Introduction

Political decentralization and administrative deconcentration are meaningless and will not lead to genuine local autonomy unless local authorities possess the resources necessary to exercise the responsibilities assigned to them. Financial resources are a key element among the different kinds of resources that are necessary and which also include constitutional, legal and human resources. Article 9 of the European Charter for Local Self-government states that ‘Local authorities shall be entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers’ and that ‘Local authorities’ financial resources shall be commensurate with the responsibilities provided for by the constitution and the law’. The same article stipulates that the majority of the local authorities’ financial resources should come from local resources and that, when they come in the form of central government grants, these should be general or ‘block’ grants rather than earmarked for specific purposes. All of this is designed to enhance the local authorities’ autonomy as the basis of the exercise of political and administrative autonomy. Although France has signed but is the only one among the large member states of the Council of Europe not to have ratified the Charter, it does actually put into practice some of these stipulations. Furthermore, some of its provisions have been incorporated into the French Constitution with the 2003 constitutional revision.

Nevertheless, although the principles of local autonomy underlying both the provisions of the Charter and the revision of the French Constitution are fairly clear, their implementation is much more difficult than might seem at first sight. The principle of local autonomy must be reconciled with the principle of national sovereignty since it is the central government which has the final say over the fiscal affairs of the state and must have an overview of the common good. In other words, the principle of local autonomy is not absolute but must be exercised in the context of the
nation-state as a whole. This is an important issue both from the point of view of the theory of the state and the theory of democracy since the question of taxation is central to the latter in the sense that ‘there is no taxation without representation’. The question becomes, then: to what extent should local authorities at different sub-national levels raise and control their own taxes or be funded by grants from central government in ways that they cannot control? Different countries have found different solutions to this question. The Scandinavian countries rely heavily on a local income tax and, in Sweden, this is the only tax that the majority of Swedes pay. Local authorities in Anglo-Saxon countries such as the UK, the US, Australia and New Zealand rely heavily on property taxes and, in the UK, this tax, known as the council tax, is the only form of local taxation. But in most countries, there is a variety of forms of local taxation and this is the case in the Latin countries, Spain, Italy and France, all of which have a variety of local taxes. We might situate France, therefore, as a ‘middle-range’ country with regard to its system of local taxes.

With regard to the amount of funding that comes from central government, French local authorities receive less than half of their funding in the form of grants, despite France’s reputation as a highly centralized country with an interventionist state. This is compared to the UK where 75 per cent, and the Netherlands where 80 per cent of funding comes in the form of grants. Of course, an important issue here is whether this funding is earmarked for specific projects defined by the central authorities or whether it is in the form of block grants over which the local authorities have some discretion. The general tendency across Europe and elsewhere has been to reduce the amount of ear-marked funding and this is in line with the European Charter’s recommendations. The French have also followed this general tendency, although grants are only one source of its funding.

Local finances as part of general public expenditure

Local authorities’ finances are part of the overall national budget of a country and it is useful to see what proportion of this they have. In 2006, total public expenditure in France reached 192 billion euros or 11 per cent of GDP. This represented an increase of 5.1 per cent compared to 2005. Local expenditure is divided between current expenditure, which in 2006 came to a total of 165.5 billion euros (compared to 157.5 billion in 2005), and capital expenditure, which came to 47.6 billion euros (compared to 45.3 billion in 2005). It is again useful to place these figures in the broader context of the situation in other European countries bearing in mind the caveat that it is notoriously difficult to compare fiscal relationships across countries. Table 8.1 shows that, in 2000, local expenditure as part of GDP in France was 9.8 per cent which, once again, placed it in the ‘middle range’ of the EU member states alongside the UK (9.5 per cent) and Austria.