreasonable or arbitrary instances of higher-level meddling outlined above. The lack of clarity in the roles assigned to elected and appointed municipal officials is a widespread issue, either de jure or de facto. The general spending and income policies for the activities under their control should be defined by elected councilors, who should also be in charge of the administrative and technical personnel that assist them and carry out these responsibilities. However, staff members who are moved from central to local governments often preserve strong upward accountability links, particularly in nations that are only beginning to decentralize. Citizens may become unsatisfied and reluctance to contribute to local taxes may result from local authorities' diminished capacity to respond to their people. Of course, council members who have excessive power over personnel might meddle too much in technical duties, such as interfering with tax collecting duties for political ends.

In summary, it is not always clear how municipal elections affect decentralization and local economic activity. The particular guidelines and procedures regulating electoral and budgetary systems, which are a product of both central and subnational constitutions and laws as well as the traditions and politics that underpin them, also rely on the numerous contextual elements covered above. Local elections are important, but there should be no assumption that implementing best practices for fiscal decentralization would have the desired normative effects if local political processes do not provide the right conditions for this to happen.

Non-electoral accountability mechanisms Local elections are widely regarded as a rudimentary method for enhancing downward accountability, especially in developing environments, even where the local accountability issues mentioned above are not very significant and local political competition is fierce. Other accountability techniques are also becoming popular, including user committees, recalls, town meetings, referenda, general or service-specific monitoring boards, participatory budgeting, participatory planning, and social audits of local resource usage. These procedures may increase public awareness of the definition, assessment, and usage of revenues. It should be anticipated that more robust elections, supported by proper and sufficiently comprehensive participation methods, would boost civic involvement and aid in the provision of improved municipal services. As a result, citizens' faith in local governments may be increased, local social capital may be developed, and the acceptance and use of local authority over generating money may be improved.

Even if non-electoral procedures may be significant, three restrictions should be emphasized. First, procedures for engaging citizens might be somewhat formulaic. For instance, participatory budgeting spontaneously developed in a particular political setting in a Brazilian city. It may be difficult to transplant to different contexts, albeit not for want of effort; this need for more than just creating a step-by-step manual that complies with normative norms and requiring its usage.

The method is unlikely to succeed if participation is tokenistic or exclusive and the outcomes of the process are optional recommendations to local governments rather than significant contributions [11].Second, much like local elections, non-electoral accountability methods may be subject to political pressure. Such procedures won't go beyond local politics as usual if they are controlled by political parties, corporate executives, or strong but narrowly represented civic organizations or NGOs. Even sincere initiatives to increase inclusion, such requiring a certain percentage of members of underrepresented groups to participate in formal procedures, may not instantly have an impact on how citizens are heard or how local public funds are obtained and allocated.

Third, for accountability systems to be adopted effectively, people must be motivated to utilize them and follow through. There may be mechanisms for offering ideas or views on municipal plans and budgets, but a sufficiently wide audience has to be made aware of this. Additionally, residents may not be aware of how to utilize these tools and might not feel empowered or free to share their opinions. When it comes to local revenue-specific arrangements, people won't be able to successfully use mechanisms to contest local business license fees or property tax assessments if they are unaware of them or encounter obstacles to doing so, such as inadequate knowledge, a lack of access to advice, or even outright intimidation from local governments.

Wider Local Accountability Landscape

Developing nations often suffer a far greater variety of accountability ties that influence local government conduct and performance, as if the messy backdrop of local institutions and local political dynamics were not a sufficient barrier. In reality, local governments are not often the only parties active in generating local money and providing services. Both may have agencies that deal with the same services in the same geographical regions and coexist with decentralized levels of administration. Local governments may have a difficult time holding themselves accountable if their separate tasks are not clearly defined and upheld, and if the deconcentrated organizations have better financing that they utilize for services that are, by law, local functions. Constituency development funds have been established by central governments in a number of nations to provide members of parliament discretionary cash to provide services in their districts, which often includes activities that are local government tasks. Community-driven development initiatives, which provide money to local non-governmental organizations for the delivery of services, may compete with newly formed local governments. Nongovernmental service companies are also highly important in the supply of essential services in various nations.In metropolitan regions, numerous governance mechanisms are utilized to handle a variety of tasks over greater territories.

These mechanisms vary from unified metropolitan administration to other ones designed to coordinate public functions among nearby jurisdictions. The latter categories of mechanisms may be obligatory or optional, general-purpose or restricted to one or more particular purposes. In either scenario, political dynamics and inherent incentives have an impact on how they are set up, which in turn influences how they function. Such inter-jurisdictional organizations are crucial for local government, service delivery, and income collection and sharing.The main idea here is that citizens are likely to be confused about what to expect from elected local governments if there are multiple lines of accountability and funding channels for service delivery with insufficient clarity on responsibilities and many actors potentially involved in providing the same services. It appears quite probable that people would be unwilling to pay local taxes if this were the case and they were unsure of precisely what services their local government provided to them.

CONCLUSION

In conclusion, public finance and planning are intertwined processes that influence the allocation and management of public resources to achieve societal goals. Effective financial planning frameworks, fiscal policies, and budgeting processes enable efficient resource allocation, economic stability, and the fulfillment of social needs. Integrating public finance and planning requires coordination, capacity building, and a focus on long-term sustainability. By aligning financial resources with policy priorities and considering social and environmental dimensions, public finance and planning can contribute to inclusive and sustainable development.

Furthermore, incorporating considerations of equity, social inclusion, and environmental sustainability into financial planning processes is essential for achieving inclusive and sustainable development. It requires balancing short-term budgetary constraints with long-term social and environmental objectives, and engaging stakeholders in participatory processes to ensure broad-based ownership and accountability.

REFERENCES:

[1] M. M. Edwards, “Public finance in planning education and practice,” *J. Plan. Educ. Res.*, 2007, doi: 10.1177/0739456X07305796.

[2] I. Molchanov, N. Molchanova, and N. Nurislamova, “Program-Targeted Approach in Public Finance Management: Modern Problems of Budgetary Planning,” *Vestn. Volgogr. Gos. Univ. Ekon.*, 2021, doi: 10.15688/ek.jvolsu.2021.2.9.

[3] M. Pacione, “Geography and public finance: Planning for fiscal equity in a metropolitan region,” *Progress in Planning*. 2001. doi: 10.1016/S0305-9006(01)00011-3.

[4] O. Sokolova and S. Diachenko, “Consolidation of Public Finances as a Tool for Minimising Disparities in the Sectoral Structure of the National Economy,” *Sci. Horizons*, 2021, doi: 10.48077/scihor.24(5).2021.121-130.

[5] A. J. Field and W. L. David, “Public Finance, Planning and Economic Development: Essays in Honor of Ursula Hicks.,” *J. Finance*, 1975, doi: 10.2307/2326673.

[6] L. Baumstark, R. Guesnerie, J. Ni, and J. P. Ourliac, “Cost-Benefit Assessment of Public Investments in France: The Use of Counter-Experts,” *J. Benefit-Cost Anal.*, 2021, doi: 10.1017/bca.2020.30.

[7] B. D. Taylor, “When Finance Leads Planning: The Influence of Public Finance on Transportation Planning and Policy in California,” *University of California, Los Angeles*. 1992.

[8] I. A. Purba Riani, “Analisa Public Finance Management Kabupaten Merauke,” *Keuda (Jurnal Kaji. Ekon. dan Keuang. Daerah)*, 2016, doi: 10.52062/keuda.v1i1.741.

[9] R. Adinata, W. Wike, and A. H. Wanto, “Public Transport in Developing Countries,” *J. Public Adm. Stud.*, 2021, doi: 10.21776/ub.jpas.2021.006.02.7.

[10] M. Stiglich, “Unplanning urban transport: Unsolicited urban highways in Lima,” *Environ. Plan. A*, 2021, doi: 10.1177/0308518X211007867.

[11] M. G. Boarnet and R. Crane, “Public finance and transit-oriented planning: New evidence from southern California,” *J. Plan. Educ. Res.*, 1998, doi: 10.1177/0739456X9801700302.

CHAPTER 8

SUBNATIONAL POLITICS, ACCOUNTABILITY AND REVENUE GENERATION: AN ANALYSIS

Dr. Dasinis Nathan Annette Christinal
Assistant Professor, Masters in Business Administration (E-Commerce),
Presidency University, Bangalore, India.
Email Id-annette.c@presidencyuniversity.in

ABSTRACT:

Subnational politics, accountability, and revenue generation are interconnected aspects of governance that play a crucial role in shaping the fiscal landscape and ensuring effective service delivery at the subnational level. This abstract explores the dynamics between subnational politics, accountability mechanisms, and revenue generation strategies. It examines the influence of political factors on revenue generation, the role of accountability mechanisms in promoting transparency and fiscal discipline, and the implications for public service provision and citizen welfare. Additionally, it highlights the challenges and opportunities in enhancing subnational politics and accountability for sustainable revenue generation. Subnational politics, characterized by local elections, political parties, and intergovernmental relations, significantly influence revenue generation at the subnational level. Political factors such as party ideologies, coalition dynamics, and electoral incentives shape the decisions and priorities of subnational governments regarding taxation, fiscal policies, and revenue sources. Political stability, institutional capacity, and leadership play crucial roles in creating an enabling environment for effective revenue generation.

KEYWORDS:

Decentralization, Fiscal Autonomy, Intergovernmental Relations, Local Government, Political Competition, Revenue Generation, Subnational Politics.

INTRODUCTION

The sources and distribution of local political power ultimately determine how much and how local governments will utilize their permitted revenue capabilities. This may be held by a variety of groups, including political parties, labor unions, social movements, and coalitions of civil society organizations. Local politicians' incentives are shaped by the balance of power. For instance, local governments may tax enterprises differently from families, or differently on different types of activities and sectors, which might lead to behavioral distortions and obvious disparities. Thus, under certain political circumstances, the robust revenue autonomy that fiscal decentralization theory so highly values may actually permit elite capture, the exploitation of particular local firms or people, and/or arbitrary or politicized tax enforcement.

Of course, political power is not the only consideration. The kind of regional funding sources as well as the effectiveness of the accountability systems might be crucial. Some sources of income are just unpopular, difficult to manage, and/or seen to be unfair or unwarranted. Citizens may not feel treated fairly if local governments' duties are unclear and other actors are competing with them for service delivery opportunities.Local officials must deal with a variety of significant local income sources that are especially difficult. For instance, the property tax is often cited as one of the local governments' levies with the greatest potential for success and productivity. However, it may be burdensome since it is often done in a few big payments rather than, for instance, a consumption tax that is dispersed over many little transactions. It is also quite obvious to people who pay it directly. This tax's implementation is complicated and politicized by the concentration of land ownership and the gap between the wealthy elite and the poor or disadvantaged in emerging nations. Influential companies and residents may have enough political clout to keep their property tax burden to a minimum. Additionally, blatant irregularities and unfairness in tax administration as well as uncertainty about the use of tax funds may lead to hostility to compliance and seriously damage local governments' reputation in the eyes of their voters.

Building on the last point, it goes without saying that efficient municipal income generating depends on citizen compliance. Though admittedly scant, the research shows that decentralization may either increase or decrease compliance. The impact seems to be influenced by local political dynamics, including their desire and capacity to implement the tax legislation, as well as economic situations, public sentiments toward local governments, and fluctuations in these factors.On the plus side, Porto Alegre, which is renowned for inventing participatory budgeting, significantly increased tax compliance by using local participation methods. During a time of national fiscal reform that featured significant increases in intergovernmental transfers, which may have been anticipated to stifle local collection efforts, revenue yields climbed significantly. Brazil is a middle-income nation that has more robust political, governmental, and civil society institutions than many poor nations, thus it is important to keep in mind the warning mentioned above regarding importing changes. However, the success of such projects may at least serve as a source of inspiration for other nations looking to improve.

On a less positive note, Senegal saw an overall decline in tax compliance once local government bodies took over tax collection. According to reports, this outcome is a consequence of widespread views of poor service delivery and a generally low level of confidence in local government organizations. 53 The highest compliance was seen among immigrants and other newcomers to the neighborhood for reasons other than the traditional social contract. These people deliberately paid taxes to support their assertion that they were lawful residents.Other nations with statistics on local government tax compliance have more inconsistent results, but they also highlight crucial questions regarding the willingness of citizens to pay taxes. In Tanzania, it was discovered that when people could afford to pay and felt there was a risk of punishment, tax compliance increased. Perceptions of harsh or unjust enforcement and unhappiness with local services were the variables that reduced compliance. 54 The ability of the local government and whether tax collection might be protected from interference by local councilors are key factors in effective enforcement. Evidence from South Africa and Uganda likewise seems to imply that views of subpar local service delivery and/or discriminatory tax treatment impede tax compliance, but it also seems to suggest that residents would be prepared to pay local taxes if the local government did more for them [1], [2].

One further sparse but intriguing piece of data underlines the importance of personal earnings. According to a study of local budgets in a few East African nations, as the proportion of local budgets supported by local revenues climbed, so did the proportion of spending on service delivery. On the other hand, a larger budget allocation for administrative expenses and staff perks was linked to increased reliance on intergovernmental transfers and development assistance. Clearly, additional research is required, but this result suggests that municipal officials are more attentive to constituent demands when residents donate more to their local governments.While there isn't enough data to draw firm conclusions, there are some strong indications that local governments' efforts to enforce tax compliance are noticed by their constituents and can be effective if they are well-organized and seen as impartially administered. Additionally, citizens are willing to pay local government revenues if they believe they are being treated fairly and benefiting from their expenditures. Overall, the data support the potential political and financial benefits of properly educating and involving the public in the creation and use of local government income.

DISCUSSION

Implementing Politically-Grounded and Pragmatic Local Revenue Reforms

The information that came before it demonstrates the difficulties in properly implementing fiscal decentralization, both generally and for revenue collection. The concentration on developing systems that satisfy normative aims, which is often out of balance, and the relatively little attention paid to the underlying political and institutional restrictions that influence how such systems are implemented are key issues. A well-designed system is necessary for effectiveness, and as was already said, political and economic variables influence design. However, putting the system into practice in a manner that is considerate of political economic realities and other limits, such poor capability, also calls for a practical plan. Implementing and sequencing change has drawn increased attention in recent years. The majority of this work has some significance to local income even though it is not specifically about it [3], [4].

Local tax reform plans must be seen in the overall framework described above, which is equally crucial. If the functional duties and channels of responsibility for local revenue powers are unclear, improving such powers may cause more damage than good. Similar to this, local government efforts to enhance tax administration and enforcement may be ineffective in the absence of demonstrable public desire to pay.Every local government wants to be able to tax a high value base, such real estate or local business activity, as an example. Even if such a tax is devolved and changes are well thought out, the tax may not be effective if it is not administered with enough care in both the technical and political senses. The federal government must be prepared to distribute authority over the tax, address its flaws, and create practical operational procedures. Subnational governments must be provided with incentives to embrace the new or modified taxes and build the ability to apply them fairly and effectively from both the federal government and their citizens. New taxes must be learned to be paid by citizens and companies, who will resist doing so unless they generally believe that subnational governments are attentive to their needs and treat them fairly.

These are highly important adjustments from a political and institutional standpoint that won't happen quickly or without work in many developing nations. The reform will be hard to succeed if too much occurs too soon without actions to change attitudes and incentives and improve capacity, thereby providing political ammunition to national actors that want centralization. For instance, compliance and confidence in local governments are likely to decline if reform raises tax burdens without offering benefits. Local governments and their citizens will get impatient and lose interest if the reform moves too slowly and only results in modest increases in local income or services that are clearly better.

Viewpoint of the Central Government

The aforementioned political economic considerations often influence central governments to choose between two reform strategies. The idea behind the fiscal framework method, which entails building extensive international rules and processes, is that if the framework has the right incentives, players at all levels would embrace its provisions and build the necessary capability. This strategy adheres to conventional technical advice and is also compatible with the urgency with which nations facing crises feel the need to act. The political objectives of announcing reform may sometimes be achieved without considerable implementation, reducing apparent challenges to the authority of national players. In such circumstances, it may be assumed implicitly that many local governments lack the competence to utilize the system. Due to the lack of the necessary factors, this pure framework method is seldom the best choice for emerging nations.

A method that requires significant transformation but is subject to a tightly controlled mechanism for executing the reforms gradually over time is diametrically opposite. This controlled strategy allows for official endorsement of change while preventing it from abruptly upending the status quo. It also requires a more active and persistent role for central government in managing reform. The strategy will undermine local governments' capacity and incentives to increase local revenues and provide public services because it is likely to treat competent local governments too cautiously. And if there aren't clear guidelines for strengthening local governments, they may never achieve the circumstances necessary for empowerment [5], [6].

If change is really wanted, a more deliberate strategic approach between these two extremes may be beneficial. This would acknowledge important political and institutional obstacles and describe devolution as an intergovernmental process. For example, it might involve asymmetric treatment to take into account the various capacities and characteristics of local governments, consultative mechanisms among actors at all levels to define the reform process and steps, partially negotiated trajectories so that local governments take responsibility for adopting particular reforms over a certain period of time rather than being told what to do, and performance-based processes that incentivize reform. As first improvements are successful, more substantial changes may be made.There are risks associated with this implementation technique as well. Reforms could stagnate as a result of the politicization of evaluations and discussions. These, however, are universal reform concerns that may be reduced by well-designed procedures and accountability systems. Each country will have a different issue specifically. While some nations are moving current income to local governments or developing new sources for them, others already have local revenue systems that require change. It is ideal to utilize these variations in system nature, combined with the political and institutional considerations mentioned above, to determine the approach for a particular nation.

Local Government's Point of View

Local governments should and do take a different tack than the center when it comes to implementation. Even the most proficient local governments must exercise caution when implementing revenue reforms that need significant increases in resident contributions and difficult behavioral adjustments. The social contract may be triggered by attempting to relate revenue increases to specific and visible service gains in order to avoid shocking the system by taking small, less controversial moves before more difficult or contentious ones. Assessment ratios might be phased in and linked to declared improvements in service delivery, for instance, if a local government plans to go from low, ad hoc property value to standardized full market valuation. Similar to this, new or increased user fees for certain services might move slowly in the direction of full cost recovery to prevent any unintended service usage distortions, negative equity consequences, or administrative and political resistance. Before implementing the tax reform in question broadly, new systems and processes might potentially be tried via well-publicized pilot programs, allowing for visibility, discussion, and well-justified revisions.

The adoption of institutional innovations to increase public awareness and citizen involvement would be another component of a local government strategy. Adopting or customizing systems for citizen monitoring and participation, as well as public education and information, may help citizens understand and comply with tax changes. The acceptability of tax changes may be facilitated by targeted dialogue with benefit groups. Examples include discussions on raising market fees with market vendor associations in exchange for longer hours and improved sanitation; negotiations with a business association to raise property taxes; or public hearings on raising water fees to finance more dependable water service. Not all revenue increases can or should be discussed, but these exchanges with the parties involved may provide the groundwork for boosting revenue and public confidence by connecting tax and fee increases to particular service enhancements.

Other systems may also be useful. User committees for particular services have been used to link people to the provision of subnational services and to build the groundwork for related income collection, while such entities may also be used to go around weak governments and limit their capacity to carry out their legal obligations. There are also chances to collaborate with neighborhood organizations on service delivery and income creation for specific activities, such garbage collection in cities and small irrigation canal maintenance in rural regions. These may contribute to increased income generation and better service delivery for local governments, affiliated community organizations, and local citizens in general. In other words, simple, thoughtful changes may start to alter how local governments run and how their citizens see them.The main idea is not that any of these methods or instances are generally applicable, but rather that tactics for increasing local income that are inspired by them are likely to be relevant in a variety of situations. Additionally, new methods may be developed. These examples all obviously have technical components, but they also take political issues into consideration. Furthermore, even in cases when national restrictions prevent broad central government policy adjustments to boost local income production, local governments may adopt such strategies to some degree autonomously [7].

A Political Economy Lens on Local Revenue Reform, Concluding Comments

Local governments in developing nations have challenges even if conditions have improved in certain nations as a result of the extensive public sector decentralization trend that began in the 1980swhether in the bigger or smaller metropolitan regions, as described by the Slack and Fox in this book, respectively - often lack the independent fiscal capabilities to satisfy basic obligations, much less to be significant drivers of growth in their domains and beyond. Powers over revenue are often severely circumscribed. Even though stronger structures for empowerment have been enacted, they may not be put into effect in accordance with the rules set out in enabling constitutions and laws. Revenue yields often fall short of expectations. In major metropolitan centers, the situation is often a little better, but there is virtually always a great deal of potential for improvement.

This research examined broad political economic elements that contribute to the underwhelming status of local income generation and general strategies for performance improvement that take these aspects into consideration. However, it is important to emphasize that local income production is tied to other local public sector functions, such as fiscal and administrative functions, which are also susceptible to political economy dynamics. Local governments are also the analytical focal point and are embedded in consequential political economic forces that are unique to them, but some of the factors that support or hinder their capacity to generate revenue have their roots in the higher level governments and citizens from whom they derive their authority and credibility. How intergovernmental fiscal systems, local governance processes, and political ties to local taxpayers interact is important for generating better revenue collection.

This indicates that fixing a narrow income issue or concentrating exclusively on related local level issues may not lead to better performance. For instance, a reform effort that focuses only on better revenue collection mechanisms may not be able to address important problems like dependence on an unresponsive higher-level agency, political protection at the national level of government or parastatal agencies that make up a sizable portion of the local tax base, selective interference by local politicians in revenue collection, or citizens' reluctance to pay local taxes because they do not feel they are being fairly represented. Therefore, to identify local income issues and develop solutions, a more comprehensive and adaptable attitude and strategy are required [8].

It is difficult to end a study on this issue with adequate policy generalizations due to the significant variety of developing nations and the local administrations within many of them, as well as the scarcity of reliable data. A variety of generally applicable topics may be brought up at the same time.Documenting the type and size of the local revenue deficit that has to be addressed in a well-grounded fashion is the first step that is necessary for transformation. Is the potential income source deemed suitable for local governments? Is it carried out in accordance with all applicable laws and rules? Exists a perception of the difference between potential and actual yield? Are there socioeconomic issues, such as a shaky economic foundation, a high rate of informal employment, or pervasive poverty, that restrict the productivity of local revenue? Are there administrative issues preventing efficient administration and revenue collection?

What have been recognized as the pertinent political economic aspects of the revenue issue, those that contribute to its existence or influence the likelihood of its resolution? Exists any central government influence or inactivity, such as restrictions on the income source that unreasonably reduce its yield or the inability of a central agency to approve base or rate modifications? Do other governmental or quasi-governmental entities, such as boards overseeing service delivery, metropolitan planning commissions, and intermediate layers of government, have an impact on or interfere with local revenue administration? Are certain local actors exempt from taxes at the municipal level? Are local officials controlling the collecting of the money or unduly limiting how it is used for political purposes?Third, are there other elements of the local fiscal system that need to be addressed either in addition to or before the revenue issue? Are the services being offered at sufficient levels of coverage, quality, and dependability that are being funded by the revenue? Exists a disparity in municipal revenue coverage where some taxpayers feel cheated while others receive a free ride? Generous intergovernmental transfers that fail to take local revenue generating effort into account when allocating funds decrease incentives for local governments to collect their own taxes, or vice versa?

Fourth, are there observable ways that local accountability connections affect the local revenue system's poor performance? Are residents informed about the functions of their local governments and how their taxes and levies are spent? Are residents happy or unhappy with local governments generally or with certain services in particular, which may have an impact on their willingness to pay local taxes and fees? Are there effective ways for citizens to interact with local governments? Do individuals have access to the data they need to assess the effectiveness of their local government? Can residents file complaints with their local government over the provision of services and revenue liabilities?Fifth, what solutions may be taken into consideration if a local government can clearly define the type and cause of poor revenue performance? What actions local governments may take, and which require for requests of and talks with other governmental levels or other sorts of actors? Are local alternatives available to everybody or do they have to interact with certain organizations or constituent groups? Is there a way to more directly connect revenue changes to noticeable gains in service delivery? Exist any options to collaborate with other players in proving the need of revenue augmentation or participating in the revenue administration process itself? In addition to the examples given above, many more of these strategies might be used in almost any situation.

Sixth, how likely are certain potentially advantageous courses of action to be successful? Although it is sometimes quite simple to identify issues and solutions that would increase revenue collection, there are occasionally significant political and economic barriers to their implementation. Therefore, it's critical to comprehend who will favor and who will oppose changes to local tax systems, as well as what may be done to persuade the opposition. To maximize the likelihood that efforts will be successful, it is also crucial to be smart when choosing the required measures. Even modest, politically viable first moves that start to increase income production might alter the perspectives of the many concerned parties and establish the groundwork for more significant transformation.Of fact, the applicability of many of these difficulties and considerations may differ significantly across nations, local governments within nations, and even with regard to specific local revenues. The issues brought up are also picky; there may be many more that need to be taken into account in order to comprehend the nature of problems and opportunities and what kinds of real-world steps may be done to address issues and seize chances. The specific suggestions for change will rely not only on the system's facts but also on how its components work together and any recognized relevant restrictions [9].

In conclusion, there are a few more things to consider. First off, higher-level or local governments do not necessarily have to be the source of all initiatives to promote local revenue reform. If citizens demand more from their local governments and are prepared to help make the required reforms, civil society actors may effectively compel officials to modify their conduct. This may be achieved through making more use of electoral and participatory methods, group business association activity, adoption of citizen report cards led by civil society, and other approaches. Such initiatives may strengthen the relationships between local governments and improve the overall environment for generating local income.Second, while sharing the same limits, there hasn't been enough attention paid to how certain local governments have been able to raise money more effectively than others. There is some literature on best practices, but most of it concentrates on the function of some powerful institutions or people who actively promoted change. Rarely is there a thorough examination of the precise steps that these leading actors took, how they were able to take actions that their peers would have found difficult or impossible, and whether the successful practices are suitable for use in other local governments that might experience similar local revenue weaknesses but different contextual circumstances.

Third, initiatives to increase local income production must suitably take into account the requirement for capacity development. Even if the political and economic circumstances are favorable, local governments could lack the necessary personnel and expertise to implement successful local revenue changes. The majority of classroom-style training for local government officials has been supply-driven and of short length. Capacity development should ideally be linked to the particular tasks at hand, with sufficient on-the-ground follow-up to institutionalize necessary skills and desirable behaviors, for local revenue reforms to be successful.There is enough knowledge regarding local income production to be able to go ahead with changes in most situations, even if universal suggestions are difficult to come by beyond a high degree of generality. One thing is certain: integrating political economic analysis into the reform process is crucial. However, there is still a lot we don't understand and much more that can be done to comprehend pertinent national and subnational political and bureaucratic processes and take into account their implications for practical, strategic, and effective local revenue reform.

CONCLUSION

In conclusion, Subnational politics, responsibility, and income production are intricately linked. Political issues affect tactics for generating money, whereas accountability systems encourage openness and financial restraint. The ability to generate sufficient income at the local level supports the delivery of public services and local development. Nevertheless, issues with subnational income production and accountability continue, making comprehensive initiatives to strengthen governance institutions, improve transparency, and encourage public involvement necessary. Subnational governments may enhance public service delivery and generate sustainable income by tackling these issues for the benefit of their constituents. Comprehensive measures are needed to improve subnational politics and responsibility for long-term income production. Building administrative competence, enhancing fiscal decentralization frameworks, and strengthening local governance institutions are crucial. Enhancing accountability and ensuring that income creation is in line with public interests may be accomplished through encouraging transparency, citizen involvement, and civil society participation. To resolve revenue gaps and encourage fiscal equality among subnational governments, intergovernmental coordination and collaboration are also essential.

REFERENCES:

[1] S. Wilkins, "Subnational Turnover, Accountability Politics, and Electoral Authoritarian Survival: Evidence from Museveni's Uganda," *Comp. Polit.*, 2020, doi: 10.5129/001041521x16060530242223.

[2] S. Wilkins, "Subnational Turnover, Accountability Politics, and Electoral Authoritarian Survival: Evidence from Museveni's Uganda," *Comp. Polit.*, 2021, doi: 10.5129/001041521x16060530242223doi:

[3] P. Blunt and S. Khamoosh, "Vexatious voice: The politics of downward accountability and subnational governance reform in Afghanistan," *Progress in Development Studies*. 2016. doi: 10.1177/1464993415608085.

[4] E. Willis, C. D. C. B. Garman, and S. Haggard, "The politics of decentralization in Latin America," *Lat. Am. Res. Rev.*, 1999, doi: 10.1017/s0023879100024298.

[5] G. J. Gonschorek, "Subnational favoritism in development grant allocations: Empirical evidence from decentralized Indonesia," *World Dev.*, 2021, doi: 10.1016/j.worlddev.2020.105299.

[6] F. Gélineau and K. L. Remmer, "Political decentralization and electoral accountability: The argentine experience, 1983-2001," *Br. J. Polit. Sci.*, 2006, doi: 10.1017/S000712340600007X.

[7] S. Hughes and Y. Vorobyeva, "Explaining the killing of journalists in the contemporary era: The importance of hybrid regimes and subnational variations," *Journalism*, 2021, doi: 10.1177/1464884919885588.

[8] D. M. Handley, “Strengthening the intergovernmental grant system: Long-term lessons for the federal-local relationship,” *Public Adm. Rev.*, 2008, doi: 10.1111/j.1540-6210.2007.00842.x.

[9] K. F. Lim and N. Horesh, “The Chongqing vs. Guangdong developmental ‘models’ in post-Mao China: regional and historical perspectives on the dynamics of socioeconomic change,” *J. Asia Pacific Econ.*, 2017, doi: 10.1080/13547860.2016.1263044.

CHAPTER 9

A COMPREHENSIVE REVIEW OF MUNICIPAL FINANCE AND GOVERNANCE

Dr. Mounica Vallabhaneni
Assistant Professor, Department of Commerce and Economics,
Presidency University, Bangalore, India.
Email Id-mounicav@presidencyuniversity.in

ABSTRACT:

Municipal finance and governance are essential components of local government administration, influencing the financial stability, service delivery, and overall development of municipalities. This abstract provides an overview of municipal finance and governance, examining the key elements and challenges in these areas. It explores the sources of municipal revenue, expenditure management, and the role of governance structures in promoting transparency, accountability, and effective decision-making. Additionally, it discusses the importance of financial sustainability, citizen participation, and capacity building in enhancing municipal finance and governance. Municipal finance involves the revenue generation, expenditure planning, and financial management activities of local governments. Municipalities rely on a diverse range of revenue sources, including property taxes, user fees, grants, and intergovernmental transfers, to fund their operations and service delivery. Efficient revenue collection mechanisms, accurate financial forecasting, and prudent expenditure management are crucial for ensuring the financial sustainability and resilience of municipalities.

KEYWORDS:

Accountability, Budgeting, Debt management, Fiscal Responsibility, Governance, Municipal Finance, Performance Measurement.

INTRODUCTION

In 2050, the urban population, which now makes up around 50% of the global population, is predicted to increase to 67%. Megacities are also becoming more prevalent. In contrast to the two megacities that existed in 1970, there were 23 in 2011; by 2025, there are expected to be 37 of them. The majority of these megacities will be located in underdeveloped areas. There will be 59 big cities in existence by 2025, with the bulk of them located in emerging nations.Many cities have benefited economically from rapid urbanization, but it has also presented significant challenges to local governments, including rising air and water pollution, traffic jams, deteriorating infrastructure, an increase in violence and crime, the growth of urban slums, and widening income gaps. Residents put pressure on local governments to maintain and improve both physical services like water, sewerage, transportation, and roads as well as soft services like social services, health care, and education. Businesses are also making demands for infrastructure improvements in the areas of information technology and transportation to help them compete globally. Businesses are also searching for amenities that will attract knowledge employees, such as parks, recreational areas, and cultural venues[1]–[3].

Resources and governance are both important factors in raising the quality of service delivery. A metropolitan area's governance institutions, business associations, and non-profit organizations' performance have a significant impact on the quantity and quality of local public services as well as how efficiently they are provided. 61 Cost-sharing across the metropolitan area, coordination of service delivery across local government boundaries, the ease with which local citizens and businesses can interact with and influence local governments, the responsiveness of local governments to their constituents, and many other factors are all influenced by governance.In order to assist the efficient and equitable delivery of public services in metropolitan areas of developing nations, this study presents a variety of governance structures. A number of common criteria are outlined in the firstfor comparing various governance structures. The second examines and assesses numerous models in both developed and developing nations using these criteria, with a focus on cutting-edge methods used in developing-nation urban regions. Some concluding thoughts on urban government in emerging nations are included in the third. It comes to the conclusion that there isn't a single model that stands out above the others and can be used globally, despite the fact that we can name a few cutting-edge governance mechanisms from across the globe. Understanding which national and local contexts will favor certain models and procedures is essential. However, most nations would benefit from having a regional framework for their metropolises that both solves regional challenges and answers local concerns.

It is important to note right away how little is known about the administration of specific metropolitan centers in industrialized or developing nations. The case studies chosen for this study represent the knowledge that is currently available on certain metropolitan regions, and they are not intended to be an exhaustive examination of creative processes from throughout the globe. There is a need for much more serious data collecting and research of local governance and financial concerns since, arguably, the administration of metropolitan regions impacts people's lives more directly than most of what other levels of government do [1], [2].

Governance Models Evaluated

In the literature, a number of evaluation standards for metropolitan area governance systems have been laid down. Some of these characteristics indicate to a system of fragmented tiny local governments as being the most effective, while others point to huge consolidated metropolitan administrations. Thus, deciding which factors are most significant in each metropolitan region will determine the government structure.

Monetary Effectiveness

Economic efficiency serves as the basis for designing a governance system. According to the decentralization theorem, decision-making should take place at the level of government that is closest to the average person in order to distribute resources as efficiently as possible. 63 When prices and preferences vary locally, it makes sense to distribute services as decentralized as feasible to maximize efficiency.The decentralization theorem presupposes that there are no externalities or economies of scale in a metropolitan region, yet these circumstances are seldom present there. In addition, it doesn't take other factors into consideration when constructing the structure of the government, such as access, accountability, or equality within the metropolitan region. These additional factors are mentioned.

The Benefits of Scale

When a certain service is produced at a lower cost per unit as the quantity offered rises, this is known as an economy of scale. There are several issues with this criterion's implementation, despite the fact that it suggests the necessity for bigger government entities that may benefit from economies of scale. First, there is conflicting evidence in the literature about how much economies of scale will really be realized in major urban regions. According to studies, economies of scale vary by service type and may be attained for certain services with relatively small populations. It is difficult to set borders for general-purpose local governments based on this criterion since each urban service will probably attain the lowest per-unit cost at a distinct scale of production.

Second, there is some evidence that larger units of government will raise the price of some services because it may be difficult to reach remote areas within the region or because of economies of scale that are lost when providing some services. Third, the area that uses the service need not be the same as the one that offers it. Either the government creating the service or contracting the service out to the private sector may obtain economies of scale. The form of the government may be less significant in this setting. Fourth, the effects of a poor infrastructure, especially in the context of less developed nations, may cancel out the benefits of economies of scale. One huge school, as opposed to multiple smaller ones dispersed around the metropolitan region, may provide for economies of scale, but if the transportation infrastructure is insufficient, children may not be able to reach that school. The services may still need to be decentralized so that individuals can use them, even if there may be economies of scale in centralizing certain operations [4].

Externalities

When certain services are provided, externalities occur, where inhabitants of another local government jurisdiction also benefit from the advantages of that service. For instance, a road in one municipality may benefit people who travel on it from other municipalities. Since there is no motivation for the local government of the municipality where the road is situated to give services to citizens of other jurisdictions, it is doubtful that they would consider the external advantages when determining how much money to spend in the road. This is an example of an external benefit.

The service that produces an external advantage is under-supplied as a consequence. Designing government jurisdictions big enough such that all of the benefits from a certain public service are enjoyed inside the bounds of that jurisdiction is one strategy to eliminate the resultant inefficiency from an externality. The externalities would be internalized by such boundary readjustments. But much as with economies of scale, the best-sized jurisdiction will vary depending on the service, and the size needed to achieve economies of scale could not be the same as the size needed to internalize externalities.

DISCUSSION

Equity

Equity is the capacity to equally distribute the costs and benefits of services within the metropolitan region. There will undoubtedly be some wealthy areas and some disadvantaged ones in a metropolitan region with several local government authorities. Under these conditions, the wealthy towns will have a better tax base to use to fund services and may not have particularly high demand for specific services. On the other side, disadvantaged communities could need more services, but they have a limited revenue base on which to impose taxes. This issue will become worse the more municipalities there are in a metro region. Consolidating the affluent and poor regions would essentially tax the wealthy towns and use part of the revenue to fund the poor municipalities as a solution to solve the equality issue. The redistributive role might be transferred to a higher level of government as an alternative, or the higher level of government could provide transfers to municipalities in accordance with their financial needs.

Accountability and Transparency

When local government units are smaller and more dispersed, it is simpler to achieve access and accountability, both of which heavily depend on the degree to which citizens have access to local government through public meetings, hearings, elections, and direct contacts with officials. Because the public's capacity to observe the behavior of decision makers declines as government size grows, smaller government units may provide people more access to local choices. The likelihood that special interest groups will predominate public engagement increases with the size of the local government authority. Because there is no way to overthrow the administration in nations with weak democratic traditions, access to policy choices is more crucial.

Efficiency, access, and accountability point to smaller local government units, while economies of scale, externalities, and equity point to larger governments. How one balances these competing factors will determine the best governance structure for a metropolitan area.Every metropolis has to out how to strike a balance between regional and local interests. There is a need for a regional perspective and for many services to be provided on a regional basis as the globe grows increasingly urbanized and metropolitan economies change. Some services, on the other hand, are particularly local and profit from greater local availability and response. As will be, several nations have used various governance models to strike a balance between regional and local interests, reflecting the various weights assigned to each of the aforementioned criteria.

Five Metropolitan Governance Models

Metropolitan governance models may be grouped in a variety of ways. One-tier fragmented models, one-tier consolidated models, two-tier models, city-states, and voluntary collaboration are the categories in this article. Although these classifications are helpful for understanding the various types of governmental structures, it should be noted that it is possible for one city to be included in more than one category. For instance, a city with a fragmented one-tier government may also be categorized under the voluntary cooperation model if it has special purpose districts.

A One-Tier, Dispersed Form of Governance

In a one-tier fragmented government model, a metropolitan area has many autonomous local government units, each of which has some degree of independence in deciding what services to provide and how to pay for them. This model has the benefit that local governments are more approachable, accountable, and responsive to local citizens than larger government units.However, there are few chances to deal with service spillovers beyond municipal lines, generate production cost savings via scale, or organize service delivery throughout the metropolitan region. In issues like economic growth, environmental quality, social and geographical inequities, equal financing of services, and the caliber of public services offered across the region, agreement at the metropolitan level is difficult to obtain due to fragmentation. Because each local government will have distinct spending demands and variable capacities to produce income, fragmentation may result in significant budgetary discrepancies between local government units and the metropolitan region from an equality viewpoint [3], [5].

In both industrialized and emerging nations, one-tier structures are becoming fractured. The United States, where the majority of urban regions are fragmented, is maybe the finest example. The city of Los Angeles, which has approximately 13 million residents and is split into more than 200 cities and five county governments but lacks a metropolitan government, serves as an illustration of this. There is no regional cooperation on services or infrastructure, with the exception of a few regional organizations. The US's strong home rule and local autonomy traditions, support of competition among local governments, and tolerance for budgetary inequalities are all reflected in the fragmentation of local governments there.

A significant degree of institutional fragmentation of local administrations is another characteristic of Swiss metropolises. Without including the towns in the area that are situated in France across the border, Geneva has municipalities and a population of around 500,000. The merging of communes is very unpopular in both Zurich and Geneva, and little attempt has been made to establish regional organizations. Similar to metropolitan regions in the US, Switzerland's dispersed municipal governments are a reflection of a long history of local autonomymunicipalities make up the 20 million people So Paulo Metropolitan Region. The military regime's preference for regional systems and the subsequent implementation of a new constitution in 1988, which accomplished the reverse, provide background for understanding the fragmentation in So Paolo. The new constitution recognized municipalities as federation members with standing akin to states and gave state legislatures the authority to establish metropolitan structures. As a consequence, Brazilian municipalities are independent of the states and all other state-created institutions. States have established metropolitan authorities, but these organizations lack the resources to carry out or finance these programs. Furthermore, the metropolitan authority must gain the difficult-to-get consent of each member municipality before taking any action.

Federal District 72, which has 16 municipal sub-units, the States of Mexico and Hidalgo, which have 59 municipalities, and the federal government all have jurisdiction over Mexico City. The Autonomous City of Buenos Aires and 32 other neighboring municipalities make up the Metropolitan Region of Buenos Aires. There is no metropolitan government there.

Metropolitan Manila has been compared as a metropolis of villages with independent local entities that resist being controlled by higher authorities. Due to the Philippines' historical penchant for local autonomy, collaboration in Manila at the metropolitan level has proven to be quite difficult. The public's association with metropolitan structures with the Marcos administration has also made it more difficult to implement such a system. There is a regional administrative organization that attempts to coordinate planning and service delivery on a metro-wide basis, as will be explained, but it is unable to interfere with local authority [6], [7].

Within the 22 million-person Mumbai Metropolitan Region lies Greater Mumbai, which has a population of 12.5 million. The MMR is made up of almost 900 settlements, seven municipal corporations, 13 municipal councils, and a portion of two districts. There are numerous parastatals; however, the Mumbai Metropolitan Region Development Authority, which serves as a planning agency for the metropolitan area, the Maharashtra Housing and Area Development Authority, the Slum Rehabilitation Authority, and the Maharashtra State Road Development Corporation are the four main ones that are responsible for MMR's overall management.

The Airport Authority of India is one of seven parastatals formed by the national government and functioning in Mumbai.Mumbai's government is convoluted and unclear due to overlap and division between the parastatal agencies and the Municipal Corporation of Greater Mumbai. The sharing of functional and financial authority among all of these players takes place at several organizational levels and at multiple levels of governance, creating what has been dubbed the governance paradox.

Consolidated One-Tier Government

A single local government with a physical border that encompasses the whole metropolitan region is known as a one-tier consolidated government model, also known as the metropolitan reform tradition or the metropolitan model. It is in charge of offering the whole spectrum of neighborhood services. Large single-tier administrations are often created by annexation or merger.

The consolidated approach has the benefit of being more efficient than a collection of small, dispersed government entities in terms of improved service coordination, accountability, and decision-making. Large urban governments' potential to be more competitive in the global market has also been raised. A consolidated one-tier government has a bigger taxable capacity than smaller government entities, which boosts its capability to earn money via user fees, borrowing, and other means. Labor is less likely to cross metropolitan lines than municipal limits, and metropolitan governments may have an inherent advantage in tax administration because to their size. As a result, they may access more broadly based taxes. In order to ensure that the quality of services is unrelated to the wealth of any local authority, there is a larger tax base for sharing the costs of services that benefit tax payers across the area. Large one-tier governments are also able to absorb externalities and benefit from scale efficiencies in service delivery.

On the down side, merger weakens incentives for municipalities to provide services efficiently by reducing competition among them. On the other hand, if some localities previously couldn't afford to provide an adequate level of service at a reasonable tax rate because they did not have adequate resources, amalgamation may allow them to provide a level of service comparable to richer localities in the region. Reduced competition may also result in higher tax rates.The benefit of a directly elected, consolidated one-tier administration is that people may choose decision-makers who will be accountable for their actions. However, a large-scale one-tier government could hinder access and accountability since the jurisdiction is too big and bureaucratic, and people don't feel like they can readily approach their government. In order to solve local difficulties, some metropolitan governments have created community committees, or satellite offices have been built up all around the municipality where residents may pay taxes, apply for construction permits, and conduct other municipal tasks. Such tools might potentially improve accessibility, but they could also decrease any cost savings that could otherwise come from a bigger government entity [8].

Innovative governance practices have been tested in one-tier systems to promote public access and involvement in a system that would otherwise be inaccessible. Local financial records and budgets are becoming more widely available online. The goal of the global movement for open government is to develop more participatory and transparent forms of governance, made possible by game-changing technology advancement. Citizens may collaborate with the government on policies and services and hold them accountable for their choices by having online access to government information and data. In other cases, locals are actively encouraged to take part in the process of creating the spending plans for their communities to some level. Participatory budgeting is the process of including people in choices about the creation of the budget. It was implemented in part to alleviate egregious disparities in access to services and standard of living. It's unclear to what degree participatory budgeting and online information access can genuinely take the place of smaller local governments.

Choosing the proper geographic limit for the metropolitan government is a significant difficulty with a one-tier consolidated system. When we look throughout the globe, we see that the physical limits of metropolitan governments and the borders of the economic area seldom match. When economic borders expand over time, even in cases where the geographic limit does at the time of the consolidation include the economic area, it will no longer do so. By their very nature, economically active regions ultimately exceed their local political bounds. Government borders are difficult to change, and state or national governments seldom try to expand them because they are difficult to implement well, require significant modifications, and are unpopular politically. Thus, coordination of services like transportation and planning with neighboring municipalities is required even for merged cities.

One-Tier Consolidated Model

The annexation, merger, or amalgamation of municipalities into a single tier is not very frequent in the globe. However, there have been a few standout instances of merger. For instance, the two-tier organization built during apartheid was abolished in 2000 and replaced with a single-tier municipality in the City of Cape Town. By establishing "one city, one tax base," the amalgamation's primary goal was to lessen the glaring disparities in services provided by wealthy and underprivileged municipal governments. The need of regional service coordination was also acknowledged. The Municipal Demarcation Board's drawing of Cape Town's political borders has produced a metropolitan metropolis that is really confined in the sense that the whole metropolitan region is contained within those limits with little to no service delivery spillovers.

Cape Town created 23 sub-councils, which are one-tier consolidated councils that only have the authority that the municipal council has granted them, in order to increase local responsiveness. Sub-councils have some limited ward budgetary authority and may grant business licenses. Although they are not elected, they do enable the metropolitan metropolis to transfer some authority to a level closer to the people. The metropolitan administration has also implemented a system of 20 representatives from neighborhood groups on ward forums. However, it is debatable whether these forums and ward committees are successful. The first one-tier municipal amalgamation took place in Toronto in 1954, followed by the establishment of a two-tier metropolitan government in 1954, and the most recent amalgamation took place in 1998 when the metropolitan and lower tiers were combined to form a single-tier City of Toronto. The merging, according to some, produced a metropolis that is both too huge and too little. It is both too huge and too little to deal with the problems that the area faces on a regional level. Additionally, the data demonstrates that the merging, which was supposed to result in cost savings, did not. However, it has made sure that communities inside the metropolitan region share expenses more fairly.

Shanghai is a one-tier city with street offices and urban districts serving as its administrative subdivisions. Although Shanghai is technically a one-tier consolidated city, devolution to the urban district level has had a greater impact on land use than devolution to the municipal government because districts are accountable for development funds and land use decisions and have been actively involved in the city's economic development since 1990. District governments have the ability to recoup funds from district-owned businesses and provide taxes to the city government. District governments may also make choices that represent local interests since they are smaller than urban governments. Residents' committees are management bodies and not government institutions, but they are elected by residents to carry out many tasks assigned by the government such as maintaining public order and providing basic welfare. Street offices, which serve as a representative or agency of the district government, manage the delivery of 14 different services in the community. Business owners' groups and property owners' associations have just begun to appear in Shanghai [9].After abolishing a two-tier structure that had been in effect since the late 1970s and was seen to have been relatively successful, the national government of Abidjan formed a one-tier consolidated metropolis in 2001. The original ten communes and three extra sizable prefectures outside the city make up the newly formed district of Abidjan. The combined city greatly grew in size to include some rural regions[10], [11].

CONCLUSION

In conclusion, for local governments to flourish and operate efficiently, municipal finance and governance are essential. Municipalities' financial sustainability and resilience are influenced by adequate income production, careful financial management, and open decision-making. In order to promote openness, accountability, and inclusive decision-making processes, good governance, public involvement, and capacity development are crucial. Local governments may better serve their communities, encourage sustainable development, and enhance the general welfare of their citizens through bolstering municipal finance and governance systems. Building capacities is essential for enhancing municipal finances and governance. The whole governance structure is strengthened by enhancing the abilities and expertise of municipal authorities in financial management, budgeting, and policy making. Promotion of best practices in municipal administration is supported through technical assistance, training programs, and knowledge-sharing efforts.

REFERENCES:

[1] R. Tapp and K. Kay, "Fiscal geographies: 'Placing' taxation in urban geography," *Urban Geogr.*, 2019, doi: 10.1080/02723638.2019.1585141.

[2] A. A. Moore, "The potential and consequences of municipal electoral reform," *IMFG Perspect.*, 2017.

[3] A. Chernyavsky and K. Vartapetov, "Municipal finance reform and local self-governance in Russia," *Post-Communist Econ.*, 2004, doi: 10.1080/1463137042000257500.

[4] S. Bracking and B. Leffel, "Climate finance governance: Fit for purpose?," *Wiley Interdisciplinary Reviews: Climate Change*. 2021. doi: 10.1002/wcc.709.

[5] D. D. Aquije, "Paying for stormwater management: What are the options?," 2016.

[6] N. P. Simpson, K. J. Simpson, C. D. Shearing, and L. R. Cirolia, "Municipal finance and resilience lessons for urban infrastructure management: a case study from the Cape Town drought," *Int. J. Urban Sustain. Dev.*, 2019, doi: 10.1080/19463138.2019.1642203.

[7] J. Van Loon, S. Oosterlynck, and M. B. Aalbers, "Governing urban development in the Low Countries: From managerialism to entrepreneurialism and financialization," *Eur. Urban Reg. Stud.*, 2019, doi: 10.1177/0969776418798673.

[8] L. A. Asante and I. Helbrecht, "The urban dimension of Chinese infrastructure finance in Africa: A case of the Kotokuraba Market Project, Cape Coast, Ghana," *J. Urban Aff.*, 2020, doi: 10.1080/07352166.2019.1629819.

[9] L. J. Erasmus and T. Matsimela, "The Municipal Audit Committee Self-review Threat: The South African Dilemma," *South. African Bus. Rev.*, 2021, doi: 10.25159/1998-8125/6332.

[10] J. Klink, V. L. Empinotti, and M. Aversa, "On contested water governance and the making of urban financialisation: Exploring the case of metropolitan São Paulo, Brazil," *Urban Stud.*, 2020, doi: 10.1177/0042098019844390.

[11] W. Stobieniecka and A. Białek-Jaworska, "Do local governments use municipal companies for off-balance-sheet financing?," *Cent. Eur. Econ. J.*, 2020, doi: 10.2478/ceej-2020-0014.

CHAPTER 10

INVESTIGATING THE TWO-TIER GOVERNMENT MODEL

Mr. Yelahanka Lokesh
Assistant Professor, Department of Commerce and Economics,
Presidency University, Bangalore, India.
Email Id-lokesh.yr@presidencyuniversity.in

ABSTRACT:

The two-tier government model refers to a system of governance where political power and responsibilities are divided between two distinct levels of government: a central or national government and subnational or regional governments. This abstract provides an overview of the two-tier government model, examining its key features, advantages, and challenges. It explores the distribution of powers, functions, and responsibilities between the central and subnational governments, and highlights the implications for policy-making, service delivery, and democratic governance. Additionally, it discusses the factors that influence the success and effectiveness of the two-tier government model. In the two-tier government model, the central or national government holds authority over matters of national significance, such as defense, foreign policy, and fiscal policy. It establishes laws and regulations that apply to the entire country and may have the power to levy taxes, formulate national policies, and coordinate interregional issues. Subnational or regional governments, on the other hand, have jurisdiction over local affairs, including education, healthcare, transportation, and urban planning. They often have the power to raise revenue through local taxes and make decisions that are specific to their regions.

KEYWORDS:

Decentralization, Local Government, Municipalities, Regional Government, Subnational Governance, Two-Tier Government Model.

INTRODUCTION

Two or more lower-tier or local municipalities are included in the two-tier government model together with an upper-tier governing body that oversees a sizable geographic region. In theory, the higher tier is in charge of services that benefit the whole area, produce externalities, involve some redistribution, and exhibit economies of scale. The bottom layer is in charge of services that serve the local community.At the top layer, redistribution is accomplished by combining expenditure and tax measures. The area as a whole normally imposes taxes at uniform rates, with each lower-tier municipality's contribution to the upper-tier municipality varying according to the size of its tax base. In contrast to how income are dispersed among the lower-tier municipalities, the upper-tier administration spends money on services that benefit the whole city-region. Resources are redistributed from municipalities with bigger tax bases to those with lower tax bases via the use of a uniform tax at the upper tier level in conjunction with regional spending. With regard to services offered by lower-tier municipalities, there can still be variation in service levels and tax rates[1]–[3].

In terms of accountability, efficiency, and local responsiveness, two-tier systems offer some significant potential benefits over the one-tier approach. However, opponents of the two-tier approach often claim that costs would increase as a result of waste and duplication in the service delivery. However, there is not much evidence to back up this claim. It is simple to split the delivery of various public services across the levels. More specialized services may be offered regionally while primary services are still delivered locally in the health and education sectors, for instance. Major capital projects may be planned, funded, and managed in terms of infrastructure at the regional level, whilst minor connections are handled at the local level. Such divisions of labor may also increase service availability and responsiveness to regional preferences.Nevertheless, two-tier systems are unquestionably less transparent and more perplexing to tax payers, who are seldom able to pinpoint exactly who is in charge of particular services. Furthermore, it has been claimed that having two levels of municipal council causes a great deal of "wrangling, inefficient decision-making, and delays in implementing policies" However, the severity of this issue will largely depend on the specific governance structure, as well as the dedication and goodwill of the individuals involved.

London's two-tiered government is often viewed as a successful example. 32 boroughs and the Corporation of London make up Greater London, which has a population of 7.4 million. In 2002, the Greater London Authority with a directly elected Mayor was created. Services throughout the whole area fall within GLA's purview. The roads, buses, trains, subways, traffic signals, and taxi regulation are all under the control of Transport for London. Economic development is centralized by the London Development Agency. The GLA also include the Metropolitan Police Authority and the London Fire and Emergency Planning Authority. The boroughs continue to be in charge of housing, education, social services, and health care as the local planning body and with main planning responsibility.

A more recent example of the development of a two-tier system is Barcelona. An upper-tier metropolitan administration with 36 lower-tier jurisdictions was established in Barcelona as a result of legislation that the regional Parliament approved in 2010. All of the local mayors, 90 council members, the Governing Committee, and the President make up the Metropolitan Council. The Council chooses the President from among the mayors.The Metropolitan Entity of Hydraulic Services and Waste Management, which served 33 municipalities, the Metropolitan Transport Entity, which served 18 municipalities, and the Association of Municipalities of the Metropolitan Area of Barcelona, a voluntary organization made up of 31 municipalities, were all replaced by this new metropolitan body, which was established in 2011. The metropolitan area replaced not only three separate entities in the same metropolitan area, but it was also larger than the region covered by previous metropolitan organizations. The prior system's extreme complexity has been significantly reduced by the new structure. The example of Barcelona demonstrates that it is feasible to go from a system of districts with defined functions to a two-tier government structure that is more widely oriented.

Tokyo has a metropolitan administration that includes many lower divisions, including 23 special wards, 26 cities, five towns, and eight villages. Tokyo is a metropolis of nearly 13 million inhabitants. To provide consistent and effective coverage over the whole territory, the Tokyo Metropolitan Government has administrative responsibility for services including water supply, sewage, and fire protection. A consultative organization for communication and coordination between the wards and the metropolitan administration is called the Metropolitan-Ward Council. Welfare, education, and housing are among the services that the wards are in charge of. Additionally, cities, towns, and villages provide services including garbage disposal and incineration, public hospitals, and money-making ventures, often forming their own shared-delivery cooperatives and regional organizations.

With a population of more than 10 million, Seoul is a unique metropolis in South Korea. The whole functioning metropolitan region is planned and managed by the Seoul Metropolitan Government, which is led by a directly elected mayor. Administrative layers within the city are further split into 25 gu units, which are then further subdivided into 522 dong. Within their administrative boundaries, the dongs provide services to the locals. The gu's mayors are likewise chosen by vote. Through online programs and participatory budgeting, the Metropolitan Government of Seoul has made a determined effort to include residents in local decision-making. To promote public engagement, it makes use of social media and open government laws. Citizens may contact with the mayor and municipal personnel directly using Twitter feeds[4]–[6].

DISCUSSION

City-states

Cities that are also a state or province are known as city-states. Being a city-state has many benefits, including the ability for area-wide governance to absorb externalities, substantial local financial autonomy, and the ability for region-wide taxation, broad-based levies, and increased borrowing capacities. The provincial-city administration is run similarly to a province, although it lacks local level administrations and has a narrower geographic limit.However, city-states are not without issues. Inter-jurisdictional disputes may arise as a consequence of the urban population's long-term migration into neighboring states since city administrations are often smaller than state governments. This issue may be especially problematic for capital cities in city-states if a significant fraction of government workers reside outside of the city limits and utilize municipal services without paying for them. Another issue is when the hinterland is abandoned in favor of city-states. Without the financial resources of its major metropolis, how can the state government afford to provide services? Furthermore, since the city-state is politically powerful and the mayor may be seen as a competitor by the central government, there are often conflicts between the mayor of the city-state government and that body. The central government could treat the city-state differently as a consequence of this disagreement in terms of financing and other resources.

A few city-states example

There are a few city-states in existence today. Berlin, Bremen, and Hamburg are three city-states in Germany that have the taxation and spending authority of both a city and a state government. The existence of the proper geographic limits for city-states is not guaranteed, as was already said. For instance, Berlin attempted to expand its borders to include the suburbia in the neighboring state of Brandenburg but was unsuccessful.Singapore is a city-state country with one main political party in power. Singapore is admired for its cleanliness, orderliness, and traffic efficiency, and other cities turn to it for examples on how to implement successful policies. But due to its particular conditions, it is unclear if its governance model can be used in other situations. Particularly since the 1970s, there hasn't been much political opposition, which has made it simpler for bureaucrats and politicians to enact laws without encountering criticism from the general populace. Another significant distinction is that Singapore has implemented numerous policies acting more like a national government than a municipality, shielded from the typical disputes of an intergovernmental system. In other words, Singapore's prosperity is more likely due to its accomplishments as a country than as a city. However, there are also instances of particular local regulations that other cities have attempted to imitate, such as its electronic road charging system, which has been deployed in London and suggested, but rejected, in New York City.

Shanghai is a city-state that answers directly to the federal government and possesses both municipal and provincial authority. The local governing body has a lot of influence since the municipality is directly governed by the federal government. The mayor is chosen by the national government and executes powers granted to him while also having considerable latitude to act independently.The capital and most populous city of Mongolia is Ulaanbaatar, which has a population of over a million. The status of Ulaanbaatar is that of a city and aimag. The districts are split into 144 khoroos, while the capital city is divided into nine düüregs. Ulaanbaatar's mayor is also the capital city's governor. The Governor, who is chosen by the city council but appointed by the prime minister, has a dual role in enforcing both local assembly decisions and policies of the national government. Ulaanbaatar's autonomy and independence are called into doubt by the governor/mayor's simultaneous subordination to the national government and the local council, which also leads to conflict between the city's function as the capital of Mongolia and its role as a city.

Voluntary Collaboration and Districts with Specific Purposes

A "area-wide body based on voluntary cooperation between existing units of local government in the agglomeration with no permanent, independent institutional status" has been defined as voluntary cooperation. This "minimal government restructuring" involves no permanent, independent institutional status. These organizations are well-liked at least in part because it is simple to establish them politically and dissolve them afterwards. Because member local governments have some sort of representation on the boards, cooperation often entails some level of administrative integration as well as some political connection. Cooperation, however, takes various forms in different nations. Additionally, these cooperative organizations often have the authority to levy taxes, collect contributions from the towns, or charge user fees in order to pay for services. The voluntary model is a different way to acknowledge how different communities within a region interact via some kind of region-wide agreement, even while it does not contain an elected, area-wide administration.

Municipalities might provide services across an area by voluntary collaboration rather than through merger. Municipalities can take advantage of economies of scale in service delivery and address externalities related to service provision while still maintaining their autonomy in terms of spending and tax decisions. Accountability issues may, however, arise when services are provided by another jurisdiction. There is a "democratic deficit"; as a result, citizens often are unable to get information about services from their locally elected officials.The voluntary approach may succeed when decision-makers in the many local governments have the same goals. When the goals of many governments vary, it does not function as well. The municipalities concerned may or may not accept some kind of redistribution. Cooperation often entails negotiation, and in certain communities in an area, there may not be much to negotiate. Global competitiveness, financial inequities, and sprawl are just a few of the issues that many metropolitan regions confront. Because of this, any lasting solution would probably need for a governing structure with a permanent institutional standing.

Districts with a Specific Function

Single-purpose special districts may administer regional services with considerable externalities or economies of scale, or they may provide particular municipal services to a number of municipalities. The ability to individually handle each service overflow is one benefit of special-purpose districts. Differently sized special districts, such as a regional transportation district or a hospital district, might be developed since the overflow borders are seldom the same for each service, as was previously mentioned. Other benefits might include the ability to use dedicated revenues from user fees or earmarked taxes to finance capital expenditures and the provision of services by professionals whose decision-making is somewhat independent of political influence.

Special-purpose organizations, however, have drawbacks as well. Particularly, voters have less influence over these entities than they have over a council that is chosen locally. Another issue is that because each body is in charge of only one service, there is no need that trade-offs be made between, say, spending on transportation and spending on water and sewage. It is challenging to coordinate related operations when there are several separate special-purpose entities. It is difficult for individuals to grasp government institutions because of the proliferation of decision-making entities. Such organizations compromise general-purpose municipal governments by decreasing political responsibility and competing for scarce resources[7]–[9].

Taxing authority would not be appropriate if special district officials were appointed rather than elected since it would not increase accountability. Special-purpose organizations with an appointed board should impose direct service fees while restricting their ability to use monopolistic power. There is no direct connection between the special-purpose agencies' spending choices and the local councils in charge of levying the taxes used to pay for them when they are not wholly supported by user fees. Reduced accountability stems from the lack of what Breton refers to as the "Wicksellian connection" between expenses and income.Without accountability, there is no motivation to be efficient; for example, economic efficiency is not the same as technical efficiency increased by more competent management. Although services may be provided more effectively, they may not always be given to the correct individuals or in the proper amounts and conditions. These special-purpose jurisdictions are also more susceptible to being taken over by special interest groups, such as public employees, whose decisions have a tendency to raise costs and change service delivery in ways that may not always reflect the interests of the people the jurisdiction is meant to represent.

Examples of special districts and voluntary collaboration

To achieve economies of scale and enhance service delivery, Finland's smallest municipalities have established partnerships and cooperation agreements with neighboring municipalities and the business sector. The joint authority is the most popular kind of cooperation; participation is optional, with the exception of hospital services and regional councils, which each municipality is compelled by law to participate. Boards that are indirectly chosen by member municipalities manage the authorities.Throughout the United States, there are several special districts that provide specific services in particular regions. Services include transportation, urban regeneration, water, libraries, sewage, and fire protection. A special district's limits may be entirely inside a city or extend over many municipalities, making them either very local or more broadly based. Regional special-purpose organizations may sometimes be necessary in order to get government funding. For instance, local governments in the United States must be a member of a Metropolitan Planning Organization in order to receive federal transportation payments. The creation of MPOs around the nation has been effective thanks to this national government incentive.

Brazil offers several excellent instances of collaboration between municipalities. The national government enacted laws in 2005 to encourage the development of municipal consortia. Consortia are given legal standing by the law, which permits them to independently obtain loans and provide guarantees. Municipal consortiums are also permitted to perform responsibilities in planning, regulation, and supervision. In municipal consortia, the state government may also participate. An effective inter-municipal health effort was supported in Belo Horizonte by state-level incentives in the form of payments.Sub-groups of municipalities have developed to find answers to particular regional problems, despite the fact that So Paulo is an example of a one-tier fragmented government system with no institution of metropolitan administration for the area. For instance, the Greater ABC Chamber was established in 1997 to unite the mayors of seven towns, business organizations, and civil society organizations to confront two issues: the demise of the car industry, and the need for watershed conservation. The Greater ABC area, for at least a small portion of the So

Paulo area, is an example of a bottom-up method to metropolitan administration, in contrast to the top-down health program by the state government in Belo Horizonte. Community leaders and politicians took on the issue of economic decline via a variety of initiatives as a result of the common character of the challenges, which helped to establish a new regional identity.

Despite not encompassing all services or even the whole metropolitan area, the ABC cooperative plan does not constitute a formal structure of government. However, several writers have remarked that its success may be attributed to its flexible and practical approach to issue resolution. It has been run on the foundation of experimental initiatives that have gradually increased confidence amongst the key players. Other organizations have attempted to help coordination in the past, but due to their insufficient budget and lack of power to make decisions, they have mostly been advisory in nature. The ABC consortium has been successful because it was able to unite many parties to address certain problems. The Greater ABC is seen as a "showcase of successful cooperation" in fact.A public firm in the metropolitan area of Bogotá has put in place a comprehensive transportation strategy for the region, which includes regulating private bus companies. User fees and a levy on the gas tax are the only sources of funding for the transit system. There are various regional agreements in place in Buenos Aires for services including watershed management, public works and sanitation, and environmental legislation. In India, parastatals are in charge of providing a variety of services; there are 21 parastatals in Mumbai, for instance, which are in charge of the majority of infrastructure investment.

As has already said, Metropolitan Manila is a prime example of a highly fragmented system. The Metropolitan Manila Development Authority, established by the Philippine national government for the 16 municipalities in the Manila metropolitan zone, does, however, carry out some regional coordination for planning and service delivery. The MMDA is in charge of providing services that affect the whole metropolitan area or that need more money than individual local governments can afford. Planning for development and investments, land use, urban renewal, housing, solid waste management, traffic management, flood and sewage management, pollution control, and public safety are among its duties. In addition to a 5% contribution from local governments, taxes, and fine income, it receives funding from the federal government.

The MMDA is a unique development and administration entity that reports directly to the country's president rather than being a corporate arm of government. It carries out planning, monitoring, and coordination tasks but can only do so without impairing the sovereignty of local governments in handling local issues. However, it has been claimed that the MMDA's lack of effectiveness is due to the fact that it is a national company rather than a local organization with limited resources. For instance, while the MMDA is allegedly in charge of transportation and traffic management, the central government is in responsible of funding, building, and maintaining roads and bridges. Additionally, municipal mayors are not compelled to adopt a metropolitan emphasis.This analysis of global governance models does not identify a single model as the most effective or universally applicable. The geographic boundary of the City of Cape Town, which reflects the economic region, the two-tier government structures in cities like London and Barcelona, the ABC Chamber in So Paulo, which brings together different stakeholders to tackle economic problems on a voluntary basis, and national government financial incentives in the United States are some examples of initiatives that have worked well in specific contexts in developed and less developed countries. However, there is no assurance that any of these novel processes will function in a different situation.

Different constitutional provisions, the country's federalism or unitarianism, the division of responsibilities, the allocation of revenue sources, the history and politics of the country, and a host of other factors are reflected in the different governance structures and initiatives that have emerged in the various metropolitan areas. For instance, a metropolitan area in a nation with a long history of local autonomy is unlikely to establish a regional entity willingly, but it may combine smaller, local governments to form metropolitan governments. A metropolitan region in a nation with democratic traditions cannot simply adopt a successful model from a metro area in a nation with an authoritarian administration. As is often the case with institutional design, although the issues at hand seem to be universal, the solutions are inevitably context-specific, and decision-making on policy is seldom simple.

However, most nations would be wise to work toward creating more efficient systems of administration for the whole metropolitan region than those that now exist in order to enhance service delivery. To ensure that services are provided in a coordinated manner beyond municipal borders and to be able to enhance service delivery by leveraging economies of scale and internalizing externalities, a robust regional structure that includes the whole economic area is crucial. Lefèvre focuses on five factors that make up a successful regional structure: political legitimacy through direct elections; boundaries that correspond to the functional territory of the metropolitan region; independence from outside financial support; pertinent powers and responsibilities; and sufficient staff. These traits are all indicative of a consolidated one- or two-tiered government system.

However, although amalgamation often isn't popular, voluntary collaboration and special-purpose districts, which have relatively few of these qualities, are. As Dafflon points out, amalgamation is typically supported by economic arguments such as administrative efficiencies, economies of scale, increased efficiency, internalization of spillovers, and more substantial tax bases; however, opponents of amalgamation defend their stance using democratic justifications such as grassroots voice and free democratic choice. The decision to solve inter-municipal service delivery concerns via voluntary collaboration and special-purpose districts rather than a regional government structure tips the scales in favor of local autonomy and responsiveness and away from a regional vision.

Although voluntary collaboration may be beneficial in delivering certain services, it is unlikely to provide urban regions a strong regional base. The regional vision is further weakened when special districts are established to provide certain services, and responsibility to local residents is also compromised since these boards are often appointed by or indirectly elected from members of the local councils. Political legitimacy would increase if intermunicipal cooperative governance institutions were replaced with a regional government structure with direct elections, but virtually always at the price of local responsiveness. To balance regional and local interests, at the very least, community or neighborhood councils are required. Recent advancements in participatory budgeting and transparent governance may help increase public involvement.

The actual decision regarding efficient government in a metropolitan area is between a one-tier and a two-tier organization. A one-tier system may be more effective at ensuring political and financial responsibility since it is clearer and more transparent than a two-tier one. Due to their inherent complexity, two-tier organizations run the risk of creating unwelcome redundancy, overlap, and general misunderstanding among residents about who is in charge of what and who is accountable for what costs. A two-tier system, on the other hand, could be more efficient than a more centralized one. At the upper-tier level, desirable economies of size and scope may be accomplished, but the survival and vitality of the lower tier allow for greater response to regional differences in preferences and maintain the relationship between local finance and spending choices. A one-tier or two-tier system may be used to accomplish any desired level of regional redistribution, while a one-tier structure that allows for the redistribution of all taxes and has consistent tax rates across the city-region is clearly the most practical.

Finally, governance is intrinsically tied to the services that local governments in urban regions provide and how they pay for them. Although municipal financial concerns have not been explicitly addressed in this essay, it is important to note that only when residents of metropolitan regions are forced to make important choices about service delivery, pay for the services, and bear the costs of those decisions can lasting solutions to their problems be found.

Making wise judgments about spending when benefits and expenses cross municipal lines is sometimes difficult from a technical and political standpoint due to the fragmented nature of metropolitan regions' governing structures. Another contentious topic that arises often and everywhere is how to appropriately distribute expenses throughout the urban region. In order to enhance service delivery, it is necessary to first create an efficient metropolitan government system and then to establish an adequate budgetary framework[10], [11].

CONCLUSION

In conclusion, A framework for allocating political authority and duties between the central and subnational governments is provided by the two-tier government model. It has benefits in terms of regional variety, public participation, and local responsiveness. It also raises issues with coordination, resource allocation, and the efficiency of government. The two-tier government model may support democratic governance, local growth, and citizen well-being by addressing these issues and putting in place efficient intergovernmental interactions procedures.

The two-tier government model's efficacy and success are influenced by a number of variables. Powers and duties must be clearly defined, and there must be efficient procedures for interstate collaboration and conflict resolution. Effective resource allocation and service delivery may be facilitated by transparent and accountable governance frameworks and solid financial arrangements. The effective operation of the two-tier government model also depends on enhancing both levels of government's capabilities, encouraging public engagement, and cultivating a culture of cooperation.

REFERENCES:

[1] J. M. Barrutia and C. Echebarria, “Drivers of exploitative and explorative innovation in a collaborative public-sector context,” *Public Manag. Rev.*, 2019, doi: 10.1080/14719037.2018.1500630.

[2] J. Li, J. S. White, T. W. Hu, G. T. Fong, and J. Yuan, “The heterogeneous effects of cigarette prices on brand choice in China: Implications for tobacco control policy,” *Tob. Control*, 2015, doi: 10.1136/tobaccocontrol-2014-051887.

[3] M. Sinayi and M. Rasti-Barzoki, “A game theoretic approach for pricing, greening, and social welfare policies in a supply chain with government intervention,” *J. Clean. Prod.*, 2018, doi: 10.1016/j.jclepro.2018.05.212.

[4] Q. He, D. Opposs, M. Glanville, and F. Lampreia-Carvalho, “Assessing pupils at the age of 16 in England – approaches for effective examinations,” *Curric. J.*, 2015, doi: 10.1080/09585176.2014.944198.

[5] Z. Hua, W. Chen, and Z. G. Zhang, “Competition and Coordination in Two-Tier Public Service Systems under Government Fiscal Policy,” *Prod. Oper. Manag.*, 2016, doi: 10.1111/poms.12555.

[6] J. K. M. Kuwornu, E. K. Apiors, and G. T. M. Kwadzo, “Access and intensity of mechanization: Empirical evidence of rice farmers in Southern Ghana,” *Brazilian Arch. Biol. Technol.*, 2017, doi: 10.1590/1678-4324-2017160396.

[7] J. B. Sheu, “Supplier hoarding, government intervention, and timing for post-disaster crop supply chain recovery,” *Transp. Res. Part E Logist. Transp. Rev.*, 2016, doi: 10.1016/j.tre.2015.09.013.

[8] D. Lee, E. Sönmez, M. I. Gómez, and X. Fan, “Combining two wrongs to make two rights: Mitigating food insecurity and food waste through gleaning operations,” *Food Policy*, 2017, doi: 10.1016/j.foodpol.2016.12.004.

[9] N. V. M. Lopes and S. Farooq, “Smart City Governance Model for Pakistan,” in *EAI/Springer Innovations in Communication and Computing*, 2020. doi: 10.1007/978-3-030-22070-9_2.

[10] T. Y. Chiu *et al.*, “From fragmentation toward integration: A preliminary study of a new long-term care policy in a fast-aging country,” *BMC Geriatr.*, 2019, doi: 10.1186/s12877-019-1172-5.

[11] J. S. White, J. Li, T. W. Hu, G. T. Fong, and Y. Jiang, “The effect of cigarette prices on brand-switching in China: A longitudinal analysis of data from the ITC China survey,” *Tob. Control*, 2014, doi: 10.1136/tobaccocontrol-2012-050922.

CHAPTER 11

STRUCTURING SERVICE DELIVERY IN SMALL URBAN AREAS

Dr. Dasinis Nathan Annette Christinal
Assistant Professor, Masters in Business Administration (E-Commerce),
Presidency University, Bangalore, India.
Email Id-annette.c@presidencyuniversity.in

ABSTRACT:

Service delivery in small urban areas poses unique challenges and opportunities due to their distinct characteristics and limited resources. This abstract provides an overview of the structure of service delivery in small urban areas, examining the key factors that influence service provision, the role of local government, and the challenges faced in meeting the needs of residents. It explores the importance of effective governance, strategic planning, and community engagement in ensuring efficient and equitable service delivery. Additionally, it discusses innovative approaches and best practices that can enhance service provision in small urban areas. Small urban areas are characterized by relatively lower population sizes, limited budgets, and diverse service demands. The structure of service delivery in these areas often involves a mix of local government, community organizations, and partnerships with external stakeholders. Local government plays a central role in planning, coordinating, and delivering essential services such as water supply, sanitation, transportation, public safety, and recreational facilities. Collaborative efforts with community groups and non-governmental organizations can help bridge gaps and provide specialized services tailored to the unique needs of small urban areas.

KEYWORDS:

Local Government, Municipal Services, Planning, Public-Private, Partnerships, Service Delivery, Small Urban Areas.

INTRODUCTION

A great quality of life and a prosperous economic environment depend on having access to a variety of services, including water, sewage, education, fire protection, transportation, and others. Since they are often localized in terms of consumption and delivery, these services are frequently provided inefficiently in developing nations, and access to them varies greatly. Poor delivery, which affects customer satisfaction and inhibits productivity, is especially problematic in small urban areas and on the outskirts of big towns. In addition to having an impact on the neighborhood, lost production has a ripple effect that may hurt the macroeconomy as a whole. Poor service delivery may also force residents and companies to move to places with more services, clogging up services and activity in the central business districts of metro areas[1]–[3].The issues with service delivery in peri-urban and smaller urban regions are examined in this article. However, because of the extreme diversity of these groups, it is necessary to be inclusive while discussing topics, challenges, and potential solutions. Some of the locations could be heavily inhabited, while others might have less dense populations. Because of culture and criminality, the environment for providing services in certain places might be difficult. There are certain places where there may not be as much demand for services, either because of low-income levels among the locals or because fewer people have moved there. Because of factors including disparate wages, the capacity to choose alternatives, and local circumstances, different demographic groups and regions of a nation may have variable needs for public services. As a result, service levels might effectively differ across cities. For instance, excellent electric service may be more crucial in commercial districts than in residential areas.

The restrictions highlighted below may not necessarily be specific to peri-urban and smaller urban regions, and inadequate access to services might result from issues on either the delivery side or the funding side. For instance, choices on the scope and distribution of public services are made by numerous actors with varying objectives and drives. These decision-makers often act in their own self-interest and are not acting out of altruism. As a consequence, due to principal-agent issues, knowledge asymmetries, and other factors, the political process is unlikely to provide an efficient set of service delivery choices. In fact, they can try to prevent efficient service delivery in order to keep rents at the current level. In other instances, political choices could be made that leave cities or demographic groups with unequal access to services, despite the fact that other areas of the city have adequate service levels. On the other side, high service provision costs, at least in comparison to the heart of bigger cities, may possibly hinder the delivery of services. The main worry is that the governments are too tiny to support the provision of services at a cheap cost. on general, and especially on the periphery, the organizational climate and culture may not be ideal for the delivery of services. Furthermore, a lackluster municipal tax structure may prevent income from being used to support services. If the issues are to be resolved and improved services offered, it is essential to identify the reasons of insufficient services.

Presuming that poor service levels in one city compared to others or relative to outside norms prove that services are insufficient or that there are underlying delivery issues requires caution. A nation's demand for services may range from region to region, and these demand-determined disparities may indicate efficient resource allocation rather than inefficient resource allocation. Although effective demand takes these opportunity costs into account, the opportunity costs of resources inside a certain city or nation are not taken into account when developing external standards. For instance, poor resource mobilization may result in a high opportunity cost for resources in the public sector, which may change the options available for providing public services. In addition, externally generated demand for services, such as when international organizations provide low-cost or free infrastructure, is likely to necessitate increased operations and maintenance costs and inefficient resource utilization unless the infrastructure is in line with local requirements. In certain cases, well-intentioned donor funding might lead to service levels that are excessive compared to the choices that local users would choose after weighing the pros and cons of different resource uses. Domestic demand compares the public sector's alternative uses with the use of resources for private consumption. Cities shouldn't be expected to maintain service delivery capacity given by donor inputs that are incompatible with local needs, even when cities run efficiently and revenues are mobilized correctly. Of However, if local demands are based on incomplete knowledge, foreign organizations may play a role in teaching local leaders and citizens about the need of raising service levels.

After this introduction, this work is broken into eight parts. The first is a succinct examination of the differences in local government size around the globe. The second briefly discusses issues with using local resources and the inability to provide adequate levels of services due to a weak income system. three discusses factors that affect how effective a government is. Four assesses local government service economies of scale. Five takes into account other elements that influence how efficient a city is. The sixth emphasizes consolidation. Seven outlines a number of additional strategies for efficient service delivery. Eighth highlights various issues related to these substitute systems.

DISCUSSION

City Size Around the World

The size of municipal governments varies greatly throughout nations, indicating that no one model is the best method for delivering services. The typical municipal size for OECD countries and a few African nations, respectively. The vast number of tiny towns undoubtedly lowers the OECD averages, but the statistics show that modest-sized municipalities are more common, often ones that won't be able to benefit from major size savings if they provide services internally. It seems that concerns with enough city size to benefit from production economies are not exclusive to cities in poor nations. In fact, you can see in 2 that African municipalities are, on average, far bigger than those in OECD nations. The size of governments is greatly influenced by history and culture, which undoubtedly explains some of the stark disparities. As will be covered in more detail in the next s, there are several more economic considerations that influence the size of cities[4]–[6].

Revenues

Decentralization of government is primarily justified from the perspective of service delivery, not from the perspective of income generation. Because they are limited to less productive income streams, local governments often struggle to finance the provision of services, which increases the likelihood of a mismatch between local demand for services and available resources. Even if there is a demand for the services, delivery of the services will be greatly hampered unless structures are in place to enable sufficient mobilization of local resources. The greatest method for funding local services is often via user fees, which are an exception that may provide a reliable local income stream. User fees enable for the simultaneous selection of the right level of services and serve as a funding source for service delivery, which is a significant benefit. If prices are set appropriately, customers who are prepared to pay the marginal cost of production may utilize the service, but those who aren't willing to do so cannot. Because only those who are ready to pay the marginal cost may access the level of services, they will be efficient.

Of course, user fees can only be levied when services like energy, water, and sewage can be priced. Other examples include intra-city transportation and water. User fees are ineffective tools in situations where collection may be difficult or expensive, as in the case of basic education, or if price may ineffectively crowd out users. There are also occasions when arguments against user fees are made on the grounds that they are regressive and low-income families may not have much access to the services; nevertheless, while depending on user fees to earn money, alternative ways of addressing access for low-income households should typically be explored.

In situations when there are no user fees available, taxes must be levied. In comparison to subnational governments, the national government often has a significant competitive advantage in the collecting of taxes. The benefit comes in part from the fact that having jurisdiction over a larger geographic region often improves one's ability to collect the primary taxes, such as the personal income tax, corporate income tax, value added tax, and customs. Additionally, many nations provide local governments a limited number of tax options, including options like entertainment taxes, car taxes, other charges and user fees, and stamp duties. Property taxes are typically delegated to local governments, even though they only yield tiny amounts of money in most nations.

When cities in a nation have different alternatives for producing cash, bigger cities are granted more freedom than smaller ones, which adds to the imbalance. Because economic activity, company location, and corporate headquarters are concentrated in bigger cities, the revenue-generating challenge is exacerbated in smaller cities and at the edges of major metropolitan centers. The result is increased tax collections in major cities and improved tax handling discovery capabilities. Additionally, the collecting systems are often more advanced in bigger cities, despite the fact that they may also be bureaucratic and inefficient. Therefore, in smaller towns and outside of major cities, the difficulty of collecting income is overstated. Access restrictions increase the opportunity cost of local resources in the public sector and highlight the need of using them wisely and for local goals. Due to these restrictions, local governments may look for inefficient ways to raise money, such as seeking to make money in activities best handled by the private sector.

Intergovernmental transfers from the national government may close horizontal gaps brought on by local governments' varying capacity to collect taxes as well as vertical gaps generated by the vertical allocation of income. Intergovernmental transfers are seldom attempted to be discussed in detail, despite the fact that they are often insufficient to guarantee funding for appropriate service levels.When local governments are unable to mobilize the resources required to fund adequate levels, even when demand is there, service delivery is hampered. The result will very certainly be inconsistent service delivery among cities due to varied capacity for revenue collection. The perimeter of cities and smaller urban areas are more likely to be disadvantageous and would need to work significantly harder to produce the same amount of money as locations with comparatively larger tax bases. In addition, mobile people and enterprises may migrate to lower tax jurisdictions, aggravating the issue, if smaller cities have higher tax rates.

The only way to address the issues with service delivery brought on by subpar revenue collecting processes is to improve access to resources. This calls for enhanced vertical and horizontal transfer systems, greater access to tax instruments, and a willingness on the part of governments to use their existing revenue authorities. However, it's crucial to understand that the service delivery problems and alternatives presented won't help the delivery of services that are hampered by a lack of resources.

Government Structuring for Service Delivery

The ideal size for local governments should be determined by a number of variables, and different nations will choose different sizes even when deciding on new government size choices due to the different precedence given to these considerations. But the proper size could change quickly, perhaps faster than the political obstacles to changing jurisdictional size can be overcome. As a result, keeping governments that are the correct size might not be politically feasible. As a result, technological advancements and changes in demand are some of the reasons that might change how efficient government is at providing services.

It is crucial to understand that choosing an efficient size should take into account a number of additional factors in addition to the size that seems to produce the lowest manufacturing costs. The six elements that are addressed here may point in rather diverse directions, thus choosing the appropriate level of governance is a choice that involves both art and science. Should be on the list are:

Scale Economies

Large enough local governments should be able to reap the financial rewards of expanded service delivery. The results of a sample of the study on the size of economies are presented, and the findings imply that cities do not need to be enormous to benefit from economies linked to numerous services.

Varying Levels of Service Demand

Cities should be the right size to provide the services that people desire, but decisions will always be influenced by decision-makers' self-interest, preferences, and financial constraints. Cities, including companies and consumers, have been suggested to benefit from being small enough to provide a variety of tax and spending options to service customers. Users may choose the ideal bundle by voting with their feet.

Cross Subsidies Are Acceptable

Cross subsidies across urban regions or between different demographic groups are more likely to occur in bigger, more diverse communities. Cross-subsidies could be accepted more readily in certain towns or nations than others. Cross subsidies are easier to prevent under smaller, more homogenous administrations.

A Tax Battles

The possibility of tax competition may be increased by several tiny local governments. Competition is good if it promotes efficient local government size and service delivery, but it is bad if it drives down tax rates too low to pay for needed services.

Corruption

The size of the local government should be chosen to reduce the chances and rewards for corruption.

Accountable Politics

The choice of local governments should promote local officials' accountability. Appropriate political accountability will reduce corruption, but these problems are separate since political leaders may not always be held accountable for making the best decisions.

The Scale of Economies

Because they lack the capacity to supply services at low per-person prices, peri-urban regions or smaller cities may have higher service delivery costs. The extent to which service delivery per capita costs decrease as a city becomes bigger is referred to as an economy of scale. It is difficult to generalize the level of economies of scale since many other factors often alter as a city grows. Greater population simply equals a bigger size in the most straightforward scenario. Even yet, a larger population for a particular city's geography results in a higher population density, which may increase the demand for services or lower the cost of providing them, as in the case of spreading the cost of a given distance of water and sewage lines over more houses.

In other instances, higher scale may require providing services across a wider region and under various service delivery circumstances. Because of this, the potential for economies of scale is probably quite context- and service-specific. Experiences from one place and scholarly study should thus not be generalized without due diligence. However, a few of the broad conclusions from research on capital-intensive and labor-intensive services are discussed.

Monetary-Intensive Services

To determine the likelihood that economies of scale would come from delivery in bigger units, services may be advantageously divided into capital-intensive and labor-intensive categories. 85 In contrast to labor-intensive services like schools and fire protection, size economies are more common for capital-intensive services like water, sewage, and intra-city transportation. Sizeable economies may come from a variety of places. One is indivisibilities that appear in production, such when the size of the plant has a lower limit regardless of the people it is intended to service. A second possible source of size economies is economies of scale, where the increased output increases more quickly than a comparable increase in inputs. This is really talking about lumpiness in small-scale manufacture. Economies of scale are the outcome of traits like a more efficient organization, cost savings from buying on a greater scale, or a non-linear production function. Due to economies of density, when more customers are concentrated in a given region, services may be provided at a lower cost. Some services could be considered public goods, which implies they won't change much as more people use them. Examples of this include adding a vehicle to an empty road or a park's capacity.

The argument for scale economies, even with capital-intensive services, is more nuanced than one may first think. As an example, consider provided water, which consists of a number of discrete operations with varying economic scopes. Because of economies of scale, it is typically believed that the collection and treatment of water would result in reduced unit costs as the volume of treated water increases. However, these savings may be entirely absorbed in modest-sized producers with no incremental economies when producers grow big. However, this just conveys a portion of the tale. After that, the water must be delivered, and the higher cost of pipelines, water towers, and other infrastructure across longer distances may cancel out any savings from water production.86 higher density than higher scale are more likely to be associated with cost reductions from water delivery. Unsurprisingly, research has that the benefits from providing water services to wider regions and more people vary greatly depending on the particular situation. For instance, Garcia & Thomas discover that the consolidation of France's water networks reduced expenses. Kim & Lee come to the conclusion that combining water districts in the Seoul region will result in reduced costs, although savings there would be far less probable[7]–[9].

Numerous other capital-intensive services, including energy, solid waste, sewage treatment, and intra-city transportation, follow a similar approach. According to Bel, intra-city buses are manufactured at steady rates so that their expenses do not decrease with their size. Bel also discovers that solid waste provides economies of scale for smaller cities, but these advantages are completely realized at populations of 50,000 or fewer, therefore no economies of scale or densities can be anticipated in bigger areas.

Labor Intensive Services

Typically, smaller efficiencies are anticipated from labor-intensive activities like education and fire protection. Many of these services must be produced in a network of locations close to the users, which limits the possibility for economies of scale. Further, there are few economies available until there are sufficient numbers of students to enable each teacher to have the appropriate number of kids in the classroom since instructors often only have a restricted number of students. As the central administration and other largely fixed expenditures are divided among multiple students, some financial savings may be realized. In addition, as school districts become bigger and coordination is harder, more layers of management and bureaucracy might be created, which eventually outweighs any potential savings from bigger school buildings. As a district's student population grows, per-student expenditures may be thought of as U-shaped, declining until school districts reach around 6,000 pupils.

Additionally, it is important to balance the results on scalability in labor-intensive services with the need for the customer to visit the provider.Finally, if manufacturing facilities grow or are placed further away from customers, the quality of services may suffer. Parental participation in the school is often related to school quality, which is connected to schools that operate on a neighborhood basis. Rapid response, which is dependent on proximity, improves the quality of fire and police protection; similar correlations could apply to other services.Generally speaking, research on size economies indicates that any potential economies for many services are realized in modestly large cities, maybe 50,000 people or fewer, therefore many tiny metropolitan locations are not at a cost disadvantage when delivering services. However, the findings show that low-density towns and tiny rural areas are more likely to experience high-cost service delivery due to production inequalities and high distribution costs. Larger metropolitan communities may be more concerned about the fragmentation of government into many smaller entities since some services, including child welfare, public transportation, airports, and so forth, benefit greatly from coordination throughout the metropolitan area. Additionally, smaller metropolitan regions can be less able to hire the administrative, financial, and technological skills necessary to run complex service delivery systems and provide a broad variety of services.

Other Variables Affecting City Size

The aforementioned influences on desirable city size demonstrated that other aspects should be taken into account in addition to size economies, and they often show that smaller cities are wise policy. According to the subsidiarity principle, which states that services should be delivered by the government that is most local to its constituents, analysts often contend that services should be given. Small government may be implied by the idea of closest governance. Smaller governments also provide citizens more freedom to choose the set of taxes and services that best meet their needs in a particular labor market. Consumers and businesses can exercise their right to free movement and move to the jurisdictions that offer the services that are desired at the best tax price, resulting in a market for local public services that forces local governments to operate more efficiently with both improved service quality and lower costs. There is evidence that suggests greater quality services are provided when there is more competition. The desired result is low-cost delivery of the services that people need the most. However, this methodology ignores scale economies.

On the other side, if tax rates are pushed too low, it hurts competitiveness across jurisdictions. With a high number of smaller jurisdictions, the possibility that certain towns could decide to function as tax havens and result in unreasonably low rates might increase. In their analysis, Kanbur and Keen show that comparatively smaller governments have an incentive to compete with relatively bigger ones.Large jurisdictions that provide all citizens and companies the same services are one approach to guarantee service access to a wide range of users, which might be a goal in and of itself. Broad access to services, however, will lead to cross-subsidies among taxpayers, which are typical in any government. Cross subsidies, in particular, often flow from taxpayers with big tax bases to those with tiny tax bases, or at the very least from taxpayers who pay more in taxes than they get in services to those for whom the opposite is true. As the population grows more diverse in terms of income distribution and demand for public services, the cross subsidies will grow in size. Interesting study reveals that even among smaller cities in a metropolitan region, inhabitants are more varied than could be anticipated. As equivalent services are provided to everyone within the jurisdiction, the chance of subsidies will also increase. The preference for big vs small jurisdictions may be influenced by the acceptance of cross subsidies, with larger jurisdictions being feasible in areas where subsidies are more accepted.

Because political leaders are more approachable when they are close by, there is a common assumption that smaller governments are more responsive to their voters than bigger ones. Although that may not always be the case, this is another justification for having smaller governments. According to certain studies, smaller cities have greater levels of customer satisfaction with service delivery. On the other hand, since there is more to be interested in, individuals could wish to participate more in bigger governments.Making decisions on the appropriate city size may also need consideration of the relationship between corruption and government size. Fiorino et al. found that corruption is lower with more fragmented governance, but only when related to higher spending and revenue decentralization. The results on this topic are mixed. Independent of the level of corruption, the size of the government tends to have an adverse relationship with public trust.

It should be emphasized that as cities become bigger and denser, the demand for public services might increase. People and companies in bigger cities may require additional services as a result of traffic, unfavorable externalities, and other causes. For instance, when a city's size and population density increase, the value of its internal transportation, police and fire protection, solid waste collection and disposal, and sewage systems increases. Any size efficiencies that arise from manufacturing at greater scale and density may be countered by the higher expenses of providing these services, preventing prices from falling even as the same level of service per person becomes more affordable. However, in this context, the term "city size" refers to the size of the metropolitan region as a whole rather than to the size of the specific local government. Large metropolitan areas may not reap the full economic advantages of their size due to significant local government fragmentation, but there will likely be a higher demand for services to cover the expenses of their population density and size.

Consolidation

The idea of local government consolidation is put out or accepted with a variety of expectations in mind, and the accomplishment of the various goals relies on the establishment of the proper incentives. One way to get the scale needed to efficiently supply services over an area is to combine regions or governments into bigger government entities. Independent of prices, it may be anticipated that the total capacity for service delivery would increase. As limited talent for experienced managers is distributed among more individuals or as planning is carried out more efficiently, more efficient service delivery choices may be anticipated. Steiner discovered that consolidation was more common in Switzerland's underperforming municipalities. The area may see less confusion around service obligations or more equality in service access. On the other hand, since everyone in the bigger government receives the same services even when service needs vary, service inefficiency might increase. Many consolidated governments provide some service distinction to mitigate this issue, and the public choice literature contends that if residents still have some options, they will be more amenable to consolidation. When local governments fail to provide services that individuals with higher service preferences require, private sector options might be leveraged to increase access to services. Examples of such choices include private schools, generators to increase electrical reliability, and fences for security.

Geographic externalities may be absorbed inside the city via consolidation. Although Toronto's experience demonstrates that it is difficult to find a size that internalizes all of the externalities, environmental planning and transportation systems are instances where higher size may assist internalize the benefits and costs. Additionally, there are spillover effects between taxes and public services. For instance, persons may reside in one jurisdiction and use its public services while working in another jurisdiction and paying taxes there.Because they are better equipped to control economic growth and because businesses often prefer to interact with fewer diverse local governments, large cities may be anticipated to boost economic development. In addition, since it represents more people and economic activity, a consolidated government may have more political influence on the national government.

On the outskirts of major cities or for smaller cities in a vast metropolitan region, consolidation with the center city or other locations is an apparent choice. Around the globe, there have been several consolidations, notably in Toronto, Canada; Nashville, Tennessee; Lexington, Kentucky; and other locations in Switzerland. Several emerging nations, like Sudan, Jordan, Zimbabwe, and Rwanda, have either advocated for or actually adopted merging local administrations. The justification for consolidation is often cited as more efficient or less expensive service delivery.There is minimal chance that prices may be decreased by consolidation unless a collection of very tiny jurisdictions are joined, as was said above, since the scale economies associated with most services are constrained. The transition expenses that would develop when current service delivery entities are integrated further undermine the potential cost reductions from consolidation. Simply put, consolidations are the joining of governments with a variety of operational cultures and diverse expectations from employees, constituents, and the national government rather than the greenfield creation of public service delivery. Existing equipment and infrastructure cannot be simply moved. When systems are joined and must be made to function together, significant expenditures may be incurred. Labor represents a major expense for local government; thus, people must be let go if savings are to be realized. However, even when the workers are redundant, this is sometimes a difficult political problem. If employee numbers are to decrease via attrition, it may take some time, therefore any cost reductions, if any, may not materialize for some time.

Politically, consolidation may be exceedingly difficult to accomplish due to the many agreements that need to be made and the fact that everyone involved stands to lose. Like earlier regimes, consolidated governments lack altruism. The different parties can try to reduce or even reverse the advantages of consolidation. The dominance of the current center city in the future unified government is one problem that worries citizens. Government employees are concerned about job losses, workplace changes, and other variables that are relevant to their occupations.

CONCLUSION

In conclusion, Careful planning, efficient administration, and community involvement are required for the structure of service delivery in small urban areas. The coordination and delivery of services are primarily the responsibility of the local government, although cooperation with other parties is also crucial. Innovative strategies and strategic alliances are needed to address issues with few resources and capability. Small urban communities may boost service delivery and people' quality of life by applying these ideas and best practices. In small urban areas, better service delivery may be achieved via the use of innovative strategies and best practices. Enhancing the effectiveness and accessibility of services via the use of technology and digital solutions. Collaborations with nearby towns may combine resources and transfer knowledge, creating economies of scale. Participating in regional and national networks may open doors to financing, technical assistance, and chances for knowledge sharing.

REFERENCES:

[1] S. Munthe, B. Calnen, G., and Y. Risdian, “Penataan Kelembagaan Dalam Pelaksanaan Program Desa,” *Spirit Publik*, 2016.

[2] U. Nao UK, National Audit Office, "Capital funding for schools," 2017.

[3] C. C. Cantarelli, B. Flybjerg, E. J. E. Molin, and B. van Wee, "Cost Overruns in Large-Scale Transport Infrastructure Projects," *Autom. Constr.*, 2018.

[4] N. Shramenko, D. Muzylyov, and V. Shramenko, "Methodology of costs assessment for customer transportation service of small perishable cargoes," *Int. J. Bus. Perform. Manag.*, 2020, doi: 10.1504/IJBPM.2020.106113.

[5] G. Angeles, K. Z. Ahsan, P. K. Streatfield, S. El Arifeen, and K. Jamil, "Reducing Inequity in Urban Health: Have the Intra-urban Differentials in Reproductive Health Service Utilization and Child Nutritional Outcome Narrowed in Bangladesh?," *J. Urban Heal.*, 2019, doi: 10.1007/s11524-018-0307-x.

[6] M. Mkansi, S. de Leeuw, and O. Amosun, "Mobile application supported urban-township e-grocery distribution," *Int. J. Phys. Distrib. Logist. Manag.*, 2020, doi: 10.1108/IJPDLM-10-2018-0358.

[7] S. C. Martino *et al.*, "National racial/ethnic and geographic disparities in experiences with health care among adult Medicaid beneficiaries," *Health Serv. Res.*, 2019, doi: 10.1111/1475-6773.13106.

[8] M. Mohiuddin, M. N. H. Mazumder, A. Al Mamun, and Z. Su, "Evolution of social microenterprises from rural to the urban area: A study on income-generating micro-entrepreneurs in an urban context," *Strateg. Chang.*, 2020, doi: 10.1002/jsc.2355.

[9] W. Selmi, S. Selmi, J. Teller, C. Weber, E. Rivière, and D. J. Nowak, "Prioritizing the provision of urban ecosystem services in deprived areas, a question of environmental justice," *Ambio*, 2021, doi: 10.1007/s13280-020-01438-1.

CHAPTER 12

EXPLORING THE ALTERNATIVE SERVICE DELIVERY MECHANISMS

Dr. Mounica Vallabhaneni
Assistant Professor, Department of Commerce and Economics,
Presidency University, Bangalore, India.
Email Id-mounicav@presidencyuniversity.in

ABSTRACT:

Alternative service delivery mechanisms have emerged as innovative approaches to provide public services efficiently and effectively, addressing the evolving needs and challenges of modern societies. This abstract explores the concept of alternative service delivery mechanisms, examining their characteristics, advantages, and potential drawbacks. It discusses various models and strategies, such as public-private partnerships, social enterprises, and digital platforms, that offer alternative ways of delivering public services. Additionally, it highlights the importance of governance, accountability, and stakeholder collaboration in implementing successful alternative service delivery mechanisms. Traditional models of public service delivery are often constrained by limited resources, bureaucratic processes, and inefficiencies. Alternative service delivery mechanisms seek to overcome these challenges by introducing innovative approaches and partnerships. Public-private partnerships involve collaborations between government entities and private sector organizations to leverage their respective strengths and expertise in delivering services. Social enterprises integrate social goals with business principles, focusing on addressing societal issues through entrepreneurial activities. Digital platforms and technology-based solutions enhance service delivery by leveraging digital infrastructure and data-driven approaches.

KEYWORDS:

Contracting, Efficiency, Innovation, Outsourcing, Partnerships, Privatization.

INTRODUCTION

To benefit from large economies or to acquire the technological, administrative, and financial know-how to provide services efficiently, large governments may not be required. Smaller communities or residents of urban peripheral areas may get high-quality and affordable service delivery thanks to a variety of alternative service delivery solutions. Here, four major optionssingle-purpose governments, privatization, contracting out to other municipalities, and municipal cooperationare briefly examined. One of the four is focused on the private sector, while the other three are alternate public sector methods. Smaller metropolitan regions may choose from any of the four, and American experience suggests that mid-sized cities choose these choices more often.

The usage of alternate service delivery methods across nations is often described by research. Traditional governments are most typically employed to provide local public services in the biggest and smallest communities in the United States, whereas mid-level governments are more likely to adopt alternatives. However, it's crucial to keep in mind that conventional government systems continue to dominate the provision of services in cities of all sizes. Smaller municipalities are more likely to cooperate, at least in the United States. Because of the little demand that they represent, smaller cities find that private sector suppliers are less accessible, and the market for the services as a whole is less established. Smaller towns are more likely to deliver the services internally or via contracts with bigger municipalities. While using privatization less often than smaller cities, larger cities are more likely to combine public and private service delivery for the same service. One possibility is that they can manage complicated production more skillfully because they have access to skilled managers. Large cities also don't need to rely on outside suppliers to have economies of any scale. Additionally, the delivery of services is often more difficult in big cities, and fewer private sector companies have the requisite expertise to do so.

Geographically, there are differences in how services are delivered, with public services being more prevalent in rural areas and central urban areas while being less prevalent in suburbs. Due to diseconomies of density, private market service providers are less accessible to rural regions, and their service production costs may be greater. Higher income and suburban communities are more likely to use for-profit contracting, while areas with significant poverty are more likely to use municipal cooperation for service delivery [1], [2].In order to make these alternative strategies more viable, Warner identifies four strategies that governments can use: government cooperation to achieve scale; government splitting the market because scale is attained at a lower size; splitting services into different sub-components that can be contracted out or delivered in-house; and privatization whether to private for-profit firms or to public companies. Warner notes that mid-sized or bigger urban cities in the United States tend to use these techniques more often than smaller, rural communities.

DISCUSSION

Alternative Government Structures

As mentioned above, there are several public sector methods and private delivery options among the alternate delivery mechanisms. However, there is some ambiguity on how various structures fall into this classification, especially when the strategy combines delivery from the public and private sectors. The categorization is made more difficult by de Mello & Lago-Peas' observation that municipal governments in Brazil and Spain cooperate with both higher governmental levels and businesses from the private sector, resulting in a broad spectrum of collaboration.

Collaboration with the Government or Outsourcing:

To achieve size, governments typically work together or enter into contracts with other countries. Cooperation, which is often utilized in big cities, enables local governments to work together to provide services that need to be much more comprehensive. Cooperation may enable many of the advantages of consolidation while preventing some of the efficiency losses that may be connected to the different parties' public perceptions of consolidation. De Mello and Lago-Peas discover that municipalities are more inclined to work together to supply services when there is a chance to save costs. These include physical services like airports and transportation as well as social services that need a metropolitan-wide view, such child welfare, job training, and addiction programs. When smaller urban communities are reasonably close to one another and other larger metropolitan areas, cooperation may be possible.

There are several instances of this kind of collaboration. De Mello and Lago-Penas note that 27% of Spanish municipalities and 41% of Brazilian municipalities with populations over 5,000 are members of consortia for social services like help for the elderly and disabled, respectively. They point out that tiny rural municipalities in Spain work together to provide solid trash collection.

Only small regional businesses, however, provide private sector service delivery in rural areas, therefore the advantages of lower cost service delivery would not be as widespread as in big cities where national enterprises compete. Public sector organizations in the Netherlands are able to compete with private sector businesses to help drive down prices because to multi-government municipal cooperation. Utility firms in Italy have evolved to provide a variety of services across a number of cities in an effort to achieve economies of scale.

Cooperation necessitates voluntary accord among towns, although not to the same degree as consolidation. However, cities will only work together in situations when doing so is in their best interests. In the public sector, both collaboration and contracting out need neighboring governments that are eager to provide services for other governments. Since these agreements might involve major political expenditures to form, collaboration requires a reasonable competence to engage with other towns. This implies that towns with fewer incomes and competence could be less able to complete all required actions to join an organization. Cooperation is also unlikely to resolve issues with disparate service levels across municipalities since voluntary cooperation has a far lower readiness to participate in cross-subsidies.

It is possible to avoid horizontal discussions between governments by shifting service obligations to intermediary governments as an alternative to voluntary agreements, while negotiations would still be required to make the change in the vertical assignment of service duty possible. This method acknowledges that broad spending assignment dictates which level of government is in charge of providing particular services, and that raising the assignments in the vertical system may help address certain issues that may result from an insufficient scale for service delivery. The scale required to supply services is often provided by mid-level administrations due to their bigger geographic extent. The intermediary government might provide the service to all residents or fill the void in regions where cities are unable to do so.

Dedicated governments: In the United States, specialized government service delivery units are rather widespread. Although the efficient size may fluctuate over time and changing the boundaries of the governments is often rather difficult, these governments may be designed at the right size to provide the ability to perform services efficiently. In 2012, the United States had more than 33,000 non-educational districts and over 13,000 educational districts operating. 87 Water supply, housing and community development, drainage and flood control, soil and water conservation, sewage, and libraries are among the services most often provided by non-educational districts.

As the number of districts has decreased from over 108,000 in 1942, the significance of education districts has decreased, mostly via consolidation. The number of other single-purpose governments has increased from 28,000 thirty years ago.

Governments with limited purposes may be organized to be as tiny and focused on a small number of tasks as possible while still being the most effective size for the particular service. On the other hand, they fall short of any scope efficiencies that may be realized by cross-service delivery. Additionally, they create serious questions about accountability and transparency for customers who may not be sure who is in charge of certain services, and they may force customers to get in touch with many service providers in order to file complaints [3], [4].

Alternatives in the Private Sector

In comparison to Europe, the United States uses for-profit businesses more often for privatization, whereas Europe uses public corporations more frequently. When deciding which services to contract out to other public providers or the private sector, local governments have access to a broad range of inputs and outputs. Such instances abound. Road repaving and various types of maintenance might fall within the purview of the private sector, as can building or both. Prisons may be farmed out, but public sector police services cannot. Different transportation services are often offered by several players, and they may be coordinated as needed to reduce traffic and service gaps.

In order to privatize, a market for services must be created that enables prospective rivals to acquire knowledge about service delivery. It is hoped that market competition would drive down costs and improve quality. Warner notes that although the statistics do not indicate cost savings from privatization, there is some evidence in the literature on education that competition leads to better results. It may be unrealistic to anticipate major gains in certain circumstances, such as water production, when the service is either provided by a public or private monopoly and neither has a strong incentive to be efficient. But in some areas, like solid waste, privatization hasn't resulted in reduced prices or greater customer satisfaction. In order to guarantee that they achieve public sector goals and provide services at a reasonable price, the producers in the private sector must often be managed by the public sector. Whether the government is better prepared to provide services or to oversee private sector supply relies, at least in part, on the decision between privatization and public sector provision. Particularly smaller local governments may not have the capabilities to handle businesses well.

By permitting certain regions to be serviced by businesses from the private sector while others are handled by the public sector, municipalities may compare the price and quality of services. Barcelona employs this hybrid market strategy for both transportation and solid waste. By allowing competition between the public and private sectors, the mixed model also preserves the possibility that the municipality might supply the service in the event that good private sector suppliers are not available. This restricts the capacity of any sector to establish a monopoly.For smaller and farther-flung local governments, markets are less likely to exist than for bigger ones. Important factors include the possibility that tiny governments lack the scale to pique the attention of private companies and are less likely to possess the ability to band together and collaborate in order to reach the scale required to draw in the private sector. Additionally, local government's capacity to benchmark service quality and pricing in this way is constrained by the absence of an established market for services, as may be the case in smaller cities [5], [6].

Dafflon listed a number of problems that may occur with certain alternative delivery methods based on experience in Switzerland. The first is the intricate collection of principal-agent issues, which are inescapable due to the many interactions. Local public officials must first create one or more principal-agent relationships with a variety of outside service providers. They already have a principal-agent relationship with the voters. The problem is much more complicated when governments work together to provide a service since principal-agent interactions are common. These connections may make it more difficult for consumers to get the services they need, but they may also increase the cost of providing those services and increase the possibility of rent development.

Second, there are informational imbalances between the principle controlling the city and the service delivery agency. Even before the service delivery mechanism is launched, there are asymmetries, and when the agent learns more throughout the operational phase, these asymmetries may deteriorate more. Because the agent has an incentive to utilize the asymmetric knowledge to maximize its own welfare rather than that of the inhabitants and voters, there is a moral hazard. One method of reducing the asymmetries is benchmarking via the delivery of mixed public and private services. When several governments are in charge of delivering the various services that customers need, the issues get much more convoluted. Users struggle to understand who is in charge of fulfilling their needs, and information prices climb. Since distribution is less directly under the authority of the municipality with these options, accountability and transparency are often more difficult to ensure and users may not know who to hold accountable when issues develop.

Delivery of public services in peri-urban and small urban regions may be constrained by issues with institutional structure and resource mobilization. Without sufficient resources, adequate services cannot be provided. Inadequate resources are a worry since local governments in many nations have few possibilities for generating their own money. User fees are the most effective method of funding services when a price can be set since they may be used to both determine how many services will be provided and to finance those services. In cases when user fees cannot be collected effectively, local tax revenues are required. A system must have access to more diverse revenue sources that expand along with the economy. In almost every nation, intergovernmental payments are also a significant source of funding for local governments, but they are also an unstable one since national governments may change their distributions according to the economic cycle. In the public sector, the opportunity cost of resources is especially high in areas where they are difficult to get, and this high premium highlights the significance of offering those services for which there is a large demand.

The selection of the appropriate institutional setting for services is the paper's main area of attention. The difficulty of correctly converting service expectations into service supply is only one of several difficulties that occur. One factor in guaranteeing low cost, high quality services is a city's appropriate size. The potential for size economies, preventing corruption, attaining political accountability, homogeneity of service needs, acceptability of cross subsidies, and possibility of tax competition should all be taken into consideration when determining the size of service delivery units. For local public services, size economies are often limited, especially when all expenses, including service production and delivery, are taken into consideration. As a result, many peri-urban and smaller urban locations shouldn't be unduly harmed by the fact that most services don't need a large scale to be provided, and they shouldn't be technically constrained by the capacity to do so at low unit prices. According to a number of other considerations, relatively smaller cities often have the potential to be more efficient than bigger ones, even if it may be challenging for smaller communities to locate the management and technical skills necessary to provide certain high-quality services.

Alternative ways to overcome constraints caused by staff skills, size, or other variables may be discovered in many smaller communities in order to reach the potential for providing services properly. Privatization and alternative public sector strategies may both sometimes improve service delivery. Contracting with other governments, working together with other governments, creating governments with a single purpose, consolidating, and delegating service tasks to governments at the intermediate level are a few of these strategies. It costs a lot of money politically to accomplish consolidation, and it seldom results in cost savings. Consolidation has been used in a lot of situations across the globe, although this is not as often as it might be. Although working together or hiring someone else is less expensive politically, agreements still need to be negotiated by a qualified team. While research hasn't consistently that expenses are reduced, privatization has the potential to reduce costs and improve service quality. Additionally, as competition is often more confined in more rural areas and smaller towns, its potential is highest in bigger cities and more affluent regions. Additionally, the advantages rely on how well governments can control how private enterprises supply the services in comparison to how well they can do it themselves. In situations when demand may seem insufficient for the private sector to aggressively seek out the market, governments may need to do so [7], [8].

Principal-agent problems, which make it difficult for constituents and local policymakers to align priorities of the various groups and, in particular, to ensure that priorities of the service consumers are properly reflected in service delivery, are a common feature of alternative service delivery mechanisms. As service providers get access to information about pricing and manufacturing circumstances outside of cities and customers, information asymmetries that already exist are made worse. These issues, as well as others, impair the accountability and openness of these alternative systems.

On Urban Development and Mobilizing Financial Resources for Public Services

Local governments in developing nations need to have access to sizable sources of their own tax income as well as non-tax revenues in the form of user fees and charges in order to carry out their mission in an economical way. The secret to a greater capacity to supply essential goods and services and to better hold local officials accountable to their residents is enough own income. On the revenue side of the budget, own revenues, as opposed to tax sharing and other transfers, add a special aspect of horizontal responsibility of public officials to their citizens.

Given that significant revenue autonomy is a need for successful fiscal decentralization, we must first determine what kind of autonomy is ideal before determining how much revenue autonomy is required. Allowing elected officials to choose the tax rates for a limited number of levies included in national law is the most desired kind of subnational autonomy. The richest subnational governmentsthose with the greatest tax bases—should be able to cover the majority of their spending obligations with their own resources if they have the desired level of revenue autonomy.At the subnational level, no decentralized financial design ever achieves the ideal balance between income and spending allocations. Transfers, such as revenue sharing, unconditional equalization payments, and conditional grants, must be utilized to rectify vertical and horizontal inequalities. Additionally, disciplined credit access is a suitable source for funding the capital investment obligations of subnational governments. There is a need for restrictions since borrowing may result in overspending, most often in the form of explicit governmental regulations.

Subnational governments cannot always rely on capital loans and grants to fund their infrastructure requirements. Subnational governments have increasingly used creative methods of funding infrastructure. These novel approaches are most often used to capture the increase in land value brought about by public investments. These alternative income sources are appreciated as a supplemental tool, but they cannot be seen as a long-term fix for the operational budget deficit issues since they must significantly depend on the already available conventional revenue techniques [9].

1. Good subnational level taxes include user fees and taxes, property taxes, betterment levies, vehicle and transportation taxes, local company taxes, excise and sales taxes.
2. The three worst subnational level taxes are value added taxes, municipal border taxes, and corporate income taxes.

Local taxes should have the following desirable qualities: buoyancy, with revenues roughly changing in proportion to the economic base; horizontal equity, treating taxpayers equally in similar situations; relative efficiency, causing low economic activity distortions; incurring relatively low administrative costs; and political acceptance.

The political economic challenges and opportunities of urban government revenues

Urban revenue performance in developing nations is often subpar or worse, despite the existence of a well-developed set of public finance principles for selecting and creating local government revenues, which are frequently used as the foundation for advancing intergovernmental and local fiscal reform. This situation continues because both the mainstream principles' inadequate consideration of important variables that affect local income production and their inconsistent application are problems.

A variety of intricate political economic concerns, which seldom get the attention they merit, underlie this scenario. These include local political economy dynamics between elected councilors, local government employees, and people, as well as the actions of national politicians and bureaucrats who influence the rules of the intergovernmental fiscal game and how they are executed. These behaviors and exchanges take place in a larger environment that affects how well municipal revenue reform and decentralization in general may be implemented. Serious errors in the planning and execution of tax reform might be the consequence of inadequate understanding and disregard for these dynamics.Urban governments may take certain corrective measures to boost local income production on their own, but others need national action or cooperation, or at the very least acknowledgement of what is practical locally given restrictions imposed by higher levels. Urban officials must be aware of crucial connections between the components of the local government system, even in cases when taking local action might be beneficial. It is doubtful that improving local revenue performance would come from pursuing a cutting-edge but revenue-specific change without paying attention to other important aspects, such as spending policies, fiscal transfers, or accountability procedures.

It is crucial to pursue urban government revenue reform strategically given the wide range of players and interdependencies involved in generating urban income as well as the widespread need for significant policy and structural reforms in many developing nations. Sudden, drastic changes are likely to be too much for the community to handle, and they could even meet resistance from those who would be most impacted by the reforms. Invoking the social contract is especially important at the local level to make sure that those residents who will be paying more to their local government as a result of revenue changes feel like they are receiving something in return and are being treated fairly in the process [10], [11].

On New Strategies in Governance for Metropolis In Developing Countries

Resources and governance are both important factors in raising the quality-of-service delivery in urban centers of emerging nations. Cost-sharing across the metropolitan area, coordination of service delivery across local government boundaries, the ease with which local citizens and businesses can interact with and influence local governments, the responsiveness of local governments to their constituents, and many other factors are all influenced by governance.There is no one model of governance that performs best globally, according to a survey of existing models. The different governance initiatives and structures that have emerged in different metropolitan areas are a reflection of the regional and national context, as well as the country's history and politics, differences in constitutional provisions, responsibility allocation, and source of funding. Economic efficiency, economies of scale, externalities, equality, access, and accountability are the factors used to assess the governance system in a metropolitan region.

One-tier consolidated structures where the geographic boundary reflects the economic region; two-tier government structures; voluntary cooperation among municipalities within the metropolitan area; national government financial incentives to create regional bodies; open initiatives and participatory budgeting which encourage citizen participation and greater accountability are some examples of initiatives that have worked well in specific contexts.The difficulty of balancing regional and local interests is one that metropolitan regions across the world must overcome. There is a need for a regional perspective and for many services to be provided on a regional basis as the globe grows increasingly urbanized and metropolitan economies change. Therefore, if most nations wish to enhance service delivery, they would be wise to work on creating more effective systems of governance for the whole metropolitan region. To guarantee that services are provided in a coordinated way beyond municipal borders, as well as to be able to enhance service delivery by taking advantage of economies of scale and internalizing externalities, a robust regional structure that includes the whole economic area is important. However, certain services are really local and would benefit from being provided locally.Even at the regional level, social engagement in urban governance is crucial because it keeps both the public and the government accountable, motivates both groups to accept the results of their decisions, and pushes governments to prioritize their initiatives.

About Structuring Services in Small and Peri-Urban Area

Access to services might vary throughout various areas of a city since consumption and delivery of services are localized.The major causes of insufficient access to urban services in these regions are issues with both delivery and finance. Governments are too small to enable low-cost service delivery in small towns, decision makers have different aims and incentives regarding the levels and distribution of public services, and service supply costs are greater compared to the central business districts of bigger cities.Political choices that lead to unequal services for different cities or demographic groups while appropriate service levels are offered in others of the city, insufficient funds because of lax municipal tax systems, and a low effective demand for urban services.

The greatest method for funding neighborhood services is via user fees. They enable the selection of the appropriate degree of services and provide a means of funding the provision of such services. User fees are effective for assessing costs for services like energy, water, and sewage. User fees are terrible tools when price crowds out customers inefficiently, as it does in the case of basic education, or when collection may be expensive or inefficient. User fees, however, could be regressive. In situations when there are no user fees available, taxes must be levied.The ideal size for local governments is determined by a variety of variables. The ideal size could evolve faster than the political implications of shifting jurisdictional size. Keeping governments at the proper size may thus be impossible.Size economies in the provision of public services are situation-specific and might vary among services.The secret to delivering efficient and successful public services in small urban centers and peri-urban regions of major cities is mobilizing sufficient financial resources from local sources. Small municipalities must work harder to raise the same amount of money since their tax bases are so modest.

Transfers from the national government, cross subsidies, single-purpose governments, privatization, contracting out to other municipalities, and municipal cooperation are options to ensure efficient and effective service delivery to peri-urban areas of large cities and in small towns in developing countries.Cities are advantages, answers, and forces behind societal and economic advancement. Cities have enormous economic potential that is now untapped but that can and ought to be used to generate wealth and economic opportunity for everybody. This requires effective urban design that promotes connectedness, integration, and urban compactness. However, if they are not backed by financial and regulatory measures for execution, even the finest urban plans run the danger of going underutilized. Strategic finance methods and enabling governance frameworks must accompany strategic public investments.

The issue of funding local governments in emerging nations is covered in detail in The Challenge of Local Government funding in emerging Countries, along with problems encountered and potential solutions. The research also discusses experiences and techniques for improving public service delivery, identifies effective governance structures for effective and equipped delivery of public services in metropolitan regions of emerging nations [12].

CONCLUSION

In conclusion, Innovative solutions to conventional public service delivery's problems are provided via alternative service delivery systems. Digital platforms, social businesses, and public-private collaborations provide chances for effectiveness, creativity, and diversity. But for these systems to be successfully implemented, rigorous governance, accountability, and stakeholder participation are essential. Governments may profit from improved service quality, timeliness, and social consequences by using the possibilities of alternative service delivery models. For alternate service delivery systems to be successfully implemented, effective governance and stakeholder participation are essential. Strong monitoring and assessment systems should be developed together with clearly defined roles, responsibilities, and performance indicators. Engaging stakeholders, such as people, neighborhood associations, and business partners, promotes accountability, legitimacy, and transparency. Collaboration between the government, civic society, and industry may result in novel ideas, resource sharing, and a greater social effect.

REFERENCES:

[1] H. S. Esfahani, “Alternative public service delivery mechanisms in Iran,” *Q. Rev. Econ. Financ.*, 2005, doi: 10.1016/j.qref.2004.12.017.

[2] N. Maseko and S. Vyas-Doorgapersad, *The Use of Alternative Service Delivery Mechanisms within the City of Johannesburg Metropolitan Municipality*. 2018.

[3] S. Kang, D. Mulaphong, E. Hwang, and C. K. Chang, “Public-private partnerships in developing countries: Factors for successful adoption and implementation,” *Int. J. Public Sect. Manag.*, 2019, doi: 10.1108/IJPSM-01-2018-0001.

[4] H. (David) Guo and A. T. K. Ho, “Support for contracting-out and public-private partnership: exploring citizens’ perspectives,” *Public Manag. Rev.*, 2019, doi: 10.1080/14719037.2018.1487576.

[5] I. Mutmainah and Y. Yunita, “Penerapan Metode Topsis Dalam Pemilihan Jasa Ekspedisi,” *J. Sisfokom (Sistem Inf. dan Komputer)*, 2021, doi: 10.32736/sisfokom.v10i1.1028.

[6] R. Mash, C. Christian, and R. V. Chigwanda, “Alternative mechanisms for delivery of medication in south africa: A scoping review,” *South African Fam. Pract.*, 2021, doi: 10.4102/safp.v63i1.5274.

[7] Z. Jamal *et al.*, "Health system resilience in the face of crisis: Analysing the challenges, strategies and capacities for UNRWA in Syria," *Health Policy Plan.*, 2020, doi: 10.1093/heapol/czz129.

[8] O. G. Ngullie, "Progress and Shortcomings of Cash Transfers and PDS Evidence from Delhi," *Econ. Aff.*, 2019, doi: 10.30954/0424-2513.4.2019.15.

[9] F. L. K. Ohemeng and J. K. Grant, "Neither public nor private: The efficacy of mixed model public service delivery in two Canadian municipalities," *Can. Public Adm.*, 2014, doi: 10.1111/capa.12090.

[10] S. Devarajan and R. Reinikka, "Making services work for poor people," *J. Afr. Econ.*, 2004, doi: 10.1093/jae/ejh019.

[11] V. R. R. S. Dharmapuri Tirumala, P. Tiwari, A. Sawhney, and K. Kodumudi Pranatharthiharan, "Analyzing Configurational Paths for Successful PPPs in Indian Urban Drinking Water Sector," *J. Infrastruct. Syst.*, 2020, doi: 10.1061/(asce)is.1943-555x.0000557.

[12] A. Taylor *et al.*, "How Australian Health Care Services Adapted to Telehealth During the COVID-19 Pandemic: A Survey of Telehealth Professionals," *Front. Public Heal.*, 2021, doi: 10.3389/fpubh.2021.648009.