

# LOCAL ADMINISTRATION JOURNAL

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# Local Administration Journal

This journal serves as a focal point for knowledge sharing and as a venue for the dissemination of research findings in fields related to local development and administration. It welcomes the submission of articles from various disciplines but places a greater emphasis and value on those that are interdisciplinary or trans-disciplinary in content and design.

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## Notes from the Editors

Decentralization has been a reality in Thailand for a little over a decade, following the passage of the 1997 Constitution, which stipulated that the central government transfer responsibility and budget to local administration organizations. The goals were to improve the quality of life under the process of self-governance at the local level.

Decentralization in Thailand has come into existence through the legal process rather than through a gradual evolution and adjustment as in many other countries that are more economically mature and socially integrated. The papers presented in this journal provide guidelines about many situations that we should emulate and others that we should avoid or at least be wary of if we are not well prepared and do not strictly observe and adhere to the principles of administrative governance.

In many ways, decentralization in Thailand is still in a fledgling stage. As Gayl D. Ness points out, political and administrative decentralization are not synonymous. While Thailand has had local elections for local administrative positions for some decades, the effectiveness of its local government still has to be evaluated.

When looking at the effectiveness of local government, one should consider efficiency as well, as the two constitute threads in the fabric of fiscal autonomy and the way local governments disburse their own budget. As Direk Patmasiriwat's article notes, local government in Thailand needs to be restructured to bring more equity in terms of budget allocation and revenue to local government organization administrations, and ultimately, to the people at the local level. Moreover, a greater degree of fiscal autonomy through more effective administration decentralization has to be designed to meet the future challenge of local governance.

However, we cannot always be certain that the things we do with benevolent intentions will always produce sustained positive results. What seems to be working well at one place and at one particular point in time may not continue to function the same way with the same result under changing demographic, economic, or social conditions. This can be seen in Larry Berman's paper on the case of California, once considered a prototype, or even a dream model of state government, which is now in a state of crisis. It shows us that Thailand should be well prepared for the dynamic winds of change that may come at any time.

While we might have the impression that decentralized management has been moving along quite well, though at a slow pace, we are wishing that the delegation of authority, responsibility, and most of all power should be further downward to the lowest possible level, that is, to the people who are in the final analysis the possessors of sovereign power.

In the case of the city of Kobe, as pointed out by Hirofumi Ando, the mayor has demonstrated his full commitment to serve the people who empower him by using his authority to do whatever is right for the people. Even within a highly centralized political and administrative system of Japan, people are encouraged to fully participate in decision making through effective dialogs among multi-sectors at three main management functions: i.e., planning, implementing, and evaluation. Clearly, and as an example of how people benefit from centralized management, Professor Ando presents a well documented case of happy elderly persons in the City of Kobe.

Looking from an insider's point of view in the case of an administrative unit in Hawai'i, Richard Pratt advocates that the keys to successful decentralized management include being a good listener, communicating well with both staff and the public, prioritizing staff morale, providing staff with training to upgrade their skills, rewarding individuals for their contributions, and understanding the importance of compromise. All of these practices are good for Thai administrators on every level to follow.

Finally, it is important to note that in many of the papers published in this journal effective communication and dialog are the central and increasingly important management tools for administrators on all levels. Further, as James Scott has advised, the local administration organizations in Thailand should capitalize on the availability and present advancement of information technology and social networking to achieve greater participation on the part of the people and more effective administration.

Peerasit Kamnuansilpa

Bonnie P. Brereton



# Challenges and Dilemmas of Local Government in a Global Age

Gayl D. Ness<sup>1</sup>

The paper opens with the observation of the changing balance of central and local governments. The early independence period in Asia saw central governments as most powerful, assuming leading roles for promoting economic development. In the past few decades there has been a great increase in movements toward decentralization, devolution, and the buildup of local government. In part this has been driven by rapid and large scale urbanization, which has been a major force throughout Asia. A recent (2005) World Bank study on decentralization is reviewed and discussed. Next the dimensions of increasing globalization are introduced, first in the public sphere, and more powerfully in the private market sector. Finally, a series of challenges is identified where global forces pose problems for local government. These include: 1. The need for viable sized local units; 2. The need for balance between political centralization and administrative decentralization; 3. The power imbalances that make local governments weak prey to powerful global players; 4. Global forces producing widespread violence; and 5. The choice between economic development and economic gardening.

## Introduction: the changing balance of central and local government

The balance of central and local government has changed substantially in the past 65 years. The end of World War II ushered in a collapse of Western colonial systems and a wave of national independence movements that brought scores of new nations to Africa Asia and the Pacific. Especially in Asia, these new governments all sought rapid economic development, and for the most part this was to be achieved by strong central governments engaging in centralized economic planning.<sup>1</sup> Five-year economic plans with import substitution industrialization policies were common and central governments everywhere took on heavy burdens as they sought to promote economic development and human welfare. While there were some efforts to build stronger local governments—as in India's

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Panchayat Acts and the Philippines Barrio Charter act—it was the central governments that carried most of the weight of policy and program development.

The first of these conditions to wane were the import substitution industrialization programs as countries like South Korea, Taiwan and Malaysia found great success in promoting exports.<sup>2</sup> By the late 1960s the World Bank was pushing export promotion as the way to economic modernization. Still, it was the central governments that were doing the planning; there was little thought to how local units could assume some initiative. A more powerful component of export promotion came in the search for off-shore investments of the wealthy industrial nations. Steel, textiles, a wide range of consumer goods and manufacturing, and more recently services, were being moved off shore to the less developed countries where labor was far less expensive and government regulation less constraining. This gave the central governments of Asia a powerful new set of tools to promote development. They would attract foreign investors with a wide variety of incentives, striving to bring factories and jobs to their burgeoning populations. Most of Asia has benefitted greatly from such programs. Again, it was the central governments that took the initiative and directed investors to suitable areas. Again little thought was given to how local units could take the initiative in these programs. They were the recipients of factories and jobs, with little authority to manage them.

It is impossible to overstate the importance of Asia's rapid urbanization in the move toward local government. Asia's population has urbanized extremely rapidly since the middle of the last century. Not only the speed, but the magnitude is impressive. It took Europe 250 years to become fully urbanized; its urban population grew from a mere 7 million in 1750 (Chandler, 1974) to 281 million in 1950, when the region was 52 percent urbanized. In the next half century it completed the urbanization process as its urban population grew to 520 million, and urbanization reached over 80 percent of the population. By contrast all Asia had only 234 million urbanites in 1950, making it 16 percent urbanized. By 2000 the Asian urban population had grown six times to 1.2 billion, making the region 36 percent urbanized. In the next half century we can expect the urban population to more than double to 3.2 billion, making the region 65 percent urban. In sum, Europe took two and a half centuries to get to half a billion urbanites; Asia will gain 3 billion urbanites in only a century!

This is not only a growth in numbers of people, but also in numbers of cities that form the centers of much local government development today. In 1950 there were some 561 cities registered in all of East South East and South Central Asia. Today the number is 2,215.<sup>3</sup> It is this burgeoning number of rapidly growing towns and cities that now form the major focus of local government development.



**Table 1: Estimate of Number of Asian Cities by Size**

Area	City Size	1975	2000	2015
East Asia	> 10 M	1	3	5
	.5-10M	100	213	267
	<.5M*	174	256	672
South Central Asia	>10 M	0	5	5
	.5-10M	22	98	145
	<.5 M*	156	480	646
South East Asia	>10 M	0	1	2
	.5-10 M	18	32	47
	<.5 M*	90	272	426
<b>TOTAL</b>		<b>561</b>	<b>1360</b>	<b>2215</b>

Source: UN 2005 Table A 17. \* estimate assuming average size 50,000.

There is also a distinctive condition of Asian urbanization that supports the importance of local (urban) government. Ness and Talwar (2004) noted that Asian urbanization has a long and distinctive history. Until 1800 most of the world's 25 largest cities were in Asia. Not until the rise of industrial capitalism in the West did Western cities outrank those in Asia. Moreover, Asian cities tended historically to be *inland* rather than *port* cities. They were centers of powerful administrative systems that organized the production of wealth from a vast hinterland. European cities since the Roman Empire have always been predominantly port and river cities. With modern industrial capitalism the world has been tied together by the oceans; port cities have become the hubs of the new global economic system. But the long history of Asian cities has continued to make itself felt in the increasing interest in local government, and the continued capacities of especially local urban government.<sup>4</sup>

There have been other forces as well supporting the push to local government. Economic development and the expansion of social services, especially health and education, have produced a substantial push from below for popular participation of the process of governance. Some central governments have attempted to reduce their costs by devolution. In addition the collapse of communism ushered in a wave of new "freely elected" governments, making popular participation in government the world's new mantra.

### The rise of local government

Local government is the new "in" thing in the world's less developed regions. The World Bank has promoted this development and has recently carried out an extensive review of the moves to Local Government in East Asia (World Bank 2003). It provides a detailed investigation of six East and



Southeast Asian nations, with broad comparisons with other regions as well. Let me lay out a few of the interesting observations the Bank's authors propose, before turning to the important topic of the challenges and dilemmas posed by globalization.

The six countries covered in the Bank's review are Cambodia, China, Indonesia, the Philippines, Thailand and Vietnam. To measure the extent to local government development, the Bank used the proportion of government expenditures controlled by local units (provinces, districts and cities). Table 2 shows the rather surprising results.

**Table 2: Proportion of Government Expenditures Controlled by local Units**

Country	percent spent by local units
China	69 percent
Vietnam	48 percent
Indonesia	32 percent
Philippines	26 percent
Cambodia	17 percent
Thailand	10 percent

Source: World Bank 2003, p 2.

What is striking here is that the two most centralized political systems, "Communist" China and Vietnam, show the highest degree of local government responsibility. Indeed the Bank argues that China has developed "the most decentralized intergovernmental structure" in the region. The more open democratic systems of Indonesia, The Philippines and Thailand show much weaker local government development. Thailand's mere 10 percent is especially notable. Of course this measure does not reflect political power, which remains highly centralized in China and Vietnam. This begs the question of the meaning of local government. China and Vietnam have decentralized administrative functions, especially financial reforms, but have not surrendered political power to lower levels. Indonesia, the Philippines and Thailand have had local elections to central and local government offices for some decades.

#### **Routes to local government?**

The Bank also noted that there have been three routes to the decentralization that is being actively promoted by these as well as other governments. Indonesia and the Philippines, called *fast starters*, began with a radical new initiative following a major political shakeup. In the Philippines this was marked by the fall of the Marcos government in 1985; in Indonesia the impetus was the fall of the Suharto government and the major economic upheaval of 1998. China and Vietnam, *incrementalists*, have taken somewhat piecemeal approaches that have focused primarily on





fiscal and administrative reforms, with few political implications. Finally Cambodia and Thailand, *cautious movers*, have moved more slowly. They have both established formal decentralization policies, but have been slow to implement these policies. This classification is curiously unrelated to the substantial differences in the extent of local government activation. The *incrementalists* have gone the furthest, followed by the *sudden starters*; understandably, however, the *cautious movers* have moved the least.

### What drives local government development?

The Bank argues that decentralization is being driven by economic development and urbanization. But the data for these six suggest something else is at work. The following table shows the ranking in table 1 along with other relevant data. For each column we show actual figures followed by the ranking among the six in italics.

**Table 3:** Extent of decentralization and other relevant data With rank orders

Country	GDP/Cap \$ppp '95		percent Change*		percent Urban		percent change**		IMR		Under 5 MR	
China	\$3,796	<i>2</i>	7.8	<i>1</i>	35.8	<i>3</i>	2.84	<i>6</i>	18	<i>3</i>	20.5	<i>3</i>
Vietnam	\$1,956	<i>4</i>	6.2	<i>2</i>	24.3	<i>4</i>	3.22	<i>4</i>	12	<i>2</i>	13.6	<i>1</i>
Indonesia	\$2,768	<i>5</i>	1.9	<i>5</i>	42.0	<i>2</i>	4.74	<i>2</i>	31	<i>5</i>	40.5	<i>5</i>
Philippines	\$3,672	<i>3</i>	0.9	<i>6</i>	58.5	<i>1</i>	3.64	<i>3</i>	26	<i>4</i>	32.4	<i>4</i>
Cambodia	\$1,747	<i>6</i>	5.4	<i>3</i>	16.9	<i>6</i>	6.25	<i>1</i>	69	<i>6</i>	89.5	<i>6</i>
Thailand	\$5,832	<i>1</i>	2.1	<i>4</i>	24.3	<i>4</i>	3.22	<i>4</i>	11	<i>1</i>	14	<i>2</i>

Source: World Bank 2003 p 5; \* constant dollars 1995-2002; \*\*1989-2000; IMR and Under 5 mortality, World Bank World Development Indicators online 05/05/2010.

There is clearly no relationship between the level of wealth, or rate of urbanization and decentralization. The rate of development is somewhat U shaped with decentralization. The level of urbanization is an inverted U! The two measures we have included of health, or health service delivery impacts are clearly unrelated to the level of decentralization. We shall return to this issue shortly, but first a few more observations from the report.

### The challenges to local government

The Bank notes three major challenges in promoting local government. First it is important to build clear *structures* of government with clearly defined authority and responsibility. Structures that contain overlapping authorities and unclear delegation of powers clearly present problems. Second it is important to create the right kind of *financial*

*mechanisms*. Too often central governments devolve responsibility for tasks and services without allocating resources for them, or giving local bodies capacities to raise revenues for those services. Finally, it is important to establish processes that make local government *accountable*.

### **Why local government matters**

Next, the Bank's report asks why local government matters, and provides three well thought out arguments. First economic development has been impressive in most of East and Southeast Asia, and the continuation of that growth will in large part depend on how successful local governments are. I shall have more to say about this below as I examine the different demands of economic development and a new concept called "*economic gardening*." Second it is largely in the areas of social service delivery (health, education, water and sanitation) that local governments have become most active. If local government is not effective, there will be a serious decline in the level of services that support human resource development. This would inevitably decrease the quality of life for many and also obstruct further economic development. Finally, local government can be highly susceptible to corruption, which both saps public support and works against the economic development that is needed.

### **Impacts**

Finally, the report provides some analysis of the impacts of the moves to local government, though this is an unsatisfactory part of the review. First the Bank points out that spending on health and education increased with decentralization in China, Vietnam, Indonesia and the Philippines. But the Bank's authors neglected to ask about Thailand. Here, too, health and education expenditures have increased since 1998, when data are available. Thus it is unclear whether decentralization is really the major causative factor. The authors also point out that declines in infant and under-five mortality increased or held level in China, The Philippines and Indonesia. That is true, but those mortality declines in Thailand have been considerably greater in speed and magnitude for a longer period of time.<sup>5</sup>

It is apparent that Thailand is an unusual case in this assessment of local government and decentralization. Despite having the lowest by far measure of local government expenditure, Thailand has produced an exceptionally effective social service sector, apparently in a highly centralized bureaucracy. In fertility control (Knodel, 1987), HIV/AIDS Treatment (Knodel, 2010) and TB control (Singha Dong, 2004), Thailand has



produced an exceptionally effective service delivery system that extends excellent health care to the poorest regions of the country and to the country's poorest as well as the richest citizens. This can be called a highly successful centrally directed service delivery system. It is unclear the extent to which such successes depend on the devolution of authority and the rise of local government. They do, however, depend on some kind of local participation, which we consider below.

### **Our global era**

Historically there have been many "global eras" or times when similar forces or conditions appear throughout the world. Great species collapses of prehistoric ages would qualify. Another came in the 16<sup>th</sup> century when Western nations "discovered the seas"<sup>6</sup> and tied the earth together in one ecosystem for the first time in millions of years. Plants from the Americas spread around the world, raising population growth rates in Asia and Europe. Microbes from Europe-Asia caused demographic collapses through the Americas. Our age, however, has produced a new global era as capital, organizations and technology have flowed around the globe exponentially. Marx spoke of capitalism as the producer of cheap goods that would be the battering ram that would break down the walls of Chinese villages. Capital has always been mobile, of course, but the movement of capital over the past half century has been truly remarkable and has produced a set of forces that leave no part of the globe untouched. The growth of global organizations and of technology has also been exponential. Certainly one of the most significant of global forces came shortly after 1945 when the new World Health Organization began a series of campaigns to eliminate a wide variety of infectious diseases around the world: small pox, malaria, yaws, typhoid and typhus were attacked with the new germicide and insecticide technologies developed especially during the war. These campaigns brought exceptionally rapid declines in mortality and pushed the demographic transitions to very rapid development. Following this came the anti-natalist policy revolution (Ness and Ando, 1984) and the new contraceptives that brought the development of national family planning programs on a global scale. This set of forces produced the massive population growth of the past half-century, and in some areas an equally rapid fertility decline that poses problems of an aging population.

On another level this new era finds the movement of capital and technology as manufacturing and services industries from the rich world move to Asia, Latin America and Africa. This new set of global forces poses a series of severe dilemma, or problems for local government. Let me lay out a few of these from a variety of perspectives and research findings.



### **Mobilizing popular participation**

One of the major findings of the global health and family planning or fertility limitation efforts was the varying extent to which they required popular participation. Promoting some health improvements seems to have required very little. Ando and I have argued that the new medical technologies so effective in reducing mortality were what we called "*bureaucratically portable*." That is, they could be placed into large scale bureaucratic organizations and spread widely over a population without requiring large scale changes in behavior or popular participation. The malaria eradication campaigns provide a good example. Fertility control also had a new non-coitally specific contraceptive technology that could be dispersed widely, again without radical changes in behavior (cf. just abstain!). We did find, however, that a considerable level of local participation was definitely needed for fertility reduction. This is probably because reducing fertility also requires two individual changes. One is the *knowledge* that fertility can be controlled easily and safely, and the second is the *desire* to do so, usually through the recognition that fertility reduction directly increases the welfare of mothers and children. (Both infant and maternal mortality decline come along with fertility reduction.) Bringing this knowledge and desire requires effective local leadership and participation.

In India we found that contraceptive use and fertility decline were a function of what we called the effectiveness of the political administration systems in the different states (Ness and Ando, 1984: Ch 4). In Taiwan, South Korea, Indonesia and Thailand it was also found that success in fertility decline (as well as infant and maternal mortality) was dependent upon an administrative system that mobilized local workers. Haryono Suyono showed how building a direct administrative and supply line from Jakarta to the local village could be highly effective. He also showed that it was necessary to enlist the support of local village and religious leaders.

Thus one of the first major global intrusions in what used to be called the "Third World" depended to some extent on developing local participation and support.

### **The size of local government**

How far down should power, authority and responsibility be devolved? There are a number of observations that suggest local government can be too small, and under some conditions larger is better than smaller. A comparative study of Singapore and Kobe (NUPRI, 1985) saw that both cities had to undergo a process of expansion to obtain sufficient size for effective urban planning. They did this in different ways, but both came to the same end: a larger area of control. Singapore did it by



fiat. The British colonial government of Singapore had created two governing units: one for the central city, the other for the rest of the island. When Lee Kuan Yew's PAP came to power, it simply abolished the island unit and created one governing unit for the entire island. Kobe faced a more difficult task. It had to negotiate with the prefectural government and the governments of many small towns to create the larger geographic unit it has now, and which makes urban planning much more effective. An interesting study of the size of US countries and their CO<sub>2</sub> also shows that as county size increases, the units become more efficient, emitting less CO<sub>2</sub> (Fragkias, 2010).

There seem to be two strategies for achieving devolution to quite low levels, keeping government close to the actual governed, yet producing a system large enough to make for effective planning.

Many governments have resolved this issue by creating *regional* planning commissions, tying together some number of local units into a larger unit that facilitates planning. It is important to note that most of these regional commissions are decided upon on an ad hoc basis. That is local leaders make adjustments based on their perceptions of what units need to be linked in order to facilitate planning. Unfortunately, this often creates a complex set of different planning units whose boundaries do not coincide. In one of its many urban studies AUICK (1999) found Pakistani cities cut by numerous jurisdictions – for water, electricity, sewage etc. – with different boundaries. Obviously this reduced the capacity to plan effectively.

A somewhat more direct policy is to retain a large political administrative system, broken into wards or smaller districts where government can be close to the governed. Many cities show this kind of ward organization. Our Asian Urban Information Center of Kobe, Japan (AUICK) has been concerned with this problem and has found some useful rules. Like most Japanese cities, Kobe has something near life time careers for urban administrators. It also has a series of wards, each with a ward office where city administration is close to the citizens. New administrative recruits to the city civil service begin the term by serving in the ward office. There they come into direct contact with the city citizens – one might need special medical assistance, another complains that his neighbor's tree hangs over into his yard, and on and on. This has led to an especially effective administrative service. We have found (Ness and Ando AUICK, 2008) that Kobe's upper level administrative officers have a unique capacity. They can be at the cutting edge of technical problems such as water and waste management or disaster control<sup>7</sup> and yet are able to communicate very effectively with the citizens to explain new procedures, and to overcome fears of changes in the environment.



### **Political and administrative capacities**

What is to be devolved or decentralized in promoting local government? We saw above that China and Vietnam have devolved fiscal and administrative reforms, but not political power. That is, there is a difference between political and administrative centralization and decentralization.

In a 1972 study of population planning in Malaysia and the Philippines (Ness and Ando, 1971) we saw that the optimum structure for promoting economic development was one with highly centralized political power and equally highly decentralized administrative power. A strong central government can make firm decisions and be sure they are implemented. Weak governments are torn by local and other vested interests and find it difficult either to make firm decisions on resource allocation or to ensure that those decisions are indeed implemented. With a decentralized administration, on the other hand, local units have considerable discretion as to the manner in which central policy and program decisions are implemented. That is, people with local knowledge will know best how to make the central policy decisions actually work. It was striking that Malaysia had precisely this centralized political and decentralized administrative system. (Roughly the same was found in Indonesia under the Suharto regime.) The Philippines has exactly the opposite: a highly fragmented political power system and a highly centralized administration. Malaysia has been far more successful than the Philippines in promoting economic development and a whole host of social services.

Note that the Thai achievements in health services mentioned above seem to reflect this same centralized political system and decentralized administration. The firm decisions are made in the center, but they are effectively put into practice by people closely familiar with the local situation. There is an added gender dimension to this observation in Thailand. The great successes Thailand has had in the control of fertility, infant and maternal mortality, HIV/AIDS, and tuberculosis has been achieved largely by a female field staff. We made a striking observation in Khon Kaen two years ago when we had a meeting with all city department heads. We asked how long each person had been in the office. There was a striking bimodal distribution: men had been there a few weeks to a few months; women had been there five to 20 years. Thailand has a national civil service for urban administration. Men move about frequently to achieve advancements. Women stay in place, largely from family obligations. It was the women who, like Kobe's administrators, who knew the most about their city and who were the most deeply committed to its effective functioning.



### **Local power and global power**

While giving a public lecture on Asian decentralization and the importance of local government in 2000, I was approached by a Turkish architect who pointed out one difficulty with local government. That was shortly after a disastrous earthquake hit the Ankara region killing thousands of people. The major cause of death, he said, was shoddy apartment construction. This resulted in large part from a serious power imbalance: rich and powerful development companies pressuring the city council to lower construction standards. This is an example of one of the fiercest dilemmas for local government: the great disparities in wealth and power that appear especially in our global era. Global development, mining, manufacturing and hotel firms have immense amounts of wealth and power. If they are confronted by relatively small, weak and impecunious local governments it is all too easy for them to have their way and to produce local oppression and environmental disasters. How does a central government protect local governments from such predatory pressure?<sup>8</sup> There is, of course a way around this dilemma. While local governments can be given authority to license powerful global firms, they can also be protected by national standards for worker welfare and environmental protection, aided by national government inspectors, balanced by local inspectors as well.

### **Urban violence (Winton, 2004)**

Urban violence seems now to be a major fact of life. It derives from a variety of conditions, including rapid urban growth, rapid in-migration, and shortage of both schools and jobs. In some countries (especially India and China) violence is further exacerbated by the emergence of bachelor gangs. This is caused by another major global influence. Ultrasound fetal sex identification leads inevitably to a skewed sex ratio as female fetuses are aborted.<sup>9</sup> Here two demographic conditions combine to make an explosive situation. One is the rapid population growth that came with the global health intrusion. This was especially felt in the rapid growth of a young, and especially young male, population. Young males are a highly volatile population, which can be led to deeds of heroism and deeds of unspeakable brutality, depending largely on leadership. Coupled with this in countries that place an especially low value of females, leading to abortions and highly unbalanced sex ratios is a condition of bachelor gangs: men who have no prospect of finding a wife. Usually these are also the less educated and less skilled males. Such bachelor gangs are often violent, both internally amongst themselves, and externally to others. They can be used as cannon fodder by unscrupulous leaders, of which we have seen many. Mugabe's



Zimbabwe, Milosevic's Yugoslavia, Rwanda and Burundi and the urban violence that now plagues Mexico all come to mind and there are many others. How do local governments manage such violence? In recent Hindu-Muslim riots in India it is allegedly local government leaders who have fomented the violence, using young males as their cannon fodder.

Exacerbating this situation are the global drugs, arms and sex markets that threaten many local governments. Here the imbalance of power and wealth are especially deadly and few governments have found how to deal with the problem effectively.

### **Economic development or economic gardening?**

Finally, we have a dilemma so new that most Asian local (or national) governments do not know it is a dilemma at all. Virtually<sup>10</sup> all governments wish to promote economic development. The key to development, of course, is investment. After the investment in public physical and social capital (roads utilities, health and education) comes the investment in manufacturing or services that creates jobs. The global economic system has given many Asian countries the opportunity to attract large scale manufacturing and service corporations from the more developed regions. Textiles in Bangladesh, electronics and automotive parts in Malaysia and Thailand, and on and on. This is the common route to development in most of Asia today. It is the concern of both national and local governments. The city of Danang, for example, with about 900,000 people and growing rapidly, has its own foreign service, whose task is especially to attract foreign investors who will create jobs for Danang's citizens. In this drive to attract foreign investment, there seems to be little thought about promoting the growth of local entrepreneurs. That is, however, a new and powerful idea that is taking shape today. It is called *economic gardening*, distinguished from economic development in that it seeks to provide the resources needed to grow local entrepreneurs.

Economic gardening began in Littleton Colorado, a town of 40,000, in 1989. It was the brain child of Chris Gibbons. It seeks to provide the services local entrepreneurs need to grow, and especially to grow their exports. Communities become the gardens in which entrepreneurs grow. The services needed by small local entrepreneurs include such things as market surveys, consumer surveys, and technical business information, which small businesses need to grow, but which are usually only available to large corporations.

Economic development that derives from attracting foreign investors requires a variety of incentives such as tax breaks, infrastructure, and sometimes relaxed worker or environmental regulations. Foreign investors bring factories to take advantage of these incentives and low production





costs. Then when high employment produces a higher standard of living and labor costs rise, the foreign investor will easily move out to places of lower wage rates and more incentives. By growing local entrepreneurs in its own garden a community increases the likelihood that the entrepreneurs will stay, since they are essentially a part of a community. Littleton, Colorado, for example, began economic gardening when a large corporation that was its major employer left town for a lower wage environment overseas. Since 1989 it has created 15,000 new jobs in locally owned enterprises, without the usual tax and regulatory incentives. In the context of the current gubernatorial race in Michigan, the Small Business Association of Michigan issued a white paper (SBAM 2010) laying out an economic gardening strategy for the state. Since this is all relatively new, the websites of two foundations – Lowe and Kauffman – provide the best up-to-date information ([www.edwardlowe.org](http://www.edwardlowe.org) and [www.kauffman.org](http://www.kauffman.org)). Information on the new Michigan strategy can be also obtained from the director of the Small Business Association: [robert.fowler@sbam.org](mailto:robert.fowler@sbam.org). The Colorado town initiating economic gardening can be reached at <http://www.littletongov.org/bia/>.

## Conclusion

Asia's rapid urbanization is today having a number of powerful implications. One of these is the rise of interest and action toward greater local government. Devolution of authority and responsibility is the new mantra and all manner of local government developments can be seen throughout Asia. The character and challenges facing local governments are now also powerfully affected by our current global era. Public services (especially for health) and private capital are now mobilized on a global level and intrude in many complex direct and indirect ways on local governments and local communities. National governments try, sometimes, successfully to mediate those forces on local communities and governments. In this paper we have examined the rise of the new interests in local governments and have suggested a series of challenges or dilemmas the global forces pose for local government.

Local participation must be developed.

Devolution must create local units sufficiently large to allow for effective planning.

Political and administrative systems suggest different levels of devolution: administrative decentralization allows for local knowledge in policy implementation, but political centralization often allows for greater strength in policy decisions and implementation.

Power imbalances in the global era often threaten local governments. Central governments need to find ways to protect local units from the immense power and wealth of global organizations.

Urban violence is a major fact of life, often stemming from global forces that the world now only struggles ineffectively to contain. These global forces range from technologies that affect fertility to capital and new production firms, to arms, drugs and sex markets.

Finally, there is a new alternative to attracting foreign firms with incentives. Called *economic gardening*, it seeks to support the growth of local entrepreneurs who will not leave the community when the standard of living, and wages, rise.

Central governments today face many challenges if they wish to devolve authority and responsibility and build up local governments. There are many powerful global forces that any central government must manage successfully if it wishes to proceed with the development of effective local government.

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#### Notes:

- <sup>1</sup> The great Western colonial systems built since the 16<sup>th</sup> century all collapsed in two major 25 year periods. The American Iberian system collapsed from 1810-1835, leaving a series of deliberately "weak" states whose revolutions against monarchic mercantilism drove them to create protections against state power. The industrial capitalist colonial system in Asia and Africa collapsed in the quarter century after World War II. Those revolutions against capitalist states and a free market drove the new states to adopt the central state planning institutions that became popular in the Soviet Union and Western Europe's social movements. Thus this second wave of independence movement produced deliberately strong states.
- <sup>2</sup> The World Bank has urged export promotion in virtually all of its annual World Development report since it began publishing in 1978. It has especially noted the successes of South Korea and Taiwan. Malaysia has less often been credited with successful export promotion, but its 1960 rubber and palm oil programs were precisely that and were also very successful (Ness 1968).
- <sup>3</sup> The UN provides data of number of cities on 4 categories: 10 million or more, 5 to 10 million; 1 to 5 million, and 500,000 to 1 million. It then provides the total population of cities with less than 500,000. I assumed an average of 50,000 for these cities to arrive at the number. Changing this assumption would greatly change the number.
- <sup>4</sup> I have noted the importance of Asia's historical urban character is Ness 2009, 2010.
- <sup>5</sup> Comparable Thai data are from The World Bank, World Development Indicators on line 8/8/2010.
- <sup>6</sup> The term is from J.H.Parry (1970).
- <sup>7</sup> Kobe's great Hanshin earthquake of 1995 gave the city a disaster from which it has learned a great deal, especially in disaster management.
- <sup>8</sup> All too often, of course, central governments collude with powerful global corporations overriding local concerns, preferring rich pay-offs from abroad to the welfare of their own citizens



<sup>9</sup> Hudson and den Boer (2004) provide an extended analysis of this problem.

<sup>10</sup> I would not personally place Myanmar or North Korea in this group.

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# Fiscal Decentralization in Thailand: Tax Sharing and Grant Allocation Reform

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## Abstract

This paper analyzes the process of fiscal decentralization in Thailand, which has undergone a major transformation during the past ten years and is still incomplete. We anticipate two types of policy to be driven over the next decade: First, a transfer of functions that were mandated by the Decentralization Act of 1997 that have not yet achieved the targets; and second, reform of the revenue assignment which is the substance of a new law entitled the Local Revenue Act, now still in draft form, which is mandated by the 2007 Constitution. This article articulates the reform of tax-sharing rules and grant allocation that take into consideration the vertical- and horizontal-fiscal balances. Presented herein is empirical evidence, drawn from data as of fiscal year 2009 compiled by the Department of Local Administration, to analyze fiscal disparities. Two findings are noted: First, the existence of fiscal disparity as measured by large differences in tax-capacity vertically and horizontally; secondly, the grant allocation was largely settled by negotiation that often ended in the status quo with little consideration of the role of equalization grants, and, as such, fiscal disparities were not reduced. These are important policy issues; we anticipate that the National Decentralization Committee (NDC) will seriously review the issues and revise the grant allocation in the next round of meetings. The last remark concentrates on the need to develop a comprehensive local government database as a means to monitor the progress of decentralization.

## Introduction

The past ten years (2000-2009) have witnessed a major transformation in sub-national governance in Thailand and this was part of the government sector reform as mandated by the Constitution of 1997. It was, however, the *Decentralization Act of 1999* that actually drove changes that could be grouped under two headings: a) *an administrative decentralization* whereby the agreed set of responsibilities devolved from the center to local administrative organizations according to the “decentralization plan”<sup>1</sup> and b) a *fiscal decentralization* that led to a multifold increase in LAOs’ fiscal command of resources; i.e., from less than 10 percent of central government revenue prior to the year 2000, to 25 percent in 2009. The local administrative organizations (to be referred as LAOs, 7,853 units in total as of 2009) now play an important role

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as providers of infrastructure and local public services. In a broad sense it is fair to conclude that Thailand's decentralization has progressed a great extent—yet, it is still in a transitional state and the devolution of functions is still incomplete.<sup>2</sup> Regarding fiscal decentralization, new problems have arisen in the form of vertical fiscal imbalances and fiscal inequities that may hinder the future path of decentralization. In this connection, now may be the right time to review past achievements and to rethink over the future course of decentralization, say the period 2010-2020. Herein we shall specifically discuss the following: a) the vertical imbalance, and propose a reform in revenue-sharing between the central and the sub-national governments, and b) the horizontal fiscal disparity largely due to wide variations in tax capacity among LAOs and the grant allocation that failed to perform the “equalization role.”

In this paper the scope of analysis is limited to two major themes: First, the future design of revenue assignment (RA) to match expenditure assignment (EA) given that fact that neither variable is static or deterministic as they were influenced by institutional factors. The paper adopts an institutional and evolutionary analysis as a tool to analyze decentralization in Thailand; in particular an “incomplete contract” is used to analyze the situation. It is true that the Decentralization Plan set the program for the transfer of functions from ministries and departments to local authorities – yet, there were obstacles that impeded the devolution program. Second, the need to correct for vertical imbalance and to redress horizontal inequities; in this connection, two proposals on the tax-sharing rule and the grant allocation will be discussed. These topics are the essence of the newly drafted law entitled the “Local Revenue Act” (which is mandated by the Constitution of 2007 and is expected to be submitted to the legislative body by the end of 2010). A proposal by the Task Force<sup>3</sup> recommends an increase in local shares of value-added tax and excise taxes, from 10 percent to 30 percent (there was a minority view in the Task Force that advocated for the sharing in personal income tax and corporate income tax). Regarding fiscal disparity, it is natural that the capacities to generate tax and nontax revenues are not equal among LAOs; given this, it is sensible to design an equalization grant as a way to reduce horizontal fiscal inequity (Boadway, 2006; Mochida, 2008; Ahman and Serle, 2006). In this connection, the author has compiled local fiscal data to investigate: a) variations in the LAOs' capacity to generate tax-and nontax-revenues; and b) how the grant allocation was actually distributed and whether or not it had a dampening effect on the fiscal disparity. Our findings indicate that the general-grant allocation failed to perform an “equalizing” role. This is an important message. We anticipate that the National Decentralization Committee (NDC) will take the issue seriously and be able to come up with a new formula that puts more weight on equalization.<sup>4</sup>

This paper is organized into 5 sections. Section II, which follows the introduction, discusses the conceptual framework that is based on institutional and evolutionary economics, in particular, the model of incomplete contracts, to analyze changes and renegotiation in the transfer functions and revenue assignment for the next 10 years. Section III discusses two policy issues related to vertical fiscal imbalance and fiscal disparity. Herein we took fiscal data (fiscal year 2009, which included municipalities and sub-district administrative organizations) and noted the existence of the vertical- and horizontal-fiscal



disparities. Section IV discusses the proposal to amend tax-sharing and an equalization grant. We discuss the need to develop the national database to support NDP decision-making, to assess fiscal needs of LAOs and an equalization of general-grants. Section V concludes the paper.

### **Conceptual Framework: Decentralization as an Evolutionary Process**

Decentralization of government authority encompasses administrative and fiscal aspects. In principle, local governments are empowered to initiate policy and program development on behalf of their resident voters. The classic argument for decentralization by Wallace Oates (1972) is that different communities have different demand for types and levels of public goods due to variations in many forms, such as physical characters, social, and cultural values. The public services provided by the central government, however, tend to be "uniform" as many had "*one size fits all*" characteristics, and hence the supplies can at best only match the demands imperfectly. Efficiency could then be improved if communities were allowed to provide their own local public goods and services to cater to local preferences and needs (Boadway and Shah, 2009). Charles Tiebout (1956) articulates how the government sector can operate under a competitive atmosphere when a number of local governments are allowed to compete in the provision of public goods. On the other hand, people are mobile and if they have different choices, they would choose to reside in a locality that provides services that best correspond to their preferences. Under a decentralized regime, decentralized decision makers will strive to provide the best mix of public goods and services to respond to local needs of potentially mobile households and firms. Through *voting by ballot*, local administrators who are elected by voters would take the lead in local administrations to produce public services that are responsive to peoples' needs; if some of them fail to perform, their chances for reelection would be reduced. Another mechanism is called *voting with one's feet*, which conveys a message that citizens would compare LAO performances and choose to migrate out from the place where service delivery is poorly performed to reside in a community with service delivery best suited to their preferences. Anwar Shah (2006) aptly uses three terms to characterize the nature of local administration: *responsive governance*, *responsible governance*, and *accountable governance*.

In Thailand, decentralization is still in a transitional state with approximately 10 years of learning experience after the 1999 Decentralization Act. Local governments are bound by law to perform the functions as specified in their laws and with limited autonomy in expenditures and revenue decisions. Prior to the passing of Decentralization Act, it was the central government under different departments and ministries that played the role of provider of public services. Devolution of functions began to take effect after 2000 according to the "Decentralization Plan" which is, in turn, backed up by the Decentralization Act of 1999. It is also important to mention a few institutions that are responsible for government sector reform: At the top is the **National Decentralization Committee (NDC)** which is responsible for the whole decentralization program and in particular for setting criteria for grant allocation and tax-sharing. The **Department of Local Administration (DLA)** also plays an important role as a



supervising and regulatory agency. Similar to other government agencies, all local authorities are subject to an external audit by **the Office of Auditor General (OAG)**.

Although there are guiding principles as specified by the decentralization plan, the paths of decentralization in practice may deviate from the plan for various reasons and these are, in fact, subjects worth careful study. Here we shall adopt the terms “evolutionary” and “institutions” to recognize the fact that the decentralization process is influenced by many institutional and political factors, i.e., historical background, social value and cultural values. Another term, “incomplete contract,” needs some explanation. An exchange is “complete” if the transaction of goods and services is done and complete to the satisfaction of both sides (demander and supplier) as the quantity and the quality of products or services are known immediately. There are, however, many cases in which transactions are incomplete, for instance, a purchase of durable products that are high in value, e.g., buying a new house or a new car whose qualities not completely known on the purchase date. The buyers may later find the qualities of the house or car much below the standards and cause problems that need fixing and these pose additional cost to users. Hence it is natural in these cases to design the terms or the conditions that perform consumer protection such as “having after sale services without charge” or “money refundable” – yet the conditions should be reasonable and fair for buyers and sellers. Without such terms or conditions the transactions might not have been taken at the first place. The process of decentralization and devolution of power may be characterized as an incomplete exchange, that is, when a country decides to embark on administrative- and fiscal-decentralization, it is often based on good faith and theories that say decentralization is a good thing to do, efficient, and supportive of local accountability. It is like other actions that are based on some degree of trust, and correspond to the common saying that “yes, I trust but (you must later) verify”. Following an incomplete contract literature [Grossman, Hart, and Moore (1986) and Brousseau and Fares (2000)], agreements would be designed and revised over different stages of development (of transaction); initial contract, investment, renegotiation, delivery phase, and payment phase; and ex-ante period, interim period, and ex-post period.

The following analysis assumes that our National Decentralization Committee (NDC) designed programs of action closely correspond to an incomplete contract model. Our simple model involves three notions and terminologies which are assumed to be communicated in the variables, namely, the “transferred functions” (F), the “revenue assignment” (R), and the “value for money” (V). Both the transferred functions and the revenue assignment are important concepts that are widely cited in fiscal federalism literature and convey the fiscal relationship between the center and local. Local governments would translate F and R through their production functions into outputs, outcomes and impacts that are positively related to quality of life of people and social welfare.

To help clarify evolutionary changes associated with the program of decentralization in Thailand, we shall employ notations that indicate the transfer of functions and adjustment of the revenue assignment over time. Remember that the process is continuous in time (t):

(1)-----

$$F^*(jt) = \{F_1, F_2, \dots, F_{245}\}$$

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where  $F^*_i$  refers to the service functions to be devolved from the central bureaucratic agencies to LAOs as specified by the Decentralization Plan,  $i$ =local public goods or services,  $j$ =the  $j^{th}$  local administrative units, and  $t$ =time.

$$(2)----- F(jt) \subseteq F^*$$

$$(2a)----- F(ijt) \subseteq F^*$$

Equations 2 and 2a convey the messages that certain service functions have been transferred from the center to sub-national governments, in total and individually,  $F(jt)$  and  $F(ijt)$  which are subsets of  $F^*$ . The report submitted to NDC (at the end of 2008) confirmed that only 180 service functions that used to be provided by different ministries and departments had been transferred to LAOs; this fell short of the target of 245 service functions. For individual local authorities the number of transferred service functions  $F(ijt)$  could vary from one to another because some of the “transferred service functions” were irrelevant for many LAOs, for instance, forestry protection service functions, bus terminal operators, museums, and others.

$$(3)----- dF/dt > 0 \text{ if } F < F^*$$

Equation 3 denotes that NDC would like to see a continuation of the service function transferred as originally specified by the 1999 Decentralization Plan, that is  $dF/dt > 0$  as long as  $F < F^*$ . Next we introduce another variable ( $E_i$ ) which denotes for an expenditure requirement in per capita to enable sub-national governments to operate public services to the minimum standards. It is assumed that sub-national governments need the budgets in the first place and later allocate the budget to support programs of activities which are costly to produce.

$$(4)----- E(j) = \sum e_{ij} * N_i = \phi(F(ijt))$$

$N_i$  = population  
 $e_{ij}$  = per capita expenditure need for the  $j$ th LAO  
 $\phi()$  = total expenditure needed which is positively related to the numbers of transferred service functions.

Equation 4 summarizes the total fiscal needs of local governments, which is the variable of our interest and related to the design of tax-sharing and grant allocation to be discussed shortly. It is natural to assume that NDC would review and monitor how the fiscal resources now in the hands of local governments were utilized and their results in terms of public service delivery, in particular, to answer the basic question “is this worth the money spent”—similar to the concept of economic rationality. In this connection, it is reasonable to mention a variable that characterizes the quality and the reach to people out of local government services (QS). It is assumed that NDC has some notion of the minimum standards of QS which is denoted as  $QS^*$ .

$$(4)----- QS \geq QS^*$$

QS = quality of services provided by an individual local government which are assumed to be assessed by NDC

QS\* = the minimum delivery of local public services.

Next, we shall consider an issue of revenue assignment. Equation 5 denotes the relationship between the revenue assignment (R) and the transferred functions which are now translated into monetary terms through an expenditure needed by local governments.

$$(5)----- R(ijt) = R1 + R2 + R3 = \phi(F(ijt)) = E(j)$$

R1 = locally generated revenues, inclusive of tax- and nontax-revenues

R2 = shared taxes or the tax revenues collected by central agencies on behalf of local governance

R3 = intergovernmental grants, which are in the Thai context, part of the annual budgetary expenditures

Note: These revenues do not include an inflow of financial resources (borrowing by individual local governments).

It appears from Eq. 5 that the local governments can produce public services if they have acquired a sufficient amount of revenue regardless of the combination of R1, R2, and R3 – in other words they are perfect substitutes. In reality, however, R1, R2, and R3 are not equivalent. In the author's interpretation, R3 ranks the lowest in terms of local autonomy. Not only that conditions are connected with the use of money, local governments can hardly predict the amount of grants appropriated by the central government as these are political matters and subject to the treasury financial situations, and the timing of the grant receipt cannot be controlled. In short, R3 is outside the control of local governments. R2 is ranked higher than R3 in terms of local autonomy – as the sharing rule is fixed by law, say 10 percent, accordingly LAOs could plan for the amount of R2 in their budgetary plan and these can be achieved by reviewing economic indicators and Ministry of Finance tax collection reports. R1 is ranked on top in terms of local autonomy but it is politically unpopular and there is direct cost of tax collection incurred by local governments. Indeed every type of tax revenue entails certain costs, including collection cost, compliance cost, and excess-burden; these costs are part of the concept of "marginal cost of public funds" (Dahlby, 2008).

Through the lens of incomplete contract analysis, we can now summarize the characteristics of the process of decentralization that encompasses: a) the multi-phases of decision-making i.e., ex-ante period, interim period, and ex-post period and the monitoring ; b) the role of concerned institutions, in the case of Thailand, NDC, OAG as the "principal" and the "agents" that refer to all LAOs, and "intermediary agencies" that play a regulatory role on behalf of the principal, in our case the Department of Local Administration; c) the task of monitoring the transfer of service functions and the service delivery as committed by LAOs which may be interpreted as the process of "verification" to answer whether an "initial trust" should be revised; d) a redesign of the revenue assignment and renegotiation, with special reference in order to "optimize" grant allocation under appropriated tax-sharing rules. From the viewpoint of principal, it may be strategically right to err on the low-side, rather than on the high-side. As such there are financial problems as the local governments may find their revenue



(RA) fell short and cannot meet their actual expenditure assignment (EA) and in that case there is high probability that LAOs would propose renegotiation or find ways to increase their revenue (RA). It may be the cases that grant allocation and tax-sharing were inappropriately distributed and caused fiscal disparities and fiscal imbalance. The latter term conveys two concepts, a vertical fiscal imbalance and a horizontal fiscal imbalance which are to be discussed in the next section.

## Vertical Fiscal Imbalance and Fiscal Disparity

This section delineates two related concepts: first, the *vertical fiscal imbalance* which refers to the mismatch between expenditure needs and revenue means<sup>5</sup> (Boadway and Shah, 2009). It may be conceived that the central government and local governments are partners and they agree to produce public goods and services for the benefit of the country according to expenditure assignment. Following expenditure assignment, it is necessary for both to agree upon the revenue assignment. Three types of taxation would take the form of  $\{T^c, T^l, \text{ and } T^s\}$  where  $T^c$  denotes the central government taxation,  $T^l$  the local taxation, and  $T^s$  the shared taxes. There are costs associated with taxation, viz, collection costs, compliance costs, and excess burden. The notion of marginal cost of public funds (MCF) encompasses these costs. It may be the case that a central government is assigned a power to collect tax more proportionately and it makes sense that sub-national governments may delegate their power to the center to collect tax on their behalf. To illustrate the matching between revenue assignment and expenditure assignment, we shall use symbols  $\{F^c, F^l, \text{ and } F^s\}$  to denote the functions or responsibilities for the center, local governments, and the overlapping functions. In theory an agreement can be settled if both sides assess that the agreement is fair. If, however, some states feel that an agreement and the fiscal division are unfair, they may decide to pull out of the federation. Under an incomplete contract framework, the contract can be renegotiated occasionally because both sides cannot accurately calculate the future, and structural changes can always happen and, in effect, change the payoffs to both sides. The tax bases can undergo structural change due to technology and new patterns of consumption demand.

Regarding *an administrative decentralization*, it is conceivable that NDC would agree to push the central government to transfer more responsibilities to local authorities. In this case, the following two equations can be expressed:

$$(6)----- F(t_0) = \{F^c, F^l, F^s\}$$

$$(7)----- F(t_1) = \{F^c - \theta, F^l + \theta, F^s\}$$

$\theta$  denotes the service functions transferred from the central government to local government. As the time dimension is crucial to our analysis—it is worth mentioning that  $t_0$  refers to the an initial time (i.e., prior to decentralization) and  $t_1$  refers to the interim period after decentralization has begun and yet still incomplete and now the period for policy review (by NDC or intermediaries) – a policy evaluation is assumed to be important and influential to the decision-making of NDC in the next round of renegotiation.



Based on the concept of incomplete contract and the transfer of responsibilities as mandated by the Decentralization Act in Thailand, it is natural to expect renegotiation and policy review from time to time. Two policy issues that are high on the national agenda are: a) the transfer of responsibilities according to the Decentralization Plan which yet have not achieved, and b) the tax-sharing rule or the revenue-sharing rule.<sup>6</sup> The latter issue involves law amendment. A formula for tax-sharing has been included in the draft version of the Local Revenue Act, an organic law mandated by the 2007 Constitution. The law defines a term called “shared taxes” (ภาษีฐานร่วม) as those taxes that the central government and local administrative organizations are empowered to tax, and it specifies “types of tax” to be shared which include the value added tax, excise taxes, and natural resource taxes (royalties). Tax revenues will be shared according to a formula, 70:30, that is, 70 percent of the tax revenues will belong to central government and the remaining 30 percent will be shared among LAOs. Of note: there was a minority view in the Task Force that argued for an assignment of personal income tax and corporate income tax as “shared taxes.” The changes in the tax sharing rule are aimed at reducing a vertical imbalance between central and sub-national governments and the high dependency of local government on grant revenue distributed by the central government.

Next, we shall discuss the notion of “fiscal disparity” and present empirical evidence. The term fiscal disparities as used in this paper refer to differences in local capability to tax.

- The first hypothesis is expressed as  $\tau^m > \tau^l$ , which hypothesizes that the per capita tax revenue by municipalities is generally higher than that of the sub-district administrative organizations.
- The second hypothesis states that there exist variations in the tax revenue per capita within the municipality group, and these can be indicated by the coefficients of variation, or the ratio of 90<sup>th</sup> percentile to 10<sup>th</sup> percentile.
- The third hypothesis indicates that there exist variations in the tax revenue per capita within the sub-district administrative organizations, and these variations can be indicated by the coefficients of variation, or the ratio of 90<sup>th</sup> percentile to 10<sup>th</sup> percentile.

Based on data compiled by the Department of Local Administration for fiscal year 2009, the author analyzes local capability to tax (herein inclusive of locally collected taxes and shared taxes) to test a) the hypotheses of disparity in the capability to tax and b) the hypothesis of an “equalizing grant.” Statistics in tables 1 and 2 lend support to the former hypothesis but not the latter. Tax capacity is measured by tax revenue per capita. Of note are: First, the vertical fiscal disparity is evidenced – the tax revenue per capita for municipalities averaged to 2,839 baht compared to 1,789 baht for TAOs. We can conclude that the tax capacity of TAOs was approximately 63 percent of municipalities. Secondly, the within variations were found to be the largest in the cases of Sub-district Municipalities, which are mostly located in a semi-urban area, about half of which were upgraded from the status of *tambon* (sub-district) council (สภาตำบล) in 1999. The rest of them were later upgraded from *tambon* (sub-district)



administrative organizations (องค์การบริหารส่วนตำบล). By definition, the *nakhon* (city) municipalities (เทศบาลนคร) are local governments of big cities with a larger size of population, which in most cases greater than 80,000 inhabitants. The word “*muang*” (เมือง) refers to medium-sized towns classified as “urban” according to the National Statistical Office’s household survey definition. As for the “*tambon* municipalities,” it is not always clear—some analysts prefer to classify them under a semi-urban rather than urban. Some of these “*tambon* municipalities” have been undergoing rapid urbanization and this might be one of the reasons why the fiscal disparity among them is most pronounced. The *tambon* administrative organizations (องค์การบริหารส่วนตำบล) are commonly regarded as rural areas, with an average size of population of 6,500 with fewer than 2,000 residential houses. Thirdly, the tax revenue per capita for TAOs in most cases ranged from 1,300 baht to 1,900 baht and averaged to 1,789 baht. Variations in tax capacities were noted but they were not as wide as the “*tambon* municipalities.” Table 3 indicates the relative size of population according to types of local authorities.

**Table 1:** Per capita tax revenue and grant revenue, municipalities, fiscal year 2009

Unit: baht per head			
Type of MUs	Tax revenue per capita	Grant revenue per capita	Remarks
<i>Nakhon</i>	3,808.5	875.6	Mean
Municipalities	3,011.4	805.3	P10
N=22	3,275.6	839.3	P25
	3,467.4	885.3	P50
	4,213.3	919.0	P75
	5,161.6	926.2	P90
	1.7	1.2	Ratio
			coefficient of variations
	0.225	0.273	
<i>Muang</i>	3,764.8	1,153.3	Mean
Municipality	2,327.9	915.1	P10
N=142	2,731.1	984.5	P25
	3,316.2	1,117.8	P50
	4,268.0	1,259.7	P75
	5,390.7	1,437.9	P90
	2.3	1.6	Ratio
			coefficient of variations
	0.450	0.056	
<i>Tambon</i>	2,755.9	1,913.8	Mean
Municipalities	1,281.9	720.4	P10
N=1,842	1,585.6	959.3	P25
	2,409.8	1,563.7	P50
	3,300.4	2,488.6	P75
	4,519.6	3,545.5	P90
	3.5	4.9	Ratio
			coefficient of variations
	0.631	0.259	
Total	2,838.9	1,848.6	Mean
Municipalities	1,299.6	728.7	P10
N=2,006	1,625.6	955.0	P25



**Table 2:** Per capita tax revenue and grant revenue, TAOs, fiscal year 2009

	Tax revenue per capita	Grant revenue per capita	Remarks
	2,516.9	1,416.1	P50
	3,407.4	2,385.4	P75
	4,569.7	3,436.7	P90
	3.5	4.7	Ratio
	0.617	0.713	coefficient of variations
<i>Tambon</i>	1,789.1	779.6	Mean
Administrative	1,191.4	567.3	P10
Organizations	1,331.6	645.2	P25
N=5,770	1,561.7	742.6	P50
	1,950.3	874.7	P75
	2,532.4	1,047.8	P90
	2.1	1.8	Ratio
	0.531	0.707	coefficient of variations

**Table 3:** Population statistics by different types of local authorities, fiscal year 2009

Type	Unit: number of population, freq=LAO units		
	Mean	Std. Dev.	Freq.
TAO	6,561.5	3,655.8	5,770
<i>Nakhon</i> municipalities	101,425.0	52,659.0	22
<i>Muang</i> municipalities	27,151.8	15,095.2	142
<i>Tambon</i> municipalities	7,224.2	6,884.0	1,842
Total	7,362.9	8,088.8	7,776

Statistics in table 4 are based on the pool data of 2,006 units of municipalities, and 5,770 units of *tambon* administrative organizations and both combined to 7,776 units. Herein we present 2 variables; the third column [A] refers to *tax revenue per capita* which averaged 2,060 baht and the fourth column [B] the *grant revenue per capita* which averaged 1,055 baht. The tax revenue per capita ranged from less than 1,000 baht on the low side to over 10,000 baht on the high side. The *grant revenue per capita* varied less than 300 baht on the low side to over 5,000 baht on the high side. It is obvious that the grant revenue per capita is positively correlated with the tax revenue per capita; the correlation between A and B was found to be 0.6 which is quite high.



**Table 4:** Fiscal disparities: case studies of municipalities and TAOs, fiscal year 2009

Classification by total revenue per capita	Frequency	Unit: baht per head	
		Tax revenue per capita	Grant revenue per capita
<=500	2	478.73	277.54
501-1000	77	910.75	493.57
1001-1250	980	1,159.30	648.64
1251-1500	1,864	1,374.39	720.50
1501-1750	1,382	1,614.84	810.23
1751-2000	842	1,865.36	899.10
2001-2250	535	2,119.87	1,038.46
2251-2500	465	2,367.09	1,200.00
2501-2750	355	2,615.70	1,379.78
2751-3000	277	2,868.31	1,509.23
3001-5000	780	3,688.67	2,068.33
5001-10000	188	6,439.20	3,001.14
10001-20000	27	13,081.59	3,754.97
<=30000	2	23,829.81	6,038.83
Total / average	7,776	2,059.92	1,055.36

The positive correlation between A and B is contrary to our expectations. We are expecting that the correlation between A and B would be negative, and this is based on the principle of equalization grant, which means that regardless of the amount of tax collected, the residences of all local governments in Thailand should receive an equal grant amount per capita from the central government. On the normative ground, the central government has a responsibility of assurance that every citizen would be able to access to public services equally and that all local governments can deliver a minimum level of public services or "standards"; accordingly, the grant allocation formula tends to take an "equalizing" objective. On the positive ground, a solidarity principle posits that different local governments are part of the whole country with economic and social benefits to be shared, and that some forms of nationally collected revenues are transferred from the rich regions to the poor regions. When such principle is not observed, it is theoretically conceivable that the poorer local governments would be financially insolvent, thus undermining the benefits of decentralized management.

It is always a puzzle why the grant allocation for local governments in Thailand was not done under the principle of equalization. It might be the case that the NDC perceived that TAOs were still young (all of them were established after 1995) and that they had yet to perfectly perform the "devolved service functions." Strategically, therefore, NDC chose to allocate the low level of grant revenue per capita to those fledgling local government entities that had to prove their efficiency. With the low level total revenue of many LAOs, an increase of the amount of grant revenue to fulfill the basic needs of rural population is recommended. The author is of the opinion that with the problem of low level of revenue fraught by many local governments, it is conceivable that soon the system of revenue sharing and allocation will have to undergo a process of reform. This issue will be discussed in the next section.



## Equalization Grants to Redress Fiscal Disparities

The vertical fiscal imbalance, as discussed earlier, can be corrected by a more equitable tax-sharing or revenue-sharing scheme. In the meeting among the Task Force appointed by NDC whose responsibility was mainly to draft the Local Revenue Act, the vertical fiscal imbalance was discussed at length and the formula of 70:30 was recommended to replace the old formula of 90:10. If the law were enacted, the percentage of grant revenue for most LAOs would be reduced. In addition, it should be noted that there are already proposals to enact new tax laws related to broadening the local tax base. These are: a) the Land and Building Tax Act, and b) the Economic Instruments for Environment Conservation and Environmental Tax Act.

Fiscal inequity, as earlier indicated, can be corrected by amending the grant allocation formula. To the author's understanding, the NDC has acknowledged the problem of wide fiscal disparities among local governments. It is most likely that the next round of grant allocation (fiscal year 2012) will be modified and the equalization will be given "high weight." In this connection, the author would like to reiterate that we can learn from the theories and practices of other countries. Boadway et al. (2001), for example, suggested that fiscal transfers should be determined on the basis of an objective, reasonable and ideally well-recognized allocation formula. They should not be affected by secret political negotiations (p.181). A paper by Ahmad and Searle (2006) provides a good review of intergovernmental transfers from a theoretical viewpoint and practices from different countries. It also mentions the need for database: *"The data required of a grant distribution system are of two types—those relating to the accounts of the recipient units of government, and those relating to the assessments of expenditure needs and revenue capacities... The base data should be based on audited 'past period' data if possible, as this removes the natural tendencies to underestimate revenue collections and overestimate expenses when budgeting. The use of actual data avoids these biases within the standards, against which an assessment might be made (p.400).* A book, by Nobuo Mochida (2008), provides good insight into Japan's fiscal decentralization and lessons from the developing countries. Professor Mochida commented: *"In many Asian developing countries, consensus or enthusiasm for equity is still in the process of being developed... In sum, the consensus for interregional income redistribution has not been well-established in Asian developing countries, as it has in Japan, Korea, Australia and the Nordic countries..." p.183* And with respect to the shortage of databases: *"...In most Asian developing countries, it is quite difficult to obtain accurate data for the parameters used in formulas. Without reliable and accurate data, fiscal need tends to be assessed mainly by expedience, using the population size or local government classification (scale and type) (p.182).*

## Concluding Note

Decentralization has undergone a major transformation in Thailand since the Decentralization Act (1999) – yet the process is still far from complete. This paper adopts an incomplete contract as a tool to analyze the process of fiscal decentralization and takes into consideration the role of institutions. The author



anticipates that the next round of fiscal reform to support decentralized management over the next 10 years will focus on two issues: a) the vertical fiscal imbalance (VFG), and b) fiscal disparities between different types of LAOs and also fiscal variations within each type of LAO. The proposal to correct VFG is already included in the draft version of the Local Revenue Act which is expected to be enacted shortly. The new tax-sharing together with the property tax law and the environmental tax law will significantly broaden the local tax base and reduce high dependency on grant revenue. With respect to the fiscal disparities, this can be corrected or at least reduced by an equalization grant. There is a rich body of literature from which Thai scholars and practitioners can learn about the theories and practices of other countries. A formula-based grant allocation requires the database to reflect the fiscal gaps of all LAOs to replace an ad hoc grant formula.

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**Note:**

- <sup>1</sup> The full title of the Act is called "*the Procedure and Plan for Decentralization Act B.E.2542*". The Act identified 245 functions to be transferred from the bureaucratic agencies to LAOs in a given timeframe, i.e., 10 years, and set the target for revenue assignment to be 35 percent of the central government by the year 2006--both targets were not achieved within a timeframe.
- <sup>2</sup> According to monitoring report submitted to the National Decentralization Committee in 2009, 180 functions had actually been devolved from the center to LAOs. It is most likely that NDC would continue to endorse further transfer of functions from the center over the next ten years.
- <sup>3</sup> The NDC appointed the Task Force to draft the Local Revenue Act, which is chaired by Dr. Somchai Ruechupan. The Task Force agreed in general to increase the tax-sharing for sub-national governments for the cases of value added tax and excise taxes but could not reach agreement on the sharing of personal income tax and corporate income tax.
- <sup>4</sup> According to Boadway and Shah 2009, p.340 "*Unconditional transfer basically fulfills two objectives. One is simply to get funds into the hands of the states when they do not have the revenue raising capacity to raise sufficient revenues to finance their expenditure responsibilities that is to close the fiscal gap. The other is to equalize the ability of the various states to provide public services.*"
- <sup>5</sup> A quote from Boadway and Shah, 2009, p.321 "*A feature of almost all federations is that the federal level of government raises more revenue than it needs and transfers the excess to the states to support their expenditures. This difference in federal revenues and expenditure requirements is referred to as the vertical fiscal gap (VFG).*"
- <sup>6</sup> According to the tax-sharing, sub-national governments have a power to set the tax base or tax rate; under the revenue-sharing, sub-national governments have no power to change the tax neither base nor tax rate. The author takes note that in Thai laws tend to use the sentence that "sub-national governments have a power to levy a surcharge at a fixed rate," say, 10%-- de facto, this is equivalent to the revenue-sharing as sub-national governments never exercise their power to change tax base or tax rate.

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# The Evolving Relationship between Central and Local Government: A California Perspective on Federalism

Larry Berman<sup>1</sup>

## Abstract

This paper analyzes the process of fiscal decentralization in Thailand, which has undergone a major transformation during the past ten years and is still incomplete. We anticipate two types of policy to be driven over the next decade: First, a transfer of functions that were mandated by the Decentralization Act of 1997 that have not yet achieved the targets; and second, reform of the revenue assignment which is the substance of a new law entitled the Local Revenue Act, now still in draft form, which is mandated by the 2007 Constitution. This article articulates the reform of tax-sharing rules and grant allocation that take into consideration the vertical- and horizontal-fiscal balances. Presented herein is empirical evidence, drawn from data as of fiscal year 2009 compiled by the Department of Local Administration, to analyze fiscal disparities. Two findings are noted: First, the existence of fiscal disparity as measured by large differences in tax-capacity vertically and horizontally; secondly, the grant allocation was largely settled by negotiation that often ended in the status quo with little consideration of the role of equalization grants, and, as such, fiscal disparities were not reduced. These are important policy issues; we anticipate that the National Decentralization Committee (NDC) will seriously review the issues and revise the grant allocation in the next round of meetings. The last remark concentrates on the need to develop a comprehensive local government database as a means to monitor the progress of decentralization.

## Introduction

The U.S. experience with federalism has involved a continual shifting of power between the states and the federal government. In the uniquely American form of federalism, the overarching national or federal government and the fifty decentralized state governments share power on the basis of their respective sovereignty as outlined in the United States Constitution. As James Madison explained in *Federalist* 10, "The federal Constitution forms a happy combination in this respect; the great and

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aggregate interests being referred to the national, the local and particular, to the state legislatures.”

Federalism has many advantages. Rather than one uniform policy, the large number of state governments ensures diversity among policies and programs. Policy diversity also minimizes policy conflict. State and local policy vary by region in such areas as taxation, education, immigration, legalization of marijuana and health care. If groups fail to pass programs at the federal level, they can renew their efforts at the state or local level, thereby minimizing pressure on the national government. Federalism also produces a healthy dispersal of power by creating additional opportunities for political participation and enhances prospects for governmental experimentation and innovation by providing a social and economic laboratory without risk to the rest of the country.

Two examples help illustrate these points. First, California’s push to be the first in the nation to establish a health benefits exchange is being closely watched by other states as they seek to implement key elements the new national health care law. In October 2010, Governor Arnold Schwarzenegger signed legislation to establish a state-run health insurance exchange, which will open by 2014 and help millions of Californians obtain medical coverage under the new federal law. “If California screws it up, it might have repercussions nationwide. ... So this really has to be set up right,” said Dana Goldman, director of the Schaeffer Center for Health Policy and Economics at the University of Southern California. When it opens, the exchange is expected to serve at least 3 million Californians, many of whom are currently uninsured. “Other states are watching California with interest as they consider their own options. What California is doing really sets some standards that could be useful to other states as they plan their own exchanges. California now provides a starting point, if not a model for other states” said Kathleen Stoll, director of health policy for Families USA, a health advocacy group (Calvan, 2010).

The second illustrative example is in the forthcoming November 2, 2010 California General Election where voters will decide on Proposition 19, an initiative that would allow Californians over the age of 21 to possess marijuana for recreational use and permit them to grow cannabis for personal use in small residential spaces, without a doctor’s note of authorization. Local governments would be permitted to tax retail sales and production. Regulating and taxing the sale of marijuana would raise desperately needed funds for local governments and save tens of millions annually on the costs of jailing and supervising marijuana offenders. Yet, passage of this initiative known as “The Regulate, Control, and Tax Cannabis Act of 2010” is likely to spark a legal battle between the state and federal government, possibly leading to a renewed surge of federal raids and federal authorities suing California to overturn the new law. Nine former administrators for the Drug Enforcement Administration have urged Attorney General Eric Holder to bring suit against California – just as the



Obama administration sued the state of Arizona when it passed a controversial law aimed at illegal immigrants. "The California proposition is not a close call," wrote the ex-DEA administrators. "It will be a clear conflict with established federal law" (Hecht, 2010).

One of federalism's shortcomings is that groups often protect their interests and obstruct or ignore national mandates, thereby creating inequities in the federal system. Poor regions cannot afford to provide the same services as wealthier ones. Rural regions have different needs from urban regions. Coastal regions and regions with significant waterways have different concerns from Midwestern plains states. Thus, governmental programs in localities can vary dramatically. Literally hundreds of educational programs in California are supported by federal agencies and departments—the U.S. Department of Education in particular—but the No Child Left Behind Act (NCLB) has by far been the most controversial. The national law represents a sweeping effort by the federal government to impose educational reform across the country by requiring that schools make every attempt to adopt student proficiency standards. Federal funding would be reduced for states that fail to adopt these provisions and for schools that do not meet certain proficiency standards. The Federal government has also initiated the *Race to the Top* national funding awards. (<http://www2.ed.gov/programs/racetothetop/index.html>).

This national competition pits states against each other in the attempt to win hundreds of millions in educational dollars for the most innovative educational-reform plans. After considerable acrimony among state educational constituencies and stakeholders regarding the completion of the application, California eventually entered the competition, but failed to place in the first round of finalists. Application reviewers for the U.S. Department of Education cited a "contentious relationship" between teacher unions and school districts and "a weak data system for tracking student performance" as the major flaws in California's application. About two-thirds of the Race to the Top funds were available for subsequent rounds of funding and although cash-strapped school districts across California could really use the money, most state government officials and educational professionals do not appear optimistic about the chances of a second application.<sup>1</sup>

In a survey of California county governments, Professor Jinping Sun explored the "the maladies federalism has cultivated" (Sun, 2010). Noting that fiscal aid is really a mixed blessing for local governments in that it may relieve fiscal stress but it also compromises local autonomy, Sun notes that fiscal dependency constrains the ability to budget, plan and manage. Strings are almost always attached to federal monies and these conditions often reflect a lack of understanding of local conditions. "A reform option," writes Sun, "is for the state to grant more and greater discretion to local governments and provide local officials with the tools they need to govern."



I will return to this reform theme in the final section of the paper (Lustig, 2010).

### **The California crack up<sup>2</sup>**

With its expansive, resource-rich territory, its large, diverse population, and prominent role as a social and political trendsetter, California offers an opportune study in the dynamic relationship between central and local government as well as between the state and its local governments. California state government is roughly a \$120 billion enterprise, much of which depends on obtaining federal funds in such areas as health care, special education, corrections, early childhood development and mental health care. In 2009, the dramatic decline of the California economy resulted in a major reduction in government revenue and major cuts in funds and services to local government. County revenue was reduced even further, forcing the state government to tap into portions of revenue to local governments. In an attempt to close the state's \$23 billion 2009 budget deficit, Governor Schwarzenegger approved a budget bill that borrowed \$1.9 billion from local government property tax revenue, \$2.05 billion in redevelopment agency property tax funds, and hundreds of millions of dollars in transportation funds.

The state has faced structural budget deficits that range from \$4 to \$10 billion annually since 2001. The national recession has resulted in 20 percent less revenue collections due to job losses, declining consumption, and weakness in the housing market. Last year California was one of 42 states compelled to close mid-year budget gaps through spending cuts and/or by finding additional sources of revenue. The state suspended infrastructure projects, furloughed state employees and issued IOUs for only the second time since the Great Depression. California's credit rating is the lowest of all fifty states. The LAO estimates annual budget gaps of nearly \$20 billion through 2014-15.

As a consequence of fervent efforts to secure more federal money to cover state budget deficits, the state's relationship with the federal government has become uneasy. Indeed, even before Governor Schwarzenegger released his 2010 budget proposal, California's non-partisan Legislative Analyst's Office (LAO) advised state leaders to "aggressively seek new federal assistance" to help cover another projected deficit. The Governor maintains that federal funds must be part of the budget solution because the federal government is part of the budget problem. Moreover, California must be reimbursed for unfunded and under-funded federal mandates and relieved of the overly restrictive maintenance-of-effort requirements placed on programs. An interesting example involves federal and state government costs of undocumented immigrants. For fiscal



year 2010-11, the state will receive \$90.6 million in federal funds for this population, constituting only 9.3 percent of California's costs. The state argues that if the federal government refuses to provide better control over the nation's borders and take custody of these individuals and house them in federal prisons, then it must reimburse the state for the full cost for providing this public safety service. The same logic applies to an issue discussed earlier in the paper. If the federal government mandates that California expand healthcare coverage, should federal funds be provided to cover the state's costs for providing this federal mandate?

In the generation immediately following World War II, California was widely regarded as "both a model and a magnet for the nation—in its economic opportunities, its social outlook, and its high-quality public services and institutions" (Schrage, 2004). When California became the nation's most populous state during the 1960s, it was common to refer to it as America's paradise or a "fabled land of promise" where dreams became realities. The state boasted an extremely accessible system of public higher education; robust public works projects in irrigation, flood control, and highway construction; and rapid growth in its oil and automotive production industries. Large-scale water projects allowed California's fertile central valley to produce multimillion-dollar industries in wheat, fruits, and vegetables. California's education system was the envy of the nation, capped by a three-tiered system of higher education that was—until the late 1960s—virtually free for any state resident who graduated high school. During this period of prosperity, the state government invested massive amounts of money in public projects that created distinguished public universities and research labs that drew leading scientists in research and development. California's legislature was widely admired. In 1971, for example, the Citizens Conference on State Legislatures rated it the best in the nation—that was after it became professionalized and fulltime in 1966.<sup>3</sup> In general, the governing system was considered a model which those in any state would want to study and perhaps emulate. In the eyes of those who sought out its generous social services and human rights guarantees, the possibilities for the developing state were endless.

More recently, observers have referred to California's "fall from grace" and pointed to "performance gaps" when compared to other states. Eminent California historian Kevin Starr opined that "California is on the verge of becoming the first failed state in America" (<http://www.guardian.co.uk/world/2009/oct/04/california-failing-state-debt>). A front page story in *USA Today* was headlined "Has California Seen Its Day?" A *New Republic* article by John Judis was titled: "End State: Is California Finished?" The Pew Center's 2009 report on America's 50 states is entitled "Beyond California: States in Fiscal Crisis" wherein the state is held as the model of fiscal irresponsibility against which other irresponsible states can be compared. ([http://www.pewcenteronthestates.org/report\\_detail.aspx?id=56044](http://www.pewcenteronthestates.org/report_detail.aspx?id=56044)).



California and its local governments are in a state of grave crisis. Our governing system has been described by many as "dysfunctional," "broken," and/or as "falling apart." California today no longer resembles the paradigm of progressive public institutions and services, economic productivity, and effective local governance that it once did. Compounding the dysfunction is the fiscal relationship between state and local governments. As Cain and Noll demonstrate, "most local government expenditures in California are paid from revenue transfers from the state through an opaque process that blurs the connection between the provision of public services by local governments and the costs of these services. The misalignment of revenue responsibility and decisions about the level and composition of local government services encourages irresponsible budgeting" (Cain and Noll, 2010).

### **The California budget process**

The governor is required by California law to submit a spending plan, known as the executive budget plan, to the state legislature by January 10th, nearly 6 months before the fiscal year officially ends on June 30th. California requires two-thirds of the members in each house of the state legislature to approve the budget. For most of California's legislative history, this constitutional rule was a mere formality, but starting in the 1990s, for various reasons, including term limits and increasing partisanship in the state legislature, this requirement has caused passage of the budget to be delayed almost every year. One of the biggest problems with the two-thirds rule is that it effectively gives the minority party an equal voice in crafting the budget in the legislature if the majority party lacks a two-thirds majority in both chambers. Although there have been many reform calls from inside and outside the legislature to abolish this requirement and adopt simple-majority passage, there is no denying that the two-thirds requirement forges consensus. Once the budget is finally approved, neither party can realistically disavow the outcome of the spending plan. "It is often said that politics is the art of compromise and, let me tell you, this is exactly what this budget is – it's compromise," said Governor Arnold Schwarzenegger after signing the 2010 budget—one hundred days after deadline.

While the budget process comes to a close when the governor signs the budget bill, the Governor of California, unlike the President of the United States, possesses line-item veto power, the ability to reduce or reject any particular item in the state budget. The \$86.6 billion budget signed by the Governor in October 2010 included \$962.5 million in "blue-pencil" spending cuts, the largest portion of which targeted programs for the low-income, sick or disadvantaged. Schwarzenegger's vetoes were designed to increase state reserves from \$364 million to more than \$1.3 billion. The cuts





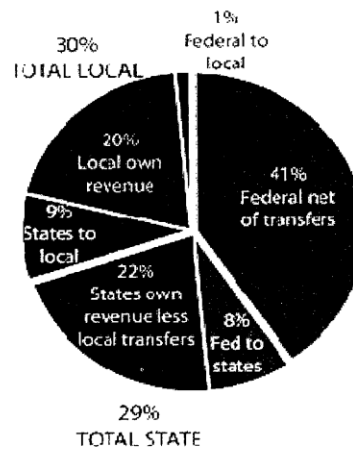
included \$256 million reduction in child care funds; \$80 million reduction in funds for child welfare services; and \$133 million reduction for provision of mental health services to special education students, which essentially shifted responsibilities from counties to school districts. Other blue-pencil cuts targeted community clinics, women's and children's residential treatment services, community-based services for the elderly, and treatment of prostate cancer and substance abuse. "More than one-third of Schwarzenegger's total vetoes – or \$366 million – stemmed from a one-time accounting maneuver that makes it possible to use federal funds to avoid cutting services" (Sanders and Van Ot., 2010)

How are federal funds dispersed to the state? National spending programs vary, but the Government Accounting Office (GAO) reports that over 85 percent of federal government obligations in grants to the state and local governments are distributed on the basis of formulas that use data such as state population and personal income. The decennial census is the foundation for the population count which is why Governor Schwarzenegger created a special "California Complete Count Committee" to ensure an accurate population count for 2010. "The Census determines how the distribution of more than \$300 billion in federal funds goes to local, state and tribal governments each year in California. We must reach out to all Californians across the state to make certain everyone is counted so that California gets its fair share of federal dollars and representation in Congress," Schwarzenegger said (Schwarzenegger, 2009).

Fiscal federalism is a system whereby the higher level of government transfers revenue to lower levels so that they may provide decentralized government services. The chart below shows the breakdown among federal, state and local government revenues in 2007. Federal revenue made up almost half of that total, states collected about 30 percent, and local governments brought in 20 percent (<http://www.taxpolicycenter.org/briefing-book/background/numbers/revenue-breakdown.cfm>).

The federal government transferred nearly one-fifth of its revenue (one-tenth of total government revenue) to state and local governments, leaving it with 41 percent of total revenue, about \$2.1 trillion. Almost all of the federal transfer went to the states, which in turn passed the equivalent of 110 percent of this revenue to local governments. States retained 29 percent of total revenue, about \$1.52 trillion. Local governments received transfers from both the federal and state governments equal to about one-tenth of total revenue, giving them a total of just under 30 percent of all government revenue, about \$1.54 trillion, slightly more than state governments.

Federal, State, and Local  
Revenues Before and After  
Transfers, 2007



Sources:

State and local data: Tax Policy Center, State and Local Government Finance Data Query System. <http://www.taxpolicycenter.org/slf-dqs/pages.cfm>.

Federal data: OMB. The Budget of US Government for Fiscal Year 2010, Historical Tables, Table 1.1. <http://www.gpoaccess.gov/usbudget/fy10/his.html>

<http://www.taxpolicycenter.org/briefing-book/background/numbers/revenue-breakdown.cfm>

Federal monies to states come in the form of grants-in-aid, money paid to states and localities to induce them to implement policies in accordance with federally mandated guidelines. Money moves through an intergovernmental transfer, but only if the states spend it in certain policy areas. If states do not wish to abide by the conditions of aid or national requirements, they can refuse federal funds. These conditions come in various forms. Some require that a grant be spent in a certain fashion, while others try to accomplish additional policy goals.

Grants-in-aid come in a wide variety of types. Categorical grants are the most common and address specific purposes, usually with strict rules attached. Most categorical grants cover only part of the costs and usually require the state or local government or a nonprofit organization to partially



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match funds. In this way, the grants induce states to increase spending for desired programs and encourage cooperation. Almost 90 percent of national aid to the states and localities comes in the form of categorical grants. Categorical grants come in three types: formula grants, project grants, and combined formula/project grants. Formula grants are federal monies allocated to states and localities based on a prescribed legislative distribution formula. They support continuing activities and are not confined to a specific project. Depending on their policy aim, such formula grants can reflect many factors, such as total population, median family income, miles of coastline, total enrollment in education, and miles of highways and railways. Governmental units that meet the strict rules for distribution automatically qualify for the grant.

The project grant is not based on a formula but is distributed for specific purposes after a fairly competitive application and approval process for a fixed period. These are sometimes called discretionary grants because they are distributed at the discretion of a designated legislator or administrator. Given the desire of legislators to maintain more control over the operation of these programs, the majority of categorical grants are project grants. In recent years a combined formula/project grant has been developed in which competitive grants are awarded but also are restricted by the use of a formula. For example, Congress may limit the amount of grant money that can be awarded to a state or region of a state (Gilliard-Matthews and Schneider, 2010). Major federal allocations to California are earmarked for statewide water treatment and a series of block grants to local government. The community development block grant is one of the more noticeable federal grants to local governments in California and is an important funding stream for a wide variety of community development projects (Ransdell, 2004).

In the past, Californians have received less federal funding per dollar of federal taxes paid than the average state (Ransdell, 1998). Recently, the Obama administration's stimulus package provided California with the largest share of the total package.<sup>4</sup> (<http://www.recovery.gov/Transparency/RecipientReportedData/Pages/statesummary.aspx?StateCode=CA>). On February 13, 2009, Congress passed the American Recovery and Reinvestment Act (Recovery Act) aimed at preserving and creating jobs and promoting economic recovery. Of the \$787 billion, approximately \$499 billion was intended for programs administered by the federal government, state governments, local governments and private organizations. The remaining \$288 billion was earmarked for direct tax relief to individuals and business.

For a perspective on the magnitude of federal stimulus money for California, the \$55 billion that will be awarded to state and local governments is equivalent to nearly 50 percent of the entire state budget (not including federal funds). California's share of the Recovery Act funding is larger than the annual General Fund budgets of all but two states (Texas

and New York). Of the estimated \$85 billion that California will receive from the Recovery Act, over \$42 billion has been awarded to date. Of the \$42 billion, more than \$18.5 billion are awards to safety-net programs such as Medi-Cal, unemployment insurance, and food stamps. Another \$10 billion are awards from the Federal Government directly to local governments, non-profits, and other entities in California. The remaining \$13.5 billion are awards directly to California state government entities for programmatic spending to create jobs.

Recovery Act Funds to Only California State Government as of June 30, 2010				
Investment Category	Amount Awarded	Amount Received	Amount Spent	Jobs Funded
Education	8,684,797,260	6,550,505,265	6,550,505,265	49,577
Energy	503,008,856	53,807,156	54,277,171	523
Health and Human Services	28,570,648	12,234,941	12,353,103	69
Housing	380,996,024	48,172,362	48,172,362	1,124
Labor	616,693,374	314,772,365	341,908,723	2,170
Other	17,484,542	11,039,765	9,354,688	434
Public Safety	162,655,570	151,940,698	23,083,373	270
Science and Technology	55,180,862	4,330,940	6,496,689	170
Transportation	2,506,586,934	595,483,712	596,146,175	2,154
Water and Environment	522,398,647	118,574,988	124,907,730	1,316
<b>Grand Total</b>	<b>13,478,372,717</b>	<b>7,860,862,191</b>	<b>7,767,205,279</b>	<b>57,807</b>

<http://www.recovery.ca.gov/html/funding/funding.shtml>

### Direct democracy and the budget process

In many ways, Californian conceptions of government are inheritances from particularly formative periods of the state's history, especially the early 20<sup>th</sup> century's Progressive movement. The political career of Hiram Johnson would span many years and would establish lasting institutions of unparalleled democratic character. Fueled by a resentment of the greed, dishonesty, and bribery that powerful interests utilized to exploit the state's political and economic systems, Johnson and the California Progressives ushered sweeping changes to California's political status quo. As governor of California, Johnson would spur a number of important reform measures aimed at breaking the pervasive



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control of corrupt officials and corporate monopolies. Johnson and the Progressives' most enduring legacy in California politics is their successful campaign to achieve voter approval of a constitutional amendment providing for the recall, the referendum, and the initiative. These civic tools would provide Californians with innovative means for directly participating in state government. California voters began participating in direct democracy to a degree rarely seen elsewhere. As a principle of good government, this Californian proclivity to bring control closer to the people persists to the present, but the "people's decisions have brought great challenge and difficulty for localities. Commonly known as "ballot-box budgeting," the initiative process in California has had a profound effect on the budget process in a variety of ways. Of all the initiatives passed throughout the history of California, approximately half have had a direct impact on state government fiscal matters, and some 40 to 50 percent of the state budget is locked into certain expenditures as a result of initiative statutes or constitutional amendments based on initiatives. Proposition 13, formally titled the People's Initiative to Limit Property Taxation, grew out of an increasing willingness of the California electorate to use the tools that the Progressives had given them to address popular issues. During the 1970s, real estate values and home assessments in California began to escalate rapidly (Smith, 1998). Confronted with the perception that their tax dollars were being unfairly redistributed to distant school districts, in 1978 Californians approved one of the nation's largest state and local tax reductions with 65 percent of the popular vote. The amendment dramatically cut property taxes in the state by \$5 billion between 1978 and 1979, and constitutionalized tax limitation mechanisms that remain in place today (Kuttner, 1980).

Proposition 13 also included the condition requiring a two-thirds vote in each legislative chamber to raise revenue. California is the only state to have such a requirement for both spending and tax bills. The initiative's passage brought basic questions of local governance to the forefront of the state's political discourse. As Mathews and Paul explain, "the big losers were local governments. With a single vote, they had lost revenue amounting to 22 percent of their proposed expenditures."<sup>5</sup>

There have been marked variations in the fiscal effects of initiatives. Proposition 98 required that 40 percent of the general fund be spent on education. Proposition 10 increased the tax on tobacco products by 50 cents to fund early childhood educational development programs. There have also been initiatives and referendums that do not involve changes in taxes but do authorize bonds for specific purposes. Such referendums have authorized bond issues for natural resource preservation (Proposition 70), rail transportation (Proposition 116), and water projects (Proposition 50). Bonds that are passed as ballot measures, very often originating in the state legislature, give voters the impression this is a painless way of raising revenue as opposed to increasing taxes, despite the fact that residents of

California end up paying a lot more than the original bond amount.

There are nine statewide propositions on the November 2, 2010 ballot, several of which bear directly in relevance to the topic of this paper. [I will incorporate the election results in my conference remarks]. Proposition 19, discussed earlier in the paper, would make it legal to use marijuana in California. Proposition 20 would remove from the Legislature the power to draw congressional districts, transferring to an independent, 14-member commission the responsibility to redraw lines for state legislative districts. Proposition 21 would charge Californians a new annual \$18 fee for each car they register. The surcharge would be used to pay for upkeep of state parks and wildlife conservation programs. Vehicles subject to the fee would receive free admission and parking at all state parks. The measure would generate at least an additional \$250 million for state parks and wildlife conservation. Proposition 22 on local government funds would prohibit the state from taking funds from local governments and other local agencies, including regional transportation improvement projects. The measure would bar the state from delaying the distribution of tax revenue owed to local governments, even during a budget crisis. Proposition 24 on corporate tax breaks would repeal about \$1.3 billion in annual corporate tax breaks scheduled to begin taking effect this year. Proposition 25 on state budgets would allow the Legislature to pass state budgets with a simple majority rather than the two-thirds vote now required. It would not apply to tax increases, which would still require a two-thirds majority. The proposal also would penalize state lawmakers if they fail to pass a budget by June 15, causing them to forfeit their salaries and expenses for every day they fail to settle on a spending plan. Proposition 26 on state government fees would require a two-thirds vote, rather than the simple majority now required, for the Legislature to pass or raise certain fees for government programs. The measure also would prohibit local governments from raising some taxes without two-thirds voter approval. Proposition 27, countering Proposition 20, on legislative districts would void the independent commission that voters authorized to redraw state legislative boundaries and return that authority to the Legislature. Populations of districts for the same office would be equalized. Voters would have the power to reject district maps approved by the Legislature ("Statewide Propositions on Ballot").

There are diverging opinions regarding the fiscal effect of initiatives and referendums on the budget process, with the first suggesting that initiatives constrain the capacity of elected officials to make decisions regarding fiscal policy. By forcing the state government to commit funding resources to support the goals of ballot measures or replacing revenue that has been decreased by initiatives, elected officials have found it difficult to craft a balanced budget and adjust spending policies to new or emerging problems or societal needs. The paralyzing effect of direct democracy on fiscal policy is further demonstrated, so say the critics of ballot-box budgeting, by the difficulty of altering or removing ballot measures, which



in California can be repealed or amended only through the mechanisms of direct democracy.

Other observers of California government maintain that other factors are at work which are equally detrimental to the fiscal policies of the state. No law or regulation prevents the state legislature from passing tax increases if an initiative has an adverse effect on the fiscal health of the state. The problem is not the initiative, say advocates of direct democracy; the state's recurring budget quandaries are instead the result of poor leadership and term limits.

### **Principles and practices of good governance at the local level**

The California Progressives advocated for the passage of a state constitutional amendment that gave California counties the option of home rule charter authority, making California the first state in the nation to grant county residents the authority to tailor their local county charters to the needs and interests of their respective counties. A general law on counties was also established for those counties that did not choose to embrace home rule and write county charters. This general law prescribes the duties, obligations, offices, and basic template for county government. After a rash of charter adoptions by California counties (Los Angeles County was the first in the nation to adopt a home rule charter), the drafting of these charters in California slowed dramatically and eventually stopped at 13 of the state's 58 counties, including seven of the largest.<sup>6</sup>

Home rule charters are particularly useful to highly populated counties that require flexibility and political power in responding to problems or issues that smaller counties do not usually encounter. Initially, many of the home rule charter counties used this flexibility to incorporate the governmental reforms of the Progressive Era into county government, often establishing a civil service system for hiring employees and managing personnel issues. The city and county government of San Francisco would emerge as a unique form of home rule charter that combined the two units into a single, consolidated government with an 11-member board of supervisors.

Counties were especially reliant on property tax revenue to fund numerous countywide services. In the aftermath of Proposition 13, control over the distribution of property tax revenue was transferred from local governments to the state, reducing revenue that remained in the county by approximately 39 percent. Unlike cities, counties have limited taxing power. In response to the property tax shortfall experienced by counties, the California state government directly funds many county health and welfare programs as well as specific categories of county responsibility, particularly in the areas of law enforcement, the courts, and transportation. County



funding currently comes from five distinct sources: state government, property tax allocations, the federal government, businesses and corporate taxes, and a variety of other taxes, fees, and interest on deposits and investments.

In many ways these counties are to the state what the states are to the nation. They are geopolitical units into which the state is divided by constitutional provision, each with its own governmental apparatus...including an elected legislature called a Board of Supervisors. Unlike the states vis-à-vis the national government, counties like all local government units are agents and creatures of the state. When California became a state a century and a half ago, it had 27 counties, most of them covering huge and largely rural areas and roughly understood to be the natural regions into which California could be divided. By the time Imperial County was formed from eastern San Diego County in 1907, there were 58 counties, which is the number today.

Local governments exist in a precarious position, overshadowed by the larger issues of state and national governments. Beginning in 1879 with the first major revision of the California constitution and a series of state legislative acts, a framework was created to bring uniformity to all counties. County governments were given police powers and required to designate a grand jury, a superior court, justices of the peace, a superintendent of schools, a board of education, a board of equalization, a treasurer, a recorder, a tax collector, a license collector, an assessor, an auditor, a public administrator, and constables.

In many ways, counties may be considered political anachronisms, especially as their size has come to vary so greatly, as they are no longer the basis for representation in the legislature's upper house, and since they have lost so much of their financial viability, thanks in large part to the passage of Proposition 13 in 1978. One of the consequences of that landmark initiative—unintended to be sure—was to severely limit local taxing authority by limiting the property tax and leading to increased local reliance on the state for funding local and county activities.

In addition to counties, California has about 500 cities, again each with its own government, 1000 school districts, and several hundred special districts with elected boards focusing on issues ranging from mosquito abatement to port development to water delivery to cemeteries. For those who see too much centralization of power at the state level, the idea would be to reinvigorate our county and local governments by devolution reforms. That's one of the wishes of California Forward—providing county and local governments with enlarged revenue sources and the flexibility to establish tax rates to reflect more localized needs and priorities (<http://www.caforward.org/>). The fiscal practices of the state have earned the attention of countless works of scholarship and analysis. While precipitous downturns in the housing and mortgage lending industries



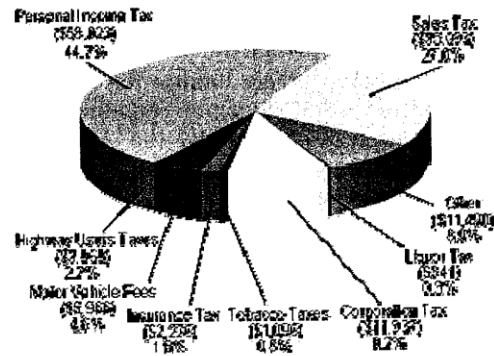
initiated the current fiscal difficulties, the California state government failed for many years to resolve its structural budget deficit. Revenue is largely collected through taxes and approximately 85 percent of the state's own-source revenue comes from four different kinds of taxes: the personal income tax (PIT), the sales and use tax (SUT), the corporation tax (CT), and major motor-vehicle related levies (Hill, 2007)

The first three taxes largely finance the state's general fund, which supports about 80 percent of all state spending. Internal and external borrowing have become popular ways for the state to close budget gaps in the short term, but taxes remain the predominant means by which the state collects public funds. Established in 1935, California's progressive personal income tax is now its largest source of revenue. Being a progressive tax, it is designed to extract a greater percentage of income from those with higher annual incomes than from those with lower annual incomes. It accomplishes this by taxing income according to six separate rates, ranging from 1.0 percent to 9.3 percent of income. According to the state's Franchise Tax Board, the progressive nature of the state's personal income tax has helped ensure that between 1 and 5 percent of the wealthiest Californians pay half of the total income taxes collected. (*California Franchise Tax Board*, 2004)

The CA sales and use tax provides the state its second largest source of tax revenue. The SUT constitutes about 28 percent of the state's general fund and is considered a regressive tax due to its greater effect on those with lower annual incomes. This tax is presently set to take 7.25 percent of most goods that are purchased within the state, although county governments have frequently seen fit to add to this figure in raising funds to pay for services. California is among the 45 states that continue to levy a SUT, and its two components are designed to collect revenue from different economic activity. The sales tax, adopted in 1933, is imposed on retailers selling tangible personal property in the state. This constitutes a wide majority of the revenues raised by the SUT. The use tax was adopted two years later (1935), and it is imposed on the users of a product that had been purchased outside of the state but brought into it for usage. Corporation taxes constitute 10 percent of state tax revenue, and are collected from corporations and businesses that operate within the state. California's CT is the state's third largest source of General Fund revenues. It typically constitutes between 10 and 12 percent of total General Fund revenues.

The charts below illustrate the transfers from taxes in 2008-09 and 2010-11, respectively.

Figure 5061-01  
2008-09  
Total Revenues and Transfers  
(Dollars in Millions)



<http://www.google.com/imgres?imgurl=http://2008->



Figure SUM-05  
2010-11  
**Total Revenues and Transfers**  
(Dollars in Millions)

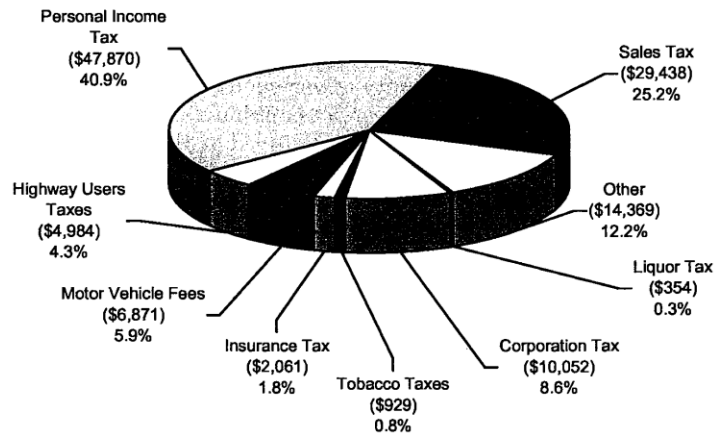
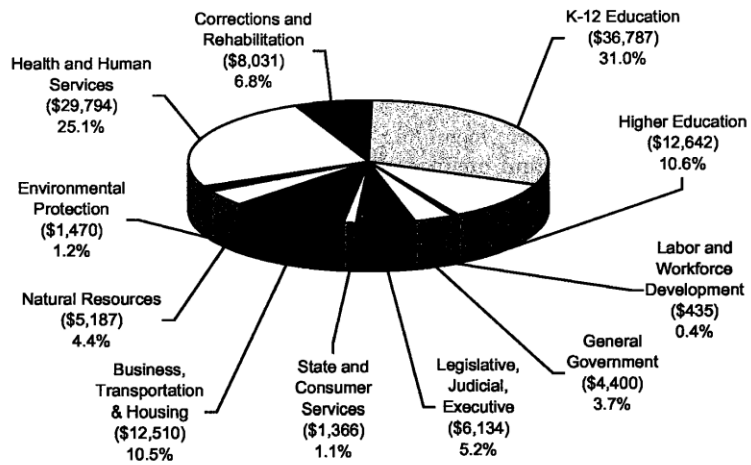


Figure SUM-06  
2010-11  
**Total Expenditures**  
(Including Selected Bond Funds)  
(Dollars in Millions)



**GOVERNOR'S BUDGET SUMMARY 2010-11**

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Since the passage of Proposition 13, the amount of revenue generated by county and municipal governments has decreased substantially (Matsusaka, 2005).

County governments have always had a difficult time financing their operations, and the loss of property tax funds to the state government has made that task even harder. Almost 31 percent of county revenue comes from the state in order to finance state-mandated programs and services that are administered by the county government, the biggest and most expensive being health and welfare services. Administering these services can be problematic because they are rarely funded at the total or true costs of the services provided. In addition to federal funds for special initiatives usually associated with state-mandated functions, the other revenue sources that go to county government for so-called "general-purpose functions" include property taxes redistributed from the state, special fees, charges for current services, and a variety of smaller forms of revenue. California county governments are therefore experiencing a tight financial situation as residents of local cities remain dependent on them for various services, ranging from voter registration to county jail services, while receiving a diminishing share of state and local revenues. Counties may receive additional revenue by providing services to municipal governments through contract city arrangements, but such contracts have become somewhat controversial. (Milton Clarke in Berman and Murphy, 2007).

City governments do have considerably more flexibility in revenue sources than counties do, but to a large extent, cities are on their own when it comes to raising this revenue. Typical sources of revenue to cities are derived from service charges for utilities, licenses and permits, a portion of state sales taxes, redistribution of property taxes from the state government, and an assortment of smaller forms of revenue. Cities may impose additional percentage points on the standard statewide sales tax rate. This portion of the sale tax revenue to California cities has led municipal governments to promote retail sales establishments that generate sizable sales tax revenue. Depending on the city, other revenue sources, such as developer fees and business licenses and hotel taxes, can provide substantial revenue. Many cities are also increasingly attempting to institute the Mello-Roos Community Facilities District, which is a financing tool local governments can use to levy special taxes or assessments for designated community improvements, such as freeway interchanges, library services, or recreation programs. To institute a Mello-Roos fee, the voters living in the designated community must consent by a two-thirds voting margin. ([http://www.californiataxdata.com/A\\_Mello\\_Roos/index.asp](http://www.californiataxdata.com/A_Mello_Roos/index.asp)).

The state's recent fiscal crisis has helped provoke new interest in political system reform. As James Canales, president and CEO of the James Irvine Foundation, has written: "If there is a silver lining to [the current fiscal] crisis, it is this: Californians of all stripes are calling for fundamental changes in how we govern our state. Californians who have never thought



about how government operates are beginning to push for fundamental reforms" (<http://www.irvine.org/>). In their article "Perceptions of Local Fiscal Stress During a State Budget Crisis," Neiman and Krimm find that during times of economic downturn, local governments "face unique problems caused by the state itself."<sup>7</sup> These included managing the results of service cuts and implementing new mandates that the state had devolved down to them. "We see little light at the end of the tunnel for local governments in the short term, since cutbacks in services are likely to continue or get worse," conclude Neiman and Krimm.

Several years ago, the Legislative Analyst's Office released a model for restructuring California's system of state and local government. "Making Government Make Sense" proposed a major overhaul in the assignment of program responsibilities and revenue allocations. The study was based on the recognition that the existing state-local relationship was "dysfunctional" and it offered "a model of a rational organization for our system of government" (Legislative Analyst's Office (LAO), 1993). The plan was premised on the fact that California could no longer be governed from the top down. The Legislative Analyst's Office presented the problem in a table "*PROBLEMS IN CALIFORNIA'S STATE-LOCAL RELATIONSHIP*."

#### **Counterproductive fiscal incentives**

Fiscal incentives are present which encourage decision-makers to choose the least costly option from their perspective, even when this option is the least effective or most costly option from a statewide or overall program perspective.

#### **Inappropriate assignment of responsibilities**

Existing assignments do not recognize constraints on the ability of the state or local government to carry out program responsibilities.

#### **Failure to avoid duplication and realize scale economies**

The existing system requires extensive duplication of efforts by local agencies and the state in the administration of programs, and precludes the realization of scale economies that might be achieved through the consolidation of these efforts.

#### **Inappropriate exercise of administrative oversight**

Existing program reporting and monitoring requirements are serving little purpose, and are diverting scarce resources from more productive uses.

#### **Unproductive competition for resources**

The existing system pits local agencies against each other in a competition for taxpayer resources. This competition sacrifices good land use practices, job development, and interagency cooperation in the process.

#### **Lack of accountability for program outcomes**

The system fails to adequately link program spending control and funding responsibility, so that decision-makers are not accountable for program outcomes.

#### **Erosion of local control**

The system has eroded local fiscal capacity by redirecting local resources to pay for increasing costs of state-required programs.

What could be done to address these problems? What basic principles of reform could guide the search for rationality? The analysts recommended maximizing the separation of state and local government duties through appropriate alignments of control and funding responsibilities. This would mean matching redistributive programs with redistributive revenue sources at the highest level of government and recognizing program linkages by restructuring to promote coordination of service delivery mechanisms, removing barriers to innovation. Finally, financial incentives should be used to promote prevention and coordination.<sup>8</sup> With responsibility for running a program comes control over the revenue needed to implement the program. "The state is the natural home for the public universities, the courts, health care, and the safety net that keeps the elderly poor, the disabled, and the jobless from plunging into poverty. Local government is the natural home for the services directly related to people's homes (fire protection, zoning, code enforcement and for the community-based services that prevent and punish crime and promote social order (police, probation, jails, substance abuse treatment, child protective services, mental health" (Matthews and Paul, 2010).

Cain and Noll's analysis also suggests that while local government expenditures in California are substantially higher than other states, local government tax revenues are substantially lower. "The unusual aspect of California's system of public finance is that the state collects an atypically large proportion of total revenues but gives an atypically high proportion of these revenues to local governments" (Cain and Noll, 2010). The authors identify a set of unique features in California's political environment leading to greater decentralization of the expenditure side of the budget. These include heterogeneous demand for public services among local communities, the cumulative effect of decades of initiatives that constrain taxes and increase spending, the size of legislative districts, and the effects of term limits.

The devolution revolution signifies the shift in policy-making responsibility to the states. Decentralization of public services in a state as diverse as California provides the opportunity for the "composition of public services to respond to heterogeneity in demand" (Cain and Noll, 2010). Public satisfaction can therefore be greater if local governments choose the amount and composition of public services that their residents receive. These principles of reform are premised on the concept of local communities working together towards common goals in which the state has a vested interest in the success of local communities. The changes would require political will to ensure that the appropriate level of government was assigned the revenue and flexibility to make the program work. Only in this way can we address in a rational way the purpose of government for



improving the quality of life and services for the people it serves.

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**Note:**

- <sup>1</sup> "Race to the Top Judges Cite Why State Lost Out on Money," *Sacramento Bee - Contra Costa Times*, April 8, 2010, p. A6. The 10 winning Phase 2 applications in alphabetical order are: the District of Columbia, Florida, Georgia, Hawaii, Maryland, Massachusetts, New York, North Carolina, Ohio, and Rhode Island.
- <sup>2</sup> I draw from Joe Mathews and Mark Paul, *California Crack Up: How Reform Broke the Golden State and How We Can Fix it*. University of California Press, 2010.
- <sup>3</sup> *Citizens Conference on State Legislatures The Sometimes Governments: A Critical Study of the 50 American Legislatures*. Bantam Books, 1971. I am indebted to Professor Edmond Costantini for sharing his ideas.
- <sup>4</sup> <http://www.recovery.gov/Transparency/RecipientReportedData/Pages/statesummary.aspx?StateCode=CA>
- <sup>5</sup> Mathews and Paul, *California Crack Up*, Op cit. p. 46. See also, Colin McCubbins and Mathew McCubbins, "Proposition 13 and the California Fiscal Shell Game," *California Journal of Politics and Policy*: Vol. 2 : Issue. 2, 2010. <http://www.bepress.com/cjpp/vol2/iss2/6>
- <sup>6</sup> I am indebted to Professor Milton Clarke for his contributions in Larry Berman and Bruce Murphy, *Approaching Democracy*, Pearson, California edition. 2007
- <sup>7</sup> Max Neiman and Daniel Krimm, "Perceptions of Local Fiscal Stress During A State Budget Crisis." Public Policy Institute of California, December 2009. Using data from surveys of local officials conducted in 2009, the researchers found: Seventy-five percent of city and county survey respondents said they used hiring freezes and layoffs to cut expenditures; counties cut their planning and zoning department budgets by an average of about 7 percent, with the next-highest cuts in the categories of general expenditures and fire services. County coroner's offices sustained the smallest cuts in percentage terms; cities cut their reserve fund contributions by almost half on average; cuts in senior services were next highest, followed by streets and roads. Transit services were cut the least.
- <sup>8</sup> See Mathews and Paul, *California Crack Up*, Op. cit. for a detailed analysis of this proposal.

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# Population Aging In Kobe City: Key Successful Management Factors

Hirofumi Ando<sup>1</sup>

## Abstract

Facing a rapid increase in aged population, the City of Kobe (Japan) has been providing highly innovative and effective social service programs for its elderly people. This paper aims to identify the political and management factors behind Kobe's unique programs such as the "Silver College" and the "Shiawase no Mura" (Village of Happiness), in order to explain why and how the city has been able to manage such programs, even within a highly centralized political system of Japan. The paper points out that these factors include: (1) political stability and sustainable programs; (2) commitment to serve and citizen participation; (3) entrepreneurial or proactive orientation; (4) multi-partite participation; (5) accountability and transparency; and (6) innovative personnel practices. It is hoped that the experience of the City of Kobe will be of use to other Asian cities in providing better services to their citizens.

## Introduction:

This paper is an attempt to explore and identify the key administrative factors of the City of Kobe for its innovative and highly effective physical and social services programs, as it focuses its attention to its programs for the increasing aging population in Kobe City. It is to describe the elderly care policies and services in the City, but it is intended to be an organizational analysis of the general management style and processes of the City of Kobe, which is known as a unique local authority within a highly centralized Japanese political and administrative system. (Matsunami, *AUICK Newsletter*, No.52, 5 and Hatsumura, 65-85.)

## Geographic Condition and Population

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The City of Kobe currently has about 1.54 million inhabitants within a land area of 552.8 Km<sup>2</sup>. It was a very small fishing village when it was opened as one of the ports for foreigners in 1869 with a population of only around 20,000. The population of the City grew to 134,700 by 1889, to 245,000 by 1939 and to one million in 1939. Because of devastation caused by WWII, its population declined to about 400,000 in 1945 but then grew to one million by 1955. (Ness and Low, 210.) As urbanization in Japan as a whole continued to a significant extent after the war, the population of Kobe City also bounced back and continued to grow. (Kuroda, 2005)

The City is situated southwest of Kyoto and Osaka on the main island of Japan, Honshu. It is surrounded by the Rokko Mountain range to the north, which rises steeply to about 1,000 meters, and Osaka Bay to the south, which provides an ideal port with deep waters. The main part of the City was located on a narrow strip of land stretching about 30 kilometers east to west, and only two to four kilometers wide, north to south. This geographic and topographic condition induced the City administrators to build three artificial islands to accommodate the rapidly increasing population and industries after the war, and provide abundant economic opportunities. Because Kobe is a port city, it thrived with shipping and steel industries, in addition to port service activities. It has now attracted a number of new industries, such as fashion and high technology companies. (Ness and Low, 2000)

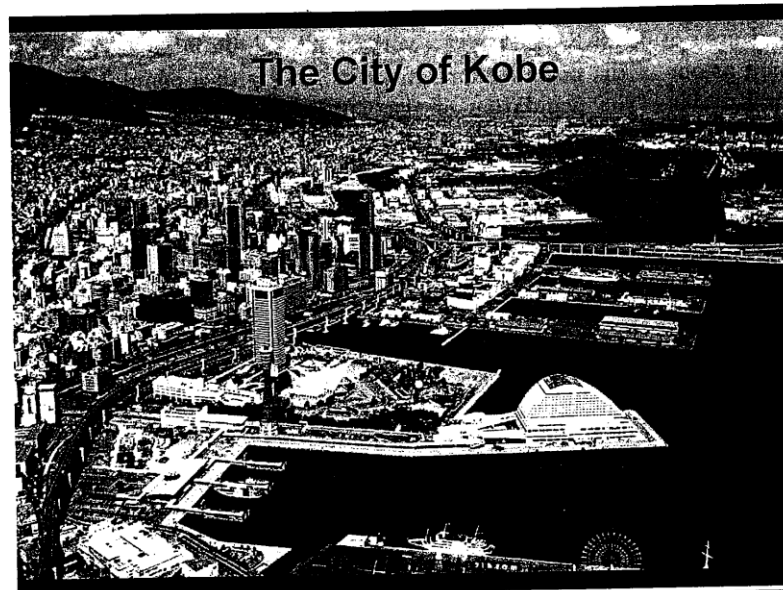


Figure1: The City of Kobe

## 1 Location & Topography

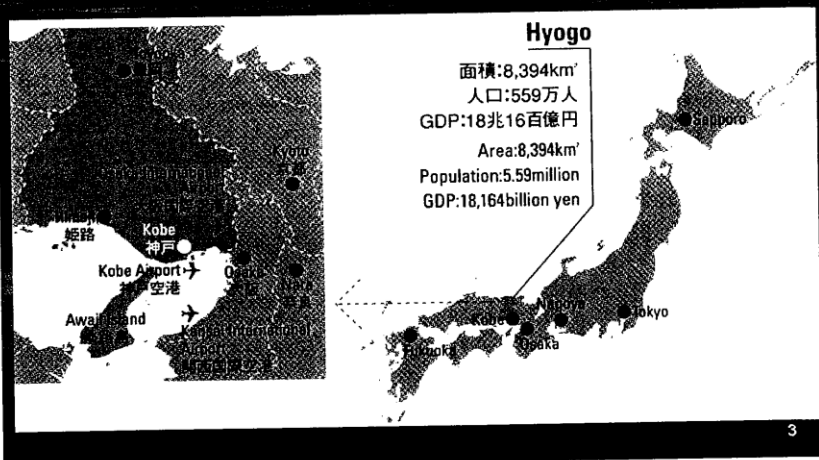


Figure 2: Location & Topography of Kobe



With its physical condition restricting the expansion of the City beyond less than 550 km<sup>2</sup>, the City administration decided to build the first artificial island, "Port Island" in the late 1960s, by moving soil from the Rokko Mountain range, under the popular slogan of "Mountains to the Sea," to provide additional land area of more than 430 hectares, or about 120 times the size of Koshien Baseball stadium. The island is three kilometers wide from east to west, and two kilometers long, south of the City, in the shape of the letter "E". Port Island has been used for housing, large facilities, commercial buildings, hospitals, a sports complex and college campuses. The top of the Rokko Mountain, whose soil was removed, has also been used for housing, recreational activities and college campuses, with a public transportation system built to connect it to the central part of Kobe City. (Ness and Low, 2000) The construction of Port Island was followed by that of Rokko Island in 1972, also for housing, recreational and commercial facilities, and those for academic activities. It has an area the size of 580 hectares.

Kobe City further built a third artificial island for a domestic airport, again removing soil from to top of the Rokko Mountain range. It was completed and became operational in 2006, planned to help promote activities related to the local fashion industry, and high-tech medical as well as pharmaceutical research and treatment services in the Kobe City area. For instance, Kobe produces the largest amount of pearl jewelry in Japan. All of these three islands can be accessible from the main part of the City by fully automated monorail systems, as well as by car or on foot.

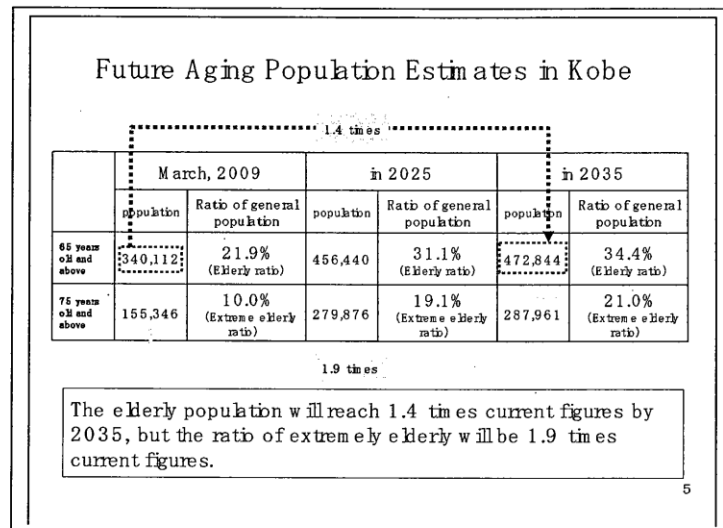
### **Population Aging**

As the population of Japan as a whole is aging, so is that of Kobe. It has now approximately 340,000 inhabitants out of the total population of 1.55 million who are over 65 years old, or about 21.9 per cent. The aging population is increasing by about 10,000 persons annually. In particular, the number of senior citizens (aged 75 years or over) is increasing rather rapidly. In contrast, the number of younger population aged 40 to 64 years old remains rather constant, thus inducing the increasing dependency ratio.

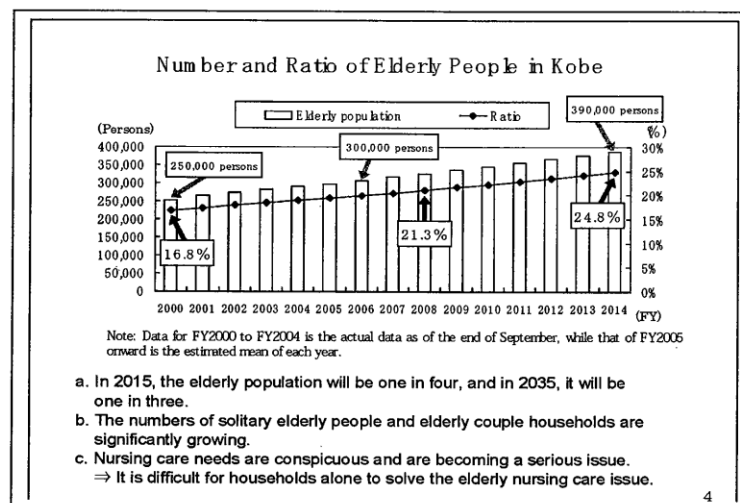
The speed of population aging is another concern to the City administration. The elderly population in Kobe has been growing every year. In April 2000, it was approximately 250,000, which grew to 300,000 in March 2006, and is estimated to reach nearly 390,000 by 2014, as shown in the table "Number and Ratio of Elderly People in Kobe," below. The



proportion of elderly people to the total population was 16.8 percent in 2000, and had grown to 21.3 percent by the end of March 2008. By 2014 it is estimated to reach 24.8 percent. That means one in four citizens in Kobe will be categorized as elderly. Kobe City will enter into the super-aging society by then. (PowerPoint slides by Senior Citizen's Welfare Department, Public and Health Welfare Bureau, Kobe City, 2009)



**Figure 3: Number and Ratio of Elderly People in Kobe**



**Figure 4:** Aging Population Estimates in Kobe

**Table 1:** Living conditions of elderly people in Kobe

Living conditions of elderly people in Kobe		
Category	Number	Date of Record
Number of solitary elderly people	70,110	As of October 2005
Elderly couple households	57,045 households	As of October 2005
Elderly who require assistance by local citizens	40,170	As of March 2009
Number of elderly people categorized as requiring nursing care	61,385	As of March 2009
At-home nursing service users	40,618	As of March 2009
Facility nursing service users	9,819	As of March 2009
Elderly people with suspected dementia	32,163	As of March 2009
Number of applicants for special elderly nursing home	6,297	As of March 2009
Members of senior citizen's clubs	41,673	As of July 2009

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The speed of population aging in Kobe City is expected to accelerate further. The proportion of the aged is estimated to increase to 456,440, or 31.1 percent of the total City population, by 2025, and to 472,844, or 34.4 percent, by 2035. Another critical feature of population aging in the City of Kobe is that the elderly, 75 years and over, number 155,348, or 10.0 percent of the total population, but will grow to 279,876, or 19.1 percent of the total population by 2025, and to 287,961 or 21.0 percent of the total population by 2035. The social and economic consequence of the increasing aged population is a significant increase in the number of elderly people requiring nursing care. The number of elderly with dementia is also increasing, along with health costs, which are growing faster than the national economy. Kobe's per capita medical spending in 2004 amounted to 400,000 Yen for the total but 800,000 Yen for the aged. (Fujiyama, *AUICK Newsletter*, No. 48, 5. and Kawakami, *AUICK Newsletter*, No. 52, 7.)

## Policy Measures for the Elderly

With this rapidly increasing aged population, the City administration is increasingly faced with the problem of "Who is going to take care of them?" Traditionally, families were able to look after elderly people essentially under the same roof, but there have been an increasing number of single households in the City, with about 70,000 elderly living alone. To deal with this issue, the City of Kobe adopted the "Public Nursing Care System" program in April 2000, mainly to assist those elderly who are invalids and without family support, or unable to live by themselves. Under this program, 10 percent of the cost is paid by the user, and 90 percent is covered by premiums, paid for by all citizens over 40 years and by the central/local governments. Since this is a uniform program throughout Japan, the role of local governments like the City of Kobe is to assess the needs of the elderly in the City, and then educate, audit and pay service providers. The elderly in Kobe also receive care services of the same standard as those nationwide. In Kobe, about 60,000 elderly citizens receive care under the program. (Yamamoto, *AUICK Newsletter*, No. 52, 6.)

However, as the numbers of care recipients are increasing, so too are the costs of premiums and taxes, as in the case of the national pension plan. For this purpose, the City of Kobe adopted a policy, "The Kobe City Elderly Health and Welfare Plan 2010" in early 2007. Its main objective is to facilitate the elderly to 'continue their independent life in a familiar local environment' rather than be socially and economically dependent citizens. The Plan is intended to promote not only increased nursing care for the aged, but also their active participation in various activities in a more friendly society. One of the important and unique aspects of the Plan is that it calls for greater involvement of local business and communities in encouraging the involvement of the elderly. It also provides the elderly with increased choices over the health and nursing care services they receive. It further provides consumer and legal consultation and information services, as well as local peer support groups. (Yamamoto, *AUICK Newsletter* No. 52, 6.)

The current elderly care and nursing measures under the Plan of 2007 include the following:

- 1) A day program for the elderly to maintain their physical condition, held at regional welfare centers with rehabilitation equipment and facilities;





2) A catering service delivering high nutrition meals once a day to the elderly (deliverers also check on the wellbeing of the elderly, and offer dietary consultations);

3) Financial assistance: loans for home modifications of up to one million yen (about \$12,000), in addition to those provided under the Elderly Care Insurance system;

4) Electro-magnetic cooking utensils to prevent gas fire accidents;

5) A short-stay health care service for elderly who require temporary care assistance;

6) Nursing care items for home use supplied to the elderly who are bedridden and cared for by family members;

7) Home hairdressing and beauty services for the physically impaired;

8) Licensed home helpers sent to homes of dementia sufferers;

9) House-keeping and daily living assistance provided to those who are bedridden or not covered by care insurance;

10) Transportation services and bathing facilities for those who visit day care centers;

11) Washing, drying and sterilization of bedding for the physically impaired and/or bedridden.

Other measures for the elderly include such items as non-step public buses, apartments with on-site care workers, and an innovative electronic alarm device to alert the fire department for immediate emergency assistance. They are intended to facilitate the healthy, safe and active independence of the elderly in society.

Under the plan, an additional number of measures designed to support the elderly have been formulated and/or established. They include such services as volunteer home visits, new local community centers, and educational, recreational and employment coordination facilities for elderly Kobe citizens, so that they can be adequately supported but also contribute their skills and knowledge to society as healthy citizens. There are now about 500 senior citizen hobby and volunteer activity centers with more than 42,000 members. Senior citizens also receive health information through seminars and meetings, as well as regular physical check-ups, to keep them healthy. (Yamamoto, *AUICK Newsletter No. 52*, 6.)

Realizing that the elderly citizens are not necessarily social and economic burdens but important assets, the City of Kobe established a college commonly and affectionately called "Silver College" in 1993. It is to

meet the need to support recently retired citizens, and encourage them to find a purpose through education.

The college accepts anyone without any entry requirement, except that applicants must be over the age of 57. The courses offered include: Welfare Issues, International Cooperation and Cultural Exchange, Environmental Issues, and various kinds of art classes, including calligraphy. There are more applicants than the 420 students whom the college can admit annually. About 60 percent of the operational costs are funded by the Kobe City Government, which also built a beautiful campus at the side of the Rokko Mountain range, from where the soil for the three artificial islands was taken. The tuition fees are modest; just 50,000 yen per year. The college is managed by 19 full- and part-time staff members, with 250 instructors who are largely visiting lecturers from local colleges, universities or research institutions.

In addition to the four main courses, students participate in a wide range of sports and vocational activities, such as growing organic vegetables, and making crafts which are then sold in an annual college bazaar. About 400 students graduate after the three year program, better qualified academically and with a renewed sense of self-worth. They are ready to serve the community through employment and voluntary activities. (*AUICK Newsletter*, No. 52, 10.)

In order to facilitate the deployment of graduates of the Silver College, Kobe City established the "Wa" (harmony) Group, which can be termed as a 'Social Contribution Center,' affiliated with the College. The Wa Group coordinates welfare, environmental, international communication and cultural volunteer committees. These committees carry out activities commissioned by the City of Kobe, which range from providing computer and cooking classes to Silver College students and language lessons and daily life assistance for foreigners, to daycare and home visits to the elderly, as well as cleaning and maintenance services for parks and environmental education.

The Wa Group was established in 1997, as a result of the growing volunteer activities during the recovery period of the City after the 1995 Great Hanshin-Awaji Earthquake. It has become a registered non-profit organization with 1,200 members averaging 70 years of age, of whom 90 percent are Silver College graduates. At the Silver College graduation ceremonies, the Wa Group staff tries to recruit new members, and annually about one third of the college graduates join. Membership costs 1,500 yen



per year, and around 60 clubs conduct activities in the nine wards of the City. The *Wa* Group is managed by a head office of 14 staff members with five committees and nine local sub-committees in the City wards. (*AUICK Newsletter*, No. 52, 11.)

Volunteer activities of Kobe citizens are extended beyond Kobe or Japan. For instance, a group of Japan Paramedical Rescue (JPR) members was sent to Surabaya City, Indonesia to provide a series of emergency disaster rescue operation training sessions especially for paramedics in 2009. The leader of the volunteer group was a retired member of the Kobe City Fire Department. Another group of volunteers with a nursing background will be dispatched to Danang, Vietnam to provide training and technical advice to improve the communication between the local nurses and mothers at MCH/FP clinics and management of the clinics. (*AUICK Newsletter*, No. 55, 24)

### **Key organizational and management factors for innovative city administration**

Kobe built some spectacular physical infrastructures, especially in the 1970s and 1980s. As mentioned earlier, these include the three artificial islands of Port Island, Rokko Island and Kobe Airport in the Bay of Osaka, as well as the new housing complexes and college campuses at the back of the Rokko Mountain range, which are connected to the downtown area of the City by efficient and convenient public transport systems, including subways and buses. The City has also built recreational facilities, called "*Shiawase no Mura*" (*Happy Village*) near the Silver College, where Kobe citizens can go to enjoy various kinds of sports and other physical activities. In addition, the City has provided such facilities for its citizens as pasture with cattle to produce dairy products, including milk and cheese for sale, and a winery with a restaurant as well as an herbal garden in a valley of Mt. Rokko, which used to suffer from flash floods. Now citizens and tourists from outside Kobe flock to these recreational facilities on weekends and holidays. The total number of these visitors exceeded 8 million in the 1990s. However, the City is now increasingly concentrating its attention on the provision of better and expanded social services, as well as environmental issues, to facilitate a safer and healthier life for its citizens. (Miyazaki, 1993)

However, we should remember that the City of Kobe was not a particularly wealthy city among the nineteen major cities designated as local autonomies by government ordinance of Japan. It was after all a fishing village like other ports, opened to foreigners, mainly because it was so remote from Tokyo, and so insignificant for 150 years. Even in the 1930s, it used to suffer from periodic floods and epidemics of dysentery and other kinds of disease, due to the lack of clean water and adequate sewage systems, which did not become available universally or to most of its citizens until the 1990s. (Miyazaki, 1993; Ness and Low, 219.) The Rokko Mountain range, which is now so rich with green fauna attracting many hikers from and outside the City, used to be barren, which was the main reason for the periodic flash floods. Furthermore, the City was almost completely flattened by bombing during WWII, like other major cities such as Tokyo, Yokohama and Nagoya. It had to be rebuilt from scratch, although it benefited from the economic booms of the Korean War and the Vietnam War because of its shipping and steel industries. Then, one might ask why and how Kobe City has been able to build such magnificent infrastructure and provide unique social services to its citizens. We may have to look at the organizational and management factors unique to Kobe for the answer. The subsequent part of the paper is a modest and less systematic attempt to identify them. They can be summarized as follows: political stability and sustainable programs; commitment to serve; participation of citizens; entrepreneurial and proactive orientation; multi-partite participation; accountability and transparency; and unique personnel management practices.

#### **Political Stability and Sustainable Programs**

One unique aspect of the Kobe City administration is the significant longevity of the tenure of its mayors, despite the fact that there is a mayoral election every four years. This has provided political stability and facilitated the incumbents to develop long-term developmental projects, such as Port Island and Rokko Island, as well as the infrastructure associated with them, such as the fully automated monorail and subway systems. The architects of these infrastructures, Mr. Miyazaki and his successor, Mr. Sasayama, served as mayors for 20 and 12 years, respectively. Mr. Yada, current mayor, is serving his third term. (Personal communication with Ness)

#### **Commitment to Serve and Citizen Participation**



There seems to be very strong commitment on the part of the City administration to serve the interest of citizens. For instance, Mr. Miyazaki always sought to learn the views and needs of the citizens. Immediately after assuming the mayoral office, he tried to find out what his citizens really needed and wanted, initially by administering a questionnaire survey to cover every household of the City of Kobe in 1973, as well as annual surveys with a large sample size of 40,000 households. (Miyazaki, 1993) The City administration under the leadership of Mayor Miyazaki sought the participation of citizens in three areas: (1) dialogs between citizens and City administration; (2) participation in decision-making; and (3) participation in implementation of decisions.

This tradition has been inherited by his successors, especially after the Great Awaji-Hanshin Earthquake of 1995, when the City was being rebuilt. The City administration tried its best to take into account the views of citizens when public facilities were re-designed and re-built in many of its wards. The tradition is further sustained by the personnel practice of the administration that civil servants of the City, many of whom stay with the City government (unlike the national level civil servants), are often rotated to different posts, especially in the local City offices at the ward level. Through this rotational assignment, each civil servant is in direct contact with citizens. Related to the strong commitment of the City officials to serve, the City administration has a very strong realization that it is essential to have the participation of the citizens for any public service activities to succeed. This was a critical factor in promoting and expanding social welfare services and environmental improvement and protection programs.

### **Entrepreneurial or Proactive Orientation**

As reflected in the building of large-scale physical infrastructure and related facilities, such as Port Island and Rokko Island, the senior City administrators, especially the mayors, seem to have a considerable amount of entrepreneurial or proactive but prudent risk-taking orientation that even public works should be cost-efficient and beneficial to citizens. While Mayor Miyazaki approached the Central Government for financial assistance to build the islands, he was not granted any, but he obtained the financial guarantee of the Central government when he sold bonds in Japan and Germany. This was an immense risk for him in the early 1960s. Another risk he took was issuing the bonds locally to build a highway to

connect the newly developed area behind the Rokko Mountain range and the downtown area of the City. He could have received financial support from the Central Government but it would have taken 20 years to complete the highway. Instead he built it within three and half years with the funds generated by the bonds. He figured that the interests on the loan alone would be prohibitive, and the lost economic opportunities immense.

The construction of the two islands, Port Island and Rokko Island, produced a significant amount of dividend gains for the City of Kobe, which brought its relative economic independence as well. This entrepreneurial orientation is well expressed by the management philosophy of Mayor Miyazaki: *"if the business theory is to maximize profit with least expenditure, the administrative theory is to seek the maximum welfare with the least burden on the part of citizens."* (Miyazaki, 1993) In order to instill such an orientation, the City administration often sends its staff members to work for a few years at the *gaikaku dantai* (subsidiary organizations) or semi-public agencies of Kobe City, which are run just like business corporations.

#### **Multi-partite Participation:**

There is a clear awareness on the part of the administration leaders that the City alone cannot achieve very much. It needs the collaboration of not only its citizens, but also the academic community, as well as NGOs. The social and political environment in Kobe somehow helped develop a number of NGOs even before the war. The first consumer protection or cooperative movement in Japan started in Kobe as early as 1921, and women's associations with political and social issues have been very strong. The mayors of the City of Kobe always worked with these NGOs. In addition, the City administration, especially Mayor Miyazaki, tried to mobilize the support of local academic experts and business leaders to help formulate effective policies and programs. They are often recruited as advisors for the administration, as well as invited to serve on various technical and policy committees to provide useful advice.

#### **Accountability and Transparency:**



In order to obtain and maintain the participation of the key sectors of the community, the City administration has to be transparent and accountable for its behavior. It has to inform its citizens on what it is going to do for them, and report what it has accomplished or has not accomplished. There has been a strong sense of the so-called "results-based management" to assess the services to be provided by the City, based on objective and quantitative measurements. By the mid-1960s, the City administration was routinely using socio-economic and population census data to allocate its budgetary resources, such as the length of paved road per capita, or the number of medical doctors per a certain population size. This quantitative approach of resource allocation also facilitates the accountability and transparency of the management of the City administration, and helps obtain the continued support from the public in general, by announcing openly the targets to be achieved. For instance, the City administration would publicly state to achieve the expansion of the sewage system by 10 percent annually, increase the park system to 10 m<sup>2</sup> per citizen, or plant 500,000 trees annually. These quantitative targets are often reviewed and revised, based on continuous needs assessment through questionnaires and various consultative meetings. (Miyazaki, 1993; Okumura, 1965)

#### **Innovative Personnel Practices**

Even if the senior City administrators are innovative, entrepreneurial, politically impartial and committed to serving the citizens, if the rest of the civil servants are not so motivated or qualified to promote the work of the City of Kobe, very little can be accomplished. From this point of view, it is significant to observe that personnel management in the Kobe City administration is based on the intricate balance of the two management philosophies or orientations. One of them is the classic bureaucratic reward system based on seniority, which tends to produce a stable but often stagnant organization. The other is that based on performance or competence, rather than the length of service. This model tends to produce a more dynamic but sometimes unstable organization. Interestingly, the City of Kobe has adopted a combination of the two models, especially under the terms of Mayor Miyazaki. He respects seniority but emphasizes the performance of his staff.

There have been two important measures to accommodate this approach. One of them is to assign a young staff member with significant

performance but lacking seniority to a higher post which few senior staff members would like to compete for. Thus, there would be little jealousy about the promotion, but the young staff would be pleased with his/her *de facto* promotion. At the same time, the unit or office which receives this young but competent staff member would often be revitalized. As mentioned earlier, the assignment of a young but competent staff member to one of the *gaikaku dantais* is also such a practice. Upon returning to the city administration proper after a few years, depending on his/her performance in the subsidiary agency, this staff member is promoted.

The second innovative personnel management measure was to let young and promising staff members go to the place or conduct the project of their choosing, upon the acceptance of their written proposals. They were given a one-month leave of absence with pay and a grant of one million yen. Many of them went abroad to see various kinds of city management practices. (Miyazaki, 1993, 153-157 and personal communication with Mr. Mizohashi.)

## Conclusion

Through this modest review of the administrative practices of the City of Kobe, especially in the area of population aging, which is a new challenge to the city, as well as the growth of the city historically, I have tried to identify a number of key factors which contribute to the efficient and effective management of the City of Kobe to provide various kinds of services to its citizens. While the city now is rather attractive and prosperous physically, socially and economically, it used to be a small administrative unit with limited financial resources but enormous problems under the strong control of the central government. It also suffered from a number of mistakes. I trust, however that the experience of the City of Kobe will be of interest and use to other local authorities, especially in Asian countries.





# **Backstage in a Local Bureaucracy -- Lessons for Local Government**

Richard C. Pratt<sup>1</sup>

## **Abstract**

What goes on in a public bureaucracy is not known to most people, including those who work in it. Yet what those public agencies do is important to the well-being of the communities they serve. This confluence of the social importance of public agencies, the challenge of getting to know them, and the strong feelings people have about them led to collaboration with a colleague to provide an "insider's view" of what it is like to be the head of a public agency in a local government. For eight years my colleague set aside her position as a faculty member at my university to be the director of a large social welfare agency. In that role she oversaw all of the agency's routine operations, represented it in the governor's cabinet, was its face to the public, and dealt with its major crises. The result of our work is a book that will be published by the University of Hawai'i Press in late 2010. This paper shares some of the lessons we drew from her work and my interpretations of what she experienced. Hopefully sharing this knowledge will encourage realistic efforts at helping local public agencies to better meet their public purposes. Perhaps someone will consider undertaking a project about local government in Thailand that has the same goal of throwing light that is both sympathetic and critical on the real world of public organizations.

## **Introduction**

What really goes on inside a government agency, its day-to-day activities, is largely unknown to most people. This is certainly true for the general public, even its most informed members. Their direct experience is confined to the good or poor services they receive. Knowing more about what actually takes place inside the agency to create those services would require someone to work their way through the administrative layers and bureaucratic jargon that are so difficult to penetrate.

To a large degree the same lack of knowledge about the real world of public bureaucracies is true for those working in them. Hierarchy, unit boundaries and role specialization make it challenging for anyone to see beyond their location in the system.

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As difficult as it is to understand the real world of a public agency, it is equally important to try. What they do matters in our communities and in the lives of the people living in them. Moreover in the absence of credible information people conjure up "facts" and interpretations that purport to explain the things they don't like. This conjuring has a long tradition in the United States, one that feeds on the distrust Americans historically have had for public authority.<sup>1</sup> American distrust for public bureaucracies may have a distinctive flavor because of this history, but similar reactions of mystery, frustration and distrust are found in many other places, perhaps almost everywhere.

There is no question that bureaucracies are challenging forms of organization. Max Weber, the German sociologist, famously pointed out that they seem to be necessary for organizing the work that needs to be done in modern, complex societies. He also saw that, at the same time, the very processes that make them effective in managing complexity and ensuring predictability create difficulties for their patrons and for the people who work in them. This is especially true for public bureaucracies, which must follow elaborate rules, often not of their own choosing, and be accountable to elected officials whose agendas may conflict with the agency's public mission.

This confluence of the social importance of public agencies, the challenge of getting to know them, and the strong feelings people have about them lead to collaboration with a colleague to provide an "insider's view" of what it is like to be the head of a public agency in a local government. For eight years a colleague of mine set aside her position as a faculty member at my university to be the director of a social welfare agency. In that role she oversaw all of the agency's routine operations, represented it in the governor's cabinet, was its face to the public, and dealt with its major crises.

The book resulting from this collaboration, described in more detail below, covers a wide range of events and experiences. Each section is composed of her sharing the experience and while I provide an interpretation of what that experience means in the broader context of the life of public organizations and the issues facing those in public service. At the end we together draw the lessons that are the primary focus of this paper.

The agency my colleague headed is called the Department of Human Services. Its mandate is to offer assistance to all people who are unable to provide for themselves. It operates all the local welfare programs, including income support, assistance in purchasing food (known as "food stamps"), public housing, child and adult protection services, vocational rehabilitation and health insurance for the poor. Through these various programs, millions of federal and state dollars and contracted services are provided to more than 200,000 beneficiaries. Most of its services are provided by its staff, but many, such as vocational training, are contracted out to be delivered by nonprofit or private sector organizations.

## Similarities and differences

It may seem that the case I am using to draw lessons for local government does not apply well to other places, including northeast Thailand. Hawai'i, as an American state, might be assumed to share the political culture of the United States, whose political institution evolved from the local level and where strong local government is a valued tradition. In addition, because this is a state agency, a person would expect one or two levels of local administration below it in the form of county and municipal governments.

In fact the way the Department of Human Services might be most different from other local governments is in its size: in a state with a population of 1.3 million the Department of Human Services has a larger clientele than, for instance the municipality of Khon Kaen. In other ways there are surprising similarities. Hawai'i has a much shorter tradition of local government, and in that way is like other places outside the U.S. with highly centralized regimes. Hawai'i is also the most centralized of all the 50 American states. Its system of government evolved from a kingdom – also like other places, but the only American state with that history. At the turn of the 20<sup>th</sup> century, when it did become a territory, and until statehood in 1959, politics was dominated by a few sugar and pineapple companies whose leaders had little interest in the virtues of local government. In the early days of the territory, after 1900, the heads of both the territorial government and the plantation businesses were concerned that real local government would lessen their control in a society in which they were decidedly a minority. Jurisdictions below the state, called counties and roughly equivalent to provinces in Thailand, were imposed on the local elite by national officials who feared that without such divisions there would be no chance for democracy.

Statehood in 1959 presented an opportunity to go further and create political and administrative jurisdictions below the level of county in the form of cities and towns. There was little interest in it from those then in power, and today as a consequence the counties remain the only level of government below the state. Moreover, one of the counties contains about 75 percent of the state's population, while the other three are all much smaller than the city of Khon Kaen.

Three things follow from the distinctive way in which Hawai'i's government has evolved. First, the state's political culture and institutions, quite distinct from other places in the United States, are better understood as a hybrid that combines American and Asian orientations. Second, because there is only one jurisdiction below the state, agencies like the Department of Human Services perform many of the functions that might be undertaken by municipalities and towns in other places. Finally, because of the way local government has evolved there is still a process of

experimentation and trial and error in how to recognize and respond to the needs of specific local communities. All of this of course takes place in the midst of trying to meet the challenges of conserving fiscal resources while meeting the increasing demands of clients, responding to the unpredictable requests of elected officials, dealing with the national government, and being reliable and consistent in the provision of services but also flexible in the adoption of new programs

### **Issues on the Inside**

The book resulting from this collaboration covers a broad range of issues, many of which someone serving in a local government is likely to confront. Here is an overview of those issues:

- The “secret” process of being selected for this “political” appointment;
- The first days in the new job and learning about the agency and its culture;
- Challenging cumbersome rules and opaque communication;
- Learning limits and the real-world differences between authority and power;
- Being “protected” by employees, and coming to understand their main concerns;
- Developing priorities and a decision-making style;
- Managing relations with the governor;
- Cooperation and conflict with other department heads;
- Responding to elected representatives and legislative oversight;
- Interactions with clients and the advocacy groups representing them;
- Accountability and being evaluated by a Public Auditor;
- Cooperation and conflict with the national government;
- Encounters with the media;
- Successes and failures in trying to make large and small changes.

#### **Lessons**

What did we learn from all of this? This section summarizes the important lessons.

### **At All Levels, Being Effective Requires First Listening, Then Leading.**

It is important to understand the difference between improvements that the public wants (programmatic improvements) and improvements that are important to the staff (organization improvements). It is crucial to listen to what the staff knows, and where the staff wants to go. Agency

policies and the organization of local government are complicated. There must be an inclusive conversation among those who have detailed knowledge of the issues at hand. Nothing will happen if those who know how to make things happen are not on board. A colleague refers to this as "Pace and Lead," meaning that you first must walk with a group before trying to change its direction. Energy is like gold. Constructive persistence is essential. There can never be enough follow-up and follow-through at every level.

### **Supervisors Can Be Cheerleaders, or Cogs in the Wheel.**

We often are ambivalent about middle-level managers, those individuals who stand between the organization's high-level formal leadership and the average employee. Just as in the private sector, they are crucial as both blockers and change agents. If the supervisors like the program, the project or the change, it is much more likely to succeed. But the opposite also is true. The supervisors are key players in any organization and can be cheerleaders, or cogs in the wheel.

### **Perception Can Trump Performance.**

Organizations can be successful in both the public and private sector, but there is an important difference. It is that in the public sector actions are always potentially under a publicity microscope. As a consequence, a local leader or his or her organization will be praised when it looks like good things are happening. You can be doing the same things, and be defined as a failure. How can this be? The reality is that the public gets interested in an issue regardless of the actual facts. Sometimes this works to benefit an agency and its leaders, and sometimes not. Good public communications helps, and it helps not to be surprised, but it is hard, if not impossible, to control.

### **Processes Need as Much Attention as Policies.**

A director could easily fill most of her or his time with administrative rules, lawsuits, mediations, and the governor and cabinet officials. However, the core element of the agency is often not policy, but its daily processes. From the perspective of the agency's mission, things like a malfunctioning computer or a broken air conditioning unit may seem minor. These matter to employees. The lesson is that the leader not only has to be tuned into these concerns, but also concerned enough to do something about them. This is essential for staff morale, for the smooth functioning of the entire organization and therefore for meeting the mission.

The challenge is to not to get dragged into these problems in a way that loses sight of the agency's public purposes. Some of this can be handled

at lower levels, but within limits. There are simply some things the director must tend to. This is either because the issue lies outside the middle manager's knowledge or authority, or because the concerns are symbolically important for the director to be seen caring about.

### **Internal Communication Is a Lifeblood.**

If there is a lifeblood of an organization, it is communication. The more that people get the information they need to do their jobs, and to understand where the agency is going, the better off everyone is going to be. Unfortunately, while we all may say this, it often does not happen. There are many reasons. Information is valuable and is withheld as a source of power. The hierarchy restricts who can talk to whom. Thick boundaries (in English called "Silos") between units are real. Ethnic culture may play a role. And the communication challenge may be amplified in a public agency with privacy concerns. It is wise for leaders to make communication a priority from day one. Announcements that acknowledge someone's good work or some family event (a birth of a baby, or a marriage) or even a sports accomplishment, communicated broadly help the organization feel like a unit and a good place to work.

### **Making Local Government Like a Business.**

It is an oversimplification to think that business strategies with their bottom-line mentality will fit into a public sector agency that is, for example, responsible for abused children, elderly citizens, medically fragile persons, persons with disabilities, or those who have lost their jobs. The rational strategy for the for-profit company would be to move the disadvantaged and dispossessed to some other organization. To take an example, a health insurance agency would screen out the less fortunate since they often have pre-existing conditions or are likely to require expensive and extensive health care in the near future. Of course, and this is a good thing, doing this is impossible for a local government agency, whose mission is to serve people who need assistance. While some elements of a public organization may become more efficient, the core purpose of a public agency is to serve, and serve responsively and responsibly. For that reason its mission will conflict with the mechanisms that make efficiency the primary value in the private sector.

This tells us that government organizations are not like businesses in a seemingly inevitable way: they are places where conflicting public values are played out. Is it most important for them to be efficient? Flexible? Consistent? Inclusive? Higher Quality? Less Costly? If, for example, we want to use merit pay to improve performance, are we sure that elected officials and the public will at large will support the pay raises over other ways the money might be used, or instead of tax cuts?

### **Without Effective PR an Agency Won't Succeed.**

When there is poor communication between the agency leadership, the local community, the media or the clientele, the agency cannot succeed. It is essential to be pro-active about the activities and programs that are going on in a public organization. If the agency does not report its accomplishments, no one else will. Some departments worked hard to get out a good story each and every day. Some even planned good-looking TV photo opportunities, like the Department of Land and Natural Resources director who would take the press to see a nature preserve. Everyone looked great in the process. This was somewhat harder for a social service department. Confidentiality rules prohibit photos of children being shown and most clients felt a stigma in being a recipient of services, so there was not a lot of opportunity for photos. Nonetheless, trying each week to put out a story about a staff person's good works, or a new agency policy, program or accomplishment is a very good idea. It also serves as an excellent morale booster for the employees.

### **Engaging the Community Is Essential.**

It is essential to ensure that the community gets "into" the agency and becomes a part of the policy development, program design and implementation strategies. If local community partners feel left out, even good plans can go bad. As with staff, it is virtually impossible to provide too little access or give out too much information to clients and interested citizens. Dialog, dialog, dialog, there can never be enough dialog, even though this is extremely time consuming. NGO, civil society and citizen advocates are interested in a public sector agency's plans and its policies, procedures and choices. Web pages will help some constituents learn more about the public sector. However, many are not savvy about web technologies or have adequate access to them, so communication must be provided easily (in Hawai'i, often in many languages) to make this work.

### **You Cannot Give Enough Praise.**

It is not much of an overstatement to say that you can never give enough praise. People work for money, of course. But a huge body of research shows that money is not enough. We all like to be recognized, and to feel that others appreciate what we do. It is often pointed out that in the private sector it is easier to reward individuals for their contributions. That is true if we are thinking only of monetary rewards. There is a long list of other kinds of acknowledgements that are meaningful to employees. For example, DHS instituted a "Mahalo-gram" process. (Mahalo is a Hawaiian word meaning "thanks," "gratitude.") Small yellow cards with the printed

word "Mahalo-gram" on one side were distributed to the staff. Staff could fill in a name of a colleague and thank them for a job well done. Many were printed. People stuck them up all over their offices. One woman said that she took those she received home and read them to her children at the dinner table. Money clearly is not the only incentive, and morale in a public agency can be easily increased with just a few sincere words of thanks.

#### **In Organizational Change, Details Matter.**

It is essential to see the whole picture as well as small details in the big picture. Employees have tremendous concerns about their "stuff" and whether they can do their job well. Employees are keenly concerned about what a change will bring and what it will mean to them individually, how it will affect their unit and how it will affect clients. The good news is that people in public organizations, like anywhere else, want to be competent. The bad news is getting stuck in what they know how to do and not moving on. The number of rules, administrative and other, that public organizations have and which they must respect, contributes to this. It is absolutely essential to provide sufficient and appropriate training so staff can take responsibility for their new roles and feel competent to implement change. Far from being a waste of taxpayers' money, training is a precious resource.

#### **The Power of an Executive Director in the Public Sector.**

Even the power of a CEO in the private sector to bring about change by force or mandate is really quite limited, or at least short lived. Yes, it is possible to fire staff who are unproductive or unresponsive or just incompetent. However, even successful private sector CEOs believe it is best if the employees themselves recognize they are not a good fit for the work that needs to be done, and leaving is much better than being fired. Public agencies at the local level do not have the capacity to fire and replace twenty percent of their workforce each year. The pool of trained workers does not exist, and the loss of staff knowledge would be disastrous.

For this reason, it may be better to think in terms of moving the best staff to executive teams and to push for training and retraining employees who seem to be underperforming. Clarifying outcomes and expectations as well as encouraging employees to empower themselves and come up with ideas and suggestions for work improvements are better strategies than forcing an unpopular change and/or firing a recalcitrant worker. True organizational reform needs sustained support from all levels of the organization: top management, middle management, and the line workers. As one employee said, pushing for change in a unit is like pushing hard against a plastic shower curtain. You can push and change the shape, but unless you continue to push, it snaps back to its original form.



### **Success Is a Matter of Perspective.**

It is common to observe that "Success is in the eye of the beholder" but this is especially true for public agencies and their leaders. "Success" to the national government often is defined as not making mistakes in implementing a national policy. To many state employees, "success" may be avoiding making a payment to a client for which the national government will not reimburse the state. "Success" in clients' terms is defined as when the public employees are responsive and generous. They are not interested in the employee's accuracy record. "Success" from an administrator's perspective may include creative responses to challenging problems, finding efficiencies, making partnerships, or streamlining processes. To a legislator "success" may be resolving something that makes a constituent happy. For taxpayers "success" usually means doing whatever doesn't threaten to raise taxes. For the media "success" is a story that will get readers' attention, which usually is not about things going well.

It is easy to see that these different ideas of success can conflict with one another, and that being successful in one way can easily be seen as failure from another perspective.

### **Recognize the Difference between Selling Out and Making Strategic Compromises.**

Compromises are an inevitable part of life, and of public service. They don't necessarily imply a failure, and they often represent significant progress. Compromises are recognition of the difference between ideals and reality, and without them, nothing gets done. At the same time, there are issues worth standing strong for. The key is to remain aware of the difference between selling out your values or the organization's mission, and making strategic compromises. An idealist never compromises, something made easier if you are not dependent on a job for livelihood. In a world with so many different, and legitimate, perspectives on complex issues, this person is likely to be quickly identified as someone who is hard to work with and, as a result, may soon become ineffective. On the other side a person who compromises all the time soon loses sight of the public purpose that brings her there in the first place. S/he is known as just a "deal maker," a person without values.

In between these two extremes is the willingness to make bounded and strategic compromises without giving up on or losing sight of who you are and what you are trying to accomplish. What is called for has to be figured out in each situation; there is no formula here. The willingness to figure this out is critical to the integrity of a public leader and the success of a public organization.

## Conclusion

What goes on inside public bureaucracies is hard for both the public and those working in them to understand. Yet their importance to the quality of life of the people they serve at the local level makes it important that we try to be realistic about them. This paper has shared some of the lessons drawn from an examination of the experience of running a social service agency in Hawai'i for eight years. Hopefully sharing this knowledge will help to understand the reasons for their strengths and limitations, and encourage realistic efforts at helping them to better meet their public purposes.

I hope that someone will consider undertaking a project similar to this one for local government in Thailand, pursuing the same goal of throwing light that is both sympathetic and critical on the real world of public organizations.

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### Notes:

- <sup>1</sup> Americans have an especially interesting dynamic. On the one hand they tend to have positive reactions to their encounters with public bureaucracies, often more positive than their encounters with private organizations. On the other hand their generalizations about public organizations tend to be quite negative.

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# Local Governments' Use of Social Media: Who, What, When, Where and Why?

James K. Scott<sup>1</sup>

## Abstract

In just the twenty years since its inception, the World Wide Web has radically changed how people work, shop, play, and connect with others all over the world. As Internet use grows and evolves, governments are challenged to use the web to serve their constituents with more transparency, efficiency, and effectiveness. These challenges are most acute — and perhaps most important — at the local level, where citizens often have special commitment to and knowledge of (the) place, as well as social networks that can be mobilized around public decisions. At the same time, local governments operate with limited technical capacity and serious resource constraints. How can local governments use Internet technologies to improve public outcomes and enhance communication?

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## Literature Review

Research on local government use of websites has focused primarily on evaluating the (potential) gains in efficiency (Layne and Lee, 2001), transparency (Mahmoud, 2004), and range of information available (Stowers, 1999). Despite national policy guidelines, mandates and assistance, local governments have struggled to meet the policy and technical standards for to provide a variety of web-based services (Scott, 2005).<sup>1</sup> Still, Internet users in the US are generally quite satisfied with the services they receive from these sites (Smith, 2010).

Web technologies have long been touted as tools to enhance public participation (Cf., Shane, 2004; Scott, 2006). However, very little research has focused on the government applications of social media – the most powerful current method of public participation. Freeman and Loo (2009) propose a framework for assessing the feasibility and utility of various social media applications. Shark (2010) conducted a very brief survey of Chief Technology Officers in selected US city and county governments. Findings from this study suggest that local governments are well behind trends in use of social media in the private sector. The Human Capital Institute (2010) surveyed over 600 workers in (US) federal, state and local government agencies. This study was focused on inter- and intra-agency collaboration and training in government units. It found that 65 percent of the government workplaces use social media applications. A larger proportion of workplaces in the private sector use these tools; however, findings suggest that most government employees now have the experience needed to use them.

Chang and Kannan (2010) conducted a variety of focus group sessions with government constituents. Regardless of age, focus group members welcomed increased use of social media in the public sector. In general, most participants interacted with private firms via social media, and they indicated that government applications would be “keeping up with the times” (p. 26). The Pew Internet and American Life Project recently published findings from a survey of US adult Internet users on their use of digital government services, including social media. Approximately 80 percent of these users reported that they recently accessed government

services online. Approximately 10 percent of these users used government social media applications. The Pew research further suggests that some minority populations (such as African Americans and Hispanics) are more likely to use certain social media. Historically, cities have had limited communication with minority constituents. Perhaps social media provide tools that will enhance local government outreach to these constituents (Smith, 2010).

## Social Media Defined

Social media are relatively closed community environments in which members can interact and conveniently connect. They are part of a fundamental paradigm shift in how the Internet is used.<sup>2</sup> Initially, the web was content-centered, made accessible through rather static *pages* coded in standard HTML. The web 1.0 experience was a unidirectional content-stream, in which Internet users surfed and selected sites or pages to view, and then digest the material they viewed.

The advent of social media has moved users much closer to the center of the web experience. These new media allow users to filter and review content and easily create and share their own content. From a business perspective, social media permit you to provide services to customers (or constituents) at low-cost and effective scalability. The user-interface is lightweight and flexible – and accessible on mobile devices. Since users can comment and are connected, they become involved and enrolled in designing and refining products and services. In business parlance, the customers are now partners, contributing to collective intelligence. From a user perspective, the social media web experience is sociable, competitive and enjoyable. Embedded (or programmed) in each social media platform are communication rules, conventions and practices that affect all users' reputations and influence (Cf., Blackshaw, 2010). Within social media platforms, third-party programmers develop *applications* that make it easier for users to connect, contribute and build their influence. Platforms such as Facebook adopt a proprietary mark-up language (MacManus, 2007), and applications must conform to these standards. As a result, data on Facebook accounts are privately owned, operated, and are not open to search engines such as Google.

The new world of social media clearly affects human behavior. A recent Nielsen survey that asked respondents to estimate the time they spend each day on the Internet across a variety of activities. Results show that for all the time spent on the Internet by Americans, nearly 25 percent is spent on social media platforms – three times more than the amount of time spent on emails (Nielsenwire, 2010). The following section briefly describes three popular social media platforms, on which this study focuses: Facebook, Twitter and YouTube.

## Facebook

Facebook is currently the most popular social media platform, with over 500 million active accounts across the world. In the US, 135 million people (approximately 50 percent of all US adults online) have a Facebook account. Facebook users tend to be young adults (under 45) and 56 percent of users are female (Facebakers.com, 2010). Facebook started in 2004 as a service limited to college students in the Boston, Massachusetts area. It was designed to help college students manage and grow their social lives. Each student could build a web page and use it to communicate across his or her extended social networks. It's a very social environment that emulates in many ways how students might communicate in dormitories. On Facebook, friends can compare social networks. They can write on a friend's "wall" (or home page), share and tag photos, and invite their friends' networks to events. After initial success, the Facebook platform was opened to all US university and high school students. By 2006, it adopted an aggressive business model, and was opened to the world (Phillips, 2007). It's playful, social and competitive. Although it was designed for purely social interaction, over one million companies now use Facebook pages to promote their products or services commercially.

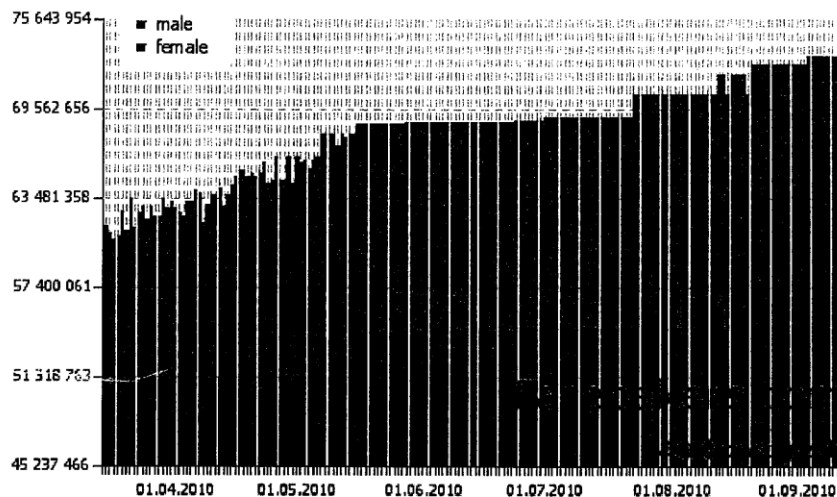


Figure 1: Male/Female Facebook User Growth in the US: 2010

The rapid growth of Facebook users is illustrated in figure 1. It depicts the number of active users in the US for 2010, by gender. Since its inception, Facebook has attracted a disproportionate share of female users.

This year, the growth rate for male users is increasing. It is a very usable, flexible and highly functional platform.

### **Twitter**

Twitter is a very simple publishing tool – making it easy for anyone to publish and share news (Ingram, 2010). Twitter was launched in 2006. By April, 2010, it had over 100 million accounts. Since then, it attracts over 300,000 new users per month. It draws 3 billion hits per day (Huffington Post, 2010). As of April, 2010, approximately 7 percent of online US adults have a Twitter account – although nearly 90 percent of all adults are aware of the platform. Approximately 25 percent of African Americans online use Twitter. Nearly two-thirds of US Twitter account holders use their smart phone to post (Webster, 2010). In exchange for functionality and access to a potentially vast audience, Twitter users must accept both formal and informal constraints. Posts are limited to a maximum of 140 characters. To build audience and influence, users must also follow conventional practices, etiquettes and protocols on how to connect with members of common interests.

### **YouTube**

Founded in February 2005, YouTube is the world's most popular online video community, allowing millions of people to discover, view and share originally-created videos. YouTube provides a forum for people to connect, inform, and inspire others across the world, and acts as a distribution platform for original content creators. YouTube allows people to easily upload and share video clips through websites, mobile devices, blogs, and e-mail. Users can participate in the YouTube community by watching, sharing, and commenting on videos. People can see first-hand accounts of current events, relive their favorite TV moments, find videos about their hobbies and interests, discover new artists and filmmakers, and uncover the quirky and unusual. As more people capture special moments on video, YouTube is empowering them to share their experiences, talents, and expertise with the world. Currently, YouTube logs over two billion videos viewed per day, and over 24 hours of new video content is uploaded on YouTube every minute. Users are quite evenly distributed by gender across age cohorts. Approximately half of these users access YouTube at least once per week (YouTube Fact Sheet, 2010).

### **Government and Social Media**



As with any other technological innovation, government units need to calculate the benefits and costs of adopting social media. Table 1 compares what might motivate (and de-motivate) local governments and their constituents to use social media applications dedicated to municipal government. It is adapted from a recent paper by Foster, Francescucci and West (2010).

**Table 1.** Factors Influencing Use of Social Media Platforms for Local Governments and Their Constituents

<b>Local governments</b>	<b>Local government constituents</b>
<b>Motivators</b>	<b>Motivators</b>
Opportunity for unmediated communication channel	Personalize or filter information according to interests
Assured accuracy and timeliness of announcements	Access pertinent information via mobile devices
Promote Public Safety	Enhance sense of belonging
Promote trust	Build personal reputation
Facilitate constituent mobile access	Contribute and influence outcomes
Enhance intelligence	Enhance intelligence
<b>De-Motivators</b>	<b>De-motivators</b>
Possible loss of control and security	Information overload
Legal issues	Lack of confidence (or knowledge)
Lack of vision (or commitment)	Lack of trust
Lack of resources	Lack of interest

First, social media provide local governments with opportunities for unmediated communication channels with known constituent networks. Governments cannot rely on independent media outlets to cover all issues or to represent their position or interests accurately. Media releases on the local government website are also unmediated. However, social media can “push” messages to constituents with particular interests and help mobilize constituents to respond to specific events or issues. In addition, since social media content is hosted by third parties, government organizations can focus more attention on the message, than on the mechanics of managing their own web pages. Social media applications can also be used to share accurate information in real-time. Thus, they can promote public safety and support emergency responses that range from local public health crises to traffic management. These applications can promote credibility and trust with constituents. Because social media facilitate constituent comments and questions, governments can also use them to gather information and



enhance intelligence. Razmerita, Kirchner and Sudzina (2009) consider social media as possible tools for knowledge management. The complexities of policy decisions and program delivery also sometimes motivate public authorities to seek more citizen involvement. Particularly at the local level, citizens often have special commitment to and knowledge of places, as well as social networks that can all be mobilized for public decisions and actions that will lead to improved public policy outcomes (Bowles and Gintis, 2000).

At the same time, several characteristics or capabilities of social media can motivate constituents' use of local government content. Social media, such as Twitter, can help users filter information according to their (changing) interests. (They don't have to monitor whole websites to get the latest news on certain topics – in very brief alerts). Because social media platforms have very clean and flexible software, users can obtain all the information they need off their mobile devices. Having up-to-date information on city issues also enhances users' sense of community pride and identity (Brogan and Smith, 2010). Further, users can mobilize their network, and through comments and posts on social media, influence how government services are designed and delivered (Shirky, 2010).

Several characteristics of social media can discourage or deter local governments and their constituents from using these platforms. For example, local governments are required by law to maintain records of public communication. Since government units maintain and control their servers, it is feasible to archive and provide email and webpage content upon request. In social media environments, the postings and content are controlled by a third party (e.g., Facebook, Twitter, YouTube). It may not be possible for local governments to comply with public records laws. The terms of service offered by third parties may also pose threats to privacy and security standards to which governments aspire (Cf., New York Times, 2010). On a more practical level, local governments may lack the human resources or a shared vision of what social media accounts could achieve to enhance public service.

Social media will not reach all constituents. Many people may not choose to use social media, because they do not wish to manage any more information. They may also avoid social media because they lack the knowledge or confidence in how to use them effectively. They certainly will not use local government social media accounts if they do not find the content interesting or of value.

## **Data and Methods**

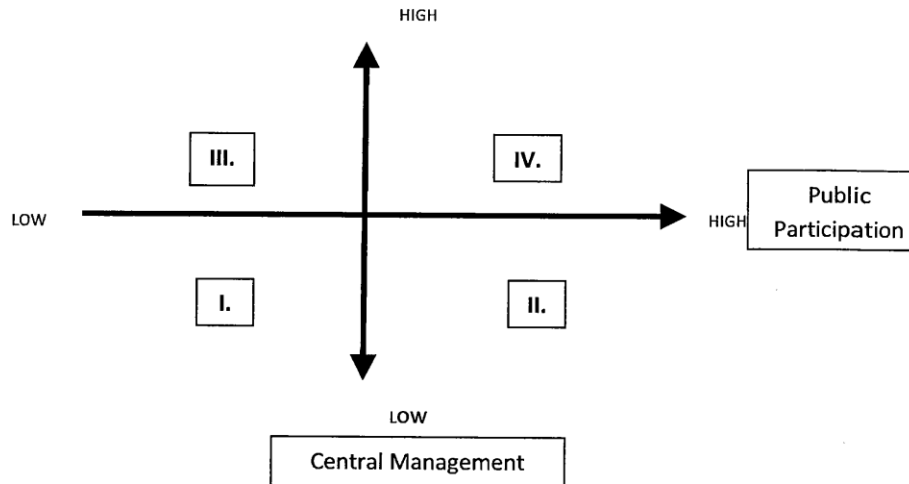
This study explores municipal governments' use of social media for engaging constituents.<sup>3</sup> It examines municipal government websites of the principle cities in the 100 largest US metropolitan statistical areas, as defined by the 2000 US Census Bureau.<sup>4</sup> The study focuses on the selected

municipalities to monitor changes in local government websites begun in 2004 (Cf., Scott, 2005 and 2006). Approximately twenty percent of the US population lives in these cities. This percentage increases dramatically when the population in the surrounding suburbs is included. The distribution of population is heavily concentrated in larger cities, such as New York, Los Angeles, Chicago and Houston. The median population for the cities is 341,131. Most of the cities have a strong Mayor/Council form of government. Forty-three cities use Council/City Manager government.

The study developed a survey instrument that measured the presence or absence of a variety of social media applications from these websites, with particular attention to Facebook, Twitter, and YouTube. Specifically, this research pursues three main research questions:

- Which US city governments use social media to engage their constituents?
- To what extent do cities encourage public participation through social media?
- How do these local governments manage social media applications?

This study attempts to map or classify municipal governments' use of social media in two key dimensions, as illustrated in figure 2. These dimensions represent two sets of strategic questions cities face in deploying social media.



**Figure 2: Local Government Approaches to Social Media**

The horizontal dimension in this figure assesses the extent to which local governments encourage public participation (or citizen input) with social media. In some cases, social media can be applied with little interest



in generating user response. For example, Twitter can *push* real-time announcements to interested users, without monitoring or responding to constituent comments. This is a legitimate way to share information quickly and directly. It can be much more efficient to use social media for these purposes than to update the city government web page.

In contrast, local governments can place a high priority on using social media to encourage public participation. Chang and Kannan (2010) argue that they can be used to: 1) interact with constituents to get their feedback on policies, issues, services and plans of the government; 2) encourage feedback on service design and new ideas; 3) stimulate new content from constituents, to enhance the government's content and benefit from *the wisdom of the crowd*. Using social media to build constituent involvement can increase public trust. When there is trust, people will naturally communicate and collaborate. This leads to learning, confidence, and ultimately, enhanced competence among users (Young, 2008). However, it requires significant commitment to monitoring and responding to constituent comments, and can be very risky for public officials (Blumenthal, 2009). Observations from this study are designed to assess if city governments assign a low or high priority to using social media to encourage public participation.

The vertical dimension in figure 2 focuses on how local governments manage social media applications within and across their organizations. They can assign a low or a high priority to central management of these accounts. Owyang (2010) describes a range of possible social media management structures or processes for organizations. However, the fundamental issue is whether or not the central administration monitors, directs and coordinates these applications. Opportunities and challenges accrue to each approach. For example, individual agency accounts with limited central oversight can lead to experimentation, rapid response, and strong special interest communities. At the same time, central control may lead to sharing more accurate, credible and authoritative messages to constituents. It may also facilitate strategic use of social media channels. Without central control, it is not possible for agencies within the government to share strategic perspectives.

Using this analytic framework, the study gathered qualitative observations to classify cities using social media to one of four possible quadrants in figure 2. The study collected descriptive data on the management philosophy and the general objectives for social media exhibited by observations of the web content. The instrument was pre-tested and revised. In all, thousands of web pages on the 100 municipal government websites were viewed and coded between September 1 and September 14, 2010.

## Findings

Results show that most local governments in the research population now use social media. However, many of these seem to use them tentatively or in a premature fashion.

**Table 2.** Municipal Governments' Social Media Use

<b>Municipal Governments' Social Media Use</b>	<b>Number</b>
No Use of Social Media	12
Social Media not evident on Front Page	28
Social Media Access on Front Page	60
Total	100

Table 2 shows that twelve of the 100 municipalities made no social media applications available to their constituents. These included Pittsburgh, PA, Cincinnati, Toledo, and Akron, OH, Bakersfield, CA, Fort Wayne, IN, Montgomery, AL, Atlanta, GA, New Orleans and Baton Rouge, LA, Honolulu, Hialeah, FL and Yonkers, NY. Several of these cities have older and poorer populations. Several are located in the "rust belt" region – with struggling regional economies. Two of these cities (New Orleans and Baton Rouge, LA) were forever changed by Hurricane Katrina in 2005. These twelve municipal governments maintain websites that are rather static, with limited design and usability.

Of the remaining 88 municipal governments that use social media, thirty-one do not make these applications easily known or accessible via the front page. This suggests that social media use is not a high priority or a valued way to engage constituents. It also suggests that the city government may not readily monitor or manage use of social media by individual departments or individual employees. It suggests that their deployment is in an early or immature phase.

When classified across the "Management/Participation" dimensions described above, those cities with social media applications are distributed in four groups as listed in figure 3. Just thirty of the cities studied encouraged constituent comments or participation. Forty-five of 88 municipal governments place a low priority on central management of social media by its offices and agencies.

Generally, cities that use social media maintain both Twitter and Facebook accounts. Twitter is generally used to make brief announcements. Facebook is used to promote events, activities and programs – particularly for recreation or entertainment purposes. Applications vary across agencies and across local governments; but, these are the predominant trends. Many

cities maintain YouTube channels. However, very few post regularly or actively; and none of the cities studied attracted heavy viewings of videos posted.

HIGH

III			IV		
New York, NY	Seattle, WA	Birmingham, AL	Indianapolis, IN	Sacramento, CA	Las Vegas, NV
Chicago, IL	Charlotte, NC	Jersey City, NJ	San Francisco, CA	Mesa, AZ	Long Beach, CA
Houston, TX	Irving, TX	Glendale, AZ	Baltimore, MD	Spring, CA	Fresno, CA
Philadelphia, PA	Miami, FL	Madison, WI	Memphis, TN	Anaheim, CA	Rochester, NY
Phoenix, AZ	Arlington, TX	Scottsdale, AZ	Boston, MA	Newark, NJ	Mobile, AL
San Diego, CA	Tampa, FL	Shreveport, LA	Washington, DC	Anchorage, AK	Tacoma, WA
Detroit, MI	Corpus Christi, TX	Lubbock, TX	Denver, CO	Louisville, KY*	
San Jose, CA	Raleigh, NC	Richmond, VA			
Jacksonville, FL	Riverside, CA	Augusta, GA			
Austin, TX	St. Petersburg, FL*	Oklahoma City			
I			II		
Los Angeles*	Oakland, CA	Hialeah, FL	Nashville, TN	Minneapolis, MN	Lincoln, NE*
Dallas, TX	Tulsa, OK	Greensboro, NC	Portland, OR	Buffalo, NY	Plano, TX
San Antonio	Omaha, NE	Garland, TX	Kansas City, MO	St. Paul, MN	Chesapeake, VA
Columbus, OH	St. Louis, MO	Fremont, CA	Virginia Beach, VA		
Milwaukee, WI	Wichita, KS	Des Moines, IA			
El Paso, TX	Santa Ana, CA	Grand Rapids, MI			
Fort Worth, TX	Aurora, CO	Spokane, WA			
Tucson, AZ	Lexington-Fayette, KY	Glendale, CA			
Cleveland, OH	Stockton, CA	Albuquerque			
Norfolk, VA					

Public Participation

HIGH

LOW

Central Management

\*Denotes exemplar municipalities for each quadrant.

**Figure 3:** US Municipalities' Social Media Use – By Quadrant

### **Quadrant I – Low Central Management / Low Public Participation**

Beginning with the bottom left quadrant in figure 3, 28 of the 88 active municipalities (25 percent) place low priority on central management (or coordination) and on public participation in their use of social media. These city governments do not post a general social media policy or a directory of social media accounts on their website – even though most of these cities maintain several different accounts across departments. The design elements of social media accounts often vary (e.g., different color scheme, no consistent logos or themes), and the accounts do not link or follow one another. From a managerial perspective, these governments offer their departments maximal flexibility and the ability to experiment. However, they lack the ability to learn directly from one another, or to coordinate messages.

These cities also do not encourage constituents to provide comments or questions on their social media accounts. They use Twitter and Facebook to make one-way announcements. Their accounts do not link to many constituents. They do not pose questions to followers; and some don't even respond to questions posted by fans on their Facebook pages. This is a quick way to send messages to segmented and interested audiences. However, it does not take advantage of many of the functionalities of social media platforms.

**Los Angeles**, California is a case in point for cities in this quadrant. All social media are available through the Office of the Mayor. (They are not easily accessible through the city's front page). The Mayor attracts fairly large followings on Twitter and Facebook. However, the accounts seem to be used primarily for unmediated announcements. They draw (or show) no comments. The platforms are often used to highlight the same information. There is no posted social media policy to articulate the city's intentions or management philosophy. The city government seems to be skeptical or uninterested in the social functionalities of Facebook, Twitter and YouTube. This finding is striking, since Los Angeles is the second largest city in the US, and since it is home to some of the most widely followed entertainers and personalities in the social media world.

### **Quadrant II – Low Central Management / High Public Participation**

A much smaller group of ten municipalities is classified in Quadrant II. These cities of all different sizes do not post social media policies, and they are not centrally managed across departments. However, they seem to encourage experimentation and public participation through social media. For example, **Lincoln, Nebraska** is a city of 225,000. It is the state capital and dominated by the University of Nebraska. The city shares its web site management and collaborates in other ways with its surrounding county

government. Almost all of the social media focus for the city is in one Facebook account. At the time of the study, this account had approximately 25,000 fans. It's not clear how this site is staffed, or what its main objectives are. We observed no comments from city government officials on the page. It is a very active and social environment. The Facebook moderators ask questions that are fun, unifying and important for Lincoln constituents. These comments can stimulate ideas and investment. They elicit many comments that sustain over time - more than any other city government we observed. The comments are free from spam or marketing. However, comments posted show a wide range of opinions (positive and negative). It is evident that Lincoln's Facebook moderators monitor comments carefully, according to a consistent philosophy which guides their overall use of social media. YouTube is the only other social media application for the city; and, it is not very active. At the time of the study, it hadn't been visited for three months, and it drew only 24 subscriptions.

### **Quadrant III – High Central Management / Low Public Participation**

Thirty municipalities are classified in the upper left quadrant. Social media are centrally managed in these city governments; but, they don't generate much constituent participation. Strategies vary about whether all social media accounts are written or approved by the Office of the Mayor (or City Manager), or whether individual departments run their own accounts. However, each of these cities provides a directory of all authorized city Facebook, Twitter, YouTube (and other social media) accounts. Design elements are generally consistent and quite well-conceived. At the same time, these cities do not encourage or facilitate constituent participation as a key objective.

**St. Petersburg, FL** is a case in point. It is a city of 300,000 – but part of a much larger SW Florida metropolitan area. On its website, the municipal government provides an excellent directory of social media on the front page. This directory shows departments and platforms, tells what the accounts do, and how often they are updated. However, generally all these accounts don't encourage public participation. They are used to make announcements. These accounts don't draw many followers.

### **Quadrant IV – High Central Management / High Public Participation**

Quadrant IV includes 20 cities that emphasize both management/coordination and public participation. For example, **Louisville, KY** has a combined government with Jefferson County. It provides a clear social media directory, published in a grid which lists departments that have





Twitter, Facebook, YouTube and blog accounts. A work order posted on the metropolitan government's site indicates that summer student interns were used to help them develop and manage social media accounts. In addition, the social media directory lists a wide range of topical e-newsletters. Constituents can subscribe to regular emails by topical interest. This is a great way of filtering, and reducing risk of information overflow for users. Accounts seem to be used for optimal purposes. For example, Twitter is used for real-time announcements – such as street closings, traffic updates, etc. Facebook accounts are more social and participatory in nature. For example, the Parks and Recreation Facebook page has over 2,000 fans. This site includes comments from many constituents, plus responses from Facebook page administrators. Responses occur when called for, and are available in a timely manner. The “Bike Louisville” Facebook page is designed for constituents who are committed to using bicycles as a mode of transportation in the city. On this site, a relatively small number of fans (approximately 500) take an active role in informing each other about events, traffic difficulties and road conditions. The Louisville Zoo has 25,000 Facebook fans. Its site is used to share announcements, photos and to respond to constituent questions and suggestions. The Louisville Police Department Facebook page has about 3,000 fans. However, unlike many other cities, the Department uses this site to build trust and involvement from constituents. Often, individual police officers will post updates on crimes in neighborhoods and ask Facebook fans for leads to solve or clear cases. In response, fans post suggestions, offer thanks or commendations for the Department, or raise concerns or complaints.

The range of social media applications managed by the Louisville metropolitan government is depicted in figure 4.

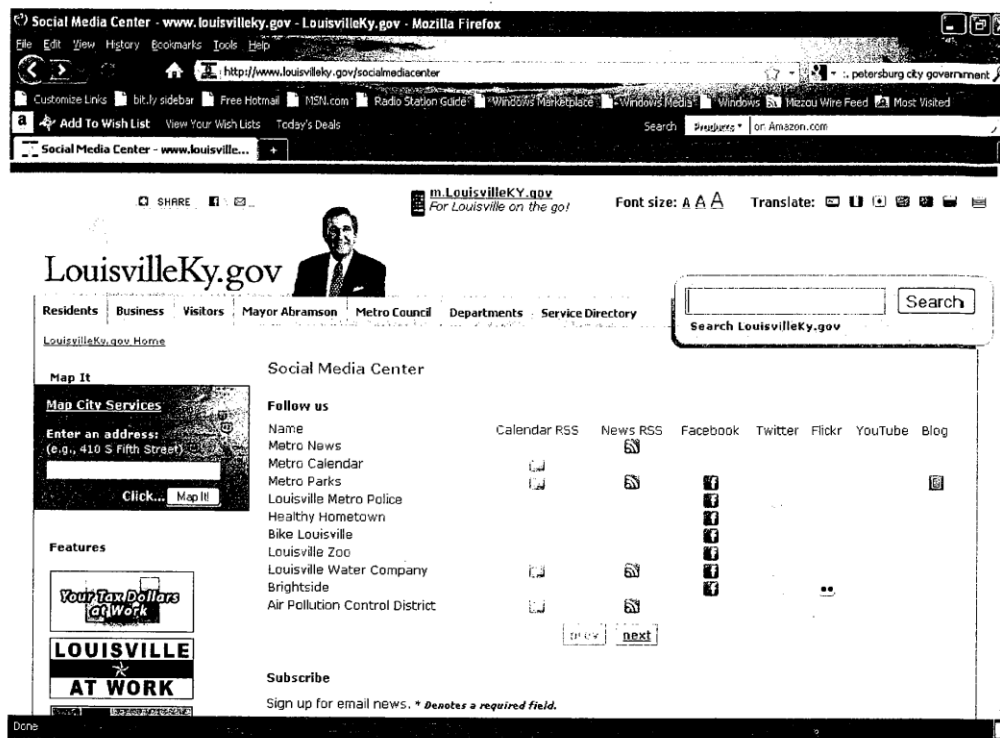


Figure 4: A Sample Municipal Social Media Directory

## Discussion

This paper reports findings from descriptive research on emerging phenomena. It followed an unobtrusive method, so the study did not influence decisions and actions in municipal governments. In that context it documents the extent and variety of social media applications in US local governments, and provides insight to government officials and e-government researchers.

The study shows a wide use of social media across an array of intent and topical foci. It proposes a 2-dimensional mapping of social media use and identifies case studies within each quadrant. The study reveals innovative uses, which may be adopted or adapted by other local



governments. It finds no significant association between population size or form of government and social media management or intent. It suggests that usage is not fully mature. Few cities post a social media strategy or policy, and public record and privacy laws have not kept pace with government practice.

This research has important limitations. It provides a snapshot of a rapidly emerging phenomenon. Applications, as well as organizational and legal context may very well shift over time. As an unobtrusive study, the research attempts to infer or impute local governments' intent by observing social media content. Findings do not consider the views of local government officials, social media managers, or constituent experiences. Finally, the study does not include a full or replicable measure of reach. We don't know how many constituents use social media, or to what extent there's overlap between the people reached via traditional, web and social media channels.

## **Policy**

Nevertheless, this exploratory research points to several policy issues for local government officials. First, it is clear that most of the municipalities observed lack a general strategy with respect to social media. DiMaio (2009) argues that this is an essential issue that can cause significant problems without action. Along these lines, establishing appropriate metrics, and measuring return on objectives (Hutton, 2009)<sup>5</sup> is a key practice for private sector firms, and local government officials must also respond. Local governments must also determine how management of social media accounts fit their organizational philosophy. Owyang (2010) describes a number of management models organizations now use in social media. Most heavily regulated corporations (or administrations) currently use a centrally-organized approach.

Next, local governments need to establish social media policies and staff training, whether or not they use them to engage constituents (Human Capital Institute, 2010). Hrdina, et.al (2010) describe eight essential features of these policies, and provide a wide range of current examples developed by local and state governments.

Future research is needed to address a variety of policy and practical issues, including: 1) measuring the impact (or benefits/costs) of using social media to engage constituents; 2) how to staff social media applications; 3) surveys of local public officials and social media managers on lessons learned and best practices; and 4) how to address legal issues, such as preservation of public records, and maintenance of security and privacy for all involved.

Social media will continue to shape and support the way we communicate and collaborate, offering ever-new and speedy ways to participate in the evolving compendium of human knowledge online. Every organization should be adopting these tools and providing their employees support and guidance to use them productively and intelligently (Blumenthal, 2010).

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**Note:**

- <sup>1</sup> Research on e-government and information technology in local administration is quite broad in scope, and is rapidly emerging. For a recent, more comprehensive review of this literature, see Yildiz, 2007.
- <sup>2</sup> For fuller accounts of the fundamental shift described here, see O'Reilly (2005), Cormode and Krishnamurthy (2008) and Andersen and Wolff (2010).
- <sup>3</sup> DiMaio (2009) and the Human Capital Institute (2010) show that social media are also used by governments for inward-looking purposes, including employee training and professional development, as well as intra- or inter-agency collaboration. However, this study focuses exclusively on outward-looking social media applications.
- <sup>4</sup> Total population of the cities in this research population in 2000 was nearly 56,000,000 – more than twenty percent of US residents.
- <sup>5</sup> (See this graphic).

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**ใบสมัครสมาชิกวารสาร  
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ประเภทสมาชิก

- ☐ คิยัเก่าวิทยาลัยการปกครองท้องถิ่น มหาวิทยาลัยขอนแก่น รุ่ที่ ..... จัังหวดั.....
- ☐ คิยัปัจจุบันวิทยาลัยการปกครองท้องถิ่น มหาวิทยาลัยขอนแก่น รุ่ที่ ..... จัังหวดั.....
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มือถือ..... E-mail Address:.....

- ☐ สมัครงสมาชิกร วารสารการบรหการทอี่งถ่่น ราย 1 ปี  
กำหนดออกปีละ 4 ฉบับ อัตราค่าสมาชิกร 500 บาท (รวมค่าส่ง)
- ☐ สมัครงสมาชิกร วารสารการบรหการทอี่งถ่่น ราย 2 ปี  
กำหนดออกปีละ 4 ฉบับ อัตราค่าสมาชิกร 900 บาท (รวมค่าส่ง)

หมายเหตุ - ชำระเงินโดยตรงที่โครงการวารสารทางวิชาการ วิทยาลัยการปกครองท้องถิ่น  
มหาวิทยาลัยขอนแก่น  
- ชำระเงินโดยซื้อครีฟ ธนาคารไทยพาณิชย์ ส่งจ่ายในนามบัญชี “สนับสนุน  
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