

**Taiwan's Officials' Perceptions of Fiscal Decentralization:
An Analysis Using Q Methodology**

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University of Pittsburgh, 2006

This is a study of subjectivity investigating Taiwanese officials' patterns of attitudes toward fiscal decentralization. This research attempts to understand the process and issues of fiscal decentralization in Taiwan through the eyes of officials participating in this study. It is hoped to examine the national-local dichotomy based on revealed patterns of officials' attitudes and to formulate policy recommendations based on policy consensuses revealed from the study.

Five theories of fiscal decentralization are identified. It is confirmed that national-local dichotomy exists. Authoritative fiscal decentralization is a centralized theory emphasizing national control and monitoring. In contrast, unrestrained fiscal decentralization is a decentralized theory maximizing local administrative and financial freedom. This research further shows that multiple theories of fiscal decentralization coexist in addition to the dichotomy. Cooperative fiscal decentralization is a moderate centralized theory highlighting the importance of trusting and empowering local governments. Democratic fiscal decentralization, on the other hand, is a decentralized theory advocating democratic local participation. Finally, conflicted fiscal decentralization is a moderate decentralization theory asking for more local financial resources and autonomy while ignoring the problem of dysfunctional local politics.

Three short-term policy recommendations were developed: (1) developing indicators of fiscal efforts with local officials' participation; (2) encouraging local governments to apply the General Law on Local Taxation; and (3) increasing the size of national shared tax and eliminating the use of general grants. In addition, three long-term policy recommendations were proposed: (1) sharing power of policymaking with local officials; (2) allowing people to vote on local fiscal policies; and (3) controlling only the minimum level of local tax revenue. It is hoped that these recommendations would be adopted to improve the local fiscal system in Taiwan.

What also matters, however, is the process through which policy decisions are made. As suggested, policy learning of fiscal decentralization has to occur, and an incremental approach

should be adopted for future reforms of fiscal decentralization. Only after a culture of learning, deliberation, and collaboration is developed among stakeholders involving in the policy process, can the local fiscal system in Taiwan begin to evolve and gradually to improve.

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PREFACE

This dissertation is dedicated to my family and doctoral committee who did not give up on me while I was struggling to complete this project. The origin of this project can be traced back to July 1995 when I began my journey to study in the United States. Having a TOEFL score of 467, I would bet my money without hesitation on the Red Sox winning another World Series (they did in 2004) rather than on me completing this dissertation. For this reason, all the credit for completing this dissertation should be given to those who helped me along throughout the process.

Without tremendous help received from my doctoral committee in the Graduate School of Public and International Affairs at the University of Pittsburgh, I could not imagine the completion of this work. I am especially grateful for the support and encouragement of my committee chair, Dr. David Miller, who enthusiastically and patiently guided me through this lengthy but rewarding process. I am also indebted to Dr. Louise Comfort and Dr. Louis Picard for their advice, input, and support while I was finishing this study. I should especially thank to Dr. Charles Wilf who worked tirelessly with me on Q methodology and data presentation at the final stage of completing this dissertation. I also would like to express my appreciation to Dr. William Dunn, who was my advisor when I entered doctoral program. Without his inspiration and encouragement, particularly as I took my leave at the end of 1998, I am not sure that I would have resumed my study and recommitted myself again to pursuing this lifetime goal.

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I know I would not be in this position to fulfill my career goal of being a researcher and scholar of public administration without the support and encouragement of many friends. I would probably have to add another chapter to recognize all of them. I am sorry that I can only name a few since I really want to finalize my dissertation right now, and I am sure all of “you” would understand. I will always remember the friendship and help I received from members of the Liu family during the early stage of my graduate study at Boston University. I also appreciate Director Kin-Folk Chen of the Finance Bureau, Taichung County Government, and Dr. Shou-Chung Ting, Legislator, Legislative Yuan for referring and helping me to set up interviews for my dissertation research. In addition, I would like to acknowledge Denis Michael Hayes for his assistance in correcting my English during the writing stage of this project. Finally, I thank Karen Brockington, Susan Sawyers, and Ann Pollack for their assistance in allowing me to concentrate on finalizing my dissertation right before the defense.

Even if I were to write in my native language, there would be no way to express my appreciation to my wife, Yu-Chi Lin. If I have accomplished or will accomplish anything in my life, it is because of her. I will always keep in my mind how much love, support, encouragement and help I received from my late grandfather, grandmother, parents, and parents in law. My two sons, Yung-Chun and Yung-Hsiung, can always find ways to make me happy. I feel sorry that I could not spend time with them as much as I would like because of my pursuit of this doctoral degree, but, at least, I am delighted that I have not broken my promise of graduating together with my elder son, Yung-Chun, who is graduating from kindergarten in this coming July.

1.0 INTRODUCTION

This is a study of subjectivity. By employing Q methodology, this study investigates Taiwanese officials' patterns of attitudes toward fiscal decentralization. This chapter will begin by defining the problem being studied and briefly discussing the background of this study. The third section of this chapter will discuss contributions that this study intends to make. Finally, the organization of this dissertation will be outlined in the final section.

1.1 PROBLEM STATEMENT

This research aims at investigating officials' patterns of attitudes toward fiscal decentralization in Taiwan. In the broadest sense, the process of fiscal decentralization can be divided into three distinguished but interrelated components, including decentralizing spending responsibilities, transferring national revenues to local governments, and collecting local own-source tax revenues from local residents. Interestingly, some countries pursuing fiscal decentralization, including Taiwan, have mainly focused on decentralizing spending responsibilities and transferring national revenues to local governments while neglecting the decentralization of authority to collect own-source tax revenues, which has been identified by many scholars as one of the key components of fiscal decentralization. In an attempt to better understand the policy process of fiscal decentralization and the obstacles to decentralize the collection of own-source tax revenues in Taiwan, this research will explore patterns of officials' attitudes toward fiscal decentralization, examine factors shaping the identified patterns, and find their differences and similarities to search for policy consensus.

Various reforms of the local fiscal system have been initiated in the past decade to address the problem of poor local fiscal health. Past and ongoing reforms have focused heavily

on making adjustments to the national transfer system in order to make more revenues available to be transferred to local governments. However, this approach has failed since local fiscal health has not improved and in some cases is deteriorating. Although improving local fiscal health through transferring more national revenue to local governments has failed to produce the desired outcome, officials at different levels of government have been unable to reach a consensus on how to decentralize revenue-raising responsibilities to local governments.

The importance of the ability of local governments to collect “own-source” taxes has been well documented in theories of local public finance. Miller (2002: 15) called it “a significant and defining feature of the American system” which makes it possible for local governments to internalize benefits of local public services and enhance economic efficiency, as Tiebout theorized in 1956. Studies of fiscal decentralization around the world have also indicated that a mechanism to strengthen the link between public services received and taxes paid by local residents is essential to successful fiscal decentralization (Giugale, Nguyen, Rojas, and Webb, 2000: 11; Bird and Vaillancourt, 1998: 13). This may, in part, explain why past reforms to improve local fiscal health through transferring more national revenues to local governments have not been successful. As policymakers and local elected officials keep ignoring or delaying the pending reform of shifting the majority of revenue-raising responsibility to local governments, it is important to understand officials’ attitudes toward fiscal decentralization before one can conclude what issues are at stake in the prevention of the adoption of this new system.

Granting local governments authority to collect own-source revenues may have profound implications, both positive and negative, for local fiscal systems. Reliance on own-source revenues, which Miller identified as a “two-edged sword,” may provide ultimate autonomy to local governments for local resource allocation, but it may also “set in motion a potentially dangerous and fiercely competitive battle between governments” (Miller, 2002: 15). Downs (1973) argued that the American “trickle-down” process has resulted in legal and political separation between rich and poor. This indeed reveals a key dilemma for the US local fiscal system. The process Tiebout (1956) theorized for achieving greater economic efficiency has also produced both political and social impairment. In order to minimize political chaos and social harm resulting from pursuing fiscal decentralization, officials from all levels of government should engage in a policy deliberation process for consensus building and addressing their

concerns based on their respective perceptions of what fiscal decentralization is all about. The first step of this process is to better understand their own and other stakeholders' attitudes toward fiscal decentralization before they can compromise to agree on a set of shared objectives and strategies.

This research utilizes Q methodology to uncover officials' patterns of attitudes toward fiscal decentralization. The surveys for this research were developed by combining two general approaches with five objectives of fiscal decentralization supported by current research and theories. A centralist approach is to decentralize financial resources to local governments through national transfers, and a localist approach is to decentralize by granting local governments authority to collect own-source revenues. Policy objectives discussed in this research include: efficiency, autonomy, accountability, development, and equity. These two approaches and five objectives can provide a framework to understand and classify officials' patterns of attitudes toward fiscal decentralization. After obtaining officials' patterns of attitudes through Q methodology, this research intends to find background factors shaping these revealed patterns. It is hoped that conclusions can be drawn from these analyses regarding what patterns of attitudes toward fiscal decentralization Taiwan's officials possess, what background factors have played a role in shaping these patterns, and whether it is possible to reach a policy consensus in order to formulate policies to pursue fiscal decentralization in Taiwan.

Before we go further, it should be noted that, in this study, the term “local governments” generally refers to special cities, counties, and provincial cities, which can be considered as the highest level of local self-governing units after a series of reforms in the local governments system. As we will later discuss in chapter three, urban townships, rural townships, and county cities are also considered local self-governing units based on the Law on Local Governments System. However, because they do not have significant influence in the policy process of fiscal decentralization, they will not be the focus of this study. Accordingly, the terms “local officials” and “local elected officials “ will refer to officials working at special cities, counties, and provincial cities.

1.2 BACKGROUND OF STUDY

Poor local fiscal health is not a new problem in Taiwan. In FY 1992, the annual budgetary expenditures of the counties of Ilan, Nantou, Yunlin, Chiayi, Pingtung, Taitung, Hualien, and Penghu exceeded all of the tax revenues, including local tax revenues and national tax revenues collected within these jurisdictions (Huang, Ming-Sheng, 1995:13). In October 1999, a report released by the Control Yuan¹, the audit branch of the national government, showed that the fiscal condition for 8 out of the 21 county/provincial city governments was rated “very bad” (Central News Agency, October 20, 1999). In an effort to improve local fiscal health, the Law on Allocation of Government Revenues and Expenditures, which regulates tax assignments and expenditures among all levels of government in Taiwan, was amended on January 13, 1999. The amendment reassigned tax revenues to expand the national shared tax pool for revenues to be transferred to local governments. However, the 1999 amendment failed in the sense that while it was intended to provide sufficient local revenue to improve local fiscal health, poor local fiscal health still exists as a problem today. In fact, most reform recommendations to improve the current system have focused on improving the distribution formula of national grants and aids. These recommendations implicitly assume that insufficient local revenues received from the national government are the main reason for poor local fiscal health and that the cure is to distribute additional national financial resources to meet local spending needs. However, no satisfactory result has been achieved.

In addition to the Law on Allocation of Government Revenues and Expenditures, the General Law on Local Taxation may also have a deep impact on local fiscal systems. The bill, the General Law on Local Taxation, was first introduced to Congress in 1999 and was intended to decentralize taxing authority to local governments. It is the first bill to give local governments flexibility to determine local tax rates. The draft was passed in committee in 2001, but it never received enough support and attention to be reviewed on the floor by all members of 4th Congress. Though the bill was later passed by the 5th Congress on November 19, 2002, local

¹ The national government in Taiwan consists of five branches: the Executive Yuan, Legislative Yuan, Judicial Yuan, Control Yuan, and Examination Yuan. The Executive Yuan is the highest executive branch in the government. The Legislative Yuan is the congress. The Judicial Yuan is similar to the Supreme Court in the US; it has the power of constitutional review and oversees the judicial system in Taiwan. The Control Yuan is the audit branch. Finally, the Examination Yuan is a branch which handles public service examinations and other personnel-related affairs.

governments have been reluctant to utilize this new authority to increase local tax rates for additional local tax revenues.

Taiwan, like many other unitary counties, implements a centralized local fiscal system. The majority of local revenues are generated from local taxes, national shared tax, and intergovernmental aid. The national government influences the level of local revenue through the power to set the level of local taxes and the rules for distributing the national shared tax and intergovernmental aid. In FY 2004, 32.42% of overall local revenues were generated from local tax revenues, 19.46% were received from national shared tax revenue, and 34.72% were received from intergovernmental aid. Local taxes include land tax (50.42%), property tax (14.54%), deeds tax (2.54%), license tax (22.18%), stamp tax (3.44%), amusement tax (0.33%), estate and gift tax (2.73%), and cigarette and alcohol tax (3.82%). Except property tax and amusement tax, the tax rates and bases of most local taxes are nationally set in applied national tax laws. Local governments do not have autonomy to adjust the level of local taxation. The national shared tax system is a revenue-sharing mechanism in which funds are distributed from a national shared pool to local governments based on a set of formulas, and it is a national transfer in nature. In fact, national shared tax and intergovernmental aid combined accounted for approximately 55% of local overall revenue in FY 2004. In other words, more than half of the local revenue was directly transferred by the national government in a form of either national shared tax or intergovernmental aid. This further reveals the importance of the national government in determining the level of local revenues.

The power to collect both national and local taxes is centralized. Although local governments can collect local taxes, tax rates and bases are nationally specified in the statute. Before the General Law on Local Taxation was passed in 2002, rates of four local taxes, including the land value tax, land value increment tax, license tax, and stamp tax, were nationally unified. The only exception to this unified approach among taxes significantly contributing to local tax revenues is property. Local governments can set the rates of residential properties at a level between 1.2% and 2%. Even so, the law specifically set the rate of owner-occupied residential properties at 1.2%, which is the lowest point in the range, and eliminates any flexibility for local governments to adjust the rate. Even after the passage of the General Law on Local Taxation, in which local governments can levy new taxes or increase specified national and local tax rates up to 30%, the national government still has the power of final approval.

Although national shared tax revenue is categorized as one of the local tax revenues, it is a national transfer in nature. The current shared tax system is based on the 1999 amendment of the Law on Allocation of Government Revenues and Expenditures, which specifies that 10% of the income tax revenue, 40% of the net sales tax revenue, 10% of the commodity tax revenue, 20% of the land value increment tax revenue, and the interest from the shared tax revenue account should be contributed to the national shared tax pool. 6% of the shared tax revenues from income tax, sales tax, and commodity tax are called “special shared tax revenue”, which is distributed by national government discretion for support of local governments' emergent or other major needs. The remaining revenue is called “general shared tax revenue”, which is distributed based on a yearly-adjusted national formula. One of the major debates on the reform of the local fiscal system focuses on increasing the amount of tax revenues to be contributed to the national shared pool and how the formula of distributing general shared tax revenue can be amended to better reflect local spending needs.

Intergovernmental aid represents the largest revenue source of local governments in FY 2004. Unlike national shared tax revenues, the funds of intergovernmental aid come from different ministries of the national government. Based on the Law on Allocation of Government Revenues and Expenditures, the national government can give grants to local governments for the purposes of equalizing economic development in different localities. As a part of the effort to improve the national transfer system, in 2001 the national government made major changes to the system of distributing intergovernmental aid. On the one hand, the Method for Granting Intergovernmental Aid to Special Cities and Counties/Provincial Cities was published to guide national government decisions on distribution of intergovernmental aid. On the other hand, the Executive Yuan, the highest level of the executive branch of the national government, reviewed all of the national ministries' practices in distributing intergovernmental aid and integrated all aid previously granted for local general expenditures, local development projects, and small local construction projects under direct supervision of the Directorate General of Budget, Accounting, and Statistics (DGBAS), the Executive Yuan. In order for the distribution of intergovernmental aid to be equitable, transparent, and reasonable, the national government specified the ways the aid is distributed. First, the funds were prioritized to bridge the gap between local basic fiscal needs and basic income. Then, a formula was developed to distribute the remaining intergovernmental aid for local basic development. These changes were aimed at not only

fulfilling local governments' basic fiscal needs, but also providing sufficient revenue for educational facilities, social welfare, and basic local construction (Li, 2000: 71).

This centralized local fiscal system had remained virtually the same since 1949. Due to unique political circumstances that Taiwan has encountered internally and internationally, political institutions, including local government systems and local fiscal arrangements, had not made major changes until the democratization movements in the late 1980s and a series of government reforms that followed. In January 1999, the Law on Local Governments System was passed to launch a new era in local self-governance in Taiwan and to reinforce a trend to decentralize public service provisions. Gaining more authority to determine how and how much local public services are provided, local governments have played a much more significant role in providing public services. The trend of decentralizing expenditure responsibilities will continue since a new amendment to the Law on Local Governments System has been proposed and is expected to decentralize more authority, especially to county/provincial city governments. At the same time, a new wave of reform to the system of raising local revenues is expected as well in order for local governments to obtain sufficient revenues for supporting their new expenditure responsibilities. However, there are constant debates among officials regarding how the system of raising local revenues should be designed. In order to better understand the nature of these debates and search for potential resolutions, it is important to uncover officials' patterns of attitudes toward fiscal decentralization. Knowing how officials working at different posts perceive the concept of fiscal decentralization, where their priorities are, and what is at stake, a feasible proposal for a future system may emerge to improve the current local fiscal system.

1.3 SIGNIFICANCE OF STUDY

An analysis of officials' patterns of attitudes toward fiscal decentralization is the first step necessary to design a feasible and successful fiscal decentralization proposal. Many scholars studying fiscal decentralization have focused their research on either building a normative model or documenting efforts taken in many developing countries. This body of literature provides knowledge of principles of designing an ideal fiscal decentralization proposal. However, as Eaton (2001:122) pointed out, "short-term political calculations determine the form that

decentralization actually takes.” Noticing the fact that public policy is not made and implemented in a vacuum, Stone (1997) has taught us the importance of politics, political claims, and policy arguments. Wildavsky (1969) further argued that “the purpose of policy analysis is not to eliminate advocacy, but to raise the level of argument among contending interests.” In other words, if a proposal of fiscal decentralization is going to be successfully legislated and implemented, each of policy stakeholders' interests should be respected and discussed in the policy deliberation process. Therefore, this research intends to raise the level of current policy debates by understanding how these officials perceive fiscal decentralization and what policy objectives they considered important to achieve during the process. After different policy interests of officials involved in the process are uncovered, it is possible to search for a feasible proposal which will properly address these different interests and concerns.

This study further adds to the literature of fiscal decentralization by testing whether these identified patterns of attitudes are closely correlated with certain local jurisdiction attributes. This line of inquiry is important for policymakers to ensure that social equity is not lost during the fiscal decentralization process. Frederickson (1971) has emphasized the importance of “social equity” in the delivery and performance of public services. He said that “[p]luralistic government systematically discriminates in favor of established stable bureaucracies and their specialized minority clientele and against those minorities who lack political and economic resources” (Frederickson, 1971). In the context of designing a fiscal decentralization proposal in Taiwan, it is essential for policymakers to address the concerns and interests of officials from jurisdictions with less political and economic resources. By examining whether officials who possess the same pattern of attitudes also serve at jurisdictions with similar social and economic attributes, it becomes possible for policymakers to identify these concerns and interests which need to be addressed during the fiscal decentralization process in order to ensure social equity.

This study also adds to the literature of fiscal decentralization by examining whether a central-local dichotomy exists in pursuing fiscal decentralization in Taiwan. Fiscal decentralization can only be realized when the national government and local governments work together to legislate a set of shared principles and then implement them. In Taiwan, there seems to be a major difference between the national government and local governments in ways of pursuing fiscal decentralization. For example, in December 2001, disregarding strong opposition from the national government, Taipei City Mayor Ying-jeou Ma utilized his popularity and

support in the Congress to successfully amend the Law on Allocation of Government Revenues and Expenditures, thereby securing 15.5% of the general shared tax for the Taipei City government which would be received annually from the national government. In addition, more than three years after the General Law on Local Taxation was passed, there have been only a few attempts of special city, provincial city, and county governments to utilize their new authority for collecting additional local revenues. After identifying officials' patterns of attitudes toward fiscal decentralization, this study will further examine whether officials from the national government and local governments possess different opinions. If so, this study not only will demonstrate that a central-local dichotomy does exist, but also will facilitate policymakers' awareness of these differences in order to search for the best possible compromise proposals.

Finally, this study contributes to the existing literature of fiscal decentralization by examining whether officials' perception of the national-local dichotomy can be generalized and whether officials' perceptions of fiscal decentralization can be summarized into two general patterns. It is often noted that national officials tend to resist reforms decentralizing the revenue-raising authority while local officials are often strong supporters of such reforms. In fact, such a notion may not be true in Taiwan since local officials have been hesitant to utilize new authorities granted by the General Law on Local Taxation to locally raise taxes. Therefore, by probing into officials' perceptions of fiscal decentralization, this study can confirm whether such notions can be generalized or, at least, applied to Taiwan's case. In addition, this notion implicitly suggested that there are only two general patterns of perceptions of fiscal decentralization, namely a national pattern and a local pattern. By revealing patterns of Taiwanese officials' perceptions of fiscal decentralization, this study provides evidence to see whether officials' views can be summarized into two general patterns. If there are more than two patterns of officials' perceptions revealed, this study further adds to the literature by identifying these patterns in addition to the often perceived national and local patterns.

In summation, as Bird and Vaillancourt argued, "policy recommendations in the area of intergovernmental finance must be firmly rooted in understanding the rationale of the existing intergovernmental system and its capacity for change if they are to be acceptable and if accepted, successfully implemented" (1998: 35). While this study alone does not pretend to offer an ideal reform proposal to the current fiscal decentralization movement in Taiwan, it can be a step toward understanding the nature of the current system and its potential for change by

systematically analyzing concerns and interests possessed by major participants involved in the policy process.

1.4 ORGANIZATION OF DISSERTATION

This dissertation contains eight chapters. The first chapter, an introductory chapter, intends to provide a basic understanding of this dissertation research. The second chapter, a literature review, surveys literature written concerning fiscal decentralization. There are three sections in this chapter, including concept and theoretical debates of fiscal decentralization, the political nature of the fiscal decentralization process, and approaches to achieve policy objectives of fiscal decentralization. The goal of the second chapter is to provide a theoretical rationale for conducting this research.

Chapters Three and Four provide an overview of current Taiwan's local governments system and the local fiscal system. The first section of Chapter Three is a historical review of the local governments system development, which is followed by the discussion of two recent reforms of the local governments system. The chapter ends with analyses on four selected issues of future reforms. Chapter Four begins to introduce the local fiscal system in Taiwan with an overview of the local revenue-raising system. Then more detailed discussion is conducted for three major local revenue sources, including local taxes, national shared tax, and intergovernmental aid. The third section of the chapter examines the impact that a centralized and uniform local revenue-revenue raising system has made on setting the level of local spending. At the end of the chapter, the direction of future reforms of the local fiscal system is suggested.

Chapter Five introduces the methodology used in this dissertation to conduct research and analyses. Research questions and hypotheses are developed in the first section, and the research design is provided in the second section of this chapter. The third section of this chapter explains and documents the process to select Q statements used in this research. There are four sections in Chapter Six. The results obtained from using Q methodology and a preliminary analysis of these revealed patterns are provided in the first section. Through each pattern's factor arrays, we explore which approach and which policy objectives of fiscal decentralization these patterns tend to be in favor of. The second section of this chapter defines each pattern by identifying

distinguishing statements and statements they feel very strongly about. The third section of this chapter examines hypotheses formulated in the beginning of Chapter Five to see whether the organizations or positions officials served have impacts on their perception and attitudes toward fiscal decentralization. In the final section, theories of fiscal decentralization are developed to conceptualize national-local relationships and policy actions of each revealed pattern in Taiwan.

The focus of the Chapter Seven is to compare, contrast, and evaluate five revealed patterns of attitudes in order to identify issues as to which policy consensus might be reached. The first section of the chapter compares the differences in views toward fiscal decentralization among the five patterns. The second section analyzes their consensus concerning points of disagreement in pursuing fiscal decentralization, and the final section of this chapter analyzes their consensus concerning points of agreement. Chapter Eight, the final chapter of this dissertation, provides policy recommendations and conclusions for the study. Policy recommendations are made based on the consensus shared by officials among all patterns to suggest what should be done in promoting fiscal decentralization in Taiwan. Then the study is concluded with a briefly summary of this study and suggestions for future research.

2.0 LITERATURE REVIEW

The main objective of this research is to investigate officials' patterns of attitude toward fiscal decentralization. This inquiry attempts, first, to see if there are differences between officials' attitude toward fiscal decentralization, and what factors may play a role in shaping these differences. Second, this research will analyze these different patterns of attitude in the search for potential policy consensus. It is hoped that these policy consensuses might become a starting point for implementing fiscal decentralization in Taiwan. In order to provide a theoretical background for this study, this chapter surveys current literature on fiscal decentralization, the politics of fiscal decentralization, and competing views on ways to achieve policy objectives of fiscal decentralization.

The first part of this chapter will define the concept of fiscal decentralization and theoretical debates concerning how to pursue fiscal decentralization. The second part of this chapter will shift the focus to the political arena. It will review existing literature on why and how politics affect the outcome of fiscal decentralization reform. The rationale for developing this study's hypotheses will also be discussed in this section. Finally, the last part of this chapter will identify five policy objectives essential to fiscal decentralization, along with competing views on how to achieve these objectives. These debates will also become a basis for constructing the Q statements used in this research.

2.1 CONCEPT AND DEBATES OF FISCAL DECENTRALIZATION

Fiscal decentralization has become a popular policy means in many developed and developing countries to improve their governance. Fukasaku and Mello (1999: 9) asserted that “[f]iscal decentralization – the devolution of taxing and spending powers to lower levels of government –

has become an important element of fiscal reform in both OECD and non-OECD countries.” The goal is to give local governments more financial resources for delivering local public goods and services. The assumption is that local governments are closer to local people, and are more familiar with what is necessary to adequately address growing and different local needs. As Rao (1998:87) argued, “efficiency under fiscal decentralization is enhanced because of the matching of the supply of public services with demand.”

Although many countries have used the term “fiscal decentralization” to label their fiscal reform efforts, actual designs vary from country to country. A question can be derived from this observation: is there a set of universal principles by which to design fiscal decentralization reforms? Litavck, Ahmad, and Bird (1998: 10) have pointed out that the emphasis of fiscal decentralization “is on setting the appropriate expenditure and tax assignment for each tier of government and on designing intergovernmental transfers.” In other words, the core of designing a fiscal decentralization reform is to redefine fiscal relationships between a national government and its subnational governments. It seems, however, that there is no simple answer in regards to how this relationship should be redefined. Citations from Norregaard (1995), Bird and Vaillancourt (1998: 22) assert that as wide a range of institutional structures and relations is found within nominally federal countries as within nominally unitary countries. They further argue that “[t]he constitutional label matters less than the reality of how intergovernmental relations work in practice” (Bird and Vaillancourt, 1998: 22). Each country pursuing fiscal decentralization must “develop its own strategy of decentralization and its own particular institutional infrastructure in accordance with its history, its objectives, and the constraints it faces” (Giugale, Nguyen, Rojas, and Webb, 2000: 2). Bird and Vaillancourt (1998: 2) agreed and stated that:

The essence of decentralization is that it does not occur in general but rather in a particular country – in a country with its own specific institutional, political, and economic context. Moreover, ... decentralization has taken many different forms in different countries at different time, and even exactly the same variety of decentralization may have very different effects under different conditions

While institutional designs to pursue fiscal decentralization vary from one country to another, they nonetheless can be categorized into two broad patterns (Bird and Vaillancourt,

1998: 22-28). Bird and Vaillancourt called the first model “fiscal federalism” under which “local governments may for most purposes be considered to be agents of the [national] government rather than independent actors” (1998:23), while the second model, called “federal finance”, involves “bargaining between principles” (1998: 25). What distinguishes these two patterns is the degree of autonomy subnational governments possess in making local spending and revenue-raising decisions. It is noted that fiscal federalism is a centrally-oriented model which emphasizes the role of a national government in ensuring the success of fiscal decentralization reform. In contrast, federal finance is a locally-oriented model which advocates that sub-national governments should have greater autonomy and discretion to make local fiscal decisions. In fact, King (1997) labeled the fiscal federalism model as a “centralist approach” and the federal finance model as a “localist approach.” In hopes of better reflecting the underlining meaning and consequences of these two approaches, this study will employ King’s terminology.

Both approaches have benefits and problems, and neither is superior to the other. They can be viewed as two ends of a continuum for designing fiscal decentralization strategies. These two approaches will be examined in greater detail in order to provide a basic understanding of current debates concerning fiscal decentralization.

2.1.1 Centralist Approach

The centralist approach recognizes many benefits that will result from decentralizing public service provision to lower levels of government, but it also emphasizes the role played by the national government in such a decentralized system. Bird and Vaillancourt (1998: 23) elaborated: “the [national] government, acting as the benevolent interpreter of the will of the people, is given guidance as to how to structure the institutional rules of the intergovernmental system in order to ensure that local government agents act as the [national] government would wish.” Under this approach, it is usually observed that national governments are heavily involved in centrally-directed fiscal decentralization to transfer more financial resources through intergovernmental transfers and to grant local governments additional authority for service provision while maintaining their dominant role in collecting revenues.

Boadway offered a rationale for the national government to raise more revenue than it needs and to transfer the excess to local governments (2001a: 111-112). He argued that the case

for decentralizing expenditures to local governments is much greater than the case for decentralizing taxes. While many countries have decentralized public service provision in major policy areas, taxes are still administered at the center. Under such a system, distortion, which derives from a fragmented tax system, can be avoided, and a uniform standard of redistribution can be applied. In addition, intergovernmental transfers can be utilized as a policy tool for the national government to fulfill its responsibility of achieving efficiency and equity for the entire country.

The centralist approach claims that an efficiency gain will result from decentralizing public service provision to local governments. Public goods and services provided by national governments are usually uniform and are unable to respond to different preferences among taxpayers. As Oates (1999: 1123) observed, “there are typically political pressures (or perhaps even constitutional constraints) that limit the capacity of central governments to provide higher levels of public services in some jurisdictions than others do.” Efficiency will be improved through decentralization of public service provision because local residents will have an opportunity to choose from different public service packages to best meet their different preferences. Oates (1999: 1122) noted, “the level of welfare will always be at least as high (and typically higher) if Pareto-efficient levels of consumption are provided in each jurisdiction than if any single, uniform level of consumption is maintained across all jurisdictions.”

Decentralization of information and authority can also lead to increased efficiency. Inman and Rubinfeld (1997: 44) identified the value of decentralization, stating that “it encourages an efficient allocation of national resources; it fosters political participation and a sense of the democratic community; and it helps to protect basic liberties and freedoms.” Qian and Weingast (1997: 85-88) elaborated and claimed that efficiency would be increased through decentralization of authority and information. They argued that decentralization of authority and information would give local executives more incentives and more policy means to provide local public services more efficiently. Since local governments are closer to the people, they are in a better position to make informed decisions and to be more responsive. In addition, because of the opportunities, as well as constraints, faced by local officials, decentralization will lead to more improved and innovative ways of providing public services and, therefore, will result in an efficiency gain (Boadway, 2001a: 100-101).

The main benefit to be gained by adopting the centralist approach is to ensure that national objectives will not be undermined during the process of decentralization. While most local revenues are decentralized through intergovernmental transfers, national governments will maintain their control over local governments. As Boadway (2001a: 102) argued, the “benefits of decentralization can only be acquired by inducing some potential sacrifices in efficiency and equity.” In order to maximize the benefits of fiscal decentralization while controlling the costs deriving from local dysfunctional competition and fragmentation, there is a need for national governments to maintain their control over financial resource distribution in a decentralized fiscal system.

However, there are risks involved in using intergovernmental transfers as a main avenue for decentralizing financial resources to local governments. First, intergovernmental grants tend to encourage local overspending. After analyzing the effect of intergovernmental transfers on local spending, Oates (1999: 1129) confirmed the “flypaper effect,” whereby “state and local government spending is much more responsive to increases in intergovernmental receipts than it is to increases in the community’s private income.” Buchanan (1987: 131) articulated Puviani’s idea of fiscal illusion to demonstrate that taxpayers may fail to make correct fiscal choices when “the connection between the total amount of resources actually utilized in producing or supplying public services and any individualized share in this total may be obscured to the taxpayer.”

Another concern raised for the extensive use of intergovernmental grants is a loss of local autonomy. As King (1988: 13) noted, “[i]t is unlikely that any central government would, and very debatable whether any such government should, distribute grants without exercising fairly close control over the way in which they are spent.” In other words, because central governments can tightly control how those grants are spent, local preferences will be distorted. Moreover, this distortion is more serious for a recipient government of a matching grant, which requires additional local revenues to be spent on non-local prioritized policy initiatives. Accordingly, efficiency is lost because of local governments’ inability to meet local preferences after receiving intergovernmental grants.

When adopting the centralist approach, national governments decentralize selected public service functions to gain efficiency while maintaining considerable revenue-raising responsibility at the center. Local governments are merely agents of the national government

and act on behalf of the national government to provide decentralized public services. In this pattern, intergovernmental transfers play a central role in decentralizing local revenues. The localist approach, where local governments play a more significant role in making both local revenue-raising and spending decisions, provides an alternative choice to fiscal decentralization.

2.1.2 Localist Approach

Contrary to the centralist approach, where the national government's policy preferences are clearly dominant, in the localist approach, fiscal policy decisions are determined jointly by both levels of government in some appropriate political forum (Bird and Vaillancourt, 1998: 25). In other words, local governments are not merely agents of a national government, and they usually enjoy greater discretion to make local fiscal decisions, including the authority to collect own-source revenue. Such authority is, in fact, critical in the localist approach because it makes local governments more financially independent and better positioned to resist mandates from the center. Once local governments have more autonomy to decide the level of local public spending and to meet different local needs, according to public choice theorists, there would be an efficiency gain.

As first outlined in Tiebout's (1956) seminal work, public choice theorists argue that efficiency of local resource allocation would be improved through private-market-like competition among localities. As Tiebout (1956: 421) said, his model "is presented to show the assumptions needed in a model of local government expenditures, which yields the same optimal allocation that a private market would." Public choice theory is concerned with "the possibility that consumer residential mobility among competing local communities may lead to efficiency in providing local public goods. [Differences] in public-good demand may also be resolved by moving or, more correctly, by grouping together consumers with the same demand" (Fisher, 1996: 104). In Tiebout's original model (1956), the level of services is a reflection of the median voter's preference in a community, and taxpayers move in order to find a community that best satisfies their preference. Aggregate efficiency in a society is maximized when everyone moves to the community exactly matching his or her preference. In order for the efficiency gain theorized by public choice theorists to be realized, it is essential for local governments to set the level of local spending to reflect taxpayer preference.

Public choice theory was extended to focus more on competition and on efficiency achieved through competition. Boyne (1996: 704) argued that “competition is necessary for ‘allocative efficiency’ which concerns responsiveness to public preference in the allocation of resources between services and areas.” He further pointed out that competition is also necessary for “x-efficiency (technical efficiency) which concerns the production of services at minimum cost” (Boyne, 1996: 704). Qian and Weingast (1997: 88) noted that “competition among local governments helps to limit government’s predatory behavior. Mobile resources can quickly leave jurisdictions with inappropriate behavior.” For example, if a local government cannot properly maintain public infrastructure, residents and businesses will soon move to other competing jurisdictions where public infrastructure is properly maintained.

Though public choice theory was extended to point out the benefits resulting from competition, its original argument is more relevant to the discussion of the localist approach to fiscal decentralization. In fact, what distinguishes a centralist approach from a localist approach is local governments' authority to raise own-source revenues. Without this authority, there would be no clear linkage between the level of local public spending and local voters’ tax payments. Accordingly, local taxpayers will not be aware of the full costs of local public services they receive and, hence, will not be able to make informed decisions about their residence. As a result, efficiency gains derived from local taxpayers' mobility envisioned by Tiebout will not be realized. Boyne (1996: 712) emphasized the importance of local fiscal autonomy: “[even] if local government is fragmented and each unit has substantial autonomy over the pattern of service provision, the full benefits of competition will not be realized if central grants are high.” Dye (1990: xvi) also pointed out that local governments cannot “be truly competitive if the costs of their decisions can be externalized – shifted through federal grants-in-aid to the national government and to taxpayers throughout the nation.”

Scholars have expressed concerns about spillover effects, which “will lead to incentives for insufficient resource allocations across regions and inefficient levels of taxes and public services within them” (Boadway, 2001a: 104). Boadway (2001a: 105-106) summarized the spillover effect and pointed out that there are tax externalities, expenditure externalities, and regulation externalities. All three externalities can distort the level of local service provision, and result in an efficiency loss. In addition to spillover effects, externalities may also occur because some tax bases are co-occupied by the national government and local governments

(Boadway, 2001a: 107). For example, if a local government raises the tax rate on a co-occupied tax base, the tax base will shrink. Because the national government occupies the same tax base, its revenue will shrink as well. This will then lead to a possibility that local governments set tax rates too high because a proportion of the tax burden will be exported through shrinking tax bases.

Furthermore, serious concerns about equity have been raised as well. First, “the extent of mobility may differ across different types of households or firms, in which case the most mobile command the most preferential policies” (Boadway, 2001a: 100). Unfortunately, wealthier people or households usually have greater mobility and, therefore, enjoy greater advantages in accessing favored policies in the system. Moreover, the system will result in legal and political separation between rich and poor, identified by Downs (1973) as the American “trickle-down” process. This process takes place mostly because a poor community will not have an adequate tax base to generate sufficient tax revenues for maintaining an appropriate level of public services. As a result, a sorting process starts as relatively wealthier people leave for another community and the poor community becomes poorer. In order to avoid this sorting process, communities have to compete for limited business and development to generate tax income and remain competitive. When competition becomes dysfunctional, communities begin to promise businessmen and developers tax breaks, which in the end hurt overall development.

Although public choice theory has provided a theoretical basis for efficiency gain resulting from adopting a localist approach, concerns for inefficient levels of local spending and inequity have to be addressed. These concerns also lead to discussion about the role of a national government in a localist approach. Oates (1999: 1126) has pointed out that “[i]ntergovernmental transfers can serve as a policy instrument in such a decentralized system to internalize spillover benefits to other jurisdictions, to equalize fiscal conditions across jurisdictions, and to improve overall tax systems.” Boadway (2001b: 105) also noted that intergovernmental transfers “can be looked at as policies that facilitate the decentralization of fiscal responsibilities, ensuring that the benefits of decentralization are achieved without compromising national objectives of efficiency and equity.” That is to say, a national government in the localist approach (like its counterparts in the centralist approach) also has to utilize intergovernmental transfers as a policy tool. However, instead of transferring additional financial resources to support decentralized public

services, the emphasis in the localist approach is to internalize the spillover effect, equalize regional fiscal conditions, and ensure equity.

In terms of the amount to be transferred, combinations of fiscal-capacity-based indicators or fiscal-need-based indicators are developed to construct transfer formulae. Fiscal-capacity-based indicators intend to capture the magnitude of regional income or economic activities, while fiscal-need-based indicators intend to reflect the basic fiscal needs of each locality. In addition, redistributive intergovernmental transfers can be based on a minimal level of service provision set up by a national government. In summation, a national government plays a limited but essential role in the localist approach to ensure that national objectives of efficiency, and equity would not be undermined by fiscal decentralization efforts.

Aiming to address many U.S. urban problems, like sprawl, social/economic segregation, urban decay, fiscal disparities among jurisdictions, and public service duplication, fiscal regionalism has attracted much attention in the United States. Wheeler (2002: 267) has pointed out that “[s]ince the early 1990s, there has been a dramatic resurgence of interest in regional planning in North America.” Fiscal regionalism “is a set of cooperative strategies that recognize the governmental structure of the existing configuration of local governments but create regional funding mechanisms for a wide variety of public purposes” (Miller, 2000: 8; 2002: 101). It is a voluntary, non-threatening, bottom-up process that encourages local governments and their constituencies to recognize the need for regional fiscal cooperation. Bish (1978: 29) argued that cooperation is likely only when “each political unit offers something of value to the other, e.g., the exchange of efficient production capacity for revenue.” He further pointed out that “intergovernmental cooperation – especially that involving fiscal transfers – may be undertaken precisely because each party has different capabilities and different policies” (Bish, 1978: 30). When a locally funded program or service has regional impact or benefits, it creates not only incentives but also the need to create a regional funding mechanism. This mechanism enables benefits to spill over local governments' boundaries while internalizing funding responsibilities within a beneficial regional area.

Fiscal regionalism has many forms, including culture asset districts, tax-base (revenue) sharing, and peaceful coexistence strategies (Miller, 2000: 8; 2002; and Hollis, 1998). It makes it possible to transfer fiscal resources without higher-level government intervention. Although it provides a new way of thinking in financing regional programs, it may be extremely difficult to

implement, as best demonstrated by the inability to duplicate the Twin Cities' tax-base sharing program. As Boadway (2001b: 108) argued, "interregional bargaining is likely to come to naught since better-off regions are unlikely to condone a bargaining outcome which gives them negative transfers." Nonetheless, fiscal regionalism points out a way for local governments to cooperatively deal with inefficiency and inequity that result from the adoption of the localist approach while maintaining their local autonomy and authority during the process.

Whether intergovernmental transfers are used or a fiscal regional approach is adopted to address concerns of the localist approach, the key is to "strengthen the link between subnational spending choices and self-taxing decisions" (Giugale, Nguyen, Rojas, and Webb, 2000: 11). Indeed, fiscal decentralization generally involves decentralizing either expenditure responsibilities or revenue-raising responsibilities, or both. Relationships between these two local financial functions will deeply affect the behavior of local governments. Bird and Vaillancourt (1998: 5) observed, "if countries decentralize more expenditure responsibilities than revenue resources, either service levels will likely fall or else local governments will press – successfully, it is usually assumed – for either more transfers or more loans, or both. ... On the other hand, if more revenues than expenditures are decentralized, it is often argued that local revenue mobilization may decline." Thus, a successful strategy based on the localist approach will require a careful design to decentralize both expenditure and revenue-raising responsibilities.

2.1.3 Is There a Right Approach

Both the centralist approach and the localist approach cannot only be viewed as descriptive theories but also as normative theories. That is to say, in addition to summarizing current practices of many countries pursuing fiscal decentralization, these two approaches can be utilized as guidelines for countries to design their strategies for fiscal decentralization. In addition, these two approaches can also be deemed as two ends of a continuum. On the centralist approach end of the continuum is the pursuit of centrally directed fiscal decentralization with the national government maintaining primary control. On the localist approach end of the continuum is the achievement of fiscal decentralization by giving local governments greater authority to collect own-source revenues with little interference from the national government. The actual models of

fiscal decentralization used by various countries can be expected to fall somewhere between these two ends of the continuum. In other words, having these two general approaches in mind, countries pursuing fiscal decentralization should adjust their models to reflect their respective cultures, political institutions, and economic capacities and capabilities.

Some have argued that a unitary state tends to adopt the centralist approach, whereas a federal state tends to adopt the localist approach. Although not directly dealing with national-local fiscal relations, Zimmerman's work (1981) on analyzing U.S. state-local fiscal relations provided insights relevant to our discussion. He suggested that there is no rule of thumb for decentralizing discretionary authority to local governments, whether in states where state governments are fiscally dominant (the centralist approach) or in states where state governments are not fiscally dominant (the local approach) (Zimmerman, 1981). Bird and Vaillancourt (1998: 22) confirmed by emphasizing that "[t]he constitutional label matters less than the reality of how intergovernmental relations work in practice." For example, "[d]espite the fact that constitutional provisions suggest that the federal finance (localist approach) perspective characterizes intergovernmental fiscal relations, the empirical evidence that has been gathered clearly shows that Argentina is one of the more fiscally concentrated federations in the world" (Rezk, 1998: 214-215). That is to say that the decision to choose one approach of fiscal decentralization over the other is not only based on economic efficiency and constitutional provisions. In order to gain a complete understanding of how fiscal decentralization decisions are made, it is necessary to take politics into account.

2.2 THE PROCESS OF FISCAL DECENTRALIZATION

The two approaches discussed in the earlier section provide a theoretical rationale for and means to pursue fiscal decentralization. However, public policies are not made and implemented in a vacuum, and compromises made by political actors are usually involved in the process. As Wilson (2003: 319) suggested, "[a] multi-level governance framework incorporates the numerous negotiated exchanges which characterize governance at sub-national level. It recognizes changes in the style of governing relationships, not just the number and types of institutions." Therefore, the political process of fiscal decentralization is discussed in this

section to further our understanding of the politics affecting the formulation of fiscal decentralization proposals and the interests of different stakeholders in the process.

2.2.1 Political Maneuver of Fiscal Decentralization

In an effort to understand why national politicians would surrender power to pursue decentralization, Eaton (2001: 104) argued that they “may cede some of their power in the short term in order to bolster their overall positions in the long term.” He continued, “national politicians endorse decentralization not so much as a matter of choice, but rather because they are forced to do so by pressures from below. ... [E]ven when decentralization is indeed initiated by central state actors, this support may reflect short-term, highly strategic political calculations” (Eaton, 2001: 104-105). Although Eaton was correct in pointing out the importance of national politicians’ political calculations in the decision-making process of fiscal decentralization, he overlooked the influence that sub-national politicians may have in the reform.

Indeed, both national and sub-national politicians will try to influence policy outcomes of fiscal decentralization based on their respective political interests. Therefore, as Willis, Garman, and Haggard (1999: 7) stated, “[f]iscal decentralization must be understood as a political bargain involving presidents, legislators, and subnational politicians, each having somewhat conflicting preferences.” Based on this statement, we can conclude first that policy decisions of fiscal decentralization are results of political bargain. Second, principle actors in the process are presidents, legislators, and subnational politicians. Third, each actor has different policy preferences. These views will be discussed in greater detail in this section to not only better understand the policy process of fiscal decentralization but also provide a rationale to study officials’ patterns of attitude toward this policy area.

Although proponents of fiscal decentralization often argue its value from an economic efficiency perspective, many case studies in the developing world have suggested that political calculations made by national and local politicians are the true forces necessary for the adoption of various reform efforts. Eaton (2001:122) pointed out that “cross-border pressures (e.g. democratization, economic liberalization, and the preferences of external donors) certainly set the stage for decentralization, however, short-term political calculations determine the form that decentralization actually takes.” Economic efficiency, at least in most cases, may not be the true

motivation for political actors in developing countries to pursue fiscal decentralization. Quoting from Rondinelli, Nellis, and Cheema (1983), Park (1996: 12) argued, “decentralization is ultimately a political decision, and its implementation is a reflection of a country's political process.”

While viewing the process of fiscal decentralization as a series of interactions made by politicians to maximize their political self-interest, the framework used to analyze such reform efforts should go beyond economic efficiency. In summarizing lessons of fiscal decentralization learned in developing countries, Bird and Vaillancourt (1998: 35) asserted, “what may matter more than the precise nature of the technical solutions found in the different countries is the process through which such solutions are reached.” Therefore, if policy recommendations are “to play a meaningful role in the essential political process of intergovernmental bargaining, the institutional framework must be one that accommodates the analysis in the process of achieving sufficient consensus for decision-making purposes in a society which is complex and divided” (Bird and Vaillancourt, 1998: 36). This also reveals the value and importance of studying political actors’ subjective perception in the area of fiscal decentralization to see if there is common ground helpful for reaching a policy consensus.

As Willis, Garman, and Haggard (1999: 7) pointed out, political actors involved most in the process of fiscal decentralization are Presidents (national executive branch), Legislators (Congress), and sub-national politicians (local officials). Indeed, compared with other policy areas, the policy process of fiscal decentralization is more complex because it involves not only policymakers in the national government but also officials from sub-national governments. Although it may be true that national-local negotiations are “rarely exchanges between equals” (Wilson, 2003: 335), Falleti (2005: 328) argued that “a wide array of social and political actors, including the governors and their ministers, the mayors, the governors’ and mayors’ associations, the unions of the sectors to be decentralized, and other sectors of civil society are also the makers of decentralization.” Local governments can often influence policy outcomes of fiscal decentralization by complying with or resisting the policies made at the center.

As a result, in order for fiscal decentralization reform to be successful, not only must national politicians in both executive and legislative branches reach an agreement and enact reform proposals into the law, but also sub-national politicians (particularly when they are popularly elected) need to be included in order to faithfully implement the law. If sub-national

politicians do not agree with the way in which fiscal decentralization takes place, they can easily resist the reform by passively taking no action for implementation. For example, when a law is passed by the congress to allow local governments the authority to raise local taxes, local governments may choose not to use this authority to increase local revenue because they feel it is not politically viable for them to do so. They can easily resist this national effort to increase locally raised tax revenues by doing nothing. Consequently, participation of sub-national politicians in the decision-making process is important for any successful fiscal decentralization efforts. In summation, while national politicians have legislative authority to make and modify decisions of fiscal decentralization, their efforts will not be lasting or ultimately successful if sub-national politicians do not work closely with them to carry out various initiatives made by central authorities.

Before our discussion switches to each of these political actors' preference in the process, we must also note that the general public or citizens seem to be more involved in the process of political decentralization, compared with fiscal decentralization. They have previously neither been interested in, nor become a driving force for efforts to pursue fiscal decentralization. This may also explain why fiscal decentralization has not been high on the political agenda (at least in Taiwan), even though the issue is widely studied in academia. This also creates more freedom and leverage for political actors to make fiscal decentralization decisions based on their own political interests, because their constituents do not have clear preferences on how fiscal decentralization should be achieved.

If key actors in the process share similar views of how reform should proceed, initiatives of fiscal decentralization should be more likely to be successfully implemented and longer lasting. Unfortunately, experience in countries pursuing fiscal decentralization often demonstrates that decentralization efforts are often challenged by numerous attempts to reverse the efforts. For example, in summarizing Argentina and the Philippines's efforts for decentralization, Eaton (2001: 101) stated:

In Argentina, President Carlos Menem partially reversed the previous decentralization of revenue because fiscally-independent provincial governors were a challenge to his political interests and capabilities. In the Philippines, legislators attempted to reverse and then circumvent decentralization since it threatened their status as brokers claiming personal credit for negotiating fiscal transfers from the center.

Eaton (2001: 102) argued that, “the adoption of decentralizing policies is the beginning of the story rather than the end, setting into motion open-ended struggles between actors at the national and sub-national levels over the form that decentralization will take.” Eaton’s statement above highlights continuous political maneuvering necessary to shape the direction and form of fiscal decentralization. More importantly, it also implicitly points out that there might be an inevitable difference between national and sub-national politicians in their preference to pursue fiscal decentralization. Eaton (2001: 101) asserted, “even after the political decision to decentralize has been made, national politicians may face deep-seated incentives to preserve centralized control over fiscal policy.” This national-local dichotomy of fiscal decentralization is discussed in greater detail in the following subsection.

2.2.2 National-Local Dichotomy of Fiscal Decentralization

“Decentralization is a process of state reform composed by a set of public policies that transfer responsibilities, resources or authority from higher to lower levels of government in the context of a specific type of state” (Falleti, 2005: 328). When making decisions of transferring responsibilities, resources, or authority, all stakeholders take at least two factors into consideration: power and trust.

For most, if not all politicians, control over financial resources is the key to maintaining their political power and influence. Therefore, one of the main objectives of both national and local officials in the process of fiscal decentralization is to maximize the gain or minimize the loss of their political power. At the national level, for example, resistance to fiscal decentralization emerged from the executive branch in Argentina and from the legislative branch in the Philippines (Eaton, 2001: 101). Presidents and their top political appointees in the national executive branch may attempt to delay or reverse the process of fiscal decentralization in order to ensure their control over local politicians. They may also worry that more financially independent local elected officials would gain excessive political power and eventually become threats to their own national offices in future elections. In Congress, legislators may want to claim personal credit for bringing national funds for local development back to their constituencies, and more decentralizing of financial resources to local governments would

diminish their ability to do so. As a result, legislators (at least some of them) have been the strongest opponents of fiscal decentralization.

In contrast, local elected officials often support fiscal decentralization in order to obtain more financial resources to pay for more local services. By doing a better job in serving their constituency, local elected officials can gain popularity and increase their political power. Case studies have suggested that administrative and political decentralization are often more advanced than fiscal decentralization in developing countries. While local governments have assumed responsibilities to provide decentralized public services, they do not have sufficient financial resources to fulfill their new duties. In addition, after democratization and political decentralization, top local executives are elected through competitive popular elections. Either for the purpose of winning re-elections or advancing their political causes and career, these top elected officials often have a strong incentive to secure sufficient financial resources necessary for providing better local services. As a result, it is not surprising that local elected officials often support efforts to decentralize financial resources.

Another factor contributing to the difference in views between national and local officials is the level of trust in the officials of the other level. Wilson (2003: 341) stated that “[g]iven the very different worlds inhabited by the major actors, the generation of trust, especially when different political parties are in control centrally and locally, is a tall order.” Quoting from Jones and Travers (1994: 16), Wilson (2003: 338) highlighted that “[a] gap of understanding exists between central and local government, much of which appears to be based on simple ignorance (or worse still, mistaken, stereotyped, views).” National officials feel distrustful of local officials when local officials repeatedly fail to administer public programs in the way that national officials believe these programs should be delivered. On the other hand, local officials, who are encountered troubles again and again in the delivery of public services in accordance with national regulations, cannot understand why national officials always make rules that are not feasible. Moreover, it seems to local officials that national officials do not even intend to make efforts to understand the “real world.” Based on the observation of Jones and Travers (1994: 16), Wilson (2003: 338) asserted that “[t]he mundane nature of many local services appears to encourage (at least some) civil servants to believe that they possess ‘Rolls Royce minds and local government officers have motor cyclists’ minds.” In the process of fiscal decentralization, national officials often find themselves unable to stop local officials from complaining about

insufficiency of local revenue, while local officials can never understand why national officials just cannot see the real costs of providing local services and local efforts to improve local fiscal accountability.

When a lack of mutual understanding leads to distrust, national officials believe more national control and monitoring are necessary to ensure that policies of fiscal decentralization are properly carried out. National mechanisms are established to enforce local compliance with the national regulations. Local officials, on the contrary, desperately demand more local administrative and financial freedom in providing local public services. These two different views make it very difficult for both levels of officials to open their minds to find common ground, and the national government has to dominate the process in order to make sure fiscal decentralization occurs based on the national agenda. For example, in the UK, there have been consultations galore incorporating endless dialogue in the area of local government finance, but little of substance has emerged to challenge the overwhelming dominance of the center (Wilson, 2003: 336). In the end, intergovernmental dialogue does not lead to negotiated consensus for formulating a proposal for fiscal decentralization, and the process of fiscal decentralization can turn into a fierce political struggle between two levels of government.

The analysis in this subsection shows that there is a national-local dichotomy in fiscal decentralization. This difference in views often has a great impact on how fiscal decentralization is designed and on whether efforts of fiscal decentralization can be lasting and successful. As a result, it is important to consider this difference when proposing and analyzing a country's fiscal decentralization reform. In addition to the difference between national and sub-national politicians, there might be differences existing among local officials. For example, Escobar-Lemmon (2000: 110-111) observed that although many municipalities in Colombia have chosen to depend heavily on national transfers, larger municipalities are less dependent on transfers than smaller municipalities are. In order to test whether there is a difference in opinion among local officials in Taiwan, this study will examine whether local officials who perform different duties, serve in different types of local government, and work for local governments with different levels of reliance on national transfer possess different views regarding the form of fiscal decentralization. Understanding these differences will be the first step in searching for consensus in the design of fiscal decentralization policies. A complete set of research questions and hypotheses will be presented in Chapter Five, the chapter on Research Methodology.

2.3 APPROACHING THE REFORM: COMPETING VIEWS IN TAIWAN

In the previous two sections, concepts, theoretical debates, and politics of fiscal decentralization have been discussed. The focus of this section attempts to put the above discussions in the context of current policy debates of fiscal decentralization in Taiwan. As mentioned in the first two sections, the centralist approach and the localist approach can be viewed as two ends of a continuum for strategies to pursue fiscal decentralization. This national-local dichotomy can be used as a framework to reveal policy debates for achieving five policy objectives of fiscal decentralization in Taiwan. These five objectives include efficiency, autonomy, accountability, development, and equity (It should be noted that equalization will not be discussed in this section because there is a strong consensus among Taiwanese scholars that equalization should be a national function).

This analysis can provide a basis to collect statements for the concourse, a collection of statements describing the concept being studied. Then statements can be selected from the concourse to study Taiwanese officials' subjective perception on how the reform of fiscal decentralization should proceed in Taiwan. Unlike literature discussed in the previous sections, literature used in this section will draw heavily from those written by Taiwanese scholars in order to better reflect current policy debates in Taiwan.

2.3.1 Efficiency

It is generally agreed that efficiency will be enhanced regardless of whether a centralist or a localist approach is chosen to implement fiscal decentralization. While recognizing the benefits of reform, proponents of the centralist approach emphasize the importance of the role a national government should play in the effort. They argue that a national government should utilize intergovernmental transfers as a policy tool to internalize any spillover effect, ensure that national objectives will not be compromised, and avoid dysfunctional competition among sub-national governments during the process of fiscal decentralization.

Among these issues, the spillover effect (derived from fiscal decentralization) seems of most concern to scholars in Taiwan. They argue that the national government in Taiwan should

transfer financial resources in the amount necessary to offset inefficiency² caused by insufficient local spending (Lin, 2001: 34; Liu, Qi-Chang, 1994: 103; Wang, 1993: 167; Ma, 1997a: 8; Ma, 1997b: 59; and Chen, Qing-Xiu, 1996: 329). Another concern expressed is that after local politicians obtain more authority to make local spending decisions, they might irrationally increase local spending either to claim personal credit for new development and welfare programs or to respond to pressure from local interest groups (Chen, 1995: 79). Xu (2001: 3) further warned that if local governments can tailor their spending allotments to accommodate local needs, a consistent nation-wide fiscal policy would be difficult to achieve, and fiscal imbalance among localities might become even more severe. Finally, Huang (2001: 51) expressed his deep concern that dysfunctional competition among local governments might undermine any efficiency gain resulting from fiscal decentralization. Therefore, it is argued that while transferring additional funding to local governments through intergovernmental transfers, the national government should retain the authority to determine the level of local revenue and keep the majority of financial resources at the center to ensure that local governments are spending these additional funds properly and rationally to meet their local needs.

On the other hand, proponents of the localist approach recognize the efficiency gain resulting from decentralizing authority for setting the level of local spending to local governments and allowing them to meet differing local needs. Lin (2001: 35-44) argued that for efficiency to be achieved by local government, it is essential for them to successfully satisfy the goal of providing local public goods based on local preferences while having the authority to determine the rates of particular taxes or to collect new taxes. Competition among localities and mobility of voters will also be factors for improved efficiency. Liu (Liu, Qi-Chang, 1994: 99) argued that tax competition might enhance efficiency of economic resource allocation because it forces local officials to collect local taxes for benefits received by local residents from local public services. In addition, competition will force local officials to improve administrative efficiency and to be creative in the provision of local services (Wang, 1993: 166). When local officials can differentiate among local services they provide, people are more likely to find services best meeting their preferences (Lin, Quan, 1999: 376). Proponents of the localist

² The term efficiency refers to the level of a local service provided by a local government equals to the level that local people are willing to pay. Inefficiency occurs when the local government is providing the service at a level that is lower than the level that local people are willing to pay.

approach also warned that reliance on intergovernmental transfers would result in local overspending because local residents might view these grants as free money from the national government (Liu, Qi-Chang, 1994: 90; Wang, 1993: 173; and Sun, 2000: 11).

2.3.2 Autonomy

Many people would argue that local autonomy cannot be obtained if financial resources are controlled by a central government. However, in a unitary country like Taiwan, some would argue that fiscal decentralization is best achieved through an incremental process and that the national government should begin the reform process by substituting conditional grants with general grants to give local officials more flexibility to meet local preferences (Lin, Xiang-Kai, 1999: 70). They believe that national transfers will still make up a significant portion of local revenues and that the national government should not tell local governments how the money should be spent. In addition, they advocate that the national statute defining national-local fiscal relations should be amended to limit discretionary authority of the national government to distribute intergovernmental transfers. The key is to regulate standards, formulas, and procedures for distributing national grants in the existing laws. In fact, national officials' discretion in the distribution of funds has been used as a tool to control local political behavior in Taiwan (Lin, Quan, 1999: 382; Liang, 1995: 148-149; and Xu, 1999: 35). Only when this power is constrained by law, would it be more likely that local officials can make spending decisions without intervention from the central government.

People who propose the localist approach believe that local autonomy can be improved when the national government only regulates what local government cannot do without telling them what they must do (Lin, Quan, 1999: 378-379). In other words, as long as the decisions they make do not adversely affect national interests, local governments should be allowed to have complete control over local policies. Furthermore, proponents also argued that in order to maintain local autonomy, local governments should collect their own-source revenues to reduce their reliance on national transfers (Liu, Qi-Chang, 1994: 86-88; and Sun, 1998: 123). The greater control they have over local revenues, the greater autonomy they will enjoy to make policy decisions and to meet local preferences (Ma, 1997b: 74). King (1997: 47) agreed by asserting "when a government pays grants, it is likely to want to control how sub-central

authorities spend them.” Finally, Chen (Chen, Li-Gang, 1996: 172) argued that local people should be allowed to vote on proposals for collecting local revenues. Participation of local people in the decision-making process will give local government greater leverage to resist intervention from the national government.

2.3.3 Accountability

In the era of fiscal decentralization, accountability has become a major concern. People begin to wonder if local officials will abuse their new power to advance their political careers, and they wonder, as well, who would hold local officials accountable for their financial mismanagement. In fact, some may argue that the national government should play an essential role in this matter, while others may see local residents are the ones best suited to do the job.

People who believe in the centralist approach argue that the national government should retain the authority to monitor local debt services, budgeting, and collection of local taxes and other revenues (Su, 2002: 29). In addition, a mechanism should be established by the national government to reward good practices of financial management while punishing those with poor practices (Lin, Xiang-Kai, 1999: 70; and Sun, 2000: 15). Many scholars have identified national grants as a good policy tool to be included as a part of an accountability mechanism to reward or punish local governments’ financial behavior (Xu, 1999: 41; and Su, 2002: 29). Sun (2000: 15) pointed out that a set of objective indicators should be developed to evaluate local financial performance and that the national government should utilize the results of this evaluation as a basis to increase or decrease the amount of national grants transferred to a locality. Some scholars further proposed that local government’s financial behavior should be regulated in the national statutes. For example, Lin (2001: 325) argued that a law on local public debts should be enacted to limit local governments’ ability to borrow money. Zhao (2002: 142) also advocated for a Law on Local Budgeting to grant the national government legal status to monitor and control local financial behavior.

Proponents of the localist approach point out that participation of local residents in the local policy making process is the key to ensuring local accountability. Huang (1997: 38) argued that local residents should be encouraged to participate in the local policy deliberation process in order to realize the true costs and benefits they receive from local services. In fact, under the

current system in Taiwan where the majority of local revenue is made up of national transfers, local officials are motivated to inflate the level of local spending and ask for additional national transfers (Liu, Qi-Chang, 1994: 88; Sun, 1998: 119; and Chen, Li-Gang, 1996: 170). As a result, Ma (1996: 44) and Huang (2001: 51) both argued that the level of local spending will be set at appropriate levels, and more efficient and cost effective methods of providing local services will be researched and achieved only when local officials have to collect own-sourced revenues to support their own spending. On the other hand, if the majority of local spending has to be collected from local residents, people will feel the “pain” of paying taxes and will keep a close eye on whether local officials spend every dollar wisely (Lin, Quan, 1999: 382; and Ma, 1996: 44). Moreover, Xu (1999: 43) further argued that local residents should be allowed to vote on local fiscal issues so local officials can bear the consequences for their financial mismanagement.

2.3.4 Development

In terms of local development, the center of debate is on whether the national government should provide the majority of funding and, accordingly, whether it should get involved in the local development planning process via their power to decide which projects get funded. People with a centralist mind argue that it is a responsibility of the national government to guarantee sufficient funding for basic local services (Chen, Qing-Xiu, 1996: 330). In addition, the national government should retain sufficient financial resources to push development projects with national significance in order to promote balanced growth among localities (Lin, 2001: 43). They also point out that when certain projects are administered across local boundaries, economy of scale would take effect to lower the costs of these programs (Ma, 1997b: 59).

They believe that in response to the trend of globalization, the national government is in a better position to maintain a knowledge base for the rapidly changing global environment. Therefore, the national government should organize a technical assistance team to help each local government develop a financial plan based on its respective unique economic activities in order to provide sufficient financial resources for local development (Xu, 1999: 39). Finally, with its knowledge of the global economy, the national government should also utilize national grants as a means to stimulate local private investments for selected industries deemed to have greater potential for future growth (Lin, 1991: 49; and Lin, Xiang-Kai, 1999: 70).

People who propose the localist approach argue that local governments should have complete control over their local planning and development. For people who think this way, the prerequisite is a reduction of their reliance on national transfers and an increase in the collection of own-sourced revenues. They warn that reliance on national grants will result in an imbalance of local development because local governments will tend to emphasize projects with an ability to bring in national grants (Wang, 1993: 173). They point out that national grants are often conditional, and cannot be used to meet true local needs (Liu, Jun-Qing, 1994: 19-20). As result, if a local government heavily relies on national transfers to support local development, it becomes difficult for the local government to implement consistent and comprehensive local planning (Ma, 1997b: 60). Ma (1997b: 59-60) further argued that local governments are closer to local people, and their decisions on resource allocation will better reflect local interests and needs. By decentralizing policymaking authority to local governments, they will have policy tools necessary to compete with each other and to be more creative in making their local policies.

2.3.5 Equity

Musgrave (1959) has identified stabilization, distribution (equity), and allocation as three traditional economic functions of government. Ashworth, Heyndels, and Smolders (2002: 27) have pointed out that “[t]he orthodox view is that income distribution should be centralized. If local governments have any role to play, then it is as agents of the central government.” While conventional wisdom has suggested that local governments are limited in achieving effective distributional functions, the notion has been challenged in recent years (Fisher, 1996: 27). Debates regarding local government’s role to perform distribution functions in Taiwan will be discussed in the following paragraphs.

Most scholars in Taiwan believe that it is national government’s responsibility to enhance equity in Taiwan. They argue that distribution is a national function and that it is inappropriate for local government to perform it (Lin, Quan, 1999: 377; and Ma, 1997b: 8). They warn that rich people will move out and the poor will move in if a local government implements distribution policies (Lin, Quan, 1999: 377; and Ma, 1996: 40). Accordingly, the tax base will shrink, and local economic resources will be drained (Lin, Quan, 1999: 377). They point out that mobility is more constrained among countries and that the national government is in a better

position to impose progressive taxes to promote equity. By transferring revenues collected from progressive taxes to local governments, local income distribution will be better equalized (Liu, Qi-Chang, 1994: 103).

Some scholars believe otherwise and suggest that “many state-local services have substantial distributional implications” (Fisher, 1996: 27). They observe that local governments do have sufficient discretion regarding redistribution policies in most federal countries and argue that redistributive policies could be a local public good (Ashworth, Heyndels, and Smolders, 2002). Since they are closer to local residents, if local governments are given more responsibility to perform distributional functions, they can be more creative and better meet local preferences (Gainsborough, 2003: 604). However, very little literature concerning how local governments promote equity was found in Taiwan. In fact, only Lin (2001: 35) and Wang (1993: 167) observe and state that local governments often get involved in distribution policies in the areas of education, medical care, or housing assistance. This shows that most scholars in Taiwan still consider equality as a national function.

3.0 TAIWAN'S LOCAL GOVERNMENTS SYSTEM IN TRANSITION

The views of officials concerning how the current local fiscal system should be reformed inevitably will be influenced by their historical and cultural biases. As Miller (2002: 8) noted, “historical context frames and structures where we are headed.” This chapter will provide such historical context before we can go further to analyze Taiwan’s local fiscal system and to study different patterns of officials’ attitudes toward fiscal decentralization.

Taiwan’s local governments system went through a series of reforms in the past decade. These reforms had redefined intergovernmental relationships and empowered local elected officials with more autonomy to set local priorities and to administer local programs. In order to provide historical and cultural background for our discussion, this chapter begins by introducing the system of local self-governance in Taiwan prior to the reforms of the 1990s. A brief summary of recent reforms of Taiwan’s local governments system will follow, adding our understanding about issues of concern, and how they were addressed. Finally, selected issues concerning future reforms will be discussed to anticipate possible local governments system changes in the future.

3.1 PRIOR TO REFORM: GUARDED LOCAL SELF-GOVERNANCE

Kuomintang, the Nationalist Party, began to rule Taiwan in 1945 after Japan’s surrender in WWII. The Kuomintang government imposed martial law in Taiwan in May 1949. Later in the same year, Kuomintang lost the Chinese Civil War and retreated from Mainland China to Taiwan. Although only effectively controlling Taiwan Province and a few outlying islands of Fukien Province, the Kuomintang government proclaimed it as the sole legitimate authority over all of China and continued to use the 1947 constitution drawn up for governing the whole of

China. The imposition of martial law and continuous use of the 1947 constitution had profound impacts on local governments system in Taiwan for more than three decades. First, Taiwan's local governments system, including local governments' roles in providing public services and organizing their governing structures, was defined by various executive orders instead of laws. Second, while the 1947 constitution granted provincial and county governments power to make local self-governing laws and to define the structure of local governments, these powers were not given to local governments until reforms took place in the 1990s.

In 1950, in order to start implementing local self-governance in Taiwan, the government of Taiwan Province enacted the Regulation of Local Self-Governance for Counties and Provincial Cities in Taiwan Province. The regulation, an executive order of the provincial government, set up principles and became the fundamental legal basis for regulating local self-governance in Taiwan for the next 44 years. In fact, referred to as the "Ear of the Regulations" (Su, 1999), the organization and authority of local self-governments during this period were defined by various national and provincial executive orders, and, thus, they were not protected by the national statutes. The organization of provincial governments was defined by the Act of Provincial Government Organization, which was enacted by Kuomintang government on July 1st, 1927, approximately 20 years prior to the enactment of the 1947 constitution. The Regulation of Taiwan Provincial Assembly Organization was enacted on September 26th, 1951 to regulate the organization of the provincial assembly. The Regulation of Taipei City Government Organizations and Its Implementation on Local Self-Governance, enacted on June 22nd, 1967, and the Regulation of Kaohsiung City Government Organizations and Its Implementation on Local Self-Governance, enacted on June 22nd, 1979 provided general guidelines for establishing executive and legislative organizations of Taipei City and Kaohsiung City, respectively.

The national government had control over how local programs were administered during this time (Gao, 2001). Huang (Huang, Jin-Tang, 1995: 1-2) used the term "Guarded Self-Governance" to highlight the fact that the national government often interfered with local affairs, and local governments only enjoyed very limited autonomy as local self-governance units. He concluded that lack of personnel, lack of financial resources, lack of authority, and lack of mechanism to resolve disputes between levels of governments were the most critical problems during this early stage of implementing local self-governance in Taiwan. The national government was the dominant player in making both national and local policies. Although

called local self-governance units, Taiwan's local governments during this period were not actively involved in the decision-making process and can be considered as de facto field offices of the national government, mainly in charge of implementing policies made by the center. Local elected executives and representatives were willing to accept their reduced role in local self-governance because they needed either nomination or the support of Kuomintang, the ruling party of the national government, to remain in the office and stay in power.

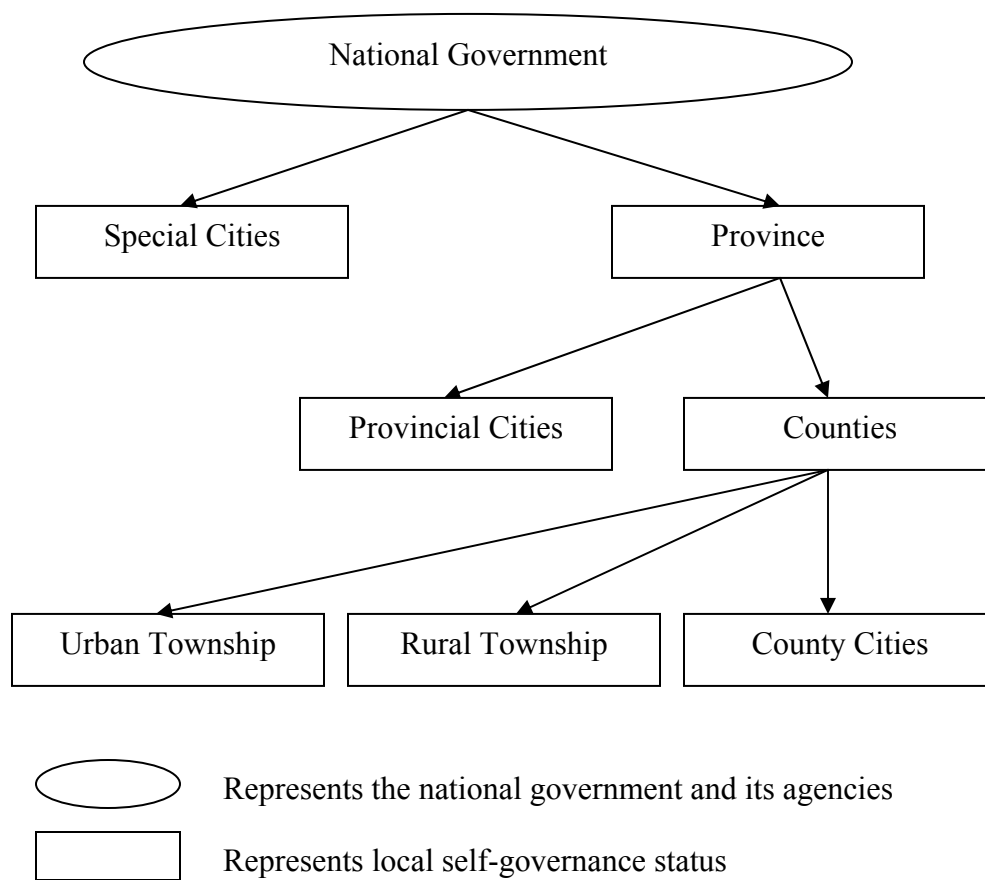
Su (1999: 11-12) argued that although local governments in Taiwan during the time did not enjoy sufficient local autonomy, their authority and self-governing organizations were highly protected by the 1947 constitution, which was adopted in Nanking to be implemented in the whole of China. In other words, there was a huge gap between the local self-governance system drawn by the 1947 constitution and the one implemented in practice. The 1947 constitution devoted one chapter to ensure a balanced division of power between the national and local governments and another chapter to define the local self-governments system. The national government could only make general principles to regulate the local governments system while provincial and county governments could make self-governing laws to define their authority and structure local government organizations. Only the authority and organizations of special cities were not specified in the 1947 constitution, and they are subject to definition by national statutes. However, these constitutional provisions did not translate into self-governing laws because the legislative actions were seriously delayed while Taiwan was still in a state of martial law. As a result, executive orders, such as Regulation of Local Self-Governance for Counties and Provincial Cities in Taiwan Province, were adopted to provide a legal framework for Taiwan's local self-governance system, and as a further result, the national government gained complete control over local governments though its power to adopt, amend, and approve these executive orders. Because these executive orders did not fully comply with the local self-governing principles set forth by the 1947 constitution, Chen (2001: 784) even claimed that these executive orders were unconstitutional.

It should also be noted that the 1947 constitution did not specify urban township/rural township/county city governments as local self-governance units. The self-governing status of urban township/rural township/county city governments was regulated in the Regulation of Local Self-Governance for Counties and Provincial Cities in Taiwan Province. Although there were always ongoing discussions concerning whether the national government should make them field

offices of county governments and make their executives appointed by county governments, their status as local self-governance units remained unchanged throughout the period of guarded local self-governance.

There were three levels of local self-governance units in Taiwan during this period. They were provincial/special city governments, county/provincial city governments, and urban township/rural township/county city governments. At the provincial/special city-level, the highest level of local self-governance, the governor of the Taiwan provincial government and mayors of the two special city governments were appointed by the national government, while provincial assembly representatives and city councilors were directly elected. Both local executives and representatives were directly in the other two lower levels of the local self-governing units. Figure 3.1 depicts the structure of the local self-governance system in Taiwan during this period.

Figure 3.1 Structure of local self-governance system during 1950-1982



As a part of democratization movements began in the late 1980s, pressure to grant local governments more autonomous power emerged. A series of reforms took place in the 1990s to decentralize more power to local governments and to enact self-governance laws to better protect local governments from the national government's interference. These efforts will be presented in the following section.

3.2 RECENT REFORMS

There were two major reforms for the local governments system in the 1990s. Reformers hoped to adopt a local governments system suitable for Taiwan's current political circumstance, to address the concern that executive orders adopted to regulate the local governments system might not be constitutional, and to respond to growing pressure for greater local autonomy. The first reform was completed in 1994 after separate local self-governance laws were passed to regulate the local governments system in Taiwan. The second reform was accomplished with the passage of the Law on Local Governments System in 1999. In the following sections, these two major reform events, constitutional interpretations, and constitutional amendments relating to the reforms will be presented.

3.2.1 1994 Reform: the Passage of Two Laws on Local Self-Governance

After martial law was lifted in 1987, the democratization movement gained momentum in Taiwan. The Democratic Progressive Party (DPP), founded in 1986 as the major opposition party during the time, became the leading party to provide vision and direction for democratization and other progressive reforms. With growing support, DPP candidates were able to win six out of 21 races in the 1989 local executive election, allowing the DPP to gain control of six local governments with a combined population approaching half of Taiwan's total population. As a result, the stable relationships between the national government and local governments maintained during the period of guarded local self-governance started to collapse. These non-Kuomintang county magistrates and provincial city mayors often challenged policies

handed out by the national government and voiced the need for more local autonomy. These confrontations highlighted many problems of the local governments system at the time.

In 1990, the National Affairs Conference (NAC) was called by then-President Lee to discuss a wide range of issues concerning options for future political reforms. Among other recommendations, the NAC made a recommendation to increase local autonomy by directly electing the governor of Taiwan Province and the mayors of two special cities, Taipei City and Kaohsiung City. It was believed that local autonomy would be enhanced because directly elected local executives would be in a better position to defend local interests without worrying about being removed from office. In the same year, the Constitution Court issued two rulings: Constitutional Interpretation No. 259 and Constitutional Interpretation No. 260. In Constitutional Interpretation No. 259, the Constitution Court ruled (Judicial Yuan, 1990):

The Constitution provides different systems of local government for the province, counties, and special municipalities in Chapter XI. Article 118 of the Constitution has authorized the enactment of law for self-governance of special municipalities. Although the local self-governance of special municipalities need not follow the same procedures as those of the province or counties, it still has to abide by the Constitution and enact the relevant laws.

Six days later, in Constitutional Interpretation No. 260, the Constitution Court asserted (Judicial Yuan, 1990):

According to the system of local government provisions in the Constitution, the Central Government has no authority to enact individual executive orders for specified provincial assemblies and the organization of the provincial government.

In both Interpretations, the court also made it very clear that the existing system of local governments should remain in effect before the laws were enacted to replace those executive orders. As we can see, although the constitutional court did not render the use of executive orders to regulate the local governments system unconstitutional in these two Constitutional Interpretations, they did explicitly require the enactment of laws to be the basis for establishing the executive and legislative organizations of local self-government. In 1992, eight constitutional amendments were adopted. The focal points of this constitutional revision concerning local governments system reform were that: (1) laws should be enacted to regulate

the provincial and county governments system; (2) the provincial governor (and special city mayors) should be popularly elected; (3) the supervisory agency of provincial self-government is the Executive Yuan and the supervisory agency of county self-governments is the provincial government. The 1992 constitutional revision set the stage for the passage of two separate local self-governance laws by the Legislative Yuan.

The Law of Local Self-Governance for Provincial and County Governments and the Law of Local Self-Governance for Special City Governments were enacted in July 1994 to end the 44-year period of guarded local self-governance in Taiwan. Based on the principles set forth by the 1992 constitutional revision, these two laws made direct popular election of the provincial governor and two special city mayors a reality. Moreover, authority and organization of local governments were finally defined and protected by local self-governance laws. It was widely believed at the time that these two laws had granted local governments additional autonomy to provide local services and that local elected executives would have power to challenge and confront the national government based on their respective local interests.

Some scholars believed otherwise, however. It was argued that authority and autonomy of local self-governments were actually weakened by this reform because of the addition of a constitutional provision, which also appeared in both laws, that the Executive Yuan was the supervisory agency of the provincial and special city governments and that the organization of local self-governance units had to be defined by the laws enacted by the Legislative Yuan (Su, 1999: 12). In other words, the costs of popularly electing the provincial and special city top executives, and enacting national laws to regulate the local governments system were that the national government could now constitutionally supervise local government operations and regulate the structure of local self-governing organizations, none of which was specified in the 1947 constitution. Chen (2001: 786) further claimed that one thing that the 1992 constitutional revision accomplished was to render the unconstitutional practices of regulating local self-governments from 1950 to 1994 constitutional.

In general, the 1994 reform did enhance local autonomy and its power to represent local interests in practice. Although the national government obtained the constitutional authority and legal power to supervise local governments in the reform, it could also be argued that local governments did not lose anything in this regard because they were always supervised by the national government prior to the reform.

3.2.2 1999 Reform: the Passage of Law on Local Governments System

On March 23, 1996, the first direct presidential election in Chinese history was held in Taiwan. The election represented a milestone for Taiwan's democratization movement and provoked further discussion on issues of national development. The National Development Conference was held from December 23 to December 28, 1996. About 170 delegates from the major political parties were invited to deliberate issues pertaining to Taiwan's continuing development. Among areas of consensus reached at the conference, the following four recommendations were made for reforming the local governments system (Ji, 1999: 38):

1. Setting up a committee to formulate and implement a plan for streamlining the provincial government's functions and organizations and suspending the election of the provincial governor starting the next term.
2. Suspending local self-governance elections at the township level and making urban township/rural township/county city executives appointed instead of elected.
3. In the county level government, adding deputy level positions to be politically appointed by county magistrates and provincial city mayors and increasing the authority of county and provincial city governments.
4. In order to improve local fiscal health, enacting the General Law on Local Taxation should be enacted, and amending the Law on Allocation of Government Revenues and Expenditures.

Based on these four recommendations, counties and provincial cities would become the primary administrative units of local self-governance, in addition to the two special cities, after streamlining the provincial government and suspending the township level elections. In addition, the participants of the conference also paid attention to the problem of poor local fiscal health, and made recommendations to decentralize more financial resources to the local governments. Because the constitution stipulated self-governance status of the provincial government and the election of provincial governor and provincial assembly representatives, one of the eleven constitutional amendments adopted in 1997 was to transform the provincial government from a local self-governance unit to an administrative agency of the national government.

In fact, during the second reform period, the main focus of reforming the local governments system was to streamline the provincial government for improving administrative

efficiency by eliminating costs derived due to redundant administrative layers. In addition, by decentralizing more authority and power to county and provincial city governments, county level governments could better meet local needs and provide public services more efficiently. After the constitution was amended, the Constitution Court issued Constitutional Interpretation No. 467 in 1998 to clarify the status of the provincial government based on the 1997 constitutional revision. It asserted (Judicial Yuan, 1998):

[T]he provincial government is still a local government. However, as the Taiwan Province no longer has jurisdiction over matters of local self-government and has been deprived of the organic right of self-government, it shall not be recognized as a legal public legal person of local self-government.

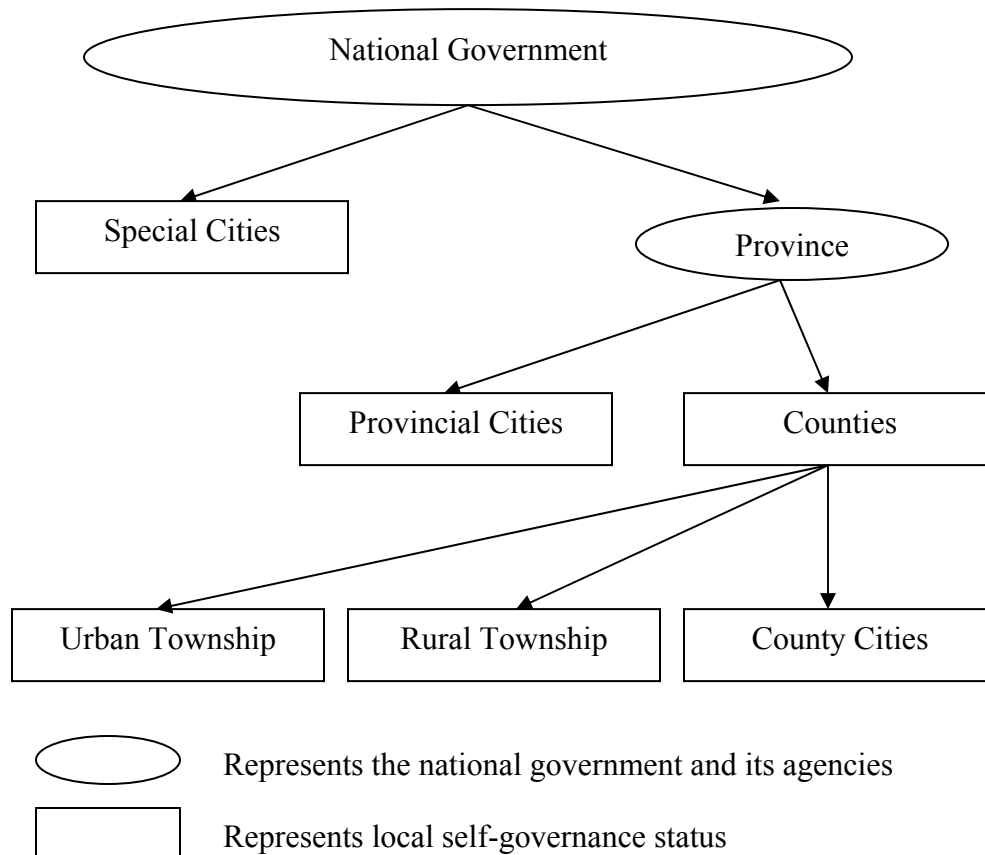
Later in the same year, the Provisional Act of Adjusting Taiwan Provincial Government's Functions, Operations, and Organizations was enacted to provide guidelines for reorganizing the provincial government. The Taiwan provincial government was no longer considered as a local self-governance body, and it become merely a field office of the national government. In January 1999, the Law on Local Governments System was passed in the congress to redefine the local governments system in Taiwan. The current local governments system regulated by the Law on Local Governments System can be summarized in the following ways: (Ji, 1999: 18-22; Chen, Yang-De, 1999: 60-62):

1. There are three levels of local self-governance units, including special cities, counties/provincial cities, and urban townships/rural townships/county cities.
2. The provincial government executes orders of the Executive Yuan and supervises counties/provincial cities on matters of local self-governance.
3. Special cities have completely independent autonomous power.
4. The status of counties/provincial cities is elevated to make it more comparable to the status of special cities.
5. The executive authority of county magistrates and provincial city mayors is strengthened.
6. County and provincial city councils obtain more legislative power on local affairs.
7. The status of urban townships/rural townships/county cities remains unchanged.

It should be noted that the status of urban township/rural township/county city governments remains unchanged although the consensus reached at the National Development

Conference was to remove the self-governing status of township-level governments. This issue will be discussed in more detail in the next section. The current structure of local self-governance based on the Law on Local Governments System is depicted in the Figure 3.2:

Figure 3.2 Current structure of local self-governance system



Two reforms completed in the 1990s have overhauled Taiwan's local governments system. Local executives are now elected with strong executive power to provide vision and leadership for local developments. As local elected executives are granted necessary authority and autonomy for local self-governing, recent debates on future reforms begin to pay more attention to improving the management of local self-governments. The following section will provide a brief discussion on selected issues of future reforms.

3.3 ISSUES FOR FUTURE REFORMS

In the 1990s, the focus of reforming the local governments system was to decentralize more authority and autonomous power to the local governments. As we turn to the 21st century, the focus begins to switch to how local governments can be equipped to function appropriately and efficiently in governing local affairs. Several questions are frequently asked. Should we further restructure the local governments system to improve efficiency of local service delivery and reduce corruption? Should we adopt local initiatives and referenda to get local people more involved in the local policy making process and improve local accountability? How can we encourage local government collaboration in order to address inter-local problems? These issues will be discussed in this section.

3.3.1 Debates on the Status of Township Level Governments

One of the recommendations made by the National Development Conference was to suspend local self-governance elections at the township level, including urban townships, rural townships, and county cities. Accordingly, top executives of township-level governments should be appointed instead of popularly elected by the local people, and township level governments will no longer be considered as local self-governance units. However, this recommendation has not been adopted into law since it was made by the conference in 1996.

In fact, the local self-governance status of township-level governments was never specified in the constitution, and debates concerning whether township level governments should be granted local self-governing status are not new. During the process of drafting the Regulation of Local Self-Governance for Counties and Provincial Cities in Taiwan Province in 1950, the local self-governance status of township-level governments was heavily debated (Liu, 2002: 216-217). It was reasoned that by removing the township-level governments' local self-governance status, a layer of government could be eliminated to improve efficiency and reduce administrative costs. The discussion on the issue intensified in the 1990s when many local businessmen and gangsters were elected through vote buying in the township-level elections. People believed that township-level governments were corrupt, and suspending township-level elections, at least temporarily, was necessary to eliminate corruption at the township level.

Although a consensual recommendation was reached at the National Development Conference to suspend township-level elections and revoke self-governance status of township level governments, Kuomintang withdrew its support on the issue after the conference because Kuomintang retained control over most township level governments. For example, in a township-level executive election held in 1998, Kuomintang won 233 out of 319 races, compared to DPP's 28 seats, and independent candidates' 58 seats (Liu, 2002: 219). Soon after the DPP won the presidential election and obtained the control of the executive branch of the national government, the reform effort was resumed, and a bill was sent to the congress for consideration. However, the bill was not passed because Kuomintang and its allied parties were able to maintain their control of the congress.

Some scholars also voiced their support for maintaining township-level governments' status as local self-governance units. It was argued that township-level governments not only provide opportunities for local people to participate in a democratic political process, but they also provide local public services directly to local people for meeting different local needs (Chen, Li-Gang, 1999: 285). The value of township-level governments to present better opportunities for citizen participation should not be overlooked. As a result, attempts were made to search for a compromised proposal which could eliminate corruption while keeping local self-governance status intact at the township level. By studying America's local governments system, Ji (2000: 107-171) pointed out that there are many different structures of organizing local government, including the mayor-council plan, manager plan, and commission form. He argued that the question regarding township level government's status as local self-governance units should not be an either/or question. Although recommending the commission form to be adopted in Taiwan, he proposed that structures mentioned above or even a hybrid structure should all be considered before a proposal is finalized.

Chen (1998) developed two proposals for township-level governments reform. In his Plan A, he proposed to strengthen the leadership of elected township level executives by limiting the authority of the township-level council. On the other hand, his Plan B proposed to adopt a Taiwan manager plan in which a manager is nominated by the county magistrate and consented to by the township council. In this proposal, township-level managers are appointed to and accountable to elected township level councils in order to obtain a balance between democratic participation and administrative efficiency. In addition, the possibility of granting each township

options to select their government structure among some predetermined forms was also discussed in the study.

In fact, the challenges of dealing with local corruption and improving local service delivery encountered by Taiwan's township-level governments today are very similar to the challenges faced by American local government in the early part of the 20th century (Miller, 2002:33). Based on the American experience, the manager plan, which separates the authority of making and implementing local policies, may be a viable option to be adopted in Taiwan. Township councils can maintain local self-governing authorities to make local policies while managers can concentrate on efficiently and effectively implementing these policies. In order for the manager plan to be implemented successfully, the national government may have to maintain a list of eligible township managers to ensure the qualifications and experience of appointed managers.

Although a number of options for addressing the problem of local corruption while maintaining township level governments' self-governing status have begun to emerge in recent years, the dominant view of the reform movement still focuses on transforming township-level governments into field offices of county governments. However, due to its dominance at township-level executive elections, it is not likely that Kuomintang will support any proposal of eliminating township level governments' status as local self-governance bodies in the foreseeable future. As a result, it is expected that the status quo will not be changed in the next few years while dialogue will continue to search for a compromised proposal in order to deal with local corruption and improve administrative efficiency.

3.3.2 Debates on Elevating the Status of County Level Governments

The role of county level governments in local self-governing has grown significantly in the past decade because of the revocation of the provincial government's local self-governance status and the uncertain status of the township level governments. Aiming at increasing the county-level government's authority and financial freedom, the two recommendations made by the National Development Conference discussed earlier in this chapter also confirmed this trend. After the process of reorganizing the provincial government was completed, county-level governments have assumed the majority of the provincial government's responsibilities in local self-governing.

In order to obtain additional administrative and financial resources to fulfill county-level governments' growing duties, county-level elected executives and many scholars have advocated elevating county-level governments' status to equality with that of the special cities.

Currently, special city mayors enjoy greater power to organize their governing structure and appoint heads of departments (Huang, 2000: 416-425). For example, a mayor of a special city can politically appoint all heads of municipal departments except the heads of the Department of Government Ethics, Department of Personnel, Police Department, and Department of Accounting, Budgeting, and Statistics. On the contrary, a county magistrate or a provincial city mayor can only politically appoint half of the departmental heads while the other half of the appointments have to comply with applied national civil service laws and regulations. Chen (2002: 160) further pointed out that county-level governments are unfairly treated in allocating national shared tax. In a national shared tax pool consisting of 10% of the Income tax, 40% of the Sales tax, and 10% of the Commodity tax, 43% of the collected revenue goes to the special city governments while only 39% goes to the county-level governments. Proponents believe that by elevating county-level governments' status, financial resources then can be equally distributed among all special city-level and county-level governments.

Officials of special cities have warned that efforts of reallocating resources to county-level governments from two special city governments have to stop. They argue that special cities are granted more resources because they bear more responsibilities to provide public services. Chen (2002: 163) stated that during the process of streamlining the provincial government, most provincial agencies along with their functions were reassigned to the national government while special city governments continue to provide those services previously assigned to special city and provincial governments. For example, the Ministry of Education directly funds high schools which were funded by the provincial government in the past, while Taipei City and Kaohsiung City governments continues to fund high schools located in their jurisdictions. In addition, most provincial assets and resources were also transferred to the national government during the transition. Therefore, the national government should make more resources available to local governments instead of reallocating existing resources among local governments. Chen (2002: 163-164) supported this view and proposed that the national government should meet with special city and county-level governments to discuss reassigning functions and resources previously owned by the provincial government.

Based on the discussion above, it is clear that whether county-level governments should be elevated to a status equal to the special city status is not an issue to be addressed. Rather, the real concern in the debate is how to make more resources available to the county-level governments, either by reallocating resources currently owned by the special city governments or by decentralizing more resources from the national government. As the role of county level governments continues to expand in the local self-governing system, the debate of whether to elevate the county-level governments' status will continue. With or without a status change, it is expected that more administrative authority and financial resources will gradually be assigned to county-level governments. Where these additional resources will come from remains a question.

3.3.3 Local Referendum and Local Accountability

Local participation on local affairs was constrained during the period of guarded self-governance when the national government was a dominant player in both the national and local policy-making process. Although the democratization movement allowed people more opportunities to participate in the policy-making process through fair elections, lobbying, and demonstrations, people in Taiwan could not directly express their opinions on various national and local issues until the Referendum Act was enacted in 2003. With the exception of legislation concerning budgets, taxes, investments, wages, and personnel, the act allows voters to call a referendum to repeal national or local legislation or to vote on a initiative concerning national or local issues. It should be noted that a local referendum could only be held at special city and county level, and there is no provision for a township-level referendum.

Although recognizing the importance for citizens to have a right to the referendum, scholars and policymakers continue to express their deep concerns regarding inappropriate use of the local referendum. Right before the passage of the Referendum Act, an editorial article appeared in *Zhongguo difang zizhi* (the Journal of Chinese Local Self-Governance) (Gao, 2003: 3) offering five suggestions for the implementation of the law: (1) jurisdictions to be included in the voting should be determined by the higher level government; (2) the higher level government should promptly address local issues subject to a referendum; (3) attempts should be made in the local councils to address local issues prior to holding a referendum; (4) local governments should establish formal channel to directly hear from people about their concerns; (5) people should

respect the decisions reached by the local councils as much as possible. By reading these suggestions, it is not difficult to realize how skeptical Taiwanese scholars were about the local initiative and referendum.

It is not surprising to see Taiwanese scholars' limited support on the local initiative and referendum. Under a system similar to the Japanese model described by Johnson (1982), the making of public policies was deeply influenced by competent and experienced career bureaucrats who rationally proposed the best proposal. Citizens were informed rather than involved in the policy process and often portrayed as incapable of rationally selecting the best policy to promote the common good. In addition, after the democratization movement began in the late 1980s, serious problems of vote buying and corruption at township level elections have made scholars worry about voters' competence to participate in any form of direct democracy. This view is shared by many policy makers in both the executive and legislative branches of the national government. Debates of suspending township level elections is still ongoing, and there is no provision of the township level referendum in the Referendum Act.

The concern about voters' competence is not new in debates concerning direct democracy. Many scholars, journalists, and opinion leaders in Western democracies "worry whether ordinary citizens have the attention span or competence required to decide complicated policy issues – and if they are not competent, if they can be manipulated into passing law harmful to the general public" (Matsusaka, 2005: 186). Lupia and Matsusaka (2004: 468) argued that uninformed voters often could make their choices relying on information shortcuts, e.g. the identity of groups who supported or opposed the measures in question. Commenting on the findings of Bowler and Donovan (1998: 168), Lupia and Matsusaka (2004: 468) further argued that voters "appear able to figure out what they are for and against in ways that make sense in terms of their underlying values and interests." In addition, by studying the availability of the initiatives at American cities from 1981, 1986, 1991, and 1996, Matsusaka (2003) found that approximately 61 to 71 percent of citizens in the US have the initiative available in their cities. He also found that in most cities, the petitioners have a free hand, although some cities, such as New York and Detroit, restrict the topics that can be addressed by the initiative. Based on these findings, it is argued that voters are competent in making their choices, just like elected representatives who have to cast their votes based limited available information. The fact that most Americans have access to either the initiative or referendum in their cities with little constraints on the topics not only

suggests the initiative and referendum's increasing popularity in the US, but also shows that people are gaining confidence in direct democracy.

Moreover, the study on the impact of the initiative on policy also showed that there were at least three "significant policy changes brought about by the initiative: (1) spending and tax cuts; (2) decentralization of spending from state to local governments; (3) a shift of revenue out of broad-based taxes and into user fees and charges for services" (Matsusaka, 2005: 200). Although there is no guarantee that the referendum or initiative will make similar impacts on local policies in Taiwan, they do represent potential solutions to eliminating local corruption, reducing overspending, and improving fiscal accountability. Indeed, once a right to call a referendum or initiative is allowed, citizens are more likely to give more thoughts to various policy issues because voting on policy packages offered by candidates in the elections is no longer the only opportunity to participate in the policy process. When people get more involved in the policy process, they are more likely to be cautious about the costs for the local public services they receive. Accordingly, as American experiences suggest, either the level of spending will go down or the use of user fees will increase.

More importantly, the initiative and referendum can become a policy means for local people to make their elected officials more accountable. It is very hard to hold local elected officials accountable and remove them from public office in Taiwan. Although the Election and Recall Act of Public Officials has provisions to recall a public office holder, at least 50% of the turnout rate in the recall election is required for a recall petition's approval. Accordingly, by asking supporters not to vote, a local elected official can often easily be confirmed in office and another recall petition cannot be filed against the same official during the remainder of the official's term of office. On the other hand, although all local governments are subject to the supervision of the national government, any disciplinary sanction or impeachment has to be reviewed by the Commission on the Disciplinary Sanctions of Public Functionaries of Judicial Yuan for final approval. The process takes years to complete, and final decision often cannot be reached during elected official's term of office. Although the initiative and referendum process does not allow people to remove elected officials from office, the process allows people to address their neglected concerns or to overturn a policy decision not favored by the majority, and it ultimately gives their elected officials pressure to be more responsive and more responsible.

Although it is not realistic to suggest that direct democracy will immediately solve many local problems in Taiwan today, studies at least suggested that the local initiative and referendum should not be considered as a threat to representative democracy in Taiwan. It is suggested that a provision of township level referendum should be added to the Referendum Act, and constraints on the topics should be removed gradually once people have more knowledge and experience about the initiative and referendum. However, there has been no organized effort to call a local initiative or referendum since the passage of the Referendum Act, and people in Taiwan still have learn more about the initiative and referendum.

3.3.4 Collaboration among Local Governments

The study of local government collaboration has attracted more and more attention after the passage of the Law on Local Governments System in 1999. During the period of guarded local self-governance, there was little need for intergovernmental collaboration because the national government as a dominant player in the policy process also acted as a coordinator for the local governments to ensure policies were appropriately carried out. However, this relationship broke down when more power and authority were decentralized to local governments during the 1990s, and the need to establishing a mechanism for local governments to work together became urgent.

Article 21 and Article 24 of the Law on Local Governments System define the mechanisms currently available for local governments to cooperatively deal with issues or problems across their boundaries. As stated in Article 21, under the general guidance of the responsible ministry of the national government, local governments can collaboratively deal with local policy problems which require local joint address from governments. In addition, the responsible ministry of the national government can coercively assign an appropriate local self-governing body to address problems within a time limit. Article 24 is a provision for local governments, with the consent of the local councils, to establish a joint venture for jointly providing local public services. Three characteristics can be concluded for the current system (Ji, 2003: 4-5): (1) local governments, not the national government, are responsible for dealing with local problems across local boundaries; (2) the national government plays a role of providing general guidance to coordinate the joint efforts; (3) if necessary, the national government can intervene by ordering a local government to take immediate actions. Indeed, as Li and Zhan

(2004: 22) claimed, the law does not proactively facilitate local government collaboration. The national government is only authorized to reactively coordinate the joint efforts and cannot utilize available national resources to stimulate local government collaboration.

It is not easy for local governments to work together. Local governments often compete for attracting business and obtaining limited resources while attempting to preserve local identity. However, many urban problems nowadays have forced local governments to collaborate for future growth and development. Wheeler (2002: 267) indicated that there has been a dramatic resurgence of interest in regional approach as to planning and development in the US. Miller (2002: 99) also observed that “[a]t the same time that those regions are becoming more diffuse, they are becoming more integrated in revolving problems at the metropolitan level.” For local governments to work together, as Metcalfe (1978: 48) suggested, “an interorganizational learning process is required so that an agreed diagnosis of structural problems is arrived at and mutually acceptable proposals for concerned action worked out.” An intergovernmental learning process starts from a joint effort to define problems. Through the process of problem definition, a shared vision emerges, and acceptable proposals would be reached. Accordingly, actions are taken to implement these mutually agreed proposals. Metcalfe (1978: 49) further emphasized that “the problem of coordination is resolved by formulating general rules and understanding prior to action, rather than leaving all decisions to ad hoc bargaining among sub-groups.” In addition, the national government should also play an essential and active role in promoting local government collaboration. As Miller (2002: 102) described, the “pressures from the state and federal government exert an enormous influence on local governments to cooperate and are, indeed, instrumental drivers of regionalism.”

Neither a mechanism to encourage interorganizational learning process nor policy incentives from the national government to stimulate local cooperation appears in the Law on Local Governments System. Li and Zhan (2004: 22) confirmed by asserting that policies, such as police, health, economic development, and infrastructure, cannot be effectively addressed by local governments without coordination and funding of the national government. As the Law does not require the national government to actively promote local government collaboration, it is not surprising to see that there were only few attempts for local governments to seek cooperative strategies in Taiwan. Ji (2003: 13) further pointed out that the Law does not clearly define the condition and process for making inter-local agreements, as well as the legal

relationships between the parties to such agreements. In addition, a general guideline for sharing the costs, a mechanism of accountability, and legal status of newly-established collaborative agencies all need to be specified in the Law in order to provide guidance for local government collaboration (Ji, 2003: 13-14).

It is expected that local governments will continue to be granted more autonomy to perform many functions decentralized from the national government, and the need for local governments to cooperate will be stronger in the future. However, it is also obvious that the current mechanism is inadequate to foster a voluntary bottom-up process in which local governments will seek collaborative strategies to address problems not confined within the boundaries of their respective jurisdictions. Therefore, the national government should play a more active role in promoting local government collaboration by providing general guidance and financial incentives to stimulate the efforts. It is recommended that the national government should add a new chapter to the Law on Local Governments System or draw up a new legislation to regulate and provide general principles for promoting local government collaboration (Ji, 2003: 15-17). In addition, other than the coercive-based approach provided in Article 21 of the Law on Local Governments System that the national government could assign a local government to address inter-local problems, an incentive-based approach should also be added to the current system in order to encourage voluntary participation in joint efforts.

In sum, as we enter a new era of local self-governance in Taiwan, local governments will not be able to effectively and efficiently meet growing local needs without working together. Moreover, instead of guarding and guiding local governments, the national government must become a facilitator to promote local government collaboration and better local self-governance.

4.0 UNDERSTANDING TAIWAN'S LOCAL FISCAL SYSTEM

After local elected officials obtained more autonomy in making local policy priorities, it became apparent that they had neither sufficient financial resources nor needed flexibility to allocate funds for meeting local spending needs. As a result, the transformation of the local governments system also triggered the need of fiscal decentralization to give local governments sufficient financial resources for fulfilling their newly acquired duties. The first wave of fiscal decentralization occurred in 1999 when the Law on Allocation of Government Revenues and Expenditures was amended. The amendment decentralized more financial resources by expanding the national shared pool to make more tax revenues available to be transferred to local governments. However, it was not until the passage of the General Law on Local Taxation and the Charges and Fees Act in 2002 that local governments were granted authority to levy new taxes, adjust tax rates, and charge user fees. This chapter critically analyzes and evaluates Taiwan's local fiscal system, and identifies directions for future reforms. An overview of the local revenue-raising system will first be presented, followed by more detailed discussion of the three most important local revenue sources. Then, by examining the relationships between the national transferred revenues and local spending, one of the most critical but often overlooked factors contributing to the lack of local fiscal accountability in Taiwan will be examined. Finally, potential directions for future reforms of Taiwan's local fiscal system will be suggested in the third section.

4.1 AN OVERVIEW OF LOCAL REVENUE-RAISING SYSTEM

Taiwan's local revenue-raising system is highly centralized and unified, with the majority of revenue generated through local taxes, national shared tax, and intergovernmental aid. This

section will to briefly summarize the current revenue-raising system. It should be noted that the term “local governments” primarily refer to special city, county, and provincial city governments because their importance and fiscal power in Taiwan’s local fiscal system are much greater than township-level governments’ are³.

The Law on Allocation of Government Revenues and Expenditures is the most important piece of legislation regulating the local revenue-raising system as well as the local spending system. It divides taxes into national taxes and local taxes, which is called special city and county/provincial city taxes in the law. National taxes include income tax, estate and gift tax, customs duties, sales tax (business tax), commodity tax, cigarette and alcohol tax, security transactions tax, futures transactions tax, and mining lot tax. Local taxes include land taxes (i.e. land value tax, agricultural land tax, and land value increment tax), property tax (house tax), license tax, deeds tax, stamp tax, amusement tax, and special tax.

The law further defines how national and local taxes should be retained, shared, or distributed among levels of government. Generally speaking, national taxes are retained by the national government. Similarly, local taxes are retained by the special city, county, or provincial city where the taxes are collected. Some taxes, however, have to be shared or distributed. “Shared tax” is a tax in which all or a portion of the tax is contributed to a national or county pool to be distributed, based on a formula, by national government or county governments to special city/county/provincial city governments or to township level governments, respectively. “Distributed tax” is a national or local tax which all or a portion of the tax is distributed to a lower-level jurisdiction where the tax is collected. It should be noticed here that no tax is defined as township-level tax in the law although township level governments are still considered as local self-governance bodies. In order to ensure that township-level governments receive tax revenues for fulfilling their local self-governing duties, the law explicitly requires a portion of specified national and county taxes to be “distributed” to the township-level governments. Table 4.1 summarizes how the national and local taxes are shared and distributed.

³ In FY 2004, special city, county, and provincial city expenditures accounted for 32.1% of overall general government expenditures, while township level governments only accounted for 5.5% (Yearbook of Financial Statistics, Republic of China, 2004: p. 36-37). In addition, as discussed in chapter 3, there is an ongoing debate regarding whether to remove township-level governments’ self-governance status. Before final decision is reached, it is expected that the role of township-level governments’ role in the local fiscal system will remain limited.

As we can see from Table 4.1, five out of nine taxes categorized as national taxes in the law are either shared by or distributed to local governments. Only customs duties, security transactions tax, futures transactions tax, and mining lot tax are completely retained by the national government. A portion of income tax, sales tax, and commodity tax is contributed to the national shared pool to be distributed based on a formula established by the national government, and a portion of cigarette and alcohol tax is distributed to special city/county/provincial city governments based on their population. Finally, special city, provincial city, and township level governments can keep a portion of the estate and gift tax collected from their jurisdiction.

Table 4.1 Assignments of the national and local taxes to local governments

National Taxes		
Taxes	Categories	Tax Allocation
Income tax	Partially shared	● 10% to the national shared pool to be shared by local governments
Estate and gift tax	Partially distributed	<ul style="list-style-type: none"> ● Special city governments keep 50% collected from the jurisdiction ● Provincial city governments keep 80% collected from the jurisdiction ● Township level governments keep 80% collected from the jurisdiction
Sales tax	Partially shared	● 40% to the national shared pool to be shared by local governments
Commodity tax	Partially shared	● 10% to the national shared pool to be shared by local governments
Cigarette and alcohol tax	Partially shared	<ul style="list-style-type: none"> ● 18% of the total revenue is shared by special city/county/provincial city governments and distributed based on population ● 2% of the total revenue is shared by Kinmen and Lienchiang county governments of Fukien province and distributed based on population
Special City and County/Provincial City Taxes		
Taxes	Categories	Tax Allocation
Land value tax	Partially shared and partially distributed	<ul style="list-style-type: none"> ● 20% shared by township level governments of a county ● Township level governments keep 30% collected from the jurisdiction
Agricultural land tax	Distributed	● Township level governments keep 100% collected from the jurisdiction
Land value increment tax	Partially shared	● 20% collected from the county/provincial city should be contributed to a national shared pool to be shared by county/provincial city governments
Property tax	Partially shared and partially distributed	<ul style="list-style-type: none"> ● 20% shared by township level governments of a county ● Township level governments keep 40% collected from the jurisdiction
Deeds tax	Partially shared and partially distributed	<ul style="list-style-type: none"> ● 20% shared by township level governments of a county ● Township level governments keep 80% collected from the jurisdiction
Amusement tax	Distributed	● Township level governments keep 100% collected from the jurisdiction

Source: the Law on Allocation of Government Revenues and Expenditures

In terms of local taxes, special city governments can keep all local tax revenues collected in their jurisdictions. Other than land value increment tax, of which 20% is contributed to the national shared pool to be distributed to provincial city and county governments based on a national shared tax formula, provincial city governments can keep all local tax revenues

collected in their jurisdictions. County governments, on the other hand, can only keep 50% of the land value tax, 80% of the land value increment tax, 40% of the property tax, 100% of the license tax, and 100% of the stamp tax revenues because some of the revenues have to be distributed to township-level governments. Table 4.2 summarizes the percentage of national and local taxes to be retained by special city, provincial city, and county governments. Although most tax rates and bases are regulated in the national statutes, these retained tax revenues can be considered as “owned tax revenues” because the national government cannot increase or decrease the level of these tax revenues by national executive orders. In other words, the national government does not have discretion to allocate these tax revenues without asking the congress to amend the laws. Accordingly, it is noted that county governments receive less percentage of owned tax revenues compared to special city and provincial city governments because some of taxes are assigned to township level government by the law.

Table 4.2 Percentage of owned tax revenues received by special city, county, and provincial city governments

Taxes	Special Cities	Provincial Cities	Counties
National Taxes			
Estate and Gift tax	50%	80%	0%
Local Taxes			
Land value tax	100%	100%	50%
Agricultural land tax	100%	100%	0%
Land value increment tax	100%	80%	80%
Property tax	100%	100%	40%
License tax	100%	100%	100%
Deeds tax	100%	100%	0%
Stamp tax	100%	100%	100%
Amusement Tax	100%	100%	0%

Source: the Law on Allocation of Government Revenues and Expenditures

Although specifying rates and bases of local owned taxes in the national tax laws will guarantee a certain level of tax revenues to be received by local governments, it also leaves little or no flexibility for them to adjust this level. In 2002, the General Law on Local Taxation and the Charges and Fee Acts were enacted to grant local governments power to increase local revenues. The adoption of the General Law on Local Taxation represents the most dramatic change in reforming Taiwan’s local fiscal system because this is the first legislation to decentralize power to local governments to increase the level of local taxes. Based on the law,

with local council's consent and national government's approval, a special city, county level, and township-level government can impose special tax, provisional tax, or added tax on items or activities except: (1) transactions outside its jurisdiction; (2) natural resources or mineral products that circulate outside its jurisdiction; (3) public utilities that operate in different areas of jurisdiction; (4) taxation items that harm overall national interests or other local public interests. In addition, the law further authorizes special city and county level governments to increase some specified national and local tax rates up to 30% of the prescribed rates. However, local governments seem to be reluctant to utilize this new authority for raising local revenues.

More than three years after the law was enacted, there are only four counties with national government's approval to levy seven new special or provisional taxes (Wang, 2005). As indicated by an interviewee, this is "because the costs of imposing new taxes or proposing a tax hike are high but the benefits are low" (20050615, personal communication, June 15, 2005). In other words, by raising a small amount of tax revenue, local elected officials will face enormous political pressure from voters and local councils while facing the uncertainty that the national government might not approve the proposal during the process of proposing a tax increase. In fact, an interviewee elaborated, "there is little financial incentive for local governments to impose a tax hike based on the General Law on Local Taxation. It is just a way to show a local government's fiscal efforts to the national government in order to get more intergovernmental aid" (20050501, personal communication, May 05, 2005). In sum, the General Law on Local Taxation provides local governments flexibility to raise their very own revenues. The learning process for local governments to raise local tax revenues is slow, but it is expected that the importance of locally-raised tax revenues will gradually increase in the future.

Based on the Law on Allocation of Government Revenues and Expenditures, local government revenues can be categorized into taxes, special assessments, fines and indemnities, user fees, trust account income, sales of public property, public enterprise and public utilities, intergovernmental aid, contributions and donations, self-governance taxes, and others. Generally speaking, special cities, counties, and provincial cities generate the majority of their revenue through taxes and intergovernmental aid. Based on the certified final budgetary number of FY 2004 as summarized in Table 4.3, tax revenues accounted for 51.89% of their combined revenue while intergovernmental aid accounted for 34.72%. This means that the other revenue sources only generated 13.39% of total revenue in these three types of local governments. In addition, it

is found that more than 80% of the revenue in all three types of local governments was generated from taxes and intergovernmental aid. In special cities, tax revenues accounted for 67.35% of the revenue, while intergovernmental aid accounted for only 13.31%. On the contrary, in counties, 42.48% of the revenue was generated from taxes, and 47.41% of the revenue was generated from intergovernmental aid. This is because the formula for distributing national shared tax is in favor of special cities. While special cities receive more national shared tax and are in better fiscal health, the national government provides additional financial assistance to counties and provincial cities through a general grant.

Table 4.3 The composition of local revenues in different types of local government

	Combined	Special Cities	Provincial Cities	Counties
Taxes*	51.89%	67.35%	54.86%	42.48%
Fines and indemnities	3.16%	3.24%	2.85%	3.18%
User fees	3.35%	5.55%	3.64%	2.05%
Sales of public property	1.83%	2.71%	1.99%	1.29%
Public enterprise and public utilities	1.85%	5.13%	0.67%	0.25%
Intergovernmental aid	34.72%	13.31%	32.21%	47.41%
Others	3.20%	2.71%	3.79%	3.35%
Source: Calculated by the author based on FY2004 certified revenues provided by the National Treasury Agency, Ministry of Finance				
*The term “taxes” refers to the sum of local taxes and national shared tax discussed in the following section, 4.2.				

Under the present local fiscal system, the national government sets the level of local revenue not only through its power to make national transfers, but also through its authority to regulate local tax assignments, rates, and bases in applied national statutes. By breaking down “taxes” in the Table 4.3 into “local taxes” and “national shared tax” as shown in the Table 4.4, it is not difficult to see the importance of national transfers, which include national shared tax and intergovernmental aid, on local revenue. In special cities and provincial cities, national transfers accounted for about 43% of the total revenue in FY 2004. In counties, national transfers accounted for more than 60% of their revenue in the same fiscal year. Moreover, the national government extends its influence on local revenue by setting the level of local tax revenues. On the one hand, as Table 4.1 indicat, the assignment of national and local taxes is nationally regulated in the Law on Allocation of Government Revenues and Expenditures. On the other hand, tax bases and rates of these assigned taxes are specified in the national tax laws. In the

following section, more detailed information about local taxes, national shared tax, and intergovernmental aid will be provided to further demonstrate current fiscal relationships between the national government and local governments in Taiwan.

Table 4.4 The national government's impact on local revenue

	Combined	Special Cities	Provincial Cities	Counties
By major categories				
Local taxes	32.42%	37.62%	43.42%	27.09%
National shared tax	19.46%	29.73%	11.44%	15.39%
Intergovernmental aid	34.72%	13.31%	32.21%	47.41%
Others	13.39%	19.34%	12.93%	10.11%
By characteristics				
National transfers*	54.19%	43.04%	43.65%	62.80%
Local owned revenues	45.81%	56.96%	56.35%	38.20%
Source: FY2004 certified final budgetary number provided by the National Treasury Agency, Ministry of Finance				
*National transfers = National shared tax + Intergovernmental aid				

4.2 THREE MAJOR LOCAL REVENUE SOURCES

As discussed in the previous section, local taxes, national shared tax, and intergovernmental aid make up the majority of local revenue in Taiwan. The national government sets the level of local revenue through its power to regulate these three local revenue sources. In this section, the current system of these three major local revenue sources will be separately introduced, analyzed, and evaluated.

4.2.1 Local Taxes

Based on Table 4.4, local taxes generated 32.42% of overall special city, county, and provincial city revenue in FY 2004. Among these three types of local governments, provincial cities have the highest percentage (43.42%) of their revenue generated from local taxes while the counties' 27.09% is the lowest. As discussed earlier, Taiwan's local taxation system is highly centralized. In addition to nationally regulated local tax assignments, rates and bases of most local taxes,

including estate and gift tax, land value tax, land value increment tax, license tax, deeds tax, and stamp tax, are nationally set in applied tax laws. Property tax and amusement tax are the only exceptions. The Amusement Tax Act sets the maximum rates that can be levied on the admission fees of specified entertainment events. The Property Tax Act sets the ranges of tax rates for different types of property. The tax rate of residential properties can be set ranging from 1.2% to 2% with an exception that the law sets the tax rate of owner-occupied residential properties at 1.2%, which is the lowest point in the range. The tax rate of commercial properties can range between 3% to 5%, and the tax rate can be set ranging from 1.5% to 2.5% for a property used as a private hospital or clinic, a professional office, or the premises of nonprofit civic organization. However, as Table 4.5 illustrate, tax revenues collected from these two taxes accounted for less than 15% of total special city, county, and provincial city tax revenues in FY 2004, in which property tax revenue accounted for 14.54% and amusement tax revenue accounted for 0.33%⁴. Accordingly, although special city, county, and provincial city governments are given some leeway to determine the rates of the property tax and amusement tax, their ability to determine the level of local tax revenues is still very limited.

Table 4.5 The composition of local tax revenues

	Combined	Special Cities	Provincial Cities	Counties
Land tax*	50.42%	55.95%	41.26%	49.24%
Property tax	14.54%	16.84%	20.98%	10.50%
Deeds tax	2.54%	4.11%	6.29%	0.00%
License tax	22.18%	11.56%	18.34%	31.87%
Stamp tax	3.44%	4.68%	2.75%	2.7%
Amusement tax	0.33%	0.47%	0.97%	0.00%
Estate and gift tax	2.73%	4.55%	6.46%	0.00%
Cigarette and alcohol tax	3.82%	1.84%	2.94%	5.96%
Source: FY2004 certified final budgetary number provided by the National Treasury Agency, Ministry of Finance				
*Land tax includes land value tax and land value increment tax				

In addition to their inability to determine the level of local tax revenues, local governments traditionally have been reluctant to increase local tax revenues by improving local tax administration because there are systematic incentives in Taiwan's local fiscal system not to

⁴ It should be noted that all of the amusement tax revenue collected in a county is distributed to township-level governments of the county according to the Law on Allocation of Government Revenues and Expenditures. As a result, amusement tax revenue is not considered as one of the county tax revenues.

do so. For example, the assessment value of the land is always significantly lower than the market value is. First, lower assessment reduces the tax burden on taxpayers within a jurisdiction, which is always welcomed by the voters. Second, lower tax revenues caused by lower assessment would result in a poorer local fiscal health, and put a local government in a better position to request more national aids. The Directorate General of Budget, Accounting, and Statistics (DGBAS), a cabinet-level office in charge of budgeting, accounting, and census, has made efforts to eliminate these incentives in the recent years by incorporating local governments' practice of assessment, tax collection, fees and charges collection, and financial management into a formula for evaluating local governments' overall fiscal efforts of increasing revenues and reducing costs. Then fiscal efforts of local governments are taken into account when decisions of distributing intergovernmental aid are made. It is hoped that local governments would make proactive efforts to increase local revenues by improving local tax administration.

There are two implications that can be derived from the current centralized local taxation system. First, in a centralized local taxation system, the national government designs a system to be applicable to the whole county. As a result, the local taxation system is uniform, and local taxpayers' tax burdens are the same regardless of their residence. They neither have the power to determine the level of local revenue, nor do they have a choice to select the level of local revenue by moving to another locality. In other words, there is almost no difference in terms of local tax burden on residents living in different localities. No matter where they live or what level of local services they receive, local taxpayers will bear the same local tax burden. Second, because the power to determine tax assignments, rates, and bases is centralized in the national government, there is nothing local governments can do to prevent their tax revenues from being cut by the national government. For example, the Property Tax Act was amended in 2001 to cut the tax rate of residential properties and owner-occupied residential properties from 1.38% to 1.2%, resulting in a loss to the local tax revenue of about NT \$3.3 billion each year (Li, Zhen-Zhen, 2000). In 2002, in order to facilitate land transactions and stimulate economic development, the congress added a provision to the Land Tax Act to temporarily cut the rate of land value increment tax in half for two years, resulting in a loss to the local tax revenue of approximately NT \$22 billion per year (Xie, 2002). In these two examples, local taxes became a

policy tool of the national government to achieve national goals while local governments were the ones to bear the costs.

In sum, Taiwan's local taxation system is highly centralized. The national government sets the level of local tax revenue, and it has the power to adjust this level in response to the national needs. Local governments have very limited autonomy or discretion in deciding the level of local tax revenue.

4.2.2 National Shared Tax

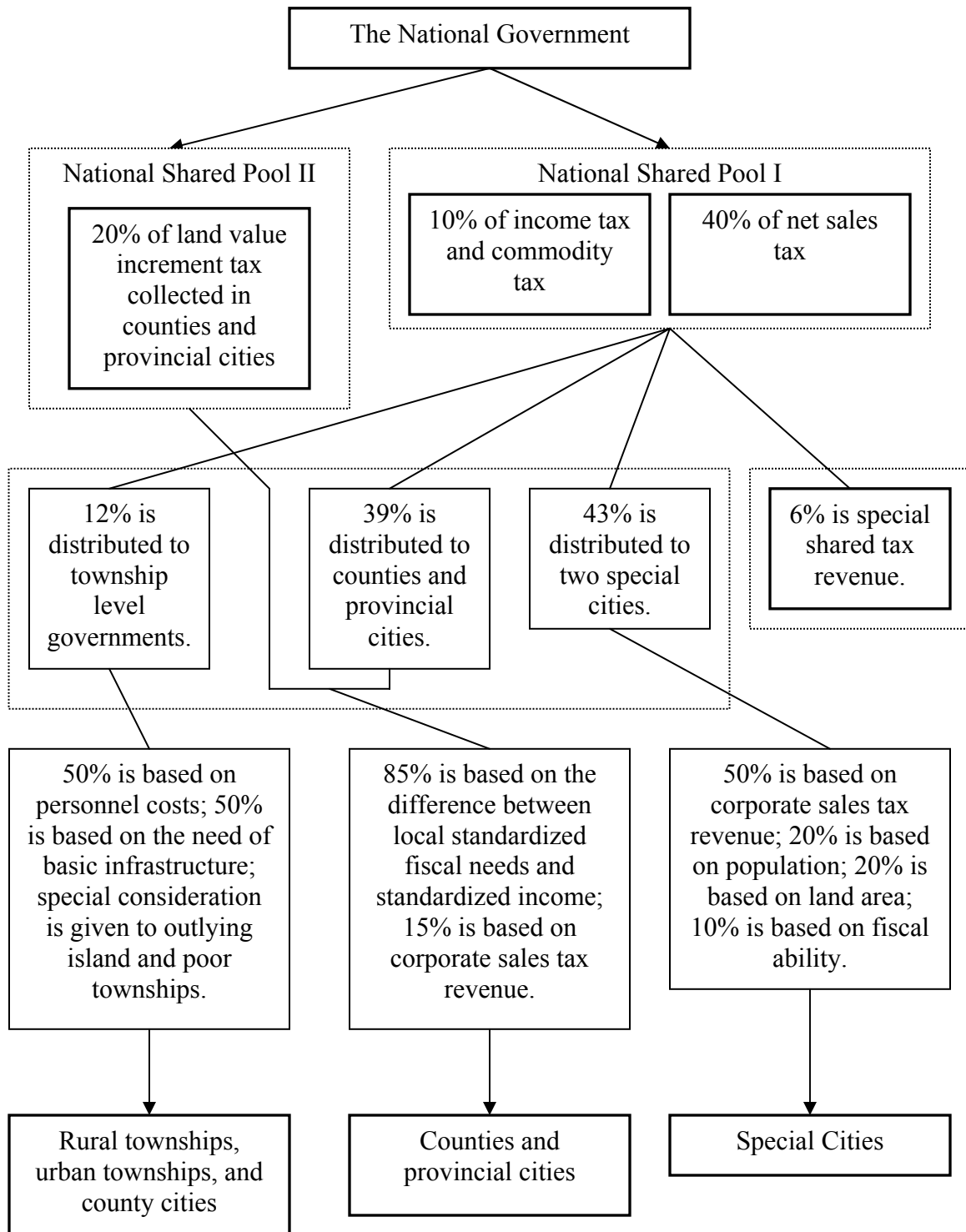
Although national shared tax is listed as one of the tax revenues in the local budget, it is an intergovernmental transfer in nature. The current national shared tax system, depicted in Figure 4.1, is based on the 1999 amendment of the Law on Allocation of Government Revenues and Expenditures.

As we can see in the Figure 4.1⁵, there are two hypothetical national shared pools. The first hypothetical national shared pool is made up by 10% of the income tax, 40% of the net sales tax⁶, and 10% of the commodity tax. Six Percent of the revenue in the pool is called special shared tax revenue, which is distributed under the national government's discretion for supporting local governments' emergency or other major needs. The remaining revenue is called general shared tax revenue, of which 43% is distributed to special cities, 39% is distributed to counties and provincial cities, and 12% is distributed to rural townships, urban townships, and county cities. All of the revenue in the second hypothetical national shared pool is considered as general shared tax revenue, and it is distributed to counties and provincial cities. After general shared tax revenue is divided and assigned to three different layers of local government as described above, the revenue is further assigned to local governments within each layer following different formulas.

⁵ Interests generated from the account of the national shared tax revenue can be considered as the third hypothetical national shared pool. Based on the Regulation of Distributing National Shared Tax, 46% of the revenue in the pool is distributed to special cities, 41% of the revenue in the pool is distributed to counties and provincial cities, and 13% of the revenue in the pool is distributed to rural townships, urban townships, and county cities. The third pool is not drawn in the Figure 4.1 as the amount of funds to be distributed is not significant compared to the other two pools.

⁶ Net sales tax = sales tax - uniform invoices award.

Figure 4.1 System of distributing national shared tax



Source: Adapted from Dai , 2003: 43

According to the Regulation of Distributing National Shared Tax, for general shared tax revenue assigned to special cities, 50% is distributed based on the average corporate sales revenue in the past three years, 20% is distributed based on population, 20% is distributed based on land area, and remaining 10% is distributed based on the average fiscal capacity⁷ in the last three years. For general shared tax revenue assigned to counties and provincial cities, 85% is distributed based on the average difference between standardized fiscal needs and standardized income in the past three years, and 15% is distributed based on corporate sales revenue in the previous year. The standardized fiscal needs in the formula take into account factors such as personnel costs, administrative costs, overtime costs for police and fire personnel, mandated social welfare expenditures, and basic infrastructure expenditures. The standardized income is overall local tax revenue minus national shared tax revenue and local special tax revenues collected based on the authority granted by the General Law on Local Taxation. For general shared tax revenue assigned to rural townships, urban townships, and county cities, 50% is based on personnel costs and the other 50% is based on the need for basic infrastructure. In order to determine the need for basic infrastructure, three factors are considered, including average expenditures in the past three years, population, and land area, while giving special consideration to poor townships and especially poor outlying island townships.

As we can see in Figure 4.1, the current system is very complex and in favor of the two special cities because 43% of the revenue in the national shared pool I is distributed to them, while other 18 counties and five provincial cities only share 39% of the revenue from national shared pool I and all of the revenue from the second pool. It is not very surprising to see that the national shared tax revenue represented 29.73% of the overall special city revenue, but only represented 11.44% of the overall provincial city revenue and 15.39% of the overall county revenue in FY 2004 as shown in Table 4.4. Therefore, the system of distributing national shared tax has been the center of debate over the reform of the local fiscal system in recent years. After the DPP won the presidential election in 2000, the Chen administration cut the percentage of revenue in the national shared pool I to be distributed to special cities from 47% to current 43%

⁷ Fiscal ability = A/B

A = population * average per capita owned source revenue for all special cities / average per capita owned source revenue

B = sum of A for every special cities

Own source revenue is defined as total revenue minus national shared tax revenue and intergovernmental aid for the equation.

in 2001, and more cuts were expected. In 2002, Taipei City Mayor Ma utilized his popularity and support in the congress to pass an amendment to the Law on Allocation of Government Revenues and Expenditures. The amendment specifically set a fixed percentage of 15.5% of the revenue in the Pool I to be distributed to Taipei and 10% to be distributed to Kaohsiung, the other special city, while expanding the pool I by requiring 30% of the income tax, 30% of the commodity tax, and 50% of the net sales tax to be contributed to the pool. It is obvious that the policy objective of the amendment was to prevent the special cities' national shared tax revenue from continuously declining rather than improving the overall local fiscal system.

Although the new amendment was vetoed two months later and the congress failed to override the veto, the discussion of improving the current national shared tax system continued and the current system remains intact as of the writing of this dissertation. Based on the Executive Yuan's latest proposed bill, the reform would aim at implementing decentralization, improving local fiscal autonomy, and establishing a better fiscal equalization system. In the bill, the national shared pool is expanded and simplified so that there is only one pool in the proposed system. The new pool will be made up of 100% of the net sales tax and 80% of the cigarette and alcohol tax, estimated to generate an additional NT \$63.7 billion of overall national shared tax revenue to be distributed to local governments (Ye, 2003: 213). In addition, the method of distributing the national shared tax will be specified in the law instead of being regulated by executive orders. The congress is moving slowly in reviewing the bill, and it remains to be seen when the bill will attract enough attention of national policy makers to be reviewed and passed.

The original goal of the national shared tax system is to equalize the difference of fiscal capacity among localities in order to meet local basic spending needs (Lai, 2005: 43). However, as we can see, the current system favors special cities, and the national government is using general grants as an additional policy means to provide additional financial assistance to counties and provincial cities. It is expected that any future reform proposal will encounter severe resistance from the special cities if their share or total amount of national shared tax revenue is drastically decreased. As a result, general grants as part of the intergovernmental aid system are expected to continue playing an important role in equalizing the local fiscal condition. The current design of the intergovernmental aid system will be introduced in the following subsection.

4.2.3 Intergovernmental Aid

The current system of intergovernmental aid is regulated in the Law on Allocation of Government Revenues and Expenditures and the Law on Local Governments System. Based on Article 69 of the Law on Local Governments System, the national government may provide grants to local governments with less financial resources in order to promote balanced local development. In addition, eligible programs, eligible agencies, percentage of proposed expenditures funded, and principles of distributing funding should be specified. Article 30 of the Law on Allocation of Government Revenues and Expenditures further clarifies the situations by stipulating that the national government may provide grants to local governments for equalizing economic development among localities, and it specifically points out that projects that are eligible to receive grants include those in which:

1. Benefits cover a wide range of areas and can fit into overall development planning.
2. Developments across boundaries of two or more special cities, counties, and provincial cities.
3. Major developments can be a model for future developments.
4. Local projects implement major national policies or developments.

According to these two laws, the goal of granting intergovernmental aid is to provide financial assistance to specific projects in order to promote balanced local development. In other words, the form of intergovernmental aid defined in the current laws should be categorical grants rather than general grants. Although promoting balanced local development is an important policy objective of national grantmaking, it should be achieved by taking fiscal conditions into consideration in deciding whether a local project should be funded or a categorical grant should be made. These two laws do not authorize the national government to distribute general grants to local governments without earmarking the usage of these transferred funds. As a result, the majority of intergovernmental aid made by the national government was categorical grants before the year of 2001. For example, categorical grants accounted for about 81% of the total intergovernmental aid in FY 2000 (Zhang and Wang, 2002: 7). However, during this time, most categorical grants were made in order to promote national policy priorities while paying very little regard to local needs. Moreover, decisions made by national ministries to fund local development projects and small construction projects were often based on political patronage

instead of benefits derived from the projects. In 2001, the system of intergovernmental aid underwent a major change to address these problems.

The DGBAS, a leading cabinet-level office in the reform effort, published the Method for Making Intergovernmental Aid to Special Cities and Counties/Provincial Cities to guide decisions of the national government on distributing intergovernmental aid, including a formula for making general grants and guidelines for distributing categorical grants. In addition, the DGBAS reviewed and examined all intergovernmental grants made by national ministries. The grants not falling into the four specified categories discussed above were integrated and consolidated into a general grant, which is distributed to counties and provincial cities for bridging the gap between local basic fiscal needs and income and also for providing funding for local basic development. Similar to the formula for distributing national shared tax to counties and provincial cities, the basic fiscal needs take into account factors including personnel costs, overtime costs for police and fire personnel, mandated social welfare expenditures, and basic administrative costs. The basic income is defined as overall local tax revenue minus national shared tax revenue and local special tax revenues collected based on the authority granted by the General Law on Local Taxation.

Funding for local basic development is made up of three separate funding categories, including social welfare, education, and basic infrastructure (Li, 2005: 21-22; Zhang and Wang, 2002: 8-9). Factors such as fiscal capacity, handicapped population, low-income population, child population, female population, and elder population are taken into account for determining the funding of social welfare. Factors like fiscal capacity, total population, number of students, and number of classes are used to calculate the funding for education. Finally, funding for education is decided based on factors such as fiscal capacity, total population, land area, and road area. The reforms are aimed not only at fulfilling local governments' basic fiscal needs but also at providing sufficient revenue for educational facilities, social welfare, and basic local infrastructures (Li, Tai-Xing, 2000: 71).

There are two important observations that can be made concerning the 2001 reforms. First, the role of the general grant in the intergovernmental aid system to equalize the fiscal conditions among localities has drastically increased. As shown in Table 4.3, the importance of intergovernmental aid to local revenue was not the same in different types of local governments. In FY 2004, intergovernmental aid represented 47.41% of overall county revenue and 32.21% of

overall provincial city revenue, while only 13.31% of overall special city revenue was made up of intergovernmental aid. In addition, during the same fiscal year, intergovernmental aid made up more than 50% of the annual budget in 10 counties and a provincial city, while Taipei city, the most affluent locality in Taiwan, only received 3.45%. As we recall from the earlier discussion, only counties and provincial cities are eligible to receive general grants, which have made up the majority of intergovernmental aid after the reform. Therefore, it can be concluded that intergovernmental aid currently serves as a policy tool to equalize local fiscal conditions.

Second, the increased use of general grants may violate two existing laws regulating the system of intergovernmental aid. As discussed earlier, the laws provide no authorization for the national government to make general grants, and the current system is established by an executive order, the Method for Making Intergovernmental Aid to Special Cities and Counties/Provincial Cities. The Law on Allocation of Government Revenues and Expenditures says the aid should be used to achieve “balanced local development” in different localities instead of equalizing the “fiscal condition”. Ts’eng (2001: 31) elaborated that the current intergovernmental aid system is designed to support major projects without attempting to equalize fiscal conditions. However, because the national shared tax system is currently in favor of special cities and it cannot generate enough revenue especially for counties and provincial cities to fully meet their basic financial needs, the national government has no choice but to use intergovernmental aid as a policy tool to equalize fiscal conditions. As a result, the current practice of using intergovernmental aid to equalize local fiscal conditions has blurred the functions of shared tax and intergovernmental aid (Ts’eng, 2001: 31).

4.3 SETTING LOCAL SPENDING LEVEL AND PRIORITIES

The centralized and uniformed local revenue-raising system introduced in the pervious two sections has made profound impacts on local spending in Taiwan. First, the level of local spending is highly dependent upon the level of local revenue set by the national government. Second, local residents have little influence on setting the level and priorities of local spending. Third, there is no effective mechanism of fiscal accountability to ensure that local governments

spend their limited financial resources efficiently. These three impacts will be analyzed in greater detail in this section.

4.3.1 Limited Local Freedom on Setting the Level of Local Spending

Huang (Huang, Jin-Tang, 1995: 99) once stated that “a county magistrate can only make routine, administrative, and local services related decisions. He or she has to depend heavily on national government’s support in order to launch a major local development project because the national government is in control of most legislative authority and planning power.” Although the two reforms of the local governments system in the 1990s have decentralized more authority to local governments, local elected officials continue to encounter constraints on allocating sufficient funds to meet local needs. First, local governments do not have control over the level of local revenue, and, therefore, they cannot be certain the revenue would be sufficient to support the desired level of local spending. Second, local elected officials only have little freedom to allocate funds based on local priorities because about half of the local spending is allocated to pay for personnel costs. Third, the requirement of local matching funds for receiving categorical grants further limits local governments’ freedom to allocate local limited funds. Finally, local payments mandated by national laws significantly reduce the availability of local funds that can be spent on meeting local needs.

The majority of local revenue is made up of local taxes, national shared tax, and intergovernmental aid. As shown in Table 4.4, the three major local revenue sources generated 86.6% of special city, county, and provincial city overall revenues in FY 2004. As demonstrated in the previous sections, local governments do not have the power to determine the level of local taxation (Research, Development, and Evaluation Commission, 2003: 14), and the power to distribute national shared tax and intergovernmental aid is held by the national government. In other words, the national government is the one to set the level of local revenue and, therefore, to determine the level of local spending. Local elected officials can do little to adjust the level of local revenue and can only prepare their budgets accordingly. If this nationally predetermined level is higher than the desired level of local spending, local governments will overspend, resulting in efficiency loss. On the other hand, if the level is lower than the desired level of local spending, local elected officials will have to cut local spending or to issue debts. Because of

political pressure from voters and local representatives, local elected officials tend to finance various development projects by issuing debts. It is observed that both short-term and long-term debts have hit historical high in recent years because local governments do not have sufficient and adequate financial resources to support growing local spending (Lai, 2005: 48). Without power to set the level of revenue, local governments will not be able to efficiently meet local spending needs.

In addition to the lack of power to set the level of local revenue, local governments' ability to meet local spending needs is also constrained by the high percentage of personnel expenditure in overall local spending. Based on the certified final budgetary data provided by the National Treasury Agency, approximately 45% of special city, county, and provincial city overall spending was used to pay for the personnel costs in FY 2004. If the two special cities are not included in this calculation, the number is more stunning: almost 55% of the county and provincial city's overall spending was personnel expenditure in FY 2004. Although it has been pointed out that the high percentage of personnel expenditure in local spending has made local governments incapable of meeting other spending needs (Ye, 2001: 6; Lu, 2005: 27; Lai, 2005: 48), local governments can do little to cut personnel expenditure because the civil services system is nationally regulated. The rights of local public employees are highly protected by the national civil services laws, which also specifies their pay scale and benefits. As a result, it would be very difficult to reduce the proportion of local budget spent on personnel unless local revenue is drastically increased.

Moreover, local freedom to allocate local funds is hurt by matching requirements of categorical grants. The DGBAS set the ceiling for various ministries to fund local projects through categorical grants in the Method for Making Intergovernmental Aid to Special Cities and Counties/Provincial Cities. As a result, approved funding of a categorical grant is contingent on local governments raising a certain percentage of needed funding for a local project depending on the type of local project, the type of local governments, and fiscal capacity of the local governments. In theory, the requirement for local matching funds seems reasonable and necessary in order to ensure that appropriate local fiscal efforts are made before seeking financial assistance from the national government. In practice, however, the matching requirement creates a dilemma for local governments and forces them into a choice of obtaining more national financial resources or preserving already restricted and limited local funds for other prioritized

local needs. Considering that most local governments in Taiwan are facing financial hardship, and local elected officials desperately need financial resources for providing local services and pursuing local development, the choice is often to meet the matching requirement to get the earmarked national funding. The more categorical grants local governments receive, the less freedom they will have to allocate the limited available local funds.

Finally, mandatory expenditures required by the national laws can also significantly reduce local governments' available financial resources for meeting local priorities. The national government can require local governments to share the costs of certain public services or to shift the funding responsibility from the national government to local governments by enacting or amending applied national laws. A saying that "the national government treats, but local governments pay the bill" is often used to describe this practice in Taiwan (Ye, 2003: 226; Lai, 2005: 50). For example, when the national government established the National Health Insurance Program in 1995, the National Health Insurance Act requires local governments to pay a portion of the premium for people residing within their boundaries. In addition, when the national government decided to streamline Taiwan provincial government in the late 1990s, the responsibility to pay for personnel expenses of teachers and policemen was shifted from the provincial government to local governments, not transferred to the national government. These national policy changes drastically increase the local financial burden and further reduce local funds available for meeting local spending priorities.

4.3.2 Voters' Preference and Local Spending

In the United States, as Tiebout (1956) theorized in his model of local government expenditures, there is a strong linkage between voter preferences and the level of local spending. Based on their willingness to pay, local voters select a local tax bundle to generate revenue for paying local services. Ultimately, they are also the ones who have to bear the burden of a selected local tax bundle. In addition, co-existence of many local governments creates opportunity for voters to search for and move to a community which best satisfies their preferences. As a result, people who live in different communities will bear different levels of local tax burden while receiving different levels of local services to reflect their preferences. Although Tiebout (1956: 421) made it clear that his model "is not even a first approximation of reality", he nonetheless developed a

conceptual framework to better understand the characteristics of US local government expenditures.

Taiwan's current model is the opposite of the US model. Taiwan's centralized local fiscal system leaves local governments little power to determine the level and sources of local revenue. Ts'eng (2001: 12) argued that this has been the main reason for local governments' inability to collect enough local tax revenue for meeting increased local expenditures. Most local tax rates and bases are uniform and specified in the national statutes. Therefore, the level of local tax revenue is the same for all communities and set by the national government instead of local voters. Furthermore, the majority of the local revenue is received in a form either as national shared tax or as intergovernmental aid. In either case, the national government has the power to decide how these revenues should be allocated while local voters have no control over how much funds they can get from the national government. In sum, the level of local spending is determined by the national government, not by the local voters. Local voters' preferences do not play an important role in setting the level of local spending in Taiwan.

Moreover, because local governments have little power to adjust the nationally uniformed level of local taxation set by the national government, the local tax burden is the same for taxpayers living in different localities. In other words, the same local tax burden falls on every taxpayer living in Taiwan, just as the national tax burden does. On the one hand, local taxpayers pay the same amount of local taxes no matter where they live and no matter what level of local services they receive. On the other hand, local taxpayers no longer seek a community which best satisfies their preferred level of local spending based on their willingness to pay as Tiebout theorized. Rather, they move to a community with a higher level of local spending because they will not have to pay the additional costs for it. That is to say that logging decisions will be based on the level of local public services provided. What differs from one jurisdiction to another is per capita tax dollars spent. This results in communities competing for a higher level of local spending instead of competing for providing local public services at a level preferred by local voters. Accordingly, local taxpayers' mobility may become a source of distortion of efficiency in Taiwan.

Whether additional local services are financed through additional national transfers or borrowing, their costs can eventually be externalized to the whole population in Taiwan because the national government ultimately will have to provide additional national transfers to pay for

the services or debts. Local taxpayers are not going to bear additional local tax burdens occurring because of the increase of local spending. On the other hand, the local taxpayers' local tax burden is not going to decrease as well when the level of local spending is decreased. This creates a systematic incentive for local taxpayers to demand more local services, and it encourage local governments to overspend. Courchene, Martinez-Vazquez, McLure Jr., and Webb (2000: 97) have argued that "the imposition of uniform rates by a higher level of government represent[s] a form of centralization that encourages overexpansion of the public sector and inefficiency." In such a local fiscal system, local elected officials are evaluated not based on their performance to efficiently provide local services with locally set budgetary constraint, but on their efforts to obtain more national financial resources in order to provide a higher level of local services. This makes local elected officials always have to increase local spending or even overspend and try very hard to bring in more national aid to support their expenditures. Local residents do not pay attention to the true costs of local services they receive, and they look around at nearby communities to see what else their local governments can do for them. In the end, the level of local spending will not reflect voters' preferences if they have to pay for it. It is argued that price mechanism between local taxation and local expenditures breaks down in Taiwan because the level of local spending is irrelevant to how much local taxes local taxpayers have to pay.

4.3.3 Local Fiscal Accountability

King (King, David, 1988: 16) advocated to "[devise] a financial framework where local electors are fully aware of the costs of increase in local services – or, to put it another way, where local authorities are fully accountable to their citizens for such increases." The assumption of this claim is that local residents pay for the additional costs of the increased local services, and local elected officials are held accountable based on how efficiently and effectively they spend on these additional local services. Unfortunately, such a financial framework does not exist in Taiwan to ensure local fiscal accountability. As discussed earlier in this section, local residents in Taiwan are not going to bear additional local tax burdens if the level of local services are increased. As a result, even if local residents are fully aware of the costs, local elected officials

are not going to be held accountable because local residents are not responsible to pay for these additional costs.

In addition, local elected officials in Taiwan have been very reluctant to levy local taxes or collect user fees authorized by the General Law on Local Taxation and the Charges and Fees Act. It is argued that the political costs of increasing local taxes or user fees are much higher than the political costs of asking for more national grants in the current local fiscal system (Cai and Lin, 2005: 151). Because local governments traditionally have been financially dependent on the national government in the past 50 years, a shared belief has developed among local officials that the national government will have no choice but to provide financial assistance through intergovernmental transfers when one or more local governments face financial crisis (Cai and Lin, 2005: 151). In other words, when there is a need to raise more local revenue for increased local services, local elected officials will first seek more national grants because they do not want to bear the political risk of imposing local taxes or user fees. If local elected officials cannot get enough financial help from the national government, for the same reason, they will borrow because they believe that the national government will be forced to help in order to avoid national political crisis caused by local governments going bankrupt. As long as the financial crisis does not occur during their terms, there is no mechanism to hold local elected officials accountable for this kind of financial misconduct.

The national government has recognized the potential problem resulting from the lack of local fiscal accountability. There have been several attempts to improve local fiscal accountability, mainly by taking local fiscal efforts into account in the formulae for distributing the national shared tax and intergovernmental aid. For example, the national government is authorized to adjust the amount of the general grant or the matching ratio of categorical grants based on factors including local governments' fiscal efforts. The formula of distributing the national shared tax to special cities and counties/provincial cities uses "corporate sales tax revenue" as an indicator to measure local fiscal efforts, and a bill was drafted by the Department of Finance to put more weight on the indicators of local fiscal efforts in the formula of distributing the national shared tax. The goal is for local governments to make more efforts to raise local funds and gradually decrease their financial dependence on the national government. When the majority of local revenue is raised locally, local fiscal accountability will be improved

because local elected officials will have to seek support from local residents to pay for new spending plans.

It should be noted that local residents do not actively join the efforts of the national government to call for improving local fiscal accountability. Because there is no relationship between local residents' tax payments and local spending, local residents always welcome the increase of local spending and constantly ask their local elected officials to provide more local services regardless of the costs of these increased services. Rather than asking their local elected officials to provide local services at a level they are willing to pay, local residents become a source of distortion for local resource allocation when they constantly ask for a higher level of local services. As a result, without making local residents realize the potential harm caused by the lack of fiscal accountability and join the national government's effort for improvement, it is hard to imagine that local elected officials can resist local residents' requests for more and better local services as long as they need to please their voters for winning elections.

Following this line of thinking, the question becomes whether the national government can provide enough incentives for or pressure on local residents to support the efforts of improving local fiscal accountability and to agree to share more financial responsibility to pay for the local services. The current formulae for distributing the national shared tax and intergovernmental aid are generated mostly based on fiscal needs, although more attention has been paid to fiscal efforts in the recent years. Even in the new drafted formula for distributing the national shared tax mentioned earlier, 75% of the formula is based on fiscal needs while only 25% is based on fiscal efforts (Lin and Cai, 2003: 9). That is to say that the incentives currently embedded in the intergovernmental transfer system may not be enough local residents to accept a financial burden increase. More incentives need to be set forth by the national government, and it should be very clear to local residents what they could get if the local tax burden is increased. For example, a new national matching grant can be established so that local elected officials can explicitly tell local residents the amount of additional national funds that may be brought in if they pay more local taxes or fees.

In sum, it is obvious that the national government in Taiwan is aware of the potential problem caused by the lack of local fiscal accountability, and actions have been taken to improve local fiscal efforts. It is argued that current policy incentives provided by the national government may not be enough for local residents to agree to pay for more local taxes and fees.

Without local residents' consent, local fiscal efforts will not be significantly improved because of the high political risk that local elected officials face in collecting more local taxes and fees. As a result, the national government has to provide more incentives for local residents to agree to a local tax burden increase before any significant improvement can be made to local fiscal efforts and fiscal accountability.

4.4 REFORMING LOCAL FISCAL SYSTEM

As discussed earlier, Taiwan's local revenue raising system is centralized and uniform. Little autonomy is left for local governments to adjust the level of local revenue. Therefore, when a local government projects to spend more than the level of revenue set by the national government, a mismatch between local revenue and local spending is created. Rather than collect additional local revenue from local residents, local elected officials in Taiwan tend to seek more national grants or to borrow from the financial market, and poor local fiscal health is a result of this practice. Literature on dealing with local governments' financial difficulties in Taiwan has focused more on how shared taxes and the intergovernmental aid distribution system can be reformed to equalize local differences of fiscal capacity and to ensure more local revenues available for local public services (Wang, 1991: 94; Liang, 1995: 148-149; Zhu, 1993: 21-22; and Chen, 1996: 170-171). Although policy recommendations from this perspective can be a solution in the short run, the same problem is sure to emerge shortly after reform. This is because, first, no matter how intergovernmental transfer system is reformed, the cause of the mismatch between local revenue and local spending will continue to exist. In addition, any distribution formula will be a product of political negotiation and compromise. The concern of stakeholders is to protect their self-interest instead of achieving policy objectives such as efficiency, autonomy, accountability, development, and equity. Reforms focusing on only changing the distributing formulae of national transfers certainly cannot cure the current local fiscal problems.

In order to effectively improve local fiscal health and improve the local fiscal system in Taiwan, more needs to be done than simply distributing more national revenue to local governments. A more decentralized local fiscal system may be needed to give local

governments more autonomy to determine the level of local taxation and to choose where local revenue should be collected. Drawing from Mexico's experience, Giugale, Nguyen, Rojas, and Webb (2000: 11) have argued that the benefits of decentralization will "depend on strengthening the link between subnational spending choices and self-taxing decision." Courchene, Martinez-Vazquez, McLure Jr., and Webb (2000: 95) also argued that "[d]ecentralization works best when taxes and the benefits of public spending are closely related." The passage of the Law on Local Taxation in 2002 is the first step toward such a decentralized local fiscal system. Although local governments have been slow to make use of their new authority and financial freedom, it is hoped that the law will increase policy knowledge and public awareness of fiscal decentralization and will make a more comprehensive reform possible in the future.

In the reform process, the national government has to play an important role by "creating an environment that gives states and municipalities more incentive to take responsibility for their own programs and finances" (Giugale, Nguyen, Rojas, and Webb, 2000:11). As Giugale, Nguyen, Rojas, and Webb (2000: 11) argued, fiscal decentralization "is not a matter of just changing rules but also of creating a culture of devolution." In Taiwan's case, national transfers, both from the national shared tax and intergovernmental aid, should be restructured to reduce their importance for local revenues and thereby to encourage local governments to take responsibility for their own expenses. The national shared tax should mainly be used for equalizing local fiscal capacity, and intergovernmental aid should be limited to encourage developments across local boundaries or with national significance, as specified in the Law on Allocation of Government Revenues and Expenditures. Current efforts made by the national government to promote local fiscal efforts should be continued and expanded. More incentives should be provided for local elected officials and local residents to accept an increased role in paying for local services. The goal is to have local governments use locally generated revenues to support locally initiated programs.

Based on the Latin American decentralization experience, Giugale, Nguyen, Rojas, and Webb (2000: 2) advocated an incremental approach as they observed that "abrupt, across-the-board efforts have generally failed." Indeed, like many other policy domains, decentralization is a complex process occurring within a country's specific institutional, political, and economic context (Bird and Vaillancourt, 1998: 2). Especially in countries with a centralized culture, the process will begin with a policy learning process in which all stakeholders would have to

recognize the benefits of decentralization, work together to formulate a mutually accepted reform proposal, and eventually develop a decentralized culture. Taking an incremental approach makes this policy learning process happen with the least possible resistance because stakeholders in the process will be more willing to try, and they can, therefore, gradually adopt themselves to the new system. In such a policy learning process, stakeholders define and redefine the meaning and strategies of decentralization to develop policy means for their particular country. Taiwanese officials' perception on fiscal decentralization will be analyzed in the following chapters. It is hoped that this analysis will facilitate policy learning by helping to better understanding how fiscal decentralization is perceived in Taiwan's specific institutional, political, and economic context. Policy consensus and differences will be revealed during the course of conducting this analysis to be the basis for developing the potential reform proposal.

5.0 RESEARCH METHODOLOGY

Research questions, hypotheses, and research design of this study are presented in this chapter. In addition, the selection of Q statements is discussed at the end of the chapter. Generally speaking, this research concerns how Taiwanese officials both at the national and local level perceive the concept of fiscal decentralization and how their views are affected by the characteristics of agencies they serve. In the first section of this chapter, research questions are developed according to this line of inquiry, and hypotheses are formed for each research question. Research design of this study is discussed in the second section. The procedure of employing Q methodology to reveal different patterns of attitudes is described, and how to analyze the results obtained through Q methodology is explained. Finally, the process of selecting Q statements, and Q statements selected for this study are briefly discussed in the third section.

5.1 RESEARCH QUESTIONS AND HYPOTHESES

Research questions proposed for this research generally concern the perception or attitude that Taiwanese officials possess toward fiscal decentralization. As indicated in Chapter Two, there are two general approaches to pursue fiscal decentralization. These two approaches should be viewed as two ends of a continuum on which different proposals for pursuing fiscal decentralization would fall. Before we go further, we should first examine whether Taiwanese officials share the same pattern of attitudes toward fiscal decentralization. The first research question asked and hypothesis formed are presented in the following:

Research Question 1: Do officials in Taiwan share the same pattern of attitudes toward fiscal decentralization?

H₁: Taiwanese officials involved in the policy process of fiscal decentralization demonstrate a single pattern of attitudes toward fiscal decentralization.

It is expected that the results obtained through Q methodology would reveal more than one pattern of officials' attitudes to reject H₁. Since more than one pattern is revealed, is there any factor that might play a role in shaping these different viewpoints? To be more specific, as literature reviewed in the section 2.2 implicitly implied, there seems to be a difference in views regarding fiscal decentralization between national-level and local-level officials. Therefore, the second research question is proposed and hypothesis is formed to investigate the national-local dichotomy.

Research Question 2: Do officials working at different levels of government in Taiwan possess different patterns of attitudes toward fiscal decentralization?

H₂: Taiwanese officials working at different levels of government possess different patterns of attitudes toward fiscal decentralization.

It is expected that the analysis on the revealed patterns of officials' attitudes would conclude that officials working at different levels of government would perceive the concept of fiscal decentralization differently to accept H₂. However, this is not to say that officials working at the same level of government would develop a shared view of fiscal decentralization. What are the factors that might contribute to the fact that officials working at the same level of government might not possess a shared view toward fiscal decentralization? Several research questions and hypotheses are developed based on this line of inquiry. The national officials' perceptions are first examined. Because national officials working for different ministries often have different organizational and policy priorities to accomplish, they often have different opinions on how a policy ought to be carried out. Accordingly, it is expected that more than one pattern of officials' attitudes would be revealed for national officials.

Research Question 3: Do national officials in Taiwan share a single pattern of attitudes toward fiscal decentralization?

H₃: Taiwanese officials working at the national government-level share a single pattern of attitudes toward fiscal decentralization.

It is expected that national officials working at different ministries would perceive the concept of fiscal decentralization differently. Although some of them might share similar views to be included in the same pattern, more than one pattern should be revealed to reject H₃. Then the focus of discussion should be switched to local officials' perceptions. Local officials discussed here only include officials working for special city, county, or provincial city government because they are the ones who were invited to discuss reform proposals with national officials and they have opportunities to participate in the policy process.

Research Question 4: Do local officials working at special city, county, and provincial city government in Taiwan share a single pattern of attitudes toward fiscal decentralization?

H₄: Taiwanese local officials working at special city, county, and provincial city government possess a single pattern of attitudes toward fiscal decentralization.

Local officials serving in different local governments often encounter different problems and challenges in dealing with issues of local public finance. It is likely that local officials from different localities would have different patterns of attitudes toward fiscal decentralization. As a result, it is expected that more than one pattern would be revealed among local officials to reject H₄. The next question focuses on factors shaping these different patterns. Factors examined include duties performed by local officials, types of local government served, and their local governments' reliance on national transfers. It is assumed that local officials in charge of the same duties would share similar views toward fiscal decentralization. A research question and hypothesis are presented below:

Research Question 5: Do local officials in charge of different duties of local finance in Taiwan's local governments perceive the concept of fiscal decentralization differently?

H₅: Taiwanese local officials in charge of different duties of local finance in local governments perceive the concept of fiscal decentralization differently.

It is expected that the analysis of revealed patterns of attitudes would suggest that the local officials in charge of different duties of local finance in local governments perceive the concept of fiscal decentralization differently to accept H₅. The next factor to be examined is the types of local government in which local officials serve. These types include special city, county, and provincial city governments. In fact, different types of local governments possess different socioeconomic characteristics, economic patterns, and population characteristics that might have affected officials' views on fiscal decentralization.

Research Question 6: Do local officials working in different types of local government in Taiwan perceive the concept of fiscal decentralization differently?

H₆: Taiwanese local officials working in different types of local government perceive the concept of fiscal decentralization differently.

It is expected that officials serving in different types of local government would perceive the concept of fiscal decentralization differently to accept H₆. The final factor to be examined is the degree of reliance on national transfers. It is assumed that different degrees of reliance on national transfers create different fiscal needs for a local government to pursue in the reform process and that this difference in fiscal needs would reflect on officials' perception on fiscal decentralization.

Research Question 7: Do local officials serving in local governments with different degrees of reliance on national transfers possess different patterns of attitudes toward fiscal decentralization?

H₇: Taiwanese local officials serving in local governments with different degrees of reliance on national transfers would possess different patterns of attitudes toward fiscal decentralization.

It is expected that local officials would perceive fiscal decentralization differently if they work for local governments with different degrees of reliance on national transfers to accept H₇. It is hoped that these analyses would become a basis to better understand the issues at stake in the policy process of fiscal decentralization. In addition, each pattern's views and policy priorities can be obtained through further examining, characterizing, interpreting, and comparing of each revealed pattern. The knowledge about each pattern's views and policy priorities can add to our understanding about what factors might play a role in shaping these patterns. Then it becomes possible to gain a more complete picture about the position of stakeholders in the policy process of fiscal decentralization and why they hold such positions. Based on the results, efforts can be made to facilitate reform the process by bridging gaps and searching for policy consensus.

5.2 RESEARCH DESIGN

This research can be divided into two parts. By employing Q methodology, the first part of this research intends to reveal patterns of officials' attitudes toward fiscal decentralization in Taiwan. Each pattern of officials' attitudes is further interpreted, analyzed, and compared to gain a more complete picture of how fiscal decentralization is perceived by national and local officials in Taiwan. After these patterns are obtained, the second part of this research intends to examine what factors may have played a role in shaping these patterns in order to test hypotheses developed earlier in this chapter. Specifically, it aims to examine whether there is a national-local dichotomy in Taiwan, whether officials working at the same level of governments have developed a shared view on fiscal decentralization, and whether local officials' perception on fiscal decentralization is affected by characteristics of the local government in which he or she serves. These two portions of research are discussed in more detail in the following sections.

5.2.1 Revealing the Patterns of Officials' Attitudes

This portion of research uses Q methodology to explore the patterns of Taiwanese officials' attitudes toward fiscal decentralization and to reveal hypothetical value structures for each

identified pattern. These patterns are further interpreted, analyzed, and compared to provide a better understanding of how Taiwan's officials perceive the concept of fiscal decentralization and to highlight agreements and disagreements among these different patterns.

First introduced by William Stephenson in 1935, "Q methodology provides a foundation for the systematic study of subjectivity" (Brown, 1991). Kerlinger (1986: 517) argued that Q methodology's main strength is "its affinity to theory." "It means that if a theory, or aspects of a theory, can be expressed in categories and if items that express the categories can be produced, then Q can be a powerful approach to testing theory" (Kerlinger, 1986: 517). This study first utilizes Q methodology to explore the patterns of officials' attitudes toward fiscal decentralization in Taiwan. After these patterns are revealed, each pattern's hypothetical value structure can be obtained for further analysis.

Several steps are followed to conduct this analysis. First, statements concerning fiscal decentralization in Taiwan were collected from literature published in Taiwan from 1990 to 2002 to form the "concourse", the flow of communicability surrounding the studied topic in the Q methodology (Brown, 1991). Second, 40 Q statements were selected from the concourse to form the Q sample, and Q distribution is set as 3-4-5-5-6-5-5-4-3. Officials who are involved in the policy process of fiscal decentralization were selected to participate in this research and asked to perform Q sorting. Results of each Q sort were analyzed by using PQMethod, statistical software specially designed to perform Q analysis. After officials' patterns of attitudes were revealed, these patterns were interpreted, analyzed, and compared to gain insights on how each pattern of attitudes perceive the concept of fiscal decentralization. These steps are specified in greater detail in the following sections.

5.2.1.1 Concourse, Q sample, Q distribution, and pre-test

In the Q study, the concourse consists of statements being made to express the concept, ideas, or meaning of a subject being studied. A concourse can be gotten in a number of ways, including interviews, commentaries from newspapers, talk shows, or essays (Brown, 1991). In this research, 160 statements were collected from literature published by Taiwanese scholars from 1990 to 2002 to form a concourse. At the same time, a factorial design was formulated for this research based on the degree of decentralization and selective policy objectives. In fact, any effort of pursuing decentralization will inevitably begin by considering the degree of

decentralization. In other words, officials involved in the policy making process have to decide the degree of central control vs. the degree of local freedom before any policy alternatives can be formulated. In addition, five policy objectives often discussed in the literature of fiscal decentralization were subjectively selected based on their relevance to this study. They include efficiency, autonomy, accountability, development, and equity. It is acknowledged that by no means is this a complete list of policy objectives for pursuing fiscal decentralization. Table 5.1 summarizes the factorial design based on above two dimensions:

Table 5.1 Factorial design of this Q study

Main Effect	Categories		
Emphasis (A)	(a) Central Control	(b) Local Freedom	
Objectives (B)	(c) Efficiency	(d) Autonomy	(e) Accountability
	(f) Development	(g) Equity	

The statements in the concourse were further selected to make up the Q sample. Based on the factorial design above, there will be $AB = (2)(5) = 10$ combinations. In order to capture as many different ideas as possible from each combined category, while keeping the total number of Q statements manageable to the Q sorters, each combined category was replicated $m = 4$ times for a Q sample size of $N = mAB = 40$. After the Q sample size was determined, the statements in the concourse were categorized into these ten combined categories. Within each category, statements with similar ideas or meaning were grouped together. Grouped statements were further examined based on their representativeness to the group and category based on my own judgment. Statements considered less representative were eliminated, and this process did not stop until there were four statements remaining within each combined category. The remaining forty Q statements from the above process were selected from the concourse to make up a Q sample. Each selected statement was numbered and printed on a small blank business card to be used in the Q sorting process. Section 3.4 examines these Q statements in greater detail.

Setting up Q distributions was the next step. After a scale from 4 to -4 was determined, Q distributions of 3-4-5-5-6-5-5-4-3 was adopted by this study in order to make the distribution quasi-normal. As Kerlinger (1986: 554-516) noted, "Q distributions are an arbitrary matter. ... The normal or quasi-normal distribution has advantages, mainly statistical, that make its use

desirable.” After the Q distribution was set up, four people with a public administration degree or currently working in the public sector were asked to conduct Q sorting as pre-tests and to provide feedback to improve the process. The goal of pre-tests was to: (1) examine whether the wording of each statement is clear and convey the exact idea the researcher wants to convey; (2) identify flows of instructions of administering Q sorting; (3) get the researcher more familiar with the process of instructing Q sorters and conducting interviews after each sorting process; (4) make sure each face-to-face interview, including the Q sorting process and follow-up interview, can be concluded within a hour. Changes in the wording of Q statements as well as modifications on the procedure of conducting Q sorting and follow-up interview were made as a result of conducting these pre-tests.

5.2.1.2 Selection of participants and administering Q sorting

The unit of analysis of this study is the individual official. Officials are considered as actors participating in the policy process of fiscal decentralization. Each official has his or her own priorities to be achieved in the process. The population of this study is defined as Taiwan's national and local officials who conduct local finance related tasks. At the national level, ten officials who are in charge of making local public finance related policies and decisions were contacted for participation. They are directly involved in making policy decisions and administration of local governance, local taxes, national shared tax, or intergovernmental aid. Their titles include Deputy Minister, Comptroller, Deputy Director, Senior Executive Officer, and Division Chief. At the local level, 28 officials from either Finance Bureau or Accounting and Statistics Office agreed to participate in the study. Their titles include Director-general, Deputy Director-general, and Section Chief. The interviews were conducted from April 2005 through September 2005. A total number of 38 national and local officials completed the interview process by conducting the Q sort and answering follow-up questions. All but four interviews were face-to-face interviews that allowed the researcher to personally interact with, observe, and guide interviewees through interviews.

It was planned to select interviewees by employing a non-probability sampling method, which “uses a process of chain referral: when members of the target population are located, they are ask to provide names and addresses of other members of the target population, who are then contacted and asked to name others, and so on” (Singleton, Straits, and Straits, 1993: 165-166).

In this method, a few interviewees will first be identified and interviewed. Then they will be asked to refer other possible interviewees to be interviewed. There are at least two advantages of applying this sampling method in this study: (1) the referral process will improve the researcher's access to targeted officials, especially officials in higher positions; (2) it enhances the researcher's ability to ensure proper representation of cases, e.g. at least one interviewee from each local government.

The actual selection process went a little differently. After a few initial contacts, two points of contact quickly emerged to provide assistance for identifying and contacting potential interviewees. At national level, enormous help was received from a congressional office. Either referral letters were sent or phone calls were made to targeting ministries' congressional relations offices to identify and arrange appointments with potential interviewees working in the national government. Nine out of ten interviews at the national level were the direct results of this assistance. At the local level, a high rank local official sent referral letters to officials who hold similar positions in other local governments to ask for their participation in the study and referral to other potential interview candidates. 27 out of 28 interviews made at 17 out of 22 special city/county/provincial city local governments⁸ located in the Island of Taiwan were the direct results of the help from this Director-general. The remaining two interviews were made through other points of contact.

All interviews were conducted in Mandarin. Typically, each interview began with a brief introduction about the researcher, the project, and the proceedings of the interview. In addition, anonymity and confidentiality were also assured. Then each of interviewees was instructed to rank Q statements based on the degree that he or she agrees with the statements and place these statements accordingly on the score sheet. During the Q sorting process, most interviewees voluntarily elaborated their views on some of the Q statements to be recorded by the researcher. Figure 5.1 is the consent and instruction sheet used in the interviews, and it is provided to demonstrate the steps interviewees followed to conduct Q sorting. After interviewees completed Q sorting, three follow-up questions were asked in order to obtain more in-depth information about interviewees' points of view on these statements. Figure 5.2 is a sample of score sheet used in the interviews. The total of 38 Q sorts were completed for this study.

⁸ There are 25 special city/county/provincial city level local governments in Taiwan. Three of them are located on outlying islands and 22 of them are located on the Island of Taiwan.

Figure 5.1 Consent and instruction sheet for Q sorting

Taiwan's Officials' Perceptions of Fiscal Decentralization

This study seeks to better understand how officials in Taiwan perceive the concept of fiscal decentralization in order to search for consensus in reforming Taiwan's local fiscal system. By completing the tasks guided by the interviewer based on these instructions and answering the supplementary questions, you will consent to participate and agree that data gathered are to be used and analyzed in this study. Participation is voluntary. You may choose to withdraw at any time or request that information given not be included in the study. All of the information obtained from you will remain strictly confidential. Neither you nor your organization will be identified in any report produced based on this survey.

Q Sorting Instructions

- Read through the 40 Q statements in order to have a sense of the range of meanings they contain.
- Divide the statements into three piles. Put those with which you generally agree to the left. Put those with which you generally disagree to the right. Then put the remaining statements in the middle.
- If one of the piles contains more than 20 statements, further divide these statements into two piles based on the degree of your agreement or disagreement.
- Spread out the statements in the pile with which you agree most. Select three statements with which you agree most and place them below the +4 scoring label. Select four statements that you agree most among the remaining statements in the pile and put them below the +3 scoring label. Repeat this procedure to select 5 statements for the +2 scoring label and 5 statements for the +1 scoring label. This procedure stops when you place all of the statements in the pile under appropriate scoring labels.
- Then move to the disagree side. Spread out the statements in the pile with which you disagree most. First select three statements with which you disagree most and place them below the -4 scoring label. Repeat this procedure as you did for the most agreeable pile and stop when you place all of the statements in this pile.
- Return to the agree side and repeat the same procedure. Continue in this back-and-forth fashion, working your way toward the middle. Once you have run out of agreeable and disagreeable statements, continue the sorting using those statements in the remainder pile.
- Adjust the placements of any statement as you wish, and eventually all 40 statements should be rank-ordered in front of you.

Figure 5.2 Score sheet

Taiwan's Officials' Perceptions of Fiscal Decentralization								
Date: _____								
Agency: _____								
Current position: _____								
Most Agree						Most Disagree		
4	3	2	1	0	-1	-2	-3	-4
(3)								(3)
	(4)						(4)	
		(5)	(5)		(5)	(5)		
				(6)				

1. Why do you agree with statements placed at +4/+3 most?

2. Why do you disagree with statement placed at -4/-3 most?

3. Why do you sort these statements as you did?

5.2.1.3 Data analysis by using PQMethod

Each Q sort was entered into PQMethod⁹ for analysis. PQMethod is a software program specially designed to perform Q analysis. First, correlations of 38 Q sorts were computed by PQMethod to provide a preliminary assessment of how each Q sort correlates with one another. Next, as suggested by Brown (1980: 235-238; 208-224), Centorid factor analysis was performed to obtain unrotated factors. Varimax rotation was then performed to reveal rotated factors.

⁹ For more information on the software, see <http://www.lrz-muenchen.de/~schmolck/qmethod/>

Factor loadings of these rotated factors were examined, and the factors were further manually rotated to better reflect the interrelationship of 38 Q sorts based on their correlations.

Automatic pre-flagging was performed using PQMethod to highlight each Q sort's association with identified patterns. The procedure of flagging is conducted by examining Q sorts' factor loadings to determine which revealed factors they are associated with. Each factor loading indicates the extent of a Q sort's association with these five factors. A factor loading is significant at .01 level if its value is greater than .41 or less than -.41. This value was obtained by the formula $(1/\sqrt{n}) * 2.58$ or $(1/\sqrt{n}) * (-2.58)$, where n is the number of Q statements. In this case, n equals 40. A Q sort with a significant loading would be considered significantly loaded with the factor. For example, if a Q sort has factor loadings of .6690, .0974, -.1499, -.0091, and .2062 for the five factors, it is said that Q sort is significantly associated with Factor I because only factor loading between the Q sort and the Factor I (.6690) is greater than .41.

Some Q sorts' associations, however, are more difficult to determine because they are significantly loaded with two factors. When a Q sort has two significant factor loadings, it means that the Q sort, to a certain degree, represents the views of two factors. In order to determine the association of these Q sorts, their two significant loadings were compared to see if one factor loading is much higher than the other one is in making subjective decisions. For example, if two significant factor loadings of a Q sort are .6242 for Factor III, and .4106 for Factor V, the Q sort is assigned to represent the views of Factor III because its factor loading for Factor III is much higher than its factor loading for Factor V is. For Q sorts in which the difference is not large enough to determine which factor they should be assigned to, they will not be assigned to any one of the factors. Based on this procedure, the membership of each Q sort can be determined, and each revealed factor represents a pattern of officials' attitude toward fiscal decentralization in this study.

5.2.2 Analyzing Revealed Patterns of Officials Attitudes

After patterns of officials' attitudes toward fiscal decentralization were revealed, the revealed patterns were analyzed. Factor arrays representing these patterns were examined to see how each pattern perceives fiscal decentralization. Then hypotheses developed earlier in this chapter were examined. The knowledge obtained through the previous two analyses was used to develop

the theories of fiscal decentralization. Finally, factor arrays of the uncovered patterns were further compared to identify their differences and similarities in order to see if policy consensus can be reached. It is hoped that these analyses can yield policy relevant knowledge of how fiscal decentralization is perceived by Taiwanese officials, on what issues officials of each pattern care most, what factors contribute to shaping these views, and whether reaching a policy consensus is possible in Taiwan.

5.2.2.1 Analyzing factor arrays of uncovered patterns

Factor arrays are hypothetical Q sorts that can be understood as Q sorts representing these uncovered patterns. Brown (1980: 240) stated that “[t]he estimation of a factor is achieved by merging together those Q sorts associated with it.” Based on Brown (1980: 239-247), there are five steps to obtain these hypothetical Q sorts. First, a factor weight is assigned to each Q sort associated with a pattern based on the Q sort’s factor loading. Factor weight is calculated based on the formula: $W = FL / (1 - FL^2)$ where W = factor weight and FL = factor loading. After factor weight of each Q sort associated with a pattern is calculated, the factor scores of the Q sort are converted to computational values. Based on the scale of factor scores, ranging from 4 to -4, applied in this study, computational values (CV) from 9 to 1 are assigned to Q statements. For statements with a factor score of 4, a computational value of 9 is assigned. For statements with a factor score of 3, a computational value of 8 is assigned. The same logic is applied for Q statements with a factor score of 2, 1, 0, -1, -2, -3, and -4, and these factor scores are converted to computational value of 7, 6, 5, 4, 3, 2, and 1, respectively. After the computational value of each Q statement is obtained, a total score can be calculated for each statement. For example, if Pattern IV consists of officials A and B, the total score of Q statement 01 for Pattern V can be calculated with the following formula:

$$Total_{01} = CV_{01,A} * W_A + CV_{01,B} * W_B$$

After total scores of 40 Q statements are obtained, these scores are normalized based on the formula: $Z = (Total - \overline{X_{Total}}) / S_{Total}$. Each statement’s normalized factor scores of revealed patterns are obtained to see how each pattern ranks these Q statements. Appendixes A6 to A10 present these normalized scores for each pattern. Finally, these normalized scores are

transformed to factor scores, ranging from 4 to -4, based on the Q distribution of 3-4-5-5-6-5-5-4-3 defined in this study. For example, for each pattern, the top three ranked Q statements are assigned a factor score of 4, and the remaining top four ranked Q statements are assigned a factor score of 3. The same procedure is applied to the remaining Q statements to obtain a hypothetical Q sort representing the pattern. Appendix B.1 presents factor arrays of five revealed patterns.

Based on the factor array of each pattern, an analysis can be conducted to understand each pattern's views on fiscal decentralization. As we can recall from our earlier discussion on factorial design, four statements were selected from each of the ten categories made up of the two approaches and five policy objectives of fiscal decentralization. Factor scores of the four Q statements within each category were added up to measure how each pattern agrees or disagrees with statements within each category. Moreover, factor scores of Q statements representing the thinking of a centralist approach or a localist approach were added up separately to measure how each pattern agrees or disagrees with these two approaches. Finally, factor scores of Q statements representing five policy objectives of fiscal decentralization were also added up to measure each pattern's emphasis on these objectives. It is hoped that a general understanding about each pattern can be obtained to provide a basis for more detailed, in-depth analyses.

5.2.2.2 Understanding and defining revealed patterns

After a general understanding about revealed patterns were obtained, these patterns were further examined through their factor arrays to see each pattern's underlining value, which Q statements make each pattern distinct, and how each pattern prioritizes Q statements. Factor arrays of each pattern obtained earlier were used to show how an individual exactly representing a pattern would order the Q statements (Dryzek and Berejikian, 1993). These factor arrays were analyzed to describe, characterize, and interpret each pattern's views based on the factor scores of each Q statement.

First, factor scores of each Q statement were examined to identify Q statements that distinguish one pattern from the other. For example, a statement might be ranked by officials of Pattern I, II, III, IV, and V at -2, +4, -3, -4, and 0, respectively. As we can see, officials of Pattern II strongly agreed with the statement while officials of other patterns did not. Therefore, it can be concluded that the statement, a distinguishing statement of Pattern II, distinguishes Pattern II from all of other patterns. This information can be used to see how perception of one

pattern is different from that of the other patterns. It should be noted that distinguishing statements might not be ranked strongly by officials of a pattern. For example, a statement might be ranked at -1 and still be considered as a distinguishing statement if no other patterns ranked the statement negatively. In addition, a statement can be a distinguishing statement for two patterns, one pattern that solely ranked the statement strongly positive, and the other pattern that solely ranked the statement strongly negative. Distinguishing statements identified were first examined to define each revealed pattern. They were made bold to highlight their importance in showing how a pattern's views are different from the other patterns.

The emphasis was then placed on Q statements that each pattern strongly agrees or disagrees with. In other words, by identifying statements with a factor score of 4, 3, -3, and -4, issues that each uncovered pattern emphasized could be understood. In addition to the distinct characteristics of each pattern identified through distinguishing statements, these statements were analyzed to further our understanding about each revealed pattern's view on issues of fiscal decentralization.

5.2.2.3 Examining factors shaping these patterns' views

With a understanding about each pattern's views on fiscal decentralization, the focus was switched to see whether hypotheses developed earlier in this chapter should be accepted or rejected by examining whether these patterns associate with factors such as levels of government, duties performed within each level of government, types of local government, and local governments' reliance on national transfers. Ideally, analysis of frequencies (Chi-square test) can be performed to examine association between two categorical variables. Unfortunately, for this Q study, as well as many other Q studies, the number of people invited to conduct Q sorting is relatively small. As a result, the validity of the analysis is in question because the general rule that the expected value for each cell should be greater than five is not satisfied. Due to this reason, analysis of frequencies cannot be used here. Instead, multiple line charts are employed, when applicable, to depict the relationship between revealed patterns and factors introduced for examining. The goal is to identify the underlying relationship between revealed patterns and factors.

Q sorters were categorized into a pattern with which their Q sorts were significantly loaded with. They were also categorized based on the characteristics and duties of their affiliated

organization. For example, Q sorters were categorized as either national level officials or local level officials based on whether they are working in a national agency or local government agency. Similarly, national level officials can be further categorized into officials in charge of local taxes, officials in charge of national shared tax, officials in charge of general grants, officials in charge of categorical grants, and officials in charge of other areas of local government administration, while local level officials can be categorized into officials in charge of finance and officials in charge of accounting and statistics according to the duties of their agencies.

Local level officials can also be categorized based on the types of local government they serve and their local governments' reliance on national transfers. Types of local government in this study include special cities, counties, and provincial cities. Classifications of local governments based on their reliance on national transfers were developed according to the following methods. First, percentage of total local revenues received from national transfers, including the national shared tax and intergovernmental aid, was calculated to see the importance of national transfers to each local government. Then K-Means cluster analysis was performed to reveal three or four clusters. Finally, the results of these two different classifications were examined to select the solution best reflecting and describing each local government's reliance on national transfers. The results of these analyses provide insights on whether officials' backgrounds play a role in shaping their views toward fiscal decentralization.

5.2.2.4 Developing theories of fiscal decentralization

With the understanding of Taiwan's officials' perceptions of fiscal decentralization revealed in this study and background factors shaping these different perceptions, theories of fiscal decentralization were developed to capture these different perceptions. It is hoped to conceptualize national-local relationships defined in the reform of fiscal decentralization as well as policies proposed according to these different perceived relationships. These theories can be examined in the context of national-local dichotomy of fiscal decentralization to see whether national and local officials' beliefs, attitudes, and values described in the literature can be applied to Taiwanese officials. Conversely, theories found in the Taiwanese case can also contribute to the existing literature and deepen our understanding about officials' motives and thinking when they participate in the policymaking of fiscal decentralization.

5.2.2.5 Comparing revealed patterns

Finally, these patterns and their hypothetical Q sorts were further examined to see the differences, as well as similarities, in their opinions toward issues of fiscal decentralization. Two Questions were addressed: What are main differences among patterns? Do these patterns share any similarities? The goal was to identify issues that policy consensus might be reached. A set of criteria was developed to select statements showing difference or consensus in the patterns' views. In addition, the definiteness of each selected statement was also identified in order to interpret the policy meanings embedded in these statements and to make policy recommendations.

Based on the Q distribution defined in this study, statements ranked +4 and +3 are considered most agreed by the participants, and statements ranked -4 and -3 are considered most disagreed. Accordingly, if statements were ranked at +4 or +3 by at least one pattern while ranked at -4 or -3 by at least one other pattern, we can say that at least two patterns do not share the similar view to either agree or disagree with the statements. By identifying and analyzing these statements, I hoped to highlight differences among officials of different patterns. Then the focus was switched to find shared views among these patterns. When statements were ranked zero or negatively by all patterns, it is said that each of five revealed patterns is either neutral or disagreeing with the statements. From a policymaking standpoint, these are issues that officials of all patterns would agree to not pursuing. On the contrary, when statements were ranked zero or positively by all patterns, we can conclude that each of the five patterns is either neutral or agreeing with the statements. Since none of the patterns is opposing these statements, they are more likely to become the starting point for reaching policy consensus. The criteria discussed above were used to select statements to be analyzed in Chapter Seven.

The degree of definiteness was incorporated into our discussion to evaluate and interpret selected Q statements and embedded issues these statements represent. According to Brown (1980: 60-61), political viewpoints can be developed around differing interpretations and preferences for facts, ends, and means. When a statement reflects a general preference based on a particular interpretation of facts, it is a bias statement. When a statement reflects a general preference based on a desire for a particular end or course of action, it is wish statement. When a statement reflects a general preference based on a belief as to the best means for achieving desired ends, it is a policy statement. Wilf (1997: 86) elaborated that statements with different

degrees of definiteness represent different levels of intensity in policy discussion. For example, a wish implies a bias, but it further points out a desired end. “A policy implies a wish, but it represents a more thought-out position; it is more intense, and hence more definite (Wilf, 1997:86). It is hoped to better interpret the statements and make policy recommendations by incorporating a degree of definiteness into the analysis.

5.3 SELECTION OF Q STATEMENTS

This section discusses how Q statements used in this study were selected. Literature concerning fiscal decentralization in Taiwan was reviewed, and statements were collected to form concourse of this research. The third section of Chapter Two provides a summary of what has been discussed by scholars in Taiwan regarding issues of fiscal decentralization. 160 statements were collected from these literatures to form the concourse of this research. Then these statements were assigned to various categories based on the factorial design showed in the Table 5.1. Within each category, four statements were selected to best reflect ongoing policy debates in Taiwan.

5.3.1 Efficiency – Central Control

The centralist approach to pursue efficiency emphasizes the importance of the role a national government should play in the process. It argues that a national government should utilize intergovernmental transfers to address issues such as spillover effect, irrational local spending, fiscal imbalance among localities, and dysfunctional competition. The following were Q statements selected to reflect this thinking:

39. The main purpose of granting intergovernmental aid is to offset inefficiency caused by the spillover effect, which means benefits of local services can be enjoyed by residents in other jurisdictions.

06. Due to local politics, interests lobbying, and pressure groups, local spending keeps growing and becomes inefficient.

25. Once local government officials obtain authority to determine local tax bases and rates, it is easy for them to engage in a competition for tax reduction.

35. Over decentralization will make a consistent nation-wide fiscal policy impossible, resulting in an even more severe fiscal imbalance among localities.

5.3.2 Efficiency – Local Freedom

The localist approach to achieve efficiency highlights the importance of local freedom to meet different local preferences. Proponents of this approach argue that tax competition may enhance efficiency of economic resources allocation and that competition among localities will force local officials to improve administrative efficiency. They also point out that reliance on intergovernmental transfers might result in local overspending. The following Q statements were selected to represent these ideas:

03. It would be far more efficient to allow local governments to provide local public services at different levels than to regulate them under a uniform level set by the national government.

19. Tax competition will enhance the efficiency of economic resource allocation.

23. Decentralization will facilitate local governments' creativity to differentiate service provisions for meeting different needs.

21. Intergovernmental grants from the national government will foster local overspending.

5.3.3 Autonomy – Central Control

It seems contradictory to pursue local autonomy through a centralist approach. However, in a unitary country like Taiwan, some people would argue that an incremental process of decentralization would be most appropriate. The emphasis of this approach is to limit discretionary authority of the national government by substituting conditional grants with general grants, and by regulating standards, formula, and procedure of distributing national funds by laws. The following Q statements reflect the view of a centralist to increase local autonomy:

07. The establishment of self-governance and local fiscal systems should be enacted into law.

18. The Law of Shared Tax should be enacted to regulate standards, formulas, and procedures of shared tax distribution.

20. A law should be enacted to regulate the system of intergovernmental transfer in order to minimize the possibility that national government would use intergovernmental transfers as a policy tool to intervene in local affairs.

12. The national government should reduce the amount of conditional grants year by year to allow local governments more flexibility for resource allocation.

5.3.4 Autonomy – Local Freedom

The localist approach to pursue autonomy asks for complete local control for setting the level of local spending and policy priorities. Proponents advocate that the national government should only regulate and control what local governments are prohibited to do in order to reduce its role in local policymaking. Greater involvement of local residents in the local decision making process is also emphasized to ensure less intervention from the center. The following Q statements reflect this thinking:

09. The principle of regulating local governments is to itemize what they are prohibited to do.

28. The national government should revoke control of local revenue collection.

13. Following certain administrative procedures, local residents should be able to vote on proposals for local revenue collection.

26. Local government should have complete independent autonomy to set policy priorities for its administrative activities.

5.3.5 Accountability – Central Control

Scholars who believe in a centralist approach to ensure local accountability emphasize the role of the national government in monitoring and evaluating local financial behavior. They also argue

that the national government should be given the policy tools necessary for rewarding or punishing local governments for their behavior. The following Q statements reflect these thoughts:

11. In order to ensure a link between local public service provision and local tax collection, the national government should establish a mechanism to reward or punish local governments.

29. The national government should establish a set of objective indicators to evaluate local fiscal efforts and take them into account in the mechanism of distributing national shared tax revenue and intergovernmental transfers.

02. The national government should have the authority to monitor and control local governments' practices in raising debts, budgeting, taxing, and collecting other local revenues.

32. The Law on Local Budgeting, which includes penalties for unlawful practices, should be enacted to strengthen the ability of the Ministry of Finance and Directorate General of Budget Accounting and Statistics in the national government to monitor local budgeting processes and implementation.

5.3.6 Accountability – Local Freedom

Participation of local residents in the local policy making process is deemed the key to ensure local accountability by proponents of a localist approach. They argue that when local residents are engaged in the policy deliberation process to determine the level of local spending and when they pay local taxes to support local services, they will realize the true costs of these local services and keep an close eye on whether local officials spend money efficiently. The following Q statements reflect these views:

36. Local people should be encouraged to get involved in the local policy making process to realize the costs and benefits of local services, and to better hold local officials accountable for local spending.

34. Local government officials should recognize the essence of local self-governance, establish the notion of paying local services by local revenues, and aggressively collect own-source revenue based on the law.

22. In order to better hold local government officials accountable, a system of referenda on local fiscal issues should be established.

08. Only after local people feel the pain of paying taxes, will they actively ask local government officials for more cost reduction and effectiveness improvement.

5.3.7 Development – Central Control

In order to promote local development, scholars with a centralist mind believe that the national government has better knowledge and more financial resources to promote and ensure local development. Therefore, They argue that the national government should get involved in the local development planning process through its power to fund local development projects and stimulate private investments. The national government should also provide technical assistance to ensure the success of these projects. The following Q statements were selected to reflect these points of view:

40. When sufficient financial resources are retained, the national government will be better able to push development projects with national significance in order to promote balanced growth among localities.

31. Grants from the national government can stimulate local private investments.

33. The national government should guarantee local governments sufficient financial resources to support their basic public programs.

37. The national government should organize a technical assistance team to help each local government develop a financial plan based on their unique economic activities to ensure sufficient financial resources for local development.

5.3.8 Development – Local Freedom

The localist approach to pursue development asks for a complete control over local planning and development by local governments. The key to a complete local control is for local governments to raise their own money through local taxes to fund these projects by themselves. Proponents of this approach argue that reliance on national transfers to fund local development projects will lead local governments only to focus on projects with the ability to attract national funds

regardless these projects' abilities to meet local needs. The following Q statements were selected to represent these thoughts:

16. Reliance on national grants will lead local governments to ignore projects not funded by the central government, resulting in an imbalance of local development.

24. Money and power are centralized to make local governments unable to actively design and implement local development projects.

30. Local governments' decisions on resource allocation will better reflect local interests because they are closer to local people.

01. Local governments continually and chronically rely on national grants to support local spending needs, rendering comprehensive local development planning impossible.

5.3.9 Equity – Central Control

The conventional wisdom in Taiwan has suggested that equity is a national function, not one to be left to local governments. Proponents of this approach believe that equity and income redistribution should be achieved through the collection of progressive taxes by the national government. If a local government levies a progressive tax, its rich residents will move out and the poor will move in. The following Q statements were selected based on this thinking:

15. Local governments are incapable of dealing with unemployment, inflation, and income redistribution successfully.

14. If local governments get involved in the policies to promote equity, local economic resources will be drained.

38. If revenues collected from the progressive income tax can be the source for intergovernmental grants, income distribution will be better equalized.

10. If a local government performs redistribution functions, such as social welfare policies, rich residents will move out and the poor will move in.

5.3.10 Equity – Local Freedom

A few scholars in Taiwan have observed that local governments do perform redistributive function in selected policy areas, such as education, medical care, and housing assistance. They argue that local governments can design welfare programs more creatively to better meet local needs. The following Q statements reflect these thoughts:

04. Generally speaking, local governments can achieve distributional objectives by getting involved in policy areas such as education, medical care, or housing assistance.

17. Local governments are expected to respond creatively and effectively if given increased responsibility for welfare policy.

27. Locating more responsibility for redistributive policy with local governments allows them to design welfare programs that are more appropriate to their own needs and better reflect the preferences of their residents.

05. Redistributive policies can also be a local public good implemented by local governments.

6.0 ANALYZING THE REVEALED PATTERNS

The purpose of this chapter is to present officials' patterns of attitudes toward fiscal decentralization uncovered by using Q methodology and conduct its analyses to better understand these revealed patterns. The results obtained from using Q methodology and a preliminary analysis of these revealed patterns are provided in the first section. Through each pattern's factor arrays, we explore which approach and which policy objectives of fiscal decentralization these patterns tend to be in favor of. The second section of this chapter defines each pattern by identifying distinguishing statements and statements they feel very strongly about. The third section of this chapter examines hypotheses formulated in the beginning of Chapter Five to see whether the organizations or positions officials served have impacts on their perception and attitudes toward fiscal decentralization. In the final section, theories of fiscal decentralization are developed to conceptualize national-local relationships and policy actions of each revealed pattern in Taiwan. It is hoped that at the end of this chapter, an in-depth understanding about these revealed patterns can be obtained.

6.1 INTRODUCING FIVE REVEALED PATTERNS

Based on the procedure described in Chapter Five, seven unrotated factors were obtained through Centorid factor analysis as shown in Appendix A.2. Varimax rotation was then performed to reveal seven rotated factors. The factor loadings of these seven rotated factors were examined, and the factors were further manually rotated to better reflect the interrelationship of 38 Q sorts based on their correlations. Appendix A.3 shows the sequence according to which seven rotated factors were further rotated through PQMethod. A five-factor solution was obtained through this process, and the result is presented in Table 6.1.

Table 6.1 Factor matrix table

	QSORT	Factor I	Factor II	Factor III	Factor IV	Factor V
1	05040801	0.6690X	0.0974	-0.1499	-0.0091	0.2062
2	05041801	0.4882X	0.1541	0.1787	0.2577	0.0263
3	05042601	0.2135	0.0963	-0.1133	0.4672X	0.1742
4	05042801	0.0744	0.1943	0.5912X	0.2422	-0.0099
5	05050501	0.1709	0.3234	0.2997	-0.0121	0.5483X
6	05050502	-0.0079	0.0886	0.6242X	0.2245	0.4106
7	05051301	0.2624	0.6923X	0.1404	0.0870	-0.2274
8	05052001	0.4342	0.0611	0.6214X	-0.1825	0.0810
9	05052401	0.4294	0.5800X	0.2344	0.0448	0.0104
10	05052501	0.0142	0.6475X	0.2104	0.2686	0.0738
11	05052502	0.1565	0.3202	0.4933X	-0.2035	0.1775
12	05052701	0.0753	0.5232	-0.0286	-0.0407	0.6787X
13	05053001	0.1778	0.4733X	0.2866	0.0503	-0.1354
14	05053002	0.5464X	0.1327	0.0906	-0.1488	0.0163
15	05060701	0.0603	0.4089	0.1219	0.3491	0.3185
16	05060801	-0.0735	0.6283X	0.1559	0.0180	0.0242
17	05060802	0.1464	0.5044	0.1788	-0.1891	0.4181
18	05060901	0.4796	0.4179	0.0847	0.0061	0.1586
19	05061001	0.0257	0.6704X	-0.0874	0.1178	0.1134
20	05061002	0.2736	0.4938X	-0.1982	0.1835	0.2148
21	05061501	0.2081	0.1462	-0.0963	0.4229	0.6216X
22	05061502	0.1283	0.0750	-0.0630	0.1111	0.4885X
23	05062101	0.0551	0.5918X	-0.0388	-0.1218	-0.0049
24	05062102	0.6015X	0.1319	0.3459	-0.2716	0.1405
25	05062301	0.2932	0.0819	0.2794	0.0289	0.4534X
26	05062302	0.4166	0.4750	0.2349	0.1324	0.2439
27	05070501	0.2344	0.4899	0.2682	-0.0429	0.4290
28	05070701	0.0998	0.4317X	0.2908	0.1973	0.1644
29	05070702	0.4320	0.3752	0.1946	-0.1153	0.4135
30	05071501	0.3503	0.5370X	0.2276	-0.2095	0.1960
31	05072101	0.1475	0.5990X	0.2727	-0.1033	0.1750
32	05080201	0.0637	0.1799	0.5505X	-0.0054	0.1329
33	05081701	0.3590	0.2428	0.2694	0.3430	0.4809
34	05082201	0.4727X	0.2808	0.0210	-0.0742	0.2612
35	05082401	0.4100	0.4296	0.3521	0.3141	0.2174
36	05083101	-0.0859	-0.0089	0.1528	0.5978X	0.0828
37	05090501	0.6219X	-0.2576	-0.0491	0.0394	0.3532
38	05091201	0.5795X	-0.0716	0.4377	-0.1146	0.3281
% expl. Var		11	16	8	5	9
X indicates a defining sort						

As we can see from Table 6.1, automatic pre-flagging was performed to highlight each Q sort's association with these uncovered patterns. Then each Q sort's association was further subjectively examined to make sure the results of pre-flagging are acceptable. In fact, association of some Q sorts is not obvious. According to Table 6.1, there are eleven Q sorts that are significantly loaded with two factors. In order to determine the association of these Q sorts, their two significant loadings were compared to see if one factor loading is much higher than the other one in order to make these subjective decisions. The association of Q sorts 05050502, 05052001, 05052401, 05052701, and 05061501 is determined after two significant factor loadings are compared. On the contrary, although Q sorts 05060802, 05060901, 05062302, 05070501, 05070702, and 05082401 also have two significant factor loadings, the difference is not large enough to tell which factor they should be assigned to. As a result, these Q sorts are not assigned to any one of the factors.

It should also be noted that Q sort 05060701's factor loading for Factor II is .4089, which is very close to .41 to be significant. Because there have been eleven Q sorts which are significantly loaded with Factor II and they should provide enough information to define Factor II, Q sort 05060701 is not assigned to Factor II. Finally, although Q sort 05081701 has only one factor loading (.4809 for Factor V) greater than .41, it is decided not to assign the Q sort to Factor V because its factor loadings for the other four factors are relatively high.

There are 30 Q sorts identified as significantly loaded with a factor. As Table 6.1 indicates, at .01 level, seven Q sorts are significantly associated with factor 1; eleven Q sorts are significantly associated with factor 2; five Q sorts are significantly associated with factor 3; two Q sorts are significantly associated with factor 4; and five Q sorts are significantly associated with factor 5. Five uncovered factors represent five patterns of officials' attitudes toward fiscal decentralization in this study.

Nine out of 30 officials whose Q sorts are significantly loaded with a pattern are national officials, and the remaining 21 officials are working in local governments. Pattern I consists of five national officials and two local officials. All of the eleven officials significantly loaded with Pattern II are local officials. Officials of Pattern III include two national officials and three local officials. Both of the officials of Pattern IV are national officials. All five of the officials significantly loaded with Pattern V are local officials.

Based on the procedure discussed in the previous chapter, the factor array of each pattern was obtained to represent their views, and these factor arrays are listed in Appendix B.1. In order to see how each pattern agrees or disagrees with the Q statement selected to represent ideas of ten categories in the factorial design of this study, factor scores of the four Q statements within each category, as shown in Appendix B.2, were added up and presented in Table 6.2. Similarly, factor scores for Q statements expressing ideas of central control and local freedom were added up separately to provide insights concerning how each pattern thinks of these two approaches. The results are presented in the Table 6.3. Finally, factor scores of Q statements for five policy objectives were also added up to see each pattern's emphasis on these policy objectives, and the results are shown in Table 6.4.

Table 6.2 Sum of Factor Scores for each Category of Factorial Design

	Central Control					Local Freedom				
	Ef	Au	Ac	D	Eq	Ef	Au	Ac	D	Eq
Pattern I	0	6	13	9	-6	-4	-3	1	-10	-6
Pattern II	-3	9	0	2	-2	-1	-1	-5	7	-6
Pattern III	-6	11	-2	0	-5	-3	5	8	-6	-2
Pattern IV	5	-2	0	0	4	-4	-6	11	0	-8
Pattern V	7	8	1	5	0	-3	-7	1	-1	-11

Ef = Efficiency; Au = Autonomy; Ac = Accountability; D = Development; Eq = Equity

Table 6.3 Sum of Factor Scores for two Approaches of Fiscal Decentralization

	Central Control	Local Freedom
Pattern I	22	-22
Pattern II	6	-6
Pattern III	-2	2
Pattern IV	7	-7
Pattern V	21	-21

Table 6.4 Sum of Factor Scores for Five Policy Objectives of Fiscal Decentralization

	Ef	Au	Ac	D	Eq
Pattern I	-4	3	14	-1	-12
Pattern II	-4	8	-5	9	-8
Pattern III	-9	16	6	-6	-7
Pattern IV	1	-8	11	0	-4
Pattern V	4	1	2	4	-11

Ef = Efficiency; Au = Autonomy; Ac = Accountability; D = Development; Eq = Equity

It is observed from the Table 6.3 that officials in charge of local public finance in Taiwan tend to be in favor of the centralist approach to pursue fiscal decentralization. The sum of factor scores for Q statements expressing ideas of central control is 22, 6, -2, 7, and 21 for the five patterns. As we can see, officials of Patterns I and V are the strongest supporters of the centralist approach. Based on Table 6.2, equity is the only one among five policy objectives to receive a negative score from officials of Pattern I when a centralist approach is adopted. However, this does not mean that they would prefer a localist approach to pursue equity because they also give a negative overall score to the Q statements in the category of equity-local freedom. Therefore, it can be argued that officials of Pattern I support a centralist approach to pursue efficiency, autonomy, accountability, and development while officials of Pattern V believe that a centralist approach should be employed to pursue all of the five objectives identified in this study.

Officials of Patterns II and IV show a moderate support for the centralist approach in general. While strongly supporting a centralist approach to pursue autonomy, officials of Pattern II prefer a localist approach when it comes to the issue of local development. Although officials of Pattern IV strongly support a localist approach to ensure local government accountability, they tend to support a centralist approach for achieving other objectives. Therefore, a positive overall score for the centralist approach is the result of their preferences on adopting the centralist approach for the other four objectives. Officials of Pattern III strongly support a centralist approach for increasing local autonomy, while they prefer a localist approach to ensuring local accountability. There is no strong preference observed in agreeing or disagreeing with either approach to pursuing the remaining three policy objectives. As a result, their overall score of -2 for the centralist approach demonstrates that officials of Pattern III do not strongly prefer one approach to the other.

We can observe in Table 6.4 that officials of Pattern I strongly agree with Q statements concerning accountability while disagreeing with Q statements on equity. The high positive score on accountability reflects the fact that they strongly agree with a centralist approach to ensuring local accountability, but they do not oppose the localist approach for pursuing the same goal. On the contrary, although they also strongly support a centralist approach for pursuing local development, the overall score for development is not high because they expressed their strong negative opinions on pursuing local development by a localist approach. Their high negative score on equity shows their negative views on pursuing equity by either approach.

Officials of Pattern II place more emphases on issues of autonomy, development, and equity. The high overall score on Q statements concerning autonomy is a direct result of their strong preference for increasing local autonomy through a centralist approach. Their high overall score on Q statements concerning development is a result of their strong preference for pursuing local development via a localist approach. Similar to the officials of Pattern I, officials of Pattern II tend to disagree with Q statements concerning equity regardless of the approaches employed. Officials of Pattern III strongly agree with increasing local autonomy through a centralist approach and moderately agree with pursuing the same objectives via a localist approach. On the other hand, they moderately disagree with Q statements concerning efficiency regardless of which approaches are employed to pursue it.

Although they are not opposed to the centralist approach, officials of Pattern IV strongly support the idea of adopting a localist approach to ensure local accountability. Their overall score for the issue of autonomy shows that they disagree with Q statements of improving local autonomy. It should be noted that officials of Pattern IV also disagree with pursuing equity via a localist approach. Officials of Pattern V demonstrate a strong opposition to pursuing equity through a localist approach. They also strongly believe that a centralist approach should be adopted to pursue efficiency and local autonomy. The fact that the overall score is 1 for Q statements concerning the issue of autonomy reflects their relatively strong support on adopting a centralist approach and their opposition to adopting a localist approach for pursuing the issue.

Based on Tables 6.2, 6.3, and 6.4 presented above, it is concluded that officials in Taiwan tend to support the centralist approach for pursuing fiscal decentralization in general. Officials of Patterns I and V show a strongest support for adopting the centralist approach. While officials of Pattern I emphasize the issues of accountability and development most, officials of Patterns II, III, and V are concerned with more with the issue of improving local autonomy. In addition, officials of Pattern I support a centralist approach to pursue the issue of efficiency. On the other hand, it should also be noted that although adopting the centralist approach is often the rule of thumb, officials of Patterns III and IV support the idea of ensuring local accountability via a localist approach, while officials of Pattern II prefer a localist approach to pursue local development. These patterns will be further understood and defined based on the scores they ranked each Q statement.

6.2 DEFINING AND UNDERSTANDING PATTERNS

Based on the preliminary analysis conducted in the first section, we can conclude that, in general, officials in Taiwan tend to support the centralist approach for pursuing fiscal decentralization. Among five revealed patterns, Patterns I and V show the strongest support of the centralist approach. Officials of Pattern I support the use of a centralist approach to pursue local accountability and development most, while officials of Patterns II, III, and V propose to adopt a centralist approach to improve local autonomy. However, there are policy objectives that officials might prefer to pursue via a localist approach. For example, officials of Patterns III and IV agree with ensuring local accountability through a localist approach, and officials of Pattern II would prefer a localist approach to pursue local development.

Although these analyses can provide indications of how each of these patterns perceive fiscal decentralization, we cannot know exactly how each pattern agrees or disagrees with various issues of fiscal decentralization. In this section, each pattern revealed in this research is further examined to increase our understanding in this respect. Factor arrays of each pattern are studied to define, describe, characterize, and interpret each pattern's views on how fiscal decentralization should be pursued. Tables 6.5 to 6.9 summarize the main ideas of each pattern for the five policy objectives of this study. Bold statements are ideas obtained from distinguishing statements, and numbers preceding each idea are the scores they received from each identified pattern.

Table 6.5 Summary of Each Pattern's Main Ideas for Efficiency

Pattern I	<ul style="list-style-type: none"> ● (-4) The main purpose of granting intergovernmental aid is to offset inefficiency caused by the spillover effect. (-4) Intergovernmental grants will foster local overspending. ● (+3) Due to local politics, local spending keeps growing and becomes inefficient.
Pattern II	<ul style="list-style-type: none"> ● (-4) Intergovernmental grants will foster local overspending. (-3) The main purpose of granting intergovernmental aid is to offset inefficiency caused by the spillover effect. ● (+3) It would be far more efficient to provide local public services at different levels.
Pattern III	<ul style="list-style-type: none"> ● (-4) Competition for tax reduction will happen if local governments obtain authority to determine tax bases and rates. ● (-4) Intergovernmental grants will foster local overspending. (-3) The main purpose of granting intergovernmental aid is to offset inefficiency caused by the spillover effect.
Pattern IV	<ul style="list-style-type: none"> ● (+4) Due to local politics, local spending keeps growing and becomes inefficient. ● (+3) Decentralization will facilitate local governments' creativity. ● (-3) Tax competition will enhance economic resource allocation. ● (-2) It would be far more efficient to provide local public services at different levels.
Pattern V	<ul style="list-style-type: none"> ● (+4) Due to local politics, local spending keeps growing and becomes inefficient. ● (+4) Competition for tax reduction will happen if local governments obtain authority to determine tax bases and rates. (-4) Tax competition will enhance economic resource allocation. ● (-3) The main purpose of granting intergovernmental aid is to offset inefficiency caused by the spillover effect.

Table 6.6 Summary of Each Pattern's Main Ideas for Autonomy

Pattern I	<ul style="list-style-type: none"> ● (-3) Local residents should be able to vote for local revenue collection.
Pattern II	<ul style="list-style-type: none"> ● (4) The national government should reduce the amount of conditional grants to allow more local flexibility. ● (-4) Local residents should be able to vote for local revenue collection. ● (3) The Law of Shared Tax should be enacted. ● (3) Local government should have complete autonomy to set policy priorities.
Pattern III	<ul style="list-style-type: none"> ● (4) The Law of Shared Tax should be enacted. ● (3) Itemize what local governments are prohibited to do. ● (3) Self-governance and local fiscal systems should be enacted into law. ● (3) Local government should have complete autonomy to set policy priorities.
Pattern IV	<ul style="list-style-type: none"> ● (-4) Itemize what local governments are prohibited to do. ● (-2) The Law of Shared Tax should be enacted.
Pattern V	<ul style="list-style-type: none"> ● (-4) Local residents should be able to vote for local revenue collection. ● (3) Self-governance and local fiscal systems should be enacted into law.

Table 6.7 Summary of Each Pattern's Main Ideas for Accountability

Pattern I	<ul style="list-style-type: none"> ● (+4) The national government should have the authority to monitor and control local governments' fiscal behavior. ● (+4) The Law on Local Budgeting should be enacted to monitor local budgeting processes and implementation. ● (+4) Local government officials should establish the notion of paying local services by local revenues. ● (+3) The national government should establish a mechanism to reward or punish local governments in order to ensure a link between local public service provision and local tax collection.
Pattern II	<ul style="list-style-type: none"> ● (-4) A system of referenda on local fiscal issues should be established to hold local government officials accountable. ● (-3) Only after local people feel the pain of paying taxes, will they ask local officials for more cost reduction and effectiveness improvement.
Pattern III	<ul style="list-style-type: none"> ● (+4) Local people should be encouraged to get involved in the local policy making process to better hold local officials accountable. ● (+4) Local government officials should establish the notion of paying local services by local revenues. ● (-4) The Law on Local Budgeting should be enacted to monitor local budgeting processes and implementation. ● (-3) The national government should have the authority to monitor and control local governments' fiscal behavior. ● (+3) The national government should establish a set of objective indicators to evaluate and ensure local fiscal efforts.
Pattern IV	<ul style="list-style-type: none"> ● (+4) Local government officials should establish the notion of paying local services by local revenues. ● (+3) A system of referenda on local fiscal issues should be established to hold local government officials accountable. ● (+3) Local people should be encouraged to get involved in the local policy making process to better hold local officials accountable. ● (-3) The national government should have the authority to monitor and control local governments' fiscal behavior.
Pattern V	<ul style="list-style-type: none"> ● (+3) Local people should be encouraged to get involved in the local policy making process to better hold local officials accountable. ● (-3) The Law on Local Budgeting should be enacted to monitor local budgeting processes and implementation.

Table 6.8 Summary of Each Pattern's Main Ideas for Development

Pattern I	<ul style="list-style-type: none"> ● (-4) Reliance on national grants will result in an imbalance of local development. ● (+3) National grants can stimulate local private investments. ● (+3) When sufficient financial resources are retained, the national government will be better able to fund projects for balanced growth among localities. ● (-3) Reliance on national transfers makes comprehensive local development planning impossible. ● (+2) The national government should organize a technical assistance team to help local financial planning.
Pattern II	<ul style="list-style-type: none"> ● (+4) Money and power are centralized to make local governments unable to actively design and implement local development projects. ● (+4) The national government should guarantee local governments sufficient financial resources to support their basic public programs. ● (+3) Reliance on national transfers makes comprehensive local development planning impossible. ● (-2) When sufficient financial resources are retained, the national government will be better able to fund projects for balanced growth among localities.
Pattern III	<ul style="list-style-type: none"> ● (-3) Money and power are centralized to make local governments unable to actively design and implement local development projects.
Pattern IV	<ul style="list-style-type: none"> ● (+4) Reliance on national transfers makes comprehensive local development planning impossible. ● (-4) Money and power are centralized to make local governments unable to actively design and implement local development projects. ● (-3) National grants can stimulate local private investments.
Pattern V	<ul style="list-style-type: none"> ● (+4) The national government should guarantee local governments sufficient financial resources to support their basic public programs. ● (+3) When sufficient financial resources are retained, the national government will be better able to fund projects for balanced growth among localities. ● (-2) The national government should organize a technical assistance team to help local financial planning.

Table 6.9 Summary of Each Pattern's Main Ideas for Equity

Pattern I	<ul style="list-style-type: none"> ● (-3) If local governments get involved in the policies to promote equity, local economic resources will be drained. ● (-3) Local governments can achieve distributional objectives by getting involved in policy areas such as education, medical care, or housing assistance.
Pattern II	<ul style="list-style-type: none"> ● (-3) If a local government performs redistribution functions, rich residents will move out and the poor will move in. ● (-3) Local governments can achieve distributional objectives by getting involved in policy areas such as education, medical care, or housing assistance.
Pattern III	<ul style="list-style-type: none"> ● (-3) If local governments get involved in the policies to promote equity, local economic resources will be drained. ● (-2) Local governments are incapable of dealing with unemployment, inflation, and income redistribution.
Pattern IV	<ul style="list-style-type: none"> ● (-4) Local governments can achieve distributional objectives by getting involved in policy areas such as education, medical care, or housing assistance. (+3) Local governments are incapable of dealing with unemployment, inflation, and income redistribution. ● (-3) If revenues collected from the progressive income tax can be the source for intergovernmental grants, income distribution will be better equalized. ● (+2) If a local government performs redistribution functions, rich residents will move out and the poor will move in.
Pattern V	<ul style="list-style-type: none"> ● (-4) Locating more responsibility for redistributive policy with local governments allows them to design welfare programs that are more appropriate to their own needs and better reflect local preferences. ● (+3) If revenues collected from the progressive income tax can be the source for intergovernmental grants, income distribution will be better equalized. ● (-3) Local governments are expected to respond creatively and effectively if given increased responsibility for welfare policy. ● (-3) Redistributive policies can also be a local public good.

6.2.1 Defining and Understanding Officials of Pattern I

Officials significantly loaded with Pattern I demonstrate a strong belief in the centralist approach of pursuing fiscal decentralization. They believe that the benefits of fiscal decentralization can only be realized if the national government closely monitors and controls the reform process to ensure local fiscal accountability and facilitate local development. What makes officials of Pattern I differ from officials of other patterns can be understood based on the statements 02, 32, 31, 37, 16, 30, and 19. These statements are surrounding two general themes: strengthening

local accountability and getting national government involved in local development. These distinguishing statements are presented in the following (bold statements are distinguishing statements; and scores in parenthesis are for Patterns I, II, III, IV, and V, respectively).

02. The national government should have the authority to monitor and control local governments' practices in raising debts, budgeting, taxing, and collecting other local revenues. (+4, -1, -3, -3, +1)

32. The Law on Local Budgeting, which includes penalties for unlawful practices, should be enacted to strengthen the ability of the Ministry of Finance and Directorate General of Budget Accounting and Statistics in the national government to monitor local budgeting processes and implementation. (+4, -1, -4, 0, -3)

31. Grants from the national government can stimulate local private investments. (+3, -1, -1, -3, 0)

37. The national government should organize a technical assistance team to help each local government develop a financial plan based on their unique economic activities to ensure sufficient financial resources for local development. (+2, +1, 0, 0, -2)

16. Reliance on national grants will lead local governments to ignore projects not funded by the central government, resulting in an imbalance of local development. (-4, -2, -2, 0, 0)

30. Local governments' decisions on resource allocation will better reflect local interests because they are closer to local people. (-1, +2, +1, 0, +1)

19. Tax competition will enhance the efficiency of economic resource allocation. (0, -2, -2, -3, -4)

Officials of Pattern I strongly support a national monitoring and controlling mechanism. Considering the fact that five out of seven officials loaded significantly with Pattern I are national officials, it is not surprising to see their emphasis on the role of the national government to make sure that fiscal decentralization is properly carried out. Among five policy objectives identified in this study, local fiscal accountability is most critical to them. Based on the scores they give to statements 02 and 32, they strongly agree that the national government should have the authority to monitor and control all aspects of local fiscal behavior and that the Law on Local Budgeting should be enacted to establish such mechanism. Both of these two statements were developed from the accountability–central control category in the factorial design of this study.

Officials of Pattern I also share a view that the national government can make positive impacts on local development by providing financial assistance in a form of intergovernmental grants to facilitate local development and stimulate the local economy. Compared to officials of the other patterns, they tend to hold a stronger belief that the national government can make positive impacts on local development by providing national grants and technical assistance. They are the only group of officials to rank statement 31 positively, demonstrating their strong belief that national grants can help local economic development by stimulating local private investments. Based on the score given to statement 37, they also had a relative strong view on the national government providing technical assistance to local financial management and development planning. The negative score of -4 given to statement 16 further demonstrates that they really do not believe that providing national grants would result in an imbalance of local development or make comprehensive local planning impossible. The fact that Pattern I is the only pattern to rank statement 30 negatively further confirms their belief that the national government should play a role in making local planning decisions. It should be noted that statements 31 and 37 are statements from the category of development-central control while statements 16 and 30 are statements from the category of development-local freedom.

Finally, Pattern I officials are the only group of officials who did not express a negative opinion on tax competition when they scored statement 19 at 0. In other words, even with the risk that competition in tax reduction will occur, they still believe that decentralization of local revenue collection is the right direction for the reform. This view is also confirmed by the recent efforts of the national government to grant local governments authority to raise local taxes through the passage of the General Law on Local Taxation. In fact, as discussed in Chapter Four, the General Law on Local Taxation only authorizes local governments to increase existing taxes or impose new taxes while not allowing local governments to make tax cuts. In other words, their neutral view on statement 19 might also be a reflection of their belief that tax competition will not happen in Taiwan as long as the national government can closely control and properly design the process of fiscal decentralization.

In addition to the statements discussed above, statements 06, 11, and 34 are strongly agreed with by the officials of Pattern I although they are not distinguishing statements. Officials of Pattern I scored the statement 06 at +3 to express their deep concern that local politics and elections have made local spending irrational, and financial resources decentralized

would be used to reward political loyalty. Therefore, as we have discovered from distinguishing statements discussed, officials of Pattern I strongly believe that a national mechanism to control and monitor local fiscal behavior is necessary. They also strongly agreed with the statement 11 to show their support of establishing a national mechanism to reward or punish local governments in order for local governments to take more responsibility in paying for their local services. It is argued that when local governments share more responsibility to pay for local services, it is more likely that they will make spending decisions more rationally. Officials of Pattern I also scored the statement 34 at +4 to confirm their hope that the notion of paying local services by local revenues should be established and provide additional evidence to explain why they are the only group of officials who do not worry about tax competition by not scoring statement 19 negatively. These three statements are presented in the following for reference.

06. Due to local politics, interests lobbying, and pressure groups, local spending keeps growing and becomes inefficient. (+3, +1, +2, +4, +4)

34. Local government officials should recognize the essence of local self-governance, establish the notion of paying local services by local revenues, and aggressively collect own-source revenue based on the law. (+4, +2, +4, +4, +1)

11. In order to ensure a link between local public service provision and local tax collection, the national government should establish a mechanism to reward or punish local governments. (+3, 0, +2, +2, +1)

In conclusion, officials significantly loaded with Pattern I propose a centrally controlled approach to implement fiscal decentralization. The analysis here also confirms earlier findings that they strongly support improving local accountability and development via a centralist approach. They propose that the national government should continue to use intergovernmental grants as a policy tool to guide local fiscal behavior and local development. As one of the officials in Pattern I argued, “considering the fact that Taiwan is small with condensed population, the national government should retain sufficient power and resources to make sure that local fiscal health would not get worse because of dysfunctional local politics” (2005091201, personal communication, September 12, 2005).

6.2.2 Defining and Understanding Officials of Pattern II

Officials significantly loaded with Pattern II highlight the fact that local governments do not have sufficient revenue to pay for local services and development projects because the power and financial resources are highly centralized in the national government. Therefore, they ask for more local financial resources to promote local development and more freedom to allocate nationally transferred funds. There are five distinguishing statements to define these views, and they are statements 24, 22, 08, 40, and 12.

24. Money and power are centralized to make local governments unable to actively design and implement local development projects. (-2, +4, -3, -4, 0)

40. When sufficient financial resources are retained, the national government will be better able to push development projects with national significance in order to promote balanced growth among localities. (+3, -2, 0, +2, +3)

12. The national government should reduce the amount of conditional grants year by year to allow local governments more flexibility for resource allocation. (+1, +4, +2, +2, +2)

08. Only after local people feel the pain of paying taxes, will they actively ask local government officials for more cost reduction and effectiveness improvement. (-1, -3, +1, +1, -1)

22. In order to better hold local government officials accountable, a system of referenda on local fiscal issues should be established. (-2, -4, -1, +3, -2)

Officials of Pattern II scored statement 24 at +4 to demonstrate their strong belief that power and money are highly centralized at the national government, and that local governments in Taiwan do not have sufficient financial resources to promote local development. As one official indicated, “because the level of local revenue is highly controlled by the national government, every local government has deficits and does not have enough revenue to support their spending, including basic public infrastructure” (2005051301, personal communication, May 13, 2005). It should be noted that they are also the only group of officials to rank statement 24 positively. Accordingly, officials of Pattern II are the only group of officials who disagreed

with statement 40, further demonstrating their belief that local governments should be given sufficient financial resources to promote local development.

In addition to the issue of local development, officials of Pattern II hope to obtain more freedom on local resource allocation without the local people's involvement in ensuring local accountability. They are the only group of officials ranking statement 12 at +4 to show a strong belief that the national government should allow local governments more freedom to allocate nationally transferred funds by gradually replacing conditional grants with general-purpose grants. In addition, officials of Pattern II are not enthusiastic about employing a localist approach to ensure local accountability. They strongly disagree with the view that local people will be more likely to hold local officials accountable after they feel the pain of paying local taxes. They ranked statement 08 at -3 to show this view. They also strongly disagree with the ideas of allowing people to vote on matters of local finance, as they scored statement 22 at -4. They worry that local people are not capable of making fiscal choices for the community's long-term interest and development. Once local people can vote and have a final say on local fiscal policies, they expect that local spending would grow rapidly while no one is going to agree to any proposal of increasing local taxes. As one of the officials interviewed pointed out, "if we allowed local people to vote on local fiscal matters, it would not be helpful from a policymaking standpoint while it would certainly place a great constraint for local executive agencies to implement various policies" (2005052501, personal communication, May 25, 2005). It should be noted that statements 08 and 22 are in the category of accountability-local freedom. It can be said that while asking for more freedom to allocate local financial resources, officials of Pattern II do not want their freedom to be constrained by local people.

There are seven non-distinguishing statements that are either highly agreed or disagreed with by officials of Pattern II. Although these statements do not distinguish Pattern II from other patterns, they nonetheless provide additional information to further understand the views of Pattern II and will also be discussed. They are statements 33, 21, 26, 03, 01, 18, and 13.

33. The national government should guarantee local governments sufficient financial resources to support their basic public programs. (+1, +4, +1, +1, +4)

21. Intergovernmental grants from the national government will foster local overspending. (-4, -4, -4, -2, -1)

26. Local government should have complete independent autonomy to set policy priorities for its administrative activities. (-2, +3, +3, -1, -1)

03. It would be far more efficient to allow local governments to provide local public services at different levels than to regulate them under a uniform level set by the national government. (0, +3, +2, -2, +2)

01. Local governments continually and chronically rely on national grants to support local spending needs, rendering comprehensive local development planning impossible. (-3, +3, -2, +4, -2)

18. The Law of Shared Tax should be enacted to regulate standards, formulas, and procedures of shared tax distribution. (+2, +3, +4, -2, +2)

13. Following certain administrative procedures, local residents should be able to vote on proposals for local revenue collection. (-3, -4, -1, +1, -4)

When officials of Pattern II ask for more freedom to allocate nationally transferred funds, they also implicitly suggest that the national government should transfer more financial resources to address the problem of poor local fiscal health. They confirmed this view by scoring statement 33 at +4 to argue that the national government should guarantee local government sufficient financial resources for local basic spending needs. In addition, they scored statement 21 at -4 to show their belief that intergovernmental grants would not foster local overspending to result in an efficiency loss. Instead, more intergovernmental grants would help local governments to obtain more financial resources for meeting local spending needs.

In addition to the use of intergovernmental aid for guaranteeing sufficient local revenue, officials of Pattern II further advocate for additional freedom to allocate these transferred funds. They gave high positive scores to statements 26, 03, 01, and 18 to show their strong desire for more local freedom. They believe that decentralization would increase efficiency and that local governments should be allowed complete freedom to set local policy priorities. They highly agree with the argument that most national grants are destined for specific purposes, making local governments unable to allocate these funds for long-term local development. They also agree that the Law of Shared Tax should be enacted to minimize the national government's ability to interfere with local revenue allocation through the power to determine the standard, formulas, and procedures of distributing national shared tax.

Finally, similar to the idea expressed by the statement 22, which is a distinguishing statement of Pattern II, statement 13 proposes the idea to allow people to vote on issues of local

revenue collection, and it also received a strong negative score (-4) from Pattern II officials. However, it is noted that statement 13 is not a distinguishing statement of Pattern II because the statement also received a high negative score from Patterns I and V. Statement 22, on the other hand, received a high negative score from only Pattern II. It is observed that when allowing people to vote on local fiscal issues is viewed as a mechanism to hold local officials accountable, the idea becomes more acceptable to officials of Patterns I, IV, and V, but it remains strongly disagreed with by officials of Pattern II.

Pattern II, consisting of eleven local officials and no national official, represents the views of local officials. They propose that local autonomy should be improved through a centralist approach while a localist approach is best suited for achieving local development. They hope to address the problem of insufficient local revenue through transferring more national revenue to local governments via general grants while allowing local officials more freedom to allocate local funds for local programs and development projects. It should also be noted that officials of Pattern II hold a strong belief that allowing local people to vote on local fiscal matters would be problematic regardless of whether it is designed to improve local accountability or not.

6.2.3 Defining and Understanding Officials of Pattern III

There are five officials significantly loaded with Pattern III, two from the national level and three from the local level. As we will discuss later in this chapter, Pattern III is the only pattern in which no clear indication exists regarding whether the pattern should be categorized as a view more likely to be shared by national officials or by local officials. Officials of this pattern tend to be concerned with the issue of local autonomy and accountability most.

As discussed earlier, they agree with employing a centralist approach to improve local autonomy, but prefer a localist approach to ensure local accountability. They argue that the national government should trust local governments more and should not interfere with local policymaking. As one official said, “the national government should give local governments a chance; and do not distrust local governments from the beginning” (2005052502, personal communication, May 25, 2005). In general, officials of Pattern III tend to emphasize that local governments should have autonomy to set local priorities, and they are against the national

government over-controlling local fiscal affairs. There are seven distinguishing statements to define Pattern III. They are statements 09, 32, 35, 25, 17, 04, and 15.

09¹⁰. The principle of regulating local governments is to itemize what they are prohibited to do. (+1, 0, +3, -4, 0)

32. The Law on Local Budgeting, which includes penalties for unlawful practices, should be enacted to strengthen the ability of the Ministry of Finance and Directorate General of Budget Accounting and Statistics in the national government to monitor local budgeting processes and implementation. (+4, -1, -4, 0, -3)

35. Over decentralization will make a consistent nation-wide fiscal policy impossible, resulting in an even more severe fiscal imbalance among localities. (+2, 0, -1, 0, +2)

25. Once local government officials obtain authority to determine local tax bases and rates, it is easy for them to engage in a competition for tax reduction. (-1, -1, -4, 0, +4)

17. Local governments are expected to respond creatively and effectively if given increased responsibility for welfare policy. (-1, 0, +1, -2, -3)

04. Generally speaking, local governments can achieve distributional objectives by getting involved in policy areas such as education, medical care, or housing assistance. (-3, -3, 0, -4, -1)

15. Local governments are incapable of dealing with unemployment, inflation, and income redistribution successfully. (-1, +2, -2, +3, +1)

Officials of Pattern III emphasize trust in local governments and the need for local autonomy to set local priorities. They strongly agreed with statement 09 to show their belief that the national government, instead of detailing what local governments can do, should only specify what local governments are prohibited to do in order to provide more room for local freedom and creativity. They are strongly against the idea of enacting the Law on Local Budgeting to avoid over-controlling by the national government. Based on Appendix A.9, officials of Pattern III

¹⁰It should be noted that statements 09, 32, and 25 are selected as distinguishing statements for two patterns. For statement 09, Pattern III ranked it highly positive, but Pattern IV ranked it highly negative. Statement 09 distinguishes Pattern III from other patterns because Pattern III is the only pattern to rank it highly positive. On the contrary, the statement distinguishes Pattern IV from other patterns because Pattern IV is the only pattern to rank it highly negative. For statement 32, Pattern I ranked it highly positive while Pattern II ranked it highly negative. Finally, for statement 25, Pattern III ranked it highly negative, but Pattern V ranked it highly positive. These two statements are selected based on the same reason to select statement 09.

most disagree with statement 32 among all 40 statements. In addition, they are the only group of officials to give statement 35 a negative score, showing that they do not worry about over decentralization as much as officials of other patterns do. They ranked statement 25 at -4 to demonstrate their trust that local officials would not engage in a competition for tax reduction once they are granted authority to adjust the level of local taxation.

Their trust in local officials' ability to be creative in meeting local needs is also observed from the scores they gave to statement 17, 04, and 15 regarding the policy objective of equity. They are the only pattern to rank statement 17 positively. In addition, they are the only group of officials to rank statement 04 at 0 while officials of Pattern I, II, and IV all strongly disagreed with the statement. Compared to the officials of other patterns, they disagreed more with statement 15 to show they have more confidence in local governments' ability to handle local redistributive policies. Based on the scores they gave to these three statements, it is argued that officials of Pattern III are more open to the notion of getting local governments involved in making and providing local redistributive policies.

In addition to the distinguishing statements used to define the pattern, additional informational can be obtained from statements that officials of Pattern III either highly agree or highly disagree with to further understand the views of Pattern III. Officials of Pattern III strongly agreed with statements 26, 18, and 17 while strongly disagreeing with statement 02 to further demonstrate their view that more autonomy should be granted to local governments. In statement 26, they argue that local government should have complete autonomy to set local policy priorities. They propose that the national government should enact laws, not executive orders, to regulate all aspects of intergovernmental administrative and fiscal relationships in statements 18 and 07. In a sense, these laws can be viewed as firewalls to protect local governments' autonomy because national executive agencies will not have a free hand to amend these regulations. By strongly disagreeing with statement 02, they oppose the idea that the national government should closely monitor and control local financial practices. It is noted that they also expressed a similar view on statement 32, a distinguishing statement, to oppose national control and monitoring. The following four statements reflect these views.

26. Local government should have complete independent autonomy to set policy priorities for its administrative activities. (-2, +3, +3, -1, -1)

18. The Law of Shared Tax should be enacted to regulate standards, formulas, and procedures of shared tax distribution. (+2, +3, +4, -2, +2)

07. The establishment of self-governance and local fiscal systems should be enacted into law. (+2, +1, +3, -1, +3)

02. The national government should have the authority to monitor and control local governments' practices in raising debts, budgeting, taxing, and collecting other local revenues. (+4, -1, -3, -3, +1)

Finally, Pattern III is one of the two patterns that highly disagree with statement 24, showing their belief that local governments should not blame the national government for all local fiscal and development problems. Sharing a similar view with officials of Patterns I and IV on statement 34, they highly agree that local governments should share more responsibility to raise local taxes rather than hoping to get more national grants. In order to improve local fiscal accountability, they believe that both the national government and local people should be involved in the process. They strongly agree with the idea to get local people more involved in the policymaking process by scoring statement 36 at +4. They hope that local people can be educated in the process and eventually become a force to better hold their local officials accountable. By ranking statement 29 at +3, they highly agree that the national government should establish a set of objective indicators in order to monitor and assess the fiscal performance of local governments. It should be noted again that these four statements do not distinguish officials of Pattern III from officials of other patterns, but they nonetheless represent the ideas that officials of Pattern III feel strongly about. They are presented in the following.

24. Money and power are centralized to make local governments unable to actively design and implement local development projects. (-2, +4, -3, -4, 0)

34. Local government officials should recognize the essence of local self-governance, establish the notion of paying local services by local revenues, and aggressively collect own-source revenue based on the law. (+4, +2, +4, +4, +1)

36. Local people should be encouraged to get involved in the local policy making process to realize the costs and benefits of local services, and to better hold local officials accountable for local spending. (0, 0, +4, +3, +3)

29. The national government should establish a set of objective indicators to evaluate local fiscal efforts and take them into account in the mechanism of distributing national shared tax revenue and intergovernmental transfers. (+2, +2, +3, +1, +2)

In summation, officials of Pattern III emphasize that the national government should avoid interfering in local policymaking and administration. Compared to officials of other patterns, officials of Pattern III have more confidence and trust in local governments. They believe that local governments should be allowed sufficient autonomy to set local priorities and allocate their funds accordingly. In addition, they are more open to the notion of getting local governments involved in making and providing local redistributive policies. On the other hand, they also worry that local governments would abuse their new power and autonomy gained through fiscal decentralization. Therefore, although not distinguishing them from officials of other patterns, officials of Pattern III emphasize the importance of getting both local people and the national government involved in holding local officials accountable for their policy decisions.

6.2.4 Defining and Understanding Officials of Pattern IV

Officials of Pattern IV place a high emphasis on a bottom-up approach to ensure fiscal accountability. They believe that people should be encouraged to participate in the local policymaking process and that the national government should only play a limited role in the process of fiscal decentralization. There are eleven distinguishing statements to define the pattern, but only four of them received a highly positive or negative score. These distinguishing statements are statements 23, 03, 09, 39, 31, 22, 13, 07, 18, 20, and 10.

23. Decentralization will facilitate local governments' creativity to differentiate service provisions for meeting different needs. (0, +2, +1, +3, 0)

03. It would be far more efficient to allow local governments to provide local public services at different levels than to regulate them under a uniform level set by the national government. (0, +3, +2, -2, +2)

09. The principle of regulating local governments is to itemize what they are prohibited to do. (+1, 0, +3, -4, 0)

22. In order to better hold local government officials accountable, a system of referenda on local fiscal issues should be established. (-2, -4, -1, +3, -2)

13. Following certain administrative procedures, local residents should be able to vote on proposals for local revenue collection. (-3, -4, -1, +1, -4)

39. The main purpose of granting intergovernmental aid is to offset inefficiency caused by the spillover effect, which means benefits of local services can be enjoyed by residents in other jurisdictions. (-4, -3, -3, +1, -3)

31. Grants from the national government can stimulate local private investments. (+3, -1, -1, -3, 0)

07. The establishment of self-governance and local fiscal systems should be enacted into law. (+2, +1, +3, -1, +3)

18. The Law of Shared Tax should be enacted to regulate standards, formulas, and procedures of shared tax distribution. (+2, +3, +4, -2, +2)

20. A law should be enacted to regulate the system of intergovernmental transfer in order to minimize the possibility that national government would use intergovernmental transfers as a policy tool to intervene in local affairs. (+1, +1, +2, -1, +1)

10. If a local government performs redistribution functions, such as social welfare policies, rich residents will move out and the poor will move in. (-2, -3, 0, +2, -2)

Officials of Pattern IV believe that decentralization will facilitate local governments' creativity to meet different local needs by scoring statement 23 at +3. However, they are the only group of officials who scored statement 03 negatively to show their doubt that decentralization of local service provision alone would improve efficiency. In other words, decentralization of financial and administrative resources cannot cure all of the existing problems of poor local fiscal health. In fact, based on their opinion on statements 09, 22, and 13, it is argued that officials of Pattern IV believe that local government should also behave properly in order to realize the full benefits of fiscal decentralization. They strongly disagreed with statement 09 to show their belief that the administrative and fiscal relationship between the national and local governments should be clearly defined and specified for local governments to know how they are supposed to behave in a decentralized system. Moreover, they further believe that local people should be allowed to vote on local fiscal policies in order to improve and ensure local fiscal accountability. They are the only group of officials to strongly agree with statement 22 and to rank statement 13 positively.

Pattern IV officials believe that the national government should limit the use of intergovernmental transfers and play a limited role in regulating the local fiscal system. They disagreed with the notion that the national government should use intergovernmental transfers to ensure local funding for local projects and development. They are the only group of officials to rank statement 39 positively. Rather than supporting the argument of the spillover effect, their positive view on statement 39 shows that they disagree with the notion held by many Taiwanese officials that the main purpose of granting intergovernmental aid is to provide sufficient local financial resources to local governments. They also scored statement 31 at -3 to demonstrate their belief that national grants should not be considered as a policy tool for local economic development. In other words, intergovernmental aid is not the cure to all of the problems encountered by local governments in Taiwan today. Local governments have to take more responsibility to deal with local problems and be more accountable for their decisions.

In addition, officials of Pattern IV advocate a limited use of national legislation to regulate aspects of the local fiscal system. Based on the scores received by statements 07, 18, and 20, officials of Pattern IV are the only group of officials to rank these statements negatively. It is argued that although defining intergovernmental fiscal relationships by laws can ensure that the national executive agencies cannot intervene in local affairs through executive orders, these laws also create a uniform system that severely limits the flexibility of local governments to meet different local needs. Considering the fact that they also ranked statement 09 negatively, it is argued that officials of Pattern IV would suggest that the national government only define general guidelines for the intergovernmental fiscal relationship while leaving enough room of autonomy for local governments to meet different local needs.

Officials of Pattern IV tend to agree with the traditional notion that equity or redistribution should be a function of the national government and that local governments should not handle redistributive policies. They are the only group of officials to rank statement 10 positively to confirm this opinion. It should also be noted that many officials participating in the study believe that rich residents moving out will not happen in Taiwan because Taiwan has a highly centralized local fiscal system where a clear relationship between the level of social welfare policy and the level of local taxation does not exist. Therefore, it is also argued that the opinion shared by officials of Pattern IV on statement 10 might reflect the fact that they are highly influenced by the ideas in the literature of local public finance. In fact, one of the two

officials significantly loaded with Pattern IV is a scholar, and the other official is highly influenced by a former minister, who is also a scholar.

In addition to the distinguishing statements discussed, there are nine statements that were ranked either highly positive or highly negative by officials of Pattern IV. These statements provide additional information that can further our understanding about the views possessed by officials of Pattern IV. These statements include 06, 34, 01, 24, 15, 04, 38, 02, and 36.

06. Due to local politics, interests lobbying, and pressure groups, local spending keeps growing and becomes inefficient. (+3, +1, +2, **+4**, +4)

34. Local government officials should recognize the essence of local self-governance, establish the notion of paying local services by local revenues, and aggressively collect own-source revenue based on the law. (+4, +2, +4, **+4**, +1)

01. Local governments continually and chronically rely on national grants to support local spending needs, rendering comprehensive local development planning impossible. (-3, +3, -2, **+4**, -2)

24. Money and power are centralized to make local governments unable to actively design and implement local development projects. (-2, +4, -3, **-4**, 0)

15. Local governments are incapable of dealing with unemployment, inflation, and income redistribution successfully. (-1, +2, -2, **+3**, -1)

04. Generally speaking, local governments can achieve distributional objectives by getting involved in policy areas such as education, medical care, or housing assistance. (-3, -3, 0, **-4**, -1)

38. If revenues collected from the progressive income tax can be the source for intergovernmental grants, income distribution will be better equalized. (0, -2, 0, **-3**, +3)

02. The national government should have the authority to monitor and control local governments' practices in raising debts, budgeting, taxing, and collecting other local revenues. (+4, -1, -3, **-3**, +1)

36. Local people should be encouraged to get involved in the local policy making process to realize the costs and benefits of local services, and to better hold local officials accountable for local spending. (0, 0, +4, **+3**, +3)

Officials of Pattern IV scored statement 06 at +4, showing their strong concern that dysfunctional local politics has become a problem of inefficiency and local overspending. They ranked statement 34 at +4 to further demonstrate their belief that local governments should take

more responsibility to deal with local fiscal problems. It is noted that they scored statements 01 and 24 at +4 and -4, respectively. This is puzzling because both of these two statements were classified in the category of development-local freedom when the Q statements were developed. One official belonging to this pattern pointed out that local governments are highly dependent on the national grants to make up budget shortfalls (2005042601, personal communication, April 6, 2005). This indicates that officials of Pattern IV believe that the problem is local governments' dependence on national grants, not that the national government intentionally keeps the money and power at the center. In fact, these ideas further confirm earlier discussion that officials of Pattern IV believe that local governments should take more responsibility to deal with their own problems, including poor local fiscal health.

As mentioned in the earlier discussion, officials of Pattern IV believe that equity or redistribution should be addressed by the national government, not local governments. This view is further confirmed by their strong positive view on statement 15 as well as their strong negative view on statement 04. It should also be noted that officials of Pattern IV strongly disagreed with statement 38 that the national government can equalize income distribution by transferring national revenue collected from progressive income tax to local governments. This view might also indirectly show that they do not agree with using the revenue collected from income tax as a revenue source for intergovernmental transfers.

Finally, the scores received by statements 02 and 36 provide additional evidence that officials of Pattern IV would like the national government to play a limited role in the process of fiscal decentralization and would welcome bottom-up participation to ensure local fiscal accountability. They ranked statement 02 at -3 to further demonstrate their idea that fiscal accountability should be ensured from the bottom, not from the top. In other words, a localist approach should be adopted to ensure local fiscal accountability. In fact, consistent with their opinion expressed on statements 22 and 13, they strongly agreed with statement 36 that local people should be encouraged to participate in the local policy process in order to enhance local fiscal accountability. Although officials of Patterns III and V also strongly agreed with statement 36, it should be noted that they are not ready to join officials of Pattern IV by agreeing with the idea of allowing people to vote on local fiscal policies.

There are only two national officials significantly loaded with Pattern IV. One of them is a scholar, and the other is highly influenced by his former minister, who is also a scholar. The

analysis in this subsection demonstrated that officials of Pattern IV hold views shared by many Taiwanese scholars. They prefer a bottom-up approach to ensuring local fiscal accountability and pursuing local development. The national government should limit the use of national grants and play a limited role in regulating the local fiscal system. Officials of Pattern IV encourage people to participate in the local policymaking process, and, in fact, Pattern IV is the only pattern that shows a strong positive view on allowing people to vote on local fiscal issues.

6.2.5 Defining and Understanding Officials of Pattern V

Officials of Pattern V focus on addressing two of the most critical problems faced by local governments in Taiwan today, including insufficient local revenue and dysfunctional local politics. They admitted that there are many local problems that need to be addressed and that local governments are incapable of dealing with these problems. As a result, the national government should be involved in the process to deal with these problems. Recalled from our discussion at the beginning of this chapter, officials of Patterns I and V are the strongest supporters of the centralist approach. Six distinguishing statements are identified to define Pattern V. These statements include statements 25, 38, 37, 27, 05, and 17.

25. Once local government officials obtain authority to determine local tax bases and rates, it is easy for them to engage in a competition for tax reduction. (-1, -1, -4, 0, +4)

38. If revenues collected from the progressive income tax can be the source for intergovernmental grants, income distribution will be better equalized. (0, -2, 0, -3, +3)

37. The national government should organize a technical assistance team to help each local government develop a financial plan based on their unique economic activities to ensure sufficient financial resources for local development. (+2, +1, 0, 0, -2)

27. Locating more responsibility for redistributive policy with local governments allows them to design welfare programs that are more appropriate to their own needs and better reflect the preferences of their residents. (-2, -1, -1, -1, -4)

05. Redistributive policies can also be a local public good implemented by local governments. (0, -2, -2, -1, -3)

17. Local governments are expected to respond creatively and effectively if given increased responsibility for welfare policy. (-1, 0, 1, -2, -3)

Officials of Pattern V seem to support the idea of transferring more national financial resources to local governments in order to deal with the problem of insufficient local revenue. They do not like the idea of granting local governments authority to adjust the level of local taxes. By scoring statement 25 at +4, they expressed their deep concern that local governments would engage in a dysfunctional competition to lower local taxes once they have the authority to make local tax cuts. In fact, they are the only group of officials expressing a positive view on the statement to demonstrate this concern.

In addition, they are also the only group of officials to rank statement 38 positively and statement 37 negatively. They agree with the idea to use the revenue collected from income tax as a revenue source to fund intergovernmental grants. It is reasoned that income tax revenue, which is about half of the national tax revenue¹¹, has been relatively stable in Taiwan over the years. As a result, the positive view that they possess on statement 38 may only reflect the fact that they see income tax revenue as the largest and relatively stable tax revenue instead of seeing it as a viable redistributive policy. In addition, their negative view on statement 37 further highlights their emphasis on providing local governments financial assistance rather than assistance in other forms. These views provide additional evidence to show their support for transferring more national funds to deal with the problem of local fiscal health.

Officials of Pattern V expressed a strong negative opinion on pursuing equity and redistribution through a localist approach. They believe that equity and redistribution should be pursued by the national government. They are strongly against the notion that local governments should get involved in equity or redistributive policies by scoring statements 27, 05, and 17 at -4, -3, and -3, respectively. They do not believe that decentralizing more responsibility of making and implementing redistributive policies would allow local governments to better meet local needs by providing welfare programs creatively and effectively.

In addition to the six distinguishing statements, there are nine statements that were ranked either highly positive or highly negative by officials of Pattern V. They add additional

¹¹ In FY 2005, income tax revenue accounted for about 46% of the total tax revenues (Yearbook of Financial Statistics, Republic of China, 2004: p. 66-67).

information to our understanding about the views shared by officials of Pattern V, and they will be discussed. These statements include statements 06, 19, 36, 13, 07, 32, 33, 40, and 39.

06. Due to local politics, interests lobbying, and pressure groups, local spending keeps growing and becomes inefficient. (+3, +1, +2, +4, **+4**)

19. Tax competition will enhance the efficiency of economic resource allocation. (0, -2, -2, -3, **-4**)

36. Local people should be encouraged to get involved in the local policy making process to realize the costs and benefits of local services, and to better hold local officials accountable for local spending. (0, 0, +4, +3, **+3**)

13. Following certain administrative procedures, local residents should be able to vote on proposals for local revenue collection. (-3, -4, -1, +1, **-4**)

07. The establishment of self-governance and local fiscal systems should be enacted into law. (+2, +1, +3, -1, **+3**)

32. The Law on Local Budgeting, which includes penalties for unlawful practices, should be enacted to strengthen the ability of the Ministry of Finance and Directorate General of Budget Accounting and Statistics in the national government to monitor local budgeting processes and implementation. (+4, -1, -4, 0, **-3**)

33. The national government should guarantee local governments sufficient financial resources to support their basic public programs. (+1, +4, +1, +1, **+4**)

40. When sufficient financial resources are retained, the national government will be better able to push development projects with national significance in order to promote balanced growth among localities. (+3, -2, 0, +2, **+3**)

39. The main purpose of granting intergovernmental aid is to offset inefficiency caused by the spillover effect, which means benefits of local services can be enjoyed by residents in other jurisdictions. (-4, -3, -3, +2, **-3**)

Reflecting on the score that they gave to statement 06, many officials of Pattern V pointed out that local elected representatives are not serving as a check and balance against local executive agencies. Rather, they try to obtain resources to reward their political supporters (2005061501, personal communication, June 15, 2005; 2005050501, personal communication, May 5, 2005). Therefore, these local representatives would only care if local funds were spent to meet their political interests, not if these funds were spent to pursue welfare of the public. From a revenue collection standpoint, local elected representatives would ask for more tax cuts or, at

least, for no tax increase. Accordingly, they do not believe that tax competition would enhance efficiency, as evidenced by their scoring statement 19 at -4.

To address the problem of dysfunctional local politics, they believe that local people should be encouraged to participate in the local policymaking process, as evidenced by their scoring statement 36 at +3. They hope that people's participation in the policy process would make them better realize the costs and benefits of local services and use this knowledge to hold their local elected officials accountable. However, they are not ready to support the idea of allowing local people to vote on local fiscal issues as they ranked statement 13 at -4. On the other hand, they believe that local governments should be allowed more autonomy to meet local needs. Based on their strong positive view on statement 07, they advocate restricting the national government's ability to interfere in local affairs by using law, not executive orders, to regulate national-local administrative and fiscal relationships. By scoring statement 32 at -3, they show their strong opinion against the enactment of the Law on Local Budgeting, which includes penalties for unlawful practices, to strengthen the ability of the national government to monitor and control local financial activities. As one official indicated, "local officials working at either finance or accounting and statistics are often playing a role of brakemen in the local government. Enacting the Law on Local Budgeting would not be fair to them since they will be the officials to get punished, not elected officials who actually make decisions" (2005052701, personal communication, May 27, 2005).

Finally, in terms of addressing the problem of insufficient local revenue, they strongly agreed with statement 33 that the national government should guarantee local governments sufficient revenue to support their basic local spending needs. As one official interviewed said that "the national government should use a stable revenue source to fund intergovernmental grants, and should not think about how to financially assist local governments only after national spending needs are met" (2005061501, personal communication, June 15, 2005). For this reason, they agree that the national government should retain sufficient financial resources in order to help local governments financially by scoring statement 40 at +3. They ranked statement 39 at -3 to indicate their belief that national grants are a policy tool to provide local financial assistance for meeting local basic spending needs, not to offset the spillover effect.

All five officials significantly loaded with Pattern V are from the local level, but they demonstrate a strong preference to employ a centralist approach to pursue fiscal decentralization.

Officials of this pattern think that local governments should be given more autonomy to administer local programs and the national government should guarantee that local governments have revenue necessary to meet local basic spending needs. They also emphasize the problem of dysfunctional local politics and insufficient local revenue. They believe that local people should be encouraged to participate in local affairs, get more knowledge about local programs, and ultimately hold their elected officials accountable. However, what distinguishes them from officials of other patterns is their strong negative opinion toward making and implementing redistributive policies by local governments. After views of the five patterns are defined and understood, background factors will be examined in the next section to see whether they play a role in shaping these patterns' different perceptions.

6.3 BACKGROUND ANALYSIS OF REVEALED PATTERNS

The focus of this section is to see whether background factors play a role in shaping the revealed patterns by examining the hypotheses developed in the previous chapter. Factors examined include levels of government, duties performed within each level of government, types of local government, and local governments' reliance on national transfers. These analyses would allow us to see whether officials' backgrounds would affect their perception of fiscal decentralization.

This section begins with a brief discussion on officials loaded with one of the patterns and an examination of whether their views are affected by the levels of government they serve. Then national officials and local officials are examined separately to provide in-depth knowledge about these officials working at each level. Based on the factor loadings obtained through Q methodology, 30 of 40 officials are loaded into one of the five patterns, as summarized by Table 6.1. Nine national officials and 21 local officials are significantly loaded with one of the revealed patterns. Among national officials, five of them are loaded with Pattern I, two of them are loaded with Pattern III, and the remaining two officials are loaded with Pattern IV. Among local officials, two of them are loaded with Pattern I, eleven of them are loaded with Pattern II, three of them are loaded with Pattern III, and five of them are loaded with Pattern V. Table 6.10 provides background information for each of the loaded officials. Information provided in Table 6.10 is also used to perform background analysis of each revealed pattern.

Table 6.10 Pattern and background of loaded Q sorts

Case Number	Pattern	Level of Government	National Officials' Duties	Local Officials' Duties	Types of Local Government	Reliance on National Transfers
05040801	I	National	General grants and local budgeting	-	-	-
05041801	I	National	Local budgeting	-	-	-
05053002	I	Local	-	Accounting & Statistics	Provincial City	High
05082201	I	National	Local financial management	-	-	-
05062102	I	Local	-	Accounting & Statistics	County	High
05090501	I	National	Categorical grants	-	-	-
05091201	I	National	Categorical grants	-	-	-
05051301	II	Local	-	Accounting & Statistics	Provincial City	Moderate
05052401	II	Local	-	Accounting & Statistics	Special City	Low
05052501	II	Local	-	Finance	County	High
05053001	II	Local	-	Finance	Provincial City	High
05060801	II	Local	-	Accounting & Statistics	County	High
05061001	II	Local	-	Finance	County	Very high
05061002	II	Local	-	Accounting & Statistics	County	Very high
05062101	II	Local	-	Finance	County	High
05070701	II	Local	-	Finance	County	Moderate
05071501	II	Local	-	Finance	Provincial City	Low
05072101	II	Local	-	Finance	County	Very high
05042801	III	National	Local taxes	-	-	-
05050502	III	Local	-	Accounting & Statistics	County	High
05052001	III	Local	-	Finance	Special City	Low
05052502	III	Local	-	Accounting & Statistics	County	High
05080201	III	National	Local taxes	-	-	-
05042601	IV	National	Local financial management and national shared tax	-	-	-
05083101	IV	National	Local development	-	-	-
05050501	V	Local	-	Finance	County	High
05052701	V	Local	-	Finance	Provincial City	Moderate
05061501	V	Local	-	Finance	County	High
05061502	V	Local	-	Accounting & Statistics	County	High
05062301	V	Local	-	Finance	Provincial City	Moderate

6.3.1 Overview and the Factor of Levels of Government

Whether Taiwanese officials share a single pattern of attitudes toward fiscal decentralization (H_1 discussed in Chapter 5) is first examined. Based on the results obtained from Q methodology, five patterns are revealed to represent the views of 30 out of 38 Taiwanese officials participating in the study. Seven officials are significantly loaded with Pattern I, including five national

officials and 2 local officials. Eleven officials are significantly loaded with Pattern II and all of them are working for local government. Five officials are significantly loaded with Pattern III, including two national officials and three local officials. Two national officials are significantly loaded with Pattern IV, with which no local official is loaded. Finally, five officials are significantly loaded with Pattern V, and all of them are from local governments. As described, it is clear that no single pattern of attitude toward fiscal decentralization can represent the views held by Taiwanese officials. Therefore, H_1 should be rejected.

Then the question becomes: why is there a difference in their views toward fiscal decentralization? Do officials serving at different levels of government tend to have different views on fiscal decentralization (H_2)? Table 6.11 summarizes the distribution of national and local officials of each pattern. As it demonstrates, Pattern II and Pattern V are only comprised of the views of local officials while Pattern IV only embraces the views of national officials. Pattern I and Pattern III are represented by both national and local officials.

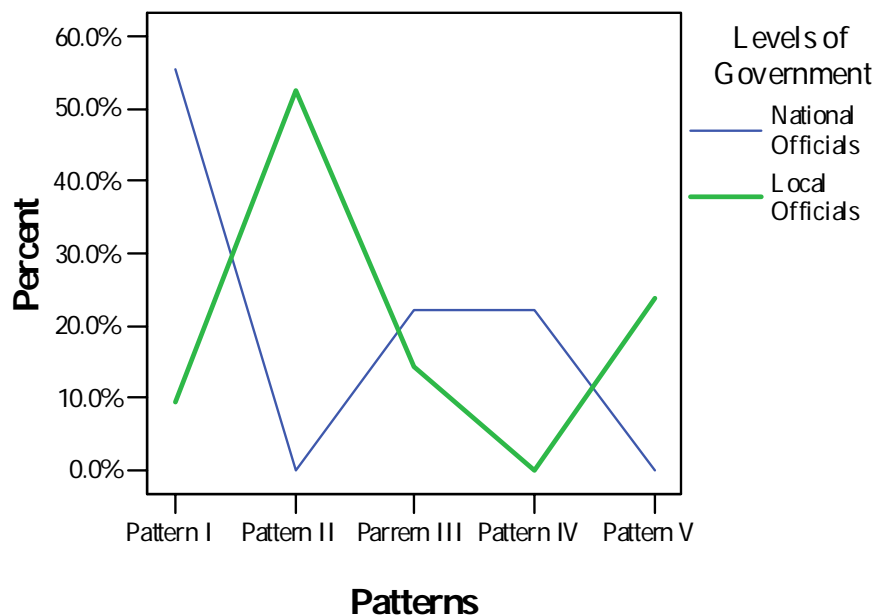
Table 6.11 Distribution of officials for each pattern by number/percentage

	Pattern I	Pattern II	Pattern III	Pattern IV	Pattern V	Total
National Level	5/56%	0/0%	2/22%	2/22%	0/0%	9/100%
Local Level	2/10%	11/52%	3/14%	0/0%	5/24%	21/100%

In addition, more than half (56%) of the national officials are loaded with Pattern I. Both Pattern III and Pattern IV represent 22% of the national officials. This may indicate that the view represented by Pattern I is the most dominant view among national officials. However, it should also be noted that, although only two national officials are loaded with Pattern IV, it is only representing the views of national officials because no local official is significantly loaded with it. On the other hand, more than half (52%) of the local officials are loaded with Pattern II, and another 20% of local officials are loaded with Pattern V. No national official is loaded with either Pattern II or Pattern V. In other words, approximately 72% of the local officials are loaded with the patterns that no national official is loaded with. This makes it easy to conclude that Pattern II and Pattern V represent the views of local officials. The remaining five local officials, representing about 24% of the local officials, are either loaded with Pattern III or Pattern I. These two patterns of views do not represent the majority of the views shared by local officials. A multiple line chart is drawn in order to visualize the pattern described above.

As Figure 6.1 demonstrates, the line of national officials and the line of local officials go in different directions. When the line of national officials goes up, the line of local officials goes down. This indicates that the level of government served affects the official's view on fiscal decentralization. If the level of government does not play a role in shaping an official's view, we should expect that the two lines go the same direction to imply that, among these five patterns, how national officials are distributed is similar to how local officials are distributed. Figure 6.2 rearranges the order of the patterns to better demonstrate the relationship between these two lines described above.

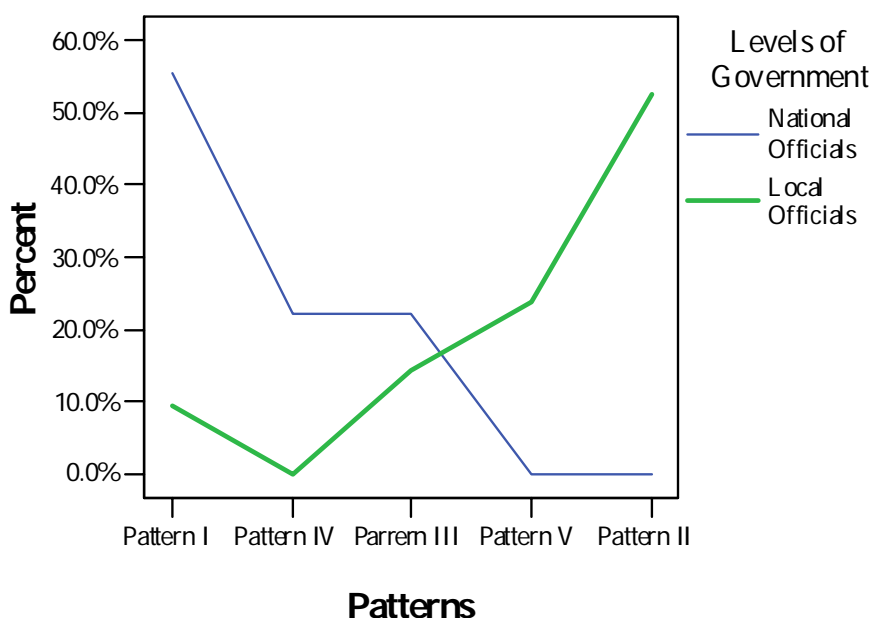
Figure 6.1 Comparison for officials working at different levels of government (I)



As we recalled that more than half of the national officials are loaded with Pattern I, we can see the line of national officials peaks at Pattern I. The line of national officials hits bottom at Pattern V and Pattern II with which no national officials are loaded. The line of local officials goes in a different direction. After the line hits bottom at Pattern IV, with which no local official is loaded, the line goes up. The line peaks at Pattern II to show the fact that more than 50% of the local officials are loaded with Pattern II. Based on the discussion above, it is concluded that officials serving at different levels of government possess different patterns of attitudes toward fiscal decentralization. As a result, H_2 is accepted. In other words, the level of government an

official serves in does affect his or her views on fiscal decentralization. In addition, it is further observed that Patterns I and IV are more likely to represent the views of national officials toward fiscal decentralization, while Patterns II and V are more likely to represent the views of local officials. Based on the data obtained in the study, Pattern III is a mixed pattern that represents the views of some national and local officials. In the following two subsections, whether officials working at the same level of government share a single pattern of attitude is examined.

Figure 6.2 Comparison for officials working at different levels of government (II)



6.3.2 Background Factors Affecting National Officials

The focus here is to examine whether national officials share a single pattern of attitudes toward fiscal decentralization. As indicated in the Table 6.11, Pattern I, Pattern III, and Pattern IV have a number of national officials significantly loaded with them. Pattern I clearly represents the view shared by the majority of the national officials, as 56% of the national officials (or five out of nine) are loaded with Pattern I. Pattern III and Pattern IV has two national officials significantly loaded with them. This means that each of these two patterns represents about 22% of the national officials loaded significantly in this research. Accordingly, although Pattern I represents the view shared by the majority of national officials, some of national officials possess

different views, which are represented by Patterns III and IV. There is no single pattern of attitudes shared by all national officials.

If we take a closer look at duties performed by these national officials and the agencies they are affiliated with, we can obtain a better understanding of why they might have different views on fiscal decentralization. Table 6.12 presents main duties and organizational affiliations of national officials significantly loaded with the three patterns. Pattern I may represent the views shared by most national officials. All three national officials, in charge of some aspects of distributing intergovernmental aid, including general grants and categorical grants, are significantly loaded with Pattern I. As we can recall from our discussion in Chapter Four that the DGBAS is the agency to lead efforts in reforming intergovernmental aid, it is not surprising to see that three national officials in charge of distributing either general grants or categorical grants and an official also working at the DGBAS monitoring local budgeting procedures share similar views on fiscal decentralization and that they are significantly loaded with Pattern I. In addition, there is another official significantly loaded with Pattern I. He is from the National Treasury Agency, the Ministry of Finance, and he is responsible for supervising, advising, and monitoring on local finance management matters. On the other hand, both officials significantly loaded with Pattern III are in charge of local tax-related matters and work at the same agency in the Ministry of Finance. One of them works at a division administering the laws on local taxes, and the other official is working at a division administering the General Law on Local Taxation, which authorizes local governments to raise local taxes. As a result, it is not difficult to understand why they share similar views on fiscal decentralization.

Two, and the only two, officials significantly loaded with Pattern IV are not in charge of similar policy areas, nor are they from the same ministry, but the fact that they perceive fiscal decentralization similarly is not coincidental. The official working at the Research, Development, and Evaluation Commission is a scholar of public administration. He was working in academia before accepting his current position a few years ago. The other official significantly loaded with Pattern IV is a career civil servant and heavily influenced by the former Minister of Finance, who was a public finance scholar before he was appointed to several public offices. This official constantly referred to the former Minister's opinion and ideas while explaining why he agreed or disagreed with particular Q statement during the Q sorting process. Indeed, the analysis in the previous section also showed that officials of Pattern IV prefer a

bottom-up approach to ensuring local fiscal accountability and pursuing local development, and they are group of officials most open to the idea of allowing people to vote on local fiscal issues. These are ideas advocated by many scholars in Taiwan to encourage local participation, collect locally raised tax revenues and fees, and eventually build a bottom-up mechanism for ensuring local fiscal accountability.

Table 6.12 Main duties and affiliation of national officials

Pattern	Main Duties	Organizational Affiliation
Pattern I	General grants and local budgeting	Directorate-General of Budget, Accounting, and Statistics (DGBAS)
	Local budgeting	Directorate-General of Budget, Accounting, and Statistics (DGBAS)
	Local financial management	National Treasury Agency, Ministry of Finance
	Categorical grants	Environmental Protection Administration
	Categorical grants	Ministry of Education
Pattern III	Local taxes	National Tax Administration, Ministry of Finance
	Local taxes	National Tax Administration, Ministry of Finance
Pattern IV	National shared tax and local financial management	National Treasury Agency, Ministry of Finance
	Local development	Research, Development, and Evaluation Commission

Based on the analyses above, there are at least three distinct patterns of attitudes existing among national officials. Therefore, H_3 is rejected. Although Pattern I represents the view shared by the majority of national officials, Patterns III and IV do represent the views of some national officials. Local officials' perceptions on fiscal decentralization and background factors shaping these views are discussed next.

6.3.3 Background Factors Affecting Local Officials

Different localities often have different socioeconomic characteristics and are facing different challenges in dealing with issues of local public finance. As a result, local officials working for different local governments are expected to have different patterns of attitudes toward fiscal

decentralization. In addition to examining whether local officials working at different local governments possess different patterns of attitudes toward fiscal decentralization, this subsection intends to further examine which background factors might also affect the views of local officials if more than one pattern of attitudes is revealed among local officials.

Based on the Table 6.10, 21 local officials are significantly loaded with four patterns. Eleven of them are loaded with Pattern II, and five of them are loaded with Pattern V. It should be noted that there is no national official significantly loaded with these two patterns, and these two patterns combined represent approximate 76% of the local officials loaded significantly in this study. In other words, these two patterns can be considered as the two dominant views held by local officials. Two local officials are significantly loaded with Pattern I, with which more than half of the national officials are loaded. The remaining three local officials are significantly loaded with Pattern III, with which two national officials in charge of local tax administration are also significantly loaded. It is concluded that there are at least four patterns of attitudes shared by local officials concerning fiscal decentralization. Accordingly, H_4 is rejected.

With regard to what background factors might play a role in shaping these different patterns, duties performed, types of local government they serve, and local governments' reliance on national transfers are examined.

6.3.3.1 Duties performed and patterns of attitude

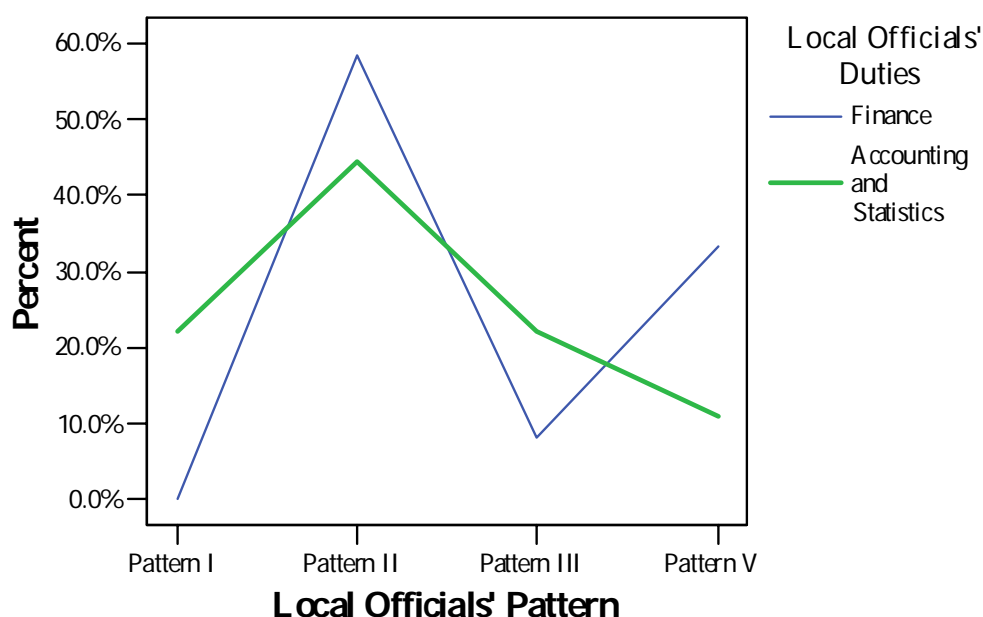
All of the local officials who participated in this research are working at either the Finance Bureau (FB) or the Accounting and Statistics Office (ASO) of a local government. Generally speaking, the FB is dealing with the finance side of local public finance while the ASO is dealing with the budgeting side of local public finance. This difference in their duties makes it possible to categorize local officials based on which of these two agencies they are working at in order to reflect the duties they perform. Table 6.13 summarizes how local officials working at these two agencies are distributed among four revealed patterns.

Table 6.13 Distribution of local officials by patterns and duties

	Pattern I	Pattern II	Pattern III	Pattern V	Total
Finance	0/0%	7/59%	1/8%	4/33%	12/100%
Accounting & Statistics	2/22%	4/45%	2/22%	1/11%	9/100%

Based on Table 6.13, 12 local officials significantly loaded with one of the patterns are working at the FB while nine are working at the ASO. As for local officials working at the FB, seven, representing about 60% of them, are significantly loaded with Pattern II while four of them are significantly loaded with Pattern V. Pattern III only represents the view of one local official working at the FB. This distribution is similar to the overall distribution of local officials in that the majority of them are significantly loaded with Pattern II and Pattern V. Four local officials, accounting for about 45% of local officials working at the ASO, are loaded significantly with Pattern II, while the rest of them almost evenly distributed among the other three patterns. Figure 6.3 was drawn to examine the distribution described above.

Figure 6.3 Comparison for local officials with different duties



It is noted that both local officials significantly loaded with Pattern I are working at the ASO. As we can recall, Pattern I represents the views mostly held by national officials. It is argued that the views of some local officials working at the ASO are influenced by their colleagues working at the national government because they are hired based on a nationally uniformed personnel code for officials of budgeting, accounting, and statistics, and co-supervised by local elected top officials and personnel officers at the DGBAS. This might also explain why there is no local official working at the FB loaded significantly with Pattern I because they are

not subject to such co-supervision and the national local government does not have control over personnel decisions at the FB.

As we can see, the shape of these two lines in Figure 6.3 is similar, except the line representing local officials in charge of finance goes up at Pattern V. Both lines peak at Pattern II to indicate that Pattern II is the pattern of attitudes shared by most local officials regardless of what duties they perform. Although it is suspected that some local officials working at the ASO may be influenced by their peers in the national government, the evidence is not strong enough to suggest that most local officials working at the ASO are under such influence. Therefore, it is concluded that different duties performed by local officials do not make them perceive fiscal decentralization differently. As a result, H_5 is rejected.

6.3.3.2 Types of local government and patterns of attitude

The highest local governance units in Taiwan include two special cities, 18 counties, and five provincial cities (see Figure 3.2). Based on the types of local government they serve, local officials can further be categorized into three groups. The assumption is that different types of local government are serving localities with different socioeconomic characteristics, economic patterns, and population characteristics. Therefore, different needs and goals are developed for pursuing fiscal decentralization. For example, the special cities, which have more economic activities and high-income population, might propose to reduce the amount or decrease the percentage of local taxes to be shared with other local governments in order to keep more revenue for themselves. Table 6.14 summarizes how local officials working in different types of local government are distributed among four revealed patterns.

Table 6.14 Distribution of local officials by patterns and types of local government

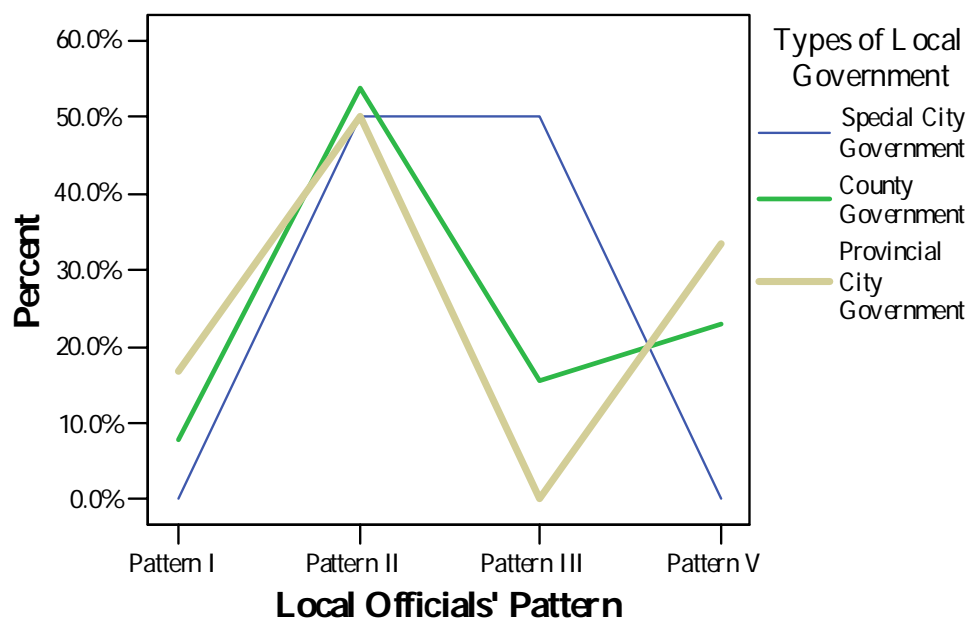
	Pattern I	Pattern II	Pattern III	Pattern V	Total
Special city	0/0%	1/50%	1/50%	0/0%	2/100%
County	1/8%	7/54%	2/15%	3/23%	13/100%
Provincial City	1/17%	3/50%	0/0%	2/33%	6/100%

According Table 6.14, the two special city officials are evenly distributed between Pattern II and Pattern III. About half of county officials and provincial city officials are significantly loaded with Pattern II. This shows that Pattern II is the dominant pattern of

attitudes shared by local officials regardless the types of local government in which they serve. Pattern V is the pattern of attitudes shared by 23% of county officials and 33% of provincial officials. Be reminded that this is also the pattern that no national officials are loaded with. As we can see, the way county and provincial city officials distributed among the four patterns is similar. Although the distribution of special city officials is different, this may be due to the fact that only a small number of local officials working at special cities participated in the study.

Figure 6.4 demonstrates the pattern of distribution for local officials working at different levels of local government. The shape of lines representing county and provincial city officials is similar as expected. Both lines begin to climb from Pattern I and peak at Pattern II. Then the lines go down to hit bottom at Pattern III before they go up again for Pattern V. There is no sufficient evidence to suggest that Taiwanese local officials working at different types of local government perceive the concept of fiscal decentralization differently. As a result, it is concluded that H_6 should be rejected.

Figure 6.4 Comparison for local officials working at different types of local government



6.3.3.3 Reliance on national transfers and patterns of attitudes

A local government's reliance on national transfers, including national shared tax and intergovernmental aid, not only reflects its fiscal condition, but also indicates its ability to collect

locally raised revenue for supporting itself. Local governments with low reliance on national transfers might advocate for a more decentralized local fiscal system while local governments with high reliance on national transfers might support a more centralized local fiscal system to ensure more available revenue to be transferred. Accordingly, it is assumed that local officials working at local governments with different degrees of reliance on national transfers would perceive fiscal decentralization differently. However, before any analysis can begin, the data of each local government's reliance on national transfers has to be transformed into categorical data.

K-Means cluster analysis was performed to obtain two classification solutions with three and four categories. The results were carefully examined, and classification with four categories was determined to best reflect and describe the degree of each local government's reliance on national transfers. Table 6.15 summarizes these four categories and local governments associated with them.

Table 6.15 Classification of a local government's reliance on national transfers

Low	Moderate	High	Very High
Cluster Center = .34	Cluster Center = .50	Cluster Center = .65	Cluster Center = .80
Taipei City	Kaohsiung City	Ilan County	Nantou County
Hsinchu City	Taipei County	Hsinchu County	Yunlin County
Taichung City	Taoyuan County	Miaoli County	Chiayi County
	Chiayi City	Taichung County	Pingtung County
	Tainan City	Changhua County	Taitung County
		Tainan County	Hualien County
		Kaohsiung County	Penghu County
		Keelung City	

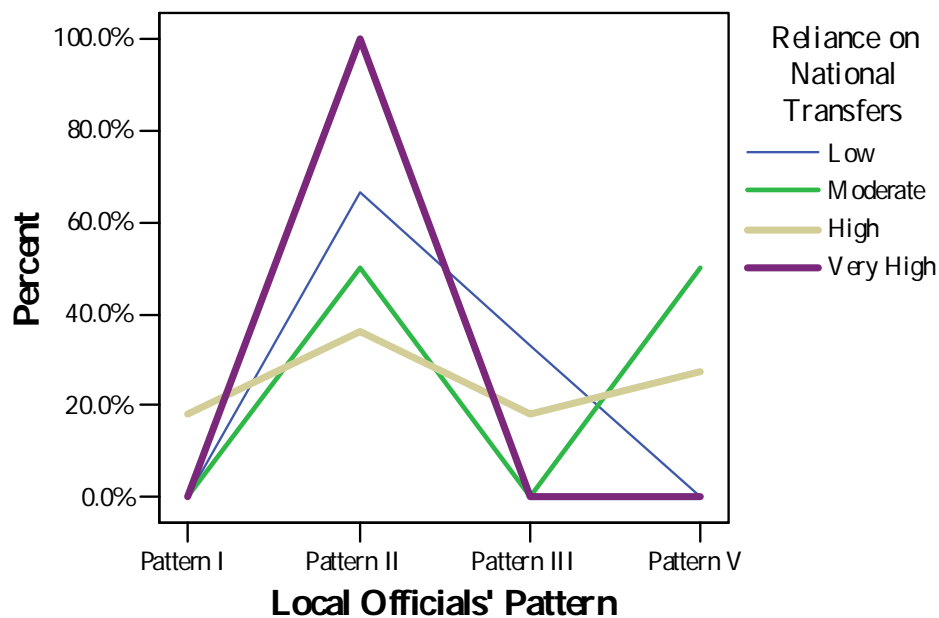
Based on this classification and each local government's membership, local officials significantly loaded with one of the patterns are classified into these four categories. Table 6.16 shows how local officials in each of the categories are distributed among four patterns.

Table 6.16 Distribution of local officials by patterns and reliance on national transfers

	Pattern I	Pattern II	Pattern III	Pattern V	Total
Low	0/0%	2/67%	1/33%	0/0%	3/100%
Moderate	0/0%	2/50%	0/0%	2/50%	4/100%
High	2/18%	4/37%	2/18%	3/27%	11/100%
Very High	0/0%	3/100%	0/0%	0/0%	3/100%

Local officials working for a local government with low reliance on national transfers are loaded significantly with either Pattern II and Pattern III; local officials working for a local government with moderate reliance on national transfers are loaded significantly with either Pattern II or Pattern V; and local officials working for a local government with very high reliance on national transfers are significantly loaded with only Pattern II. All of the four patterns have a number of local officials working for a local government with high reliance on national transfers significantly loaded with them. Figure 6.5 is drawn to better demonstrate the distribution of officials in each category among the four patterns.

Figure 6.5 Comparison for local officials working at localities with different reliance on national transfers



A general pattern these lines indicate is that Pattern II is a view shared by more local officials regardless which of the four categories they are associated with. It is noted that the line representing local officials working for a local government with high reliance is flatter than the other three lines are. In order to search for the reason for this, original data in the Table 6.16 is examined and it is discovered that eleven local officials loaded significantly in this research work for a local government with high reliance, while only three, four, and three local officials are working for local governments with low, moderate, and very high reliance, respectively. In other words, because the category of high reliance has more local officials associated with it, the difference in views within the category is more likely to be revealed. The other categories may

not have a sufficient number of local officials associated to show the difference within the categories. Considering that Pattern II is the most popular view across different categories of reliance on national transfers, H_7 is rejected.

It is concluded in this section that Taiwanese officials do not share a single pattern of attitudes toward fiscal decentralization, and officials working at different levels of government perceive the concept differently. It is also observed that Patterns I and IV are more likely to represent the views of national officials while Patterns II and V are more likely to represent the views of local officials. Based on the data available, however, Pattern III cannot be concluded to represent the views of either national or local officials and can only be considered as a mix pattern representing views from some of the national and local officials.

In addition, there are at least three distinct patterns of attitudes existing among national officials. Although most national officials' views are represented by the Pattern I, Pattern III and Pattern IV do represent some national officials' views. It should also be noted that both national officials significantly loaded with Pattern III are in charge of local taxes related matter, and both national officials significantly loaded with Pattern IV may reflect the thoughts of many scholars to have a more decentralized system. Finally, it is also concluded that local officials do not share a single pattern of attitude toward fiscal decentralization. However, background factors, including duties performed, types of local government, and local governments' reliance on national transfers, cannot be concluded to have an impact on shaping these different patterns of attitudes.

6.4 FIVE THEORIES OF FISCAL DECENTRALIZATION

Based on the discussion in the previous two sections, it is concluded that there are at least five patterns of officials' attitudes toward fiscal decentralization coexisting in Taiwan. These five patterns represent five theories that Taiwanese officials use to conceptualize fiscal decentralization. The five theories include authoritative fiscal decentralization, unrestrained fiscal decentralization, cooperative fiscal decentralization, democratic fiscal decentralization, and conflicted fiscal decentralization. These different theories of fiscal decentralization specify the relationships between the national and local governments and ideas about the best ways to pursue

fiscal decentralization in Taiwan. According to Table 6.5 to Table 6.9, Table 6.17 summarizes each pattern's main ideas toward five policy objectives in short phrases. Bold phrases are ideas derived from the distinguishing statements.

The theory of authoritative fiscal decentralization is a highly centralized form of fiscal decentralization. Authoritative fiscal decentralization theorists express a high degree of distrust toward local governments to maximize the benefits of fiscal decentralization and to carry out reform initiatives properly. Therefore, they emphasize the role of the national government to manage from the top in the process of fiscal decentralization. In the theory of authoritative fiscal decentralization, the primary focus is to prevent inefficiency caused by dysfunctional local politics from offsetting efficiency gain resulting from fiscal decentralization. Accordingly, the importance of national control and monitoring is emphasized to ensure local accountability. It is proposed that laws should be enacted to set standards and guidelines of local fiscal behavior and that national mechanisms should be established to enforce local compliance. In addition, the use of national transfers as a policy tool is recommended to ensure that national objectives are not compromised in local planning and development. Finally, authoritative fiscal decentralization theorists are against the idea of allowing people to vote on local fiscal issues and implementing local redistributive policies. In the theory of authoritative fiscal decentralization, the benevolent national government has to play an essential role in guiding and guarding the process of fiscal decentralization to maximize the benefits while preventing unintended policy outcomes.

Table 6.17 Theory of Fiscal Decentralization

	Authoritative	Unrestrained	Cooperative	Democratic	Conflicted
Efficiency	<ul style="list-style-type: none"> ● More transfers ● Inefficiency caused by politics 	<ul style="list-style-type: none"> ● More transfers ● More Efficiency 	<ul style="list-style-type: none"> ● Possible dysfunctional tax competition ● More transfers 	<ul style="list-style-type: none"> ● Inefficiency caused by politics ● Creativity ● Dysfunctional tax competition ● Inefficiency 	<ul style="list-style-type: none"> ● Inefficiency caused by politics ● Dysfunctional tax competition ● More transfers
Autonomy	<ul style="list-style-type: none"> ● No local voting 	<ul style="list-style-type: none"> ● Unconditional grants ● No local voting ● Law on shared tax ● Local priorities 	<ul style="list-style-type: none"> ● Law on shared tax ● Prohibitions itemized ● Legal regulation ● Local priorities 	<ul style="list-style-type: none"> ● Allowances itemized ● Limited use of laws 	<ul style="list-style-type: none"> ● No local voting ● Legal regulation
Accountability	<ul style="list-style-type: none"> ● National control and monitoring ● Local budgeting law ● Local pay services ● System of rewards and punishments 	<ul style="list-style-type: none"> ● No referenda ● No accountability to the people 	<ul style="list-style-type: none"> ● Popular involvement ● Paying for local services ● No local budgeting law ● Limited national control and monitoring ● Objective indicators 	<ul style="list-style-type: none"> ● Local pay services ● Referenda ● Local involvement ● Limited national control and monitoring 	<ul style="list-style-type: none"> ● Popular involvement ● No local budgeting law
Development	<ul style="list-style-type: none"> ● Balanced Development ● Stimulation for investment ● Resources Centralization ● Comprehensive planning ● Technical assistance 	<ul style="list-style-type: none"> ● Resources Decentralization ● Guaranteed spending ● Planning not comprehensive ● Imbalanced development 	<ul style="list-style-type: none"> ● Resource not centralized 	<ul style="list-style-type: none"> ● Imbalanced development ● No decentralized resources ● No stimulation for investment 	<ul style="list-style-type: none"> ● Guaranteed spending ● Balanced development ● No need for technical assistance
Equity	<ul style="list-style-type: none"> ● Sufficient resources for local redistribution ● No local redistribution 	<ul style="list-style-type: none"> ● No lodging change ● No local redistribution 	<ul style="list-style-type: none"> ● Sufficient resources for local redistribution ● Possible redistribution 	<ul style="list-style-type: none"> ● No local redistribution ● No income tax for paying redistribution ● Lodging changes 	<ul style="list-style-type: none"> ● No improvement in meeting local needs ● Support from Income tax ● No improvement in creativity ● Non-local goods

Contrary to authoritative fiscal decentralization, unrestrained fiscal decentralization is a highly decentralized form of fiscal decentralization. Unrestrained fiscal decentralization theorists express a high degree of distrust for the national government's desire to truly decentralize financial resources and local policymaking authorities. Their primary objectives in pursuing fiscal decentralization are to obtain more financial resources in a form of national transfers and to increase local autonomy for setting local priorities and allocating local funds. It is theorized that power and financial resources is highly centralized at the center. Because of the lack of local financial resources and autonomy, local officials are restrained from setting local priorities and promoting local comprehensive planning. As a result, the national government should transfer more financial resources to local governments to guarantee local basic spending needs as well as to reduce its control on local budgetary and policy decisions. It is proposed that the national government should make more use of unconditional grants instead of conditional grants to increase local autonomy and that local people should not be allowed to vote on local fiscal issues for holding local elected officials accountable. It is further suggested that the national government should limit its role in local development and planning and that authority and financial resources for local development and planning should be decentralized to local governments. They are also against the idea of allowing local governments to make and implement local redistributive policies. In sum, restrained fiscal decentralization theorists advocate for local executive freedom by increasing local revenues and autonomy through fiscal decentralization and by minimizing national and local constraints imposed on local officials.

Cooperative fiscal decentralization is a moderate centralized approach to pursuing fiscal decentralization. It proposes that the national government should play a reduced role in guiding the process of fiscal decentralization and should empower local governments to take more responsibility for setting local priorities. This implies that the national officials should trust local officials more. In order to give local governments sufficient administrative and financial autonomy to provide local public services, it is proposed that the national government should only specify what local governments are prohibited to do and transfer more revenues to local governments. It is further suggested that the national government should play a reduced role in ensuring local accountability by an employing incentive-based approach to monitoring local fiscal behavior instead of enacting laws to enforce local fiscal accountability. On the other hand, local people are expected to get more involved in the local policy process, take more

responsibility to pay for local services, and hold their local elected officials accountable. Because of the higher trust they place on local officials, cooperative fiscal decentralization theorists are more open to the ideas of local governments to make and implement redistributive policies. In conclusion, the theme of cooperative fiscal decentralization is empowering local governments or, at least, giving local governments a chance to prove themselves by decentralizing appropriate financial and administrative freedom to local governments.

Democratic fiscal decentralization is a highly decentralized form of fiscal decentralization. Unlike the theory of unrestrained fiscal decentralization in which maximizing local executive freedom is the goal, the theory of democratic fiscal decentralization emphasizes the process in which local policy decisions are formulated and made. Democratic fiscal decentralization theorists have faith in local people and believe that local people's participation is the key to successful fiscal decentralization, which can lead to more local creativity and more efficiency. In order to ensure such reforms are properly carried out, they propose that local people should be encouraged to participate in the local policy process, including voting on local fiscal issues to hold local officials accountable. In addition, local people are expected to bear more responsibility to pay local services that they decide to receive. They believe that local redistributive policies should not be made and implemented by local governments. In the theory of democratic fiscal decentralization, the national government takes a back seat in guiding the process of fiscal decentralization and making local policy decisions. Democratic fiscal decentralization theorists believe that the national government should play a limited role in controlling and monitoring local fiscal behaviors, and in influencing local development decisions. They propose that the national government should clearly specify what local governments can do in terms of providing local services and avoid creating a nationally uniform local fiscal system by enacting laws to regulate all aspects of local finances. Democratic fiscal decentralization theorists do not necessarily place a higher trust on local governments. Rather, they believe in the value of democracy and advocate pursuing fiscal decentralization from the bottom.

The problems of dysfunctional local politics and insufficient local revenue are two primary concerns of conflicted fiscal decentralization theorists who do not trust local governments and local people's ability to behave appropriately in a decentralized system. Although they propose that the national government should transfer more financial resources to address the problem of insufficient local revenues, they worry at the same time that efficiency

gain through fiscal decentralization would be offset by dysfunctional local politics. As a result, it is suggested that the national government should decentralize financial resources through national transfers without granting local governments the authority to adjust the level of local taxation. In addition, local people should not be allowed to vote on local fiscal issues. Although local people's participation in the policy process is generally encouraged, conflicted fiscal decentralization theorists believe that local people will always ask for more local services and more tax cuts simultaneously to make the problem of insufficient local revenue worse. In other words, officials employing the theory of conflicted fiscal decentralization believe that the national government should transfer and guarantee sufficient local revenues for local basic spending needs, but they do not completely trust that local officials and local people would make policy decisions responsibly, especially in area of local redistributive policies. However, conflicted fiscal decentralization theorists do not support more national control and monitoring of local fiscal behaviors, either. In fact, the theory of conflicted fiscal decentralization emphasizes decentralizing financial resources and granting more autonomy to local governments, while offering no suggestions to address potential loss resulting from dysfunctional local politics.

There are two conclusions that can be made based on these five theories of fiscal decentralization. First, national-local dichotomy in the literature is confirmed: there are at least two distinct theories of fiscal decentralization, one with a national perspective and the other one with a local perspective. Authoritative fiscal decentralization is a theory of national perspective, emphasizing national control and monitoring. On the other hand, unrestrained fiscal decentralization is a theory of local perspective, demanding more local administrative and financial freedom. In these two forms of fiscal decentralization, there is a high degree of distrust between national and local officials. Although officials of both levels meet and communicate on the reform proposals, it is very difficult that policy consensus can be reached. As a result, even if the national officials can utilize their political power to determine the form of the reform, attempts are often made by the local officials to reverse the implemented policies of fiscal decentralization. Indeed, these two theories are the most dominant theories of fiscal decentralization employed by the national and local officials.

In addition to the two theories discussed in the literature, the results of this study reveal three more theories of fiscal decentralization in Taiwan. Cooperative fiscal decentralization is a moderate centralized form of fiscal decentralization, highlighting the importance of trusting and

empowering local governments. This form of fiscal decentralization does not demonstrate a clear bias toward a national or local perspective, and it can be seen as a compromised approach to the reform. Democratic fiscal decentralization, on the other hand, is a highly decentralized form of fiscal decentralization. Unlike the theory unrestrained fiscal decentralization that maximizes local executive freedom, democratic fiscal decentralization emphasizes the importance of democratic participation in the process of local policymaking. In other words, fiscal decentralization empowers local people, not local officials, to make local decisions and hold their elected officials accountable. Finally, conflicted fiscal decentralization proposes a moderate decentralized form of fiscal decentralization in which financial resources are decentralized and local autonomy is increased. Although they recognize the potential problems that may be caused by dysfunctional local politics, they choose to ignore the concerns for the moment. These three forms of fiscal decentralization challenge the existing literature that debates of fiscal decentralization can be generalized into the context of a national-local dichotomy. This study shows that multiple theories coexist and are employed by officials participating in the process of fiscal decentralization. In addition, it also opens up the possibility of policy learning in the reform process to reach a compromised proposal such as cooperative fiscal decentralization.

In summation, analyses conducted in this chapter have helped to gain a basic understanding of these patterns' background and views toward fiscal decentralization. The focus of the next chapter is to further compare, contrast, and evaluate these patterns' views on fiscal decentralization in order to identify their differences in views and search for common ground for reaching policy consensus.

7.0 CONSENSUS BUILDING FOR FISCAL DECENTRALIZATION

In the previous chapter, each of revealed patterns was analyzed and understood. The focus of this chapter is to compare, contrast, and evaluate these patterns of attitudes in order to identify issues through which policy consensus might be reached. As discussed previously, there are five patterns of attitudes toward fiscal decentralization revealed through the use of the Q methodological approach. It is learned that Pattern I and Pattern IV seems to reflect the view of national officials. Pattern II and Pattern V are views shared by local officials. Pattern III is the only pattern as to whether it can be classified as a view shared by either national officials or local officials.

With this information in mind, the first section of this chapter will emphasize the difference among these patterns. The second section will discuss statements that these patterns tend to disagree with. The final section will attempt to find their agreement in order to search for policy consensus. A set of criteria developed in Chapter Five (subsection 5.2.2.4) will be employed to select statements showing difference or consensus in these patterns' views. In addition, as also discussed in Chapter Five, the definiteness of each selected statement will also be identified in order to interpret the policy meanings embedded in these statements and obtain policy relevant knowledge to make policy recommendations.

7.1 COMPARING THE DIFFERENCE

Based on the criterion set forth above, there are nine statements about which at least two patterns have differences in their opinions. In general, these statements are centered on two broad policy areas. The first issue concerns the intergovernmental fiscal relationship in Taiwan, and the second issue focuses on how local governments should be controlled and monitored. By

analyzing the differences in opinion among the five patterns, it is hoped to shift the focus of ongoing policy debates away from these issues while providing a better and clearer understanding of what these differences are.

7.1.1 Intergovernmental Fiscal Relationship

The first major difference in officials' attitudes toward fiscal decentralization is on the issue of intergovernmental fiscal relationships. Five statements, including four bias statements and one wish statement, are identified based on the criterion described above. Statements 01, 24, 25, and 31 are classified as bias statements showing officials' views on current intergovernmental fiscal relationships. Statement 01 was strongly agreed with by Patterns II and IV, but strongly disagreed with by Pattern I. Officials of Patterns II and IV would argue that over-relying on national grants to fund local programs would make it impossible to formulate and implement comprehensive local planning.

Local governments' poor fiscal health is well documented, and local elected officials desperately need funds to meet local development needs. Therefore, when a national grant becomes available, local governments would make every possible effort to apply regardless whether this grant can be used to fund local prioritized needs. After development projects, such as convention centers, gymnasiums, and public parking garages are built, local governments often find themselves criticized by people and media because usage rates are low and they often have to find additional revenues to pay for the maintenance. This is not to say that Pattern II and Pattern IV officials implicitly suggest that the national grants should be reduced. Rather, they emphasize the fact that local governments' reliance on national grants has made the national government able to use these grants as a policy tool to influence and make local development decisions. However, officials of Patterns II and IV do not share similar view on why local governments have to rely on national grants. Pattern II officials would argue that local governments are too poor to be selective in receiving national grants. On the other hand, officials of Pattern IV would say that it is because local governments do not want to share more responsibility in raising local revenue. Since they do not think that local projects funded by national grants fit local real needs, they do not see how national grants can stimulate local economy and development. This view is reflected on the score of -3 received by statement 31.

On the other hand, Pattern I officials do not agree that the lack of comprehensive local planning is a direct result of local governments' reliance on national grants. An official of Pattern I said, "the first half of the statement is correct, but the second half of the statement is not correct" (2005090501, personal communication, September 5, 2005). They tend to emphasize that the national government has made efforts to make more national grants unconditional and that local governments should be responsible for the lack of comprehensive local development planning. They show their belief that the use of national grants is helpful to local economy and development by scoring statement 31 at +3. Without these grants, local governments will not have resources to build local development projects and foster local economic development. Statements 01 and 31 are presented for reference.

01. Local governments continually and chronically rely on national grants to support local spending needs, rendering comprehensive local development planning impossible. (-3, +3, -2, +4, -2)

31. Grants from the national government can stimulate local private investments. (+3, -1, -1, -3, 0)

Although officials of Pattern II and Pattern IV share similar views on statement 01, their opinion on statement 24 is opposite. For officials of Pattern II, statement 01 and statement 24 were interpreted as discussing similar ideas. To elaborate both statements, one official of Pattern II said (2005053001, personal communication, May 30, 2005):

Under the current system, the funds received from national grants are just enough for local governments to meet basic spending needs. The money is not enough for local development projects. If local governments want to fund development projects, they would have to borrow.

Therefore, they scored statement 24 at +4 to highlight their opinion that money and power are centralized and local governments do not have additional revenues available to take on local development projects. Based on their view, the national government should not only guarantee revenue for local basic fiscal needs, but it should also provide funding for development needs. On the contrary, officials of Pattern IV, joined by officials of Pattern III, strongly disagreed with statement 24. An official of Pattern III indicated that "based on the level of government to which the taxes are assigned, the national government only receives about 60%

of overall tax revenue. This level is not high regardless compared to federal or unitary counties” (2005052001, personal communication, May 20, 2005). Another official of Pattern III commented on the statement and said, “the national government should guarantee funding for basic local fiscal needs” (2005050502, personal communication, May 2, 2005). Although he did not elaborate, he implicitly argued that local governments should be responsible for local development projects. In other words, officials of Patterns III and IV believe that it is the local governments’ responsibility to raise local revenue for local development needs while the national government should make sure that local governments have sufficient revenue to support local basic spending needs. Statement 24 is listed in the following.

24. Money and power are centralized to make local governments unable to actively design and implement local development projects. (-2, +4, -3, -4, 0)

Statement 25 concerns whether granting local governments authority to determine local tax bases and rates will lead to a competition of tax reduction among local governments. Officials of Pattern III believe competition of tax reduction will not happen while officials of Pattern V strongly believe it will happen. Officials of Pattern III emphasize that there is no room for lowering local taxes before local fiscal health is improved. One official said that although it is possible that [tax competition] would happen, local governments and councils would not push for it as long as people do not make demands (2005052502, personal communication, May 25, 2005). Another official was also optimistic and said that after people understand, trust, and accept what kind of services local taxes are paying for, local tax competition may not happen after all (2005042801, personal communication, April 28, 2005). Officials of Pattern V believe otherwise. As we can recall from the discussion of the previous chapter, Pattern V officials express a great deal of concern about dysfunctional local politics. One official pointed out that if local governments were authorized to lowering taxes, they would do it because a democratic political culture has not yet been developed among voters and local councilors (2005052701, personal communication, May 27, 2005). Statement 25 is listed for reference.

25. Once local government officials obtain authority to determine local tax bases and rates, it is easy for them to engage in a competition for tax reduction. (-1, -1, -4, 0, +4)

Statement 38 is a wish statement that officials of Pattern IV strongly disagreed with, while officials of Pattern V strongly agreed. Although the statement was originally designed as one of the central control approaches to achieve redistributive goals, a lot of participants interpreted the statement as to whether income tax revenue should be used as a revenue source for national grants. Having this understanding in mind, the discussion in the previous chapter has indicated that Pattern V officials worry about the problem of insufficient local revenue and hope that income tax revenue can be used as a revenue source to increase the total amount of revenue available for national grants. In contrast, consistent with their opinion on statements 01, 31, and 24, officials of Pattern IV believe that local governments should share more responsibility in raising revenue, and scored statement 38 at -3. Statement 38 is presented in the following.

38. If revenues collected from the progressive income tax can be the source for intergovernmental grants, income distribution will be better equalized. (0, -2, 0, -3, +3)

In summation, regarding the issue of intergovernmental fiscal relationships, these five patterns can be roughly divided into two groups. The first group includes officials of Patterns I, III, and IV. In general, they believe that local governments should share more responsibility in both local planning and revenue-raising and the national government should only guarantee local governments' basic fiscal needs. The other group includes officials of Patterns II and V. Both of them favor a centralized local revenue-raising system and agree that the national government should not only guarantee local governments' basic fiscal needs, but it should also provide sufficient revenue for local development. Although the two groups do not agree with each other on whether the national government should provide more financial resources for local development, they do agree that funding for local basic fiscal needs should be guaranteed by the national government.

7.1.2 Monitoring and Controlling Local Governments

The second difference in opinion toward fiscal decentralization regards how local governments should be monitored and controlled. Four statements selected include one wish statement and

three policy statements. Statement 02 and 32 concern how and how much the national government should monitor and control local governments. Statement 02 is a wish statement stating that the national government should closely monitor and control all aspects of local financial behaviors. It is strongly agreed with by the officials of Pattern I, but strongly disagreed with by the officials of Patterns III and IV.

Statement 32 is a policy statement proposing the enactment of the Law on Local Budgeting to enable the national government to control and monitor local budgetary processes. The statement is strongly agreed with by the officials of Pattern I, but strongly disagreed with by the officials of Patterns III and V. According to our earlier discussion the Chapter Six, it is expected that Pattern I officials would believe that the national government should closely monitor and control local governments through the process of fiscal decentralization to ensure that they do not abuse their newly acquired power. One of the Pattern I officials said that it is likely that local elected officials would overspend without appropriate control (2005053002, personal communication, May 30, 2005). The Law on Local Budgeting as a policy tool will set a uniform procedure and standard for local budgetary practices that make the national government better able to monitor local fiscal behavior and, if necessary, to punish for their wrongdoing.

Although closely monitoring and controlling might prevent fiscal wrongdoing by local governments, it certainly would also hurt local flexibility and autonomy to provide local services. When making comments on both statements 02 and 32, one official explicitly pointed out that these ideas are violating the principles of local self-governance set forth by the Law on Local Governments System (2005050501, personal communication, May 05, 2005). Moreover, they argued that the national government has instituted mechanisms to monitor and control local governments. One official said that there have been mechanisms to monitor and control, including the requirement of submitting monthly reports of debt services to the Ministry of Finance, performance evaluation on local tax collection, and review procedures on raising new local taxes based on the General Law on Local Taxation (2005062301, personal communication, June 23, 2005). As for the local budgetary process, one official pointed out that the existing Budget Act is enough to ensure proper local financial management and that most aspects of the Law on Local Budgeting have been regulated by the Budget Act (20050525, personal communication, May 25, 2005). In fact, one of the new components of the Law on Local Budgeting is to specify punishment for financial wrongdoing, and this has been the center of

opposition. One official indicated that it would be unfair to non-elected local officials since they will be the ones to receive punishments, while elected officials are the ones to make decisions (2005052701, personal communication, May 27, 2005). Statements 02 and 32 are presented for reference.

02. The national government should have the authority to monitor and control local governments' practices in raising debts, budgeting, taxing, and collecting other local revenues. (+4, -1, -3, -3, +1)

32. The Law on Local Budgeting, which includes penalties for unlawful practices, should be enacted to strengthen the ability of the Ministry of Finance and Directorate General of Budget Accounting and Statistics in the national government to monitor local budgeting processes and implementation. (+4, -1, -4, 0, -3)

Statement 09 is a wish statement concerning how to regulate what local governments can do. In general, there are two ways of doing this. One way is to specify what local governments can do and then prohibit them from doing anything not thus specified. The other way is to specify what they are prohibited to do and then allow them to do anything not specified. Officials of Pattern III strongly agreed with the first way, hoping that local governments would be given more autonomy to creatively provide local services and meet local needs. On the other hand, officials of Pattern IV strongly disagreed with statement 09. This does not mean that they do not support granting more autonomy to local governments. They perceive that specifying what local governments can do is a more moderate approach to control and monitoring local governments' behavior, compared to what is proposed by statements 02 and 32. Statement 09 is listed in the following.

09. The principle of regulating local governments is to itemize what they are prohibited to do. (+1, 0, +3, -4, 0)

Finally, statement 22 is a policy statement advocating allowing people to vote on local fiscal issues. Officials of Pattern IV strongly agreed with the statement and believe that people should be allowed to vote on local fiscal issues in order to hold local officials accountable. It is believed that when people have a chance to vote, they will care more about local affairs, realize the true costs and benefits of local projects, make informed decisions on local public policies,

and eventually be able to hold their elected local officials accountable. On the contrary, officials of Pattern II strongly disagreed with allowing people to vote on local fiscal issues. They would argue that local people do not have the knowledge and democratic experience necessary to make the right decisions and that local governments would be handicapped by these decisions (2005052401, personal communication, May 24, 2005; 2005052501, personal communication, May 25, 2005). In the end, it is likely that people will always vote for increasing local spending while voting against raising local taxes (2005072101, personal communication, July 21, 2005; 2005070701, personal communication, July 07, 2005). Statement 22 is listed in the following for reference.

22. In order to better hold local government officials accountable, a system of referenda on local fiscal issues should be established. (-2, -4, -1, +3, -2)

Three out of four statements selected for analysis here are policy statements, indicating that a set of policy solutions have been developed for these issues. However, it seems that there has been no consensus regarding which course of action should be adopted. Other than officials of Pattern I, who mostly comprised of national officials, Taiwanese officials seem to be against close national control and monitoring. Officials of Pattern I strongly agree with closely national controlling and monitoring, as well as the enactment of the Law on Local Budgeting. Officials of Pattern II expressed strong opposition on using local referenda to decide local fiscal decisions, while officials of Pattern V expressed strong opposition to the enactment of the Law on Local Budgeting. However, both patterns did not express strong opinions on how to regulate what local governments can do. Officials of Pattern III strongly agreed with allowing local governments more autonomy by only regulating what they are prohibited to do. While officials of Pattern IV also prefer to allow more autonomy to local governments in general, they do think that mechanisms should be available to hold local officials accountable. As a result, they propose that the national government should explicitly specify what local governments could do and allow local people to vote on local fiscal issues.

7.2 AGREE ON WHAT TO DISAGREE

There are six statements that received either zero or a negative score from the revealed five patterns. These statements can be categorized into two broad policy areas. The first policy area concerns how national grants and the local taxation system will affect local fiscal behavior, and the second policy area deals with whether local governments should play a role in redistributive policies. They will be discussed separately in the following section.

7.2.1 Impacts of National Grants and Local Taxation System

There are three statements selected for this policy area, and all of them are bias statements. Statement 21 is strongly disagreed with by officials of Patterns I, II, and III, and moderately disagreed with by officials of Patterns IV and V. It states that intergovernmental grants will foster local spending. Many officials (2005050502, personal communication, May 02, 2005; 2005052001, personal communication, May 20, 2005; 2005053001, personal communication, May 30, 2005; 2005060801, personal communication, June 08, 2005; 2005072101, personal communication, July 21, 2005) strongly disagreed and pointed out that local governments are too poor to pay for the basic spending needs such as salaries and utilities. Therefore, the funding they receive from the national grants would only be used to pay for these basic spending needs and would not cause the problem of local overspending.

Even if general grants and categorical grants are considered separately, Taiwanese officials still tend to think that these grants will not result in local overspending. They argued that the national governments provide these grants because local governments do not have sufficient funds to pursue local programs or projects, which are good for local developments (2005053002, personal communication, May 30, 2005; 2005090501, personal communication, September 05, 2005). While generally agreeing with the previous argument, one official did point out that receiving general grants would not result in local overspending, but, in terms of categorical grants, it is hard to say (2005071501, personal communication, July 15, 2005). The official implied that local elected officials might decide to apply for a categorical grant only because they hope to get more financial resources from the national government and show their

efforts to the voters. Only when this happens, it becomes possible that intergovernmental grants will foster local overspending. Statement 21 is listed in the following for reference.

21. Intergovernmental grants from the national government will foster local overspending. (-4, -4, -4, -2, -1)

Statement 16 concerns with whether an imbalance of local development will occur because local governments will ignore development needs not funded by the national government in favor of those funded by national grants. Officials of Pattern I strongly disagreed with the statement while officials of Patterns II and III expressed moderate opposition. It was pointed out that the distribution of general grants would not lead to a problem of imbalance in local development because local governments can allocate these funds freely. It is also agreed that the distribution of categorical grants will not affect local governments' overall development because local governments can make proposals able to meet local needs in the application process. Indeed, one official argued that the process of distributing categorical grants has been transformed to be a bottom-up process rather than a top-down process (2005061501, personal communication, June 15, 2005). When they are developing proposals for application, local governments can make sure that their development needs are met. Although some of the national grants are matching grants, for which local governments might have to commit some funds from other more important local needs, the matching ratio is often very low in Taiwan, as one official indicated (2005090501, personal communication, September 05, 2005). As another official argued, "providing categorical grants to local governments will not lead to a imbalance of local development. Rather, it leads to more jobs and more developments" (2005053002 personal communication, May 30, 2005). Statement 16 is provided for reference.

16. Reliance on national grants will lead local governments to ignore projects not funded by the central government, resulting in an imbalance of local development. (-4, -2, -2, 0, 0)

Statement 19 states that tax competition will increase efficiency. Officials of Patterns IV and V strongly disagreed with the statement, while Officials of Patterns II and III moderately disagreed with. Both Patterns IV and V officials perceive local politics in Taiwan to be dysfunctional, and believe that tax competition would be dysfunctional as well. If local

governments were authorized to increase or decrease the level of local taxation, the level would only go south (2005061001, personal communication, June 10, 2005). Rich localities have some room to lower taxes and attract business, but poor localities cannot do the same. Therefore, an official pointed out that tax competition will widen the gap between the rich and poor (2005072101, personal communication, July 21, 2005). The following statement is Statement 19.

19. Tax competition will enhance the efficiency of economic resource allocation. (0, -2, -2, -3, -4)

In conclusion, none of the patterns identified in this study perceive that intergovernmental grants will foster local overspending, and these grants will not lead to an imbalance of local development. In other words, officials of these five patterns would not strongly oppose to the idea of using categorical grants for local development. On the other hand, they believe that tax competition is more likely to be dysfunctional and implicitly imply that the national government should not grant local governments authority to make local tax cuts. The making of the General Law on Local Taxation, which only allows local governments to increase the level of local taxes, is consistent with this belief. It should also be noted that statements 19 and 21 belong to the efficiency-local freedom category in the factorial design of this study, providing some indication that these revealed patterns disclose the benefit that a centralized approach is needed to ensure efficiency during the fiscal decentralization process.

7.2.2 The Role of Local Governments in Redistributive Policies

There are three wish statements selected for discussion in this subsection, and all of them come from equity-local freedom category of the factorial design. This provides a strong indication that there is a consensus among these five patterns that redistributive policies should be made and implemented by the national government instead of local governments.

Statement 05 argues that redistributive policies can also be a local public good, and statement 04 specifies the redistributive policy areas that local governments can get into. Statement 27 is a general statement saying that local governments can better meet local redistributive needs if they are granted more responsibility to make and implement redistributive policies. Statement 05 was strongly disagreed with by Pattern V, while moderately disagreed

with by Patterns II, III, and IV. Statement 04 was strongly disagreed with by Patterns I, II, and IV, while moderately disagreed with by Pattern V. Statement 27 was strongly disagreed with by Pattern V, while moderately disagreed with by all other patterns.

During local elections, it becomes popular for candidates to call for better redistributive or social welfare policies, often in a form such as free lunch for elementary school students or monthly stipends to the elderly. The goal of making these policies is to gain short-term support to win elections, not to take better care of low-income people or those with disabilities. These policies may not be truly “redistributive” in nature, but they have made local governments’ poor local fiscal health worsen. As a result, it is not difficult to understand why there is a consensus among both national officials and local officials in charge of local finance to support a centralized approach for making and implementing local redistributive policies. When commenting on statement 27, an official said that “redistributive policies would be more biased and unfair to those truly in need if local governments are granted more responsibilities to make and implement redistributive policies” (2005061502, personal communication, June 15, 2005). Officials also expressed their concern that local governments do not have sufficient revenue to pay for the costs of redistributive policies (2005060801, personal communication, June 08, 2005; 2005061002, personal communication, June 10, 2005; 2005062301, personal communication, June 23, 2005). In fact, the majority of local governments in Taiwan are experiencing financial hardships in the recent years. They will not have the financial resources necessary to provide these services without improving their fiscal health first. Statements 05, 04, and 27 are presented in the following.

05. Redistributive policies can also be a local public good implemented by local governments. (0, -2, -2, -1, -3)

04. Generally speaking, local governments can achieve distributional objectives by getting involved in policy areas such as education, medical care, or housing assistance. (-3, -3, 0, -4, -1)

27. Locating more responsibility for redistributive policy with local governments allows them to design welfare programs that are more appropriate to their own needs and better reflect the preferences of their residents. (-2, -1, -1, -1, -4)

7.3 POLICY CONSENSUS AMONG DIFFERENT PATTERNS

There are eight statements that received no negative score from any of the five patterns. This means that none of the revealed five patterns are opposed to these statements. From a policymaking standpoint, these statements are, at least, acceptable to officials of all revealed patterns and are more likely to be adopted as policies for pursuing fiscal decentralization. In addition, policies made based on these statements are more likely to be faithfully and successfully implemented by both national and local officials because they do not oppose these ideas. These statements are, therefore, considered as policy consensus among the five patterns in this study. However, it should also be noted that the analysis made in this section, as well as analyses made in the previous two sections, is based on scores of each revealed pattern's hypothetical Q sort, not scores of each participating official's individual Q sort. Therefore, when a statement receiving no negative score from each of the five patterns, it is selected in this section, but this does not mean that the statement receive no negative score from each of participating officials significantly loaded with one of the five patterns.

These statements can be classified into two board policy issues, including local politics and accountability, and decentralization and local autonomy. The first policy issue concerns how local governments can be hold officials accountable to prevent inefficiency caused by dysfunctional local politics. The later policy issue deals with how local autonomy can be improved during the decentralization process. More detailed discussion will be provided separately in this section.

7.3.1 Local Politics and Accountability

Five statements selected for discussion on this policy issue include one bias statement, two wish statements, and two policy statements. Statement 06 is a bias statement, which is highly agreed with by Patterns I, III, and IV, while moderately agreed with by Patterns II and III. It is understandable why Pattern II, which is comprised of eleven local officials only, would deemphasize the statement indicating that local politics, interests lobbying, and pressure groups have made local spending growing and inefficient.

Generally speaking, officials in Taiwan recognize the problem of dysfunctional local politics, as one official argued that calculation of political benefits often outweighs cost-benefit analysis during the process of making local spending decisions (2005050501, personal communication, May 05, 2005). Although at least two officials who participated in this study believe that the problem of dysfunctional local politics can be minimized if local governments and their elected officials are better disciplined and able to resist the pressure from local councils and other interests lobbying (2005062301, personal communication, June 23, 2005; 2005070701, personal communication, July 07, 2005), the more pervasive view is that the national governments should establish mechanisms to ensure local fiscal accountability. Statement 06 is presented in the following for reference.

06. Due to local politics, interests lobbying, and pressure groups, local spending keeps growing and becomes inefficient. (+3, +1, +2, +4, +4)

Statements 29 and 11 are two policy statements that explicitly suggest establishing mechanisms to hold local governments and their officials fiscally accountable. Statement 29 was highly agreed with by officials of Pattern III and moderately agreed with by officials significantly loaded with all of other patterns. It proposes that a set of objective indicators should be established to evaluate local fiscal efforts that are the overall efforts of local governments to increase local revenue and reduce costs. Then these indicators are incorporated into formula of distributing national transfers. In fact, the current formulae of distributing the national shared tax and the general grant have incorporated some indicators of fiscal efforts. The problem, as one official pointed out, is that existing mechanisms cannot actually facilitate local governments' fiscal efforts (2005052401, personal communication, May 24, 2005). In other words, the key is how to develop these objective indicators to facilitate local fiscal efforts and improve local fiscal accountability.

An official pointed out that "all indicators are subjective" (2005061502, personal communication, June 15, 2005). Another official elaborated that "all of the indicators are selected by the national government" (2005061002, personal communication, June 10, 2005). Each local government has different social, economic, and fiscal conditions, and there is no indicator that does not favor some localities over the others (2005072101, personal communication, July 21, 2005). Indeed, it is extremely difficult, if not impossible, that the

national government can develop a set of unbiased, objective indicators which are acceptable to all local governments. Therefore, the focus should be on the process, not the result. As one official suggested, “local governments should be allowed to participate in the process of selecting these indicators” (2005062102, personal communication, June 21, 2005). After a more appropriate set of fiscal effort indicators are used in the formulae, it is hoped that this can lead local governments to behave in a more accountable way.

Statement 11 was strongly agreed with by officials of Pattern I and moderately agreed with by officials of Patterns III, IV, and V. It proposes that a mechanism of rewarding or punishing local governments should be established to ensure a linkage between the level of local service provision and the level of local taxes. Local governments can do two things to strengthen the linkage. They can improve tax administration to make sure that local residents are paying their due under the existing local tax and user fees system. For example, the level of land value tax can be increased through the increase of land assessment value. In a sense, this is similar to the notion of increasing local fiscal efforts. Authorized by the General Law on Local Taxation, local governments can also raise local taxes in order to pay for additional local public services and projects. It is hoped that after the linkage is strengthened, local officials and residents will be more cost-cautious in administering and initiating local programs and projects because local people have to pay for them, or, at least, a large proportion of them. Accordingly, local fiscal accountability can be improved.

Most officials participating in this study interpreted the statement as to improve tax administration rather than to raise local taxes. Although officials recognized that the national government has made similar efforts suggested by statement 11 in recent years, they do not believe that these efforts have made a big difference in changing local governments’ fiscal behavior (2005060801, personal communication, August 01, 2005). It was argued that existing rewards and punishments are not sufficient (2005061001, personal communication, June 10, 2005; 2005061502, personal communication, June 15, 2005). In other words, the national government has to increase the significance of rewards or punishments in order to obtain intended policy outcomes. On the other hand, although officials generally think that strengthening the linkage between the level of local service provision and the level of local taxation by asking local governments to share more responsibility of raising local taxes is the right thing to do, they believe that it is almost practically impossible to achieve (2005052001,

personal communication, May 20, 2005). It was argued that the mechanism to reward or punish local governments is only part of equation and that the key to success is that local people have to accept this idea of paying local services by local taxes (2005042801, personal communication, April 28, 2005). Statements 29 and 11 are listed in the following for reference.

29. The national government should establish a set of objective indicators to evaluate local fiscal efforts and take them into account in the mechanism of distributing national shared tax revenue and intergovernmental transfers. (+2, +2, +3, +1, +2)

11. In order to ensure a link between local public service provision and local tax collection, the national government should establish a mechanism to reward or punish local governments. (+3, 0, +2, +2, +1)

Although not intensely discussed and developed into a prominent view yet, officials in Taiwan do share the hope that local elected officials and voters would realize that they have to share more responsibility in making local policies and paying locally initiated services. Statements 34 and 36 are two wish statements reflecting this thinking. Statement 34 was highly agreed with by officials of Patterns I, III, and IV, and moderately agreed with by officials of Patterns II and V. This seems to suggest that national officials feel more strongly and urgently to establish the notion of paying local services by local taxes than local officials do, as we can recall that both Patterns II and V are comprised of local officials only.

It was argued that local governments have to be fiscally accountable before they can ask for decentralization and local self-governance (2005042801, personal communication, April 28, 2005; 2005052502, personal communication, May 25, 2005). Furthermore, it is believed that local governments have to generate own-source revenues to support local development projects in a decentralized local governments system (2005053002, personal communication, May 30, 2005). It is noted, however, that agencies in charge of local finance would like to see this happening, but there is still a long way to go before local elected officials and people can embrace the idea and put it into practice (2005061501, personal communication, June 15, 2005). Another official also pointed out that “only after the system of national shared tax is stabilized, can local governments begin to focus on generating more revenue from local taxes” (2005052401, personal communication, May 24, 2005). As we can recall from our discussion in chapter four, the national shared tax system is currently in favor of two special cities and is

expected to undergo major changes. Considering national shared tax revenue represented nearly 20% of total local revenue in FY 2004, it is not surprising to that see counties and provincial cities would like to focus on increasing their share of national shared tax revenue before they try other options to generate local revenues. Statement 34 is a policy objective that most officials can accept, but it might not be easy to achieve it in the foreseeable future.

Statement 36 was strongly agreed with by officials of Patterns III, IV, and V, but received zero score from Patterns I and II. It proposes to encourage people to get involved in the local policy process in order to realize the true costs and benefits of local programs and projects. It is reasoned that the more people are informed, the more likely they would hold local officials accountable for their policy and fiscal decisions. An official elaborated and said that if people would like to see their local governments doing a good job, they have to get involved and keep an eye on the local governments to make sure that their needs are met (2005042801, personal communication, April 28, 2005). However, some officials worry that if people do not have knowledge and experience needed for them to be responsible and rational citizens, allowing them to get involved in the local policymaking process would only make dysfunctional local politics more chaotic (2005062102, personal communication, June 21, 2005).

An official said that if an incinerator is built, for example, nearby communities will organize to ask for cash feedback, and it is doubtful that they really care about public interests or environmental harm (2005053002, personal communication, May 30, 2005). As we can see, officials do not completely trust people to make good judgments in the local policymaking process. In other words, although they do not oppose getting people involved, they hope that people could be better prepared and more competent before being allowed to participate in the policy process. Statements 34 and 36 are listed in the following for reference.

34. Local government officials should recognize the essence of local self-governance, establish the notion of paying local services by local revenues, and aggressively collect own-source revenue based on the law. (+4, +2, +4, +4, +1)

36. Local people should be encouraged to get involved in the local policy making process to realize the costs and benefits of local services, and to better hold local officials accountable for local spending. (0, 0, +4, +3, +3)

Officials have agreed that dysfunctional local politics is a problem that leads to inefficiency in local spending. In order to improve local fiscal accountability, it is suggested that indicators of fiscal efforts are developed to be used formulae of distributing national transfers and that a mechanism of rewarding and punishing is established to strengthen the linkage between the level of local service provision and the level of local taxation. These are centralized approaches to ensure local fiscal accountability. It is also hoped that a notion of paying local services by local revenues can be developed and local people would be encouraged to get involved in the local policy process in order to better hold local officials accountable for their decisions. These two ideas may not be immediate feasible, but they represent a long-term goal to hold local officials accountable through a bottom-up approach.

7.3.2 Decentralization and Local Autonomy

Three statements are selected for the discussion in this subsection, including a bias statement, a wish statement, and a policy statement. Statement 23 is a bias statement arguing that decentralization will facilitate local governments' creativity to differentiate service provision in order to meet different local needs. The statement was strongly agreed with by officials of Pattern IV and moderately agreed by officials of Patterns II and III. In fact, among statements discussed in this section, statement 23 received weakest endorsement. This is somewhat surprising because the statement represents one of the major reasons to pursue fiscal decentralization. After examining comments of officials made during the interviews, it was discovered that officials do not see much room for creativity and differentiation of local service provision because local governments do not have sufficient revenue to do so (2005061502, personal communication, June 15, 2005). Another official, although agreeing with the statement in general, warned that what people want is not necessary good for the society as a whole (2005090501, personal communication, September 05, 2005). These views indicate that officials generally agree with the statement, but they do not agree with this statement as strongly as they do with other policy consensus statements because they do not think it would happen soon under existing local fiscal conditions and because they are worried that local people might demand something that hurts the common good. Statement 23 is presented for reference.

23. Decentralization will facilitate local governments' creativity to differentiate service provisions for meeting different needs. (0, +2, +1, +3, 0)

The concern that local governments do not have sufficient revenues to realize the benefits they might gain through decentralization also appears in the statement 33. Statement 33 is a wish statement expressing the hope that the national government would guarantee local governments sufficient financial resources to pay for their local programs. The statement was strongly agreed with by officials of Patterns II and V, while moderately agreed with by officials of Patterns I, III, and IV. It is noticed that Patterns II and V consist of only local officials, and this indicates that the most urgent need that local officials want to pursue during the process of fiscal decentralization is to make sure that the national government would agree to guarantee the funding for local basic spending needs. When we discussed “intergovernmental fiscal relationship” in the first section of this chapter, a similar conclusion was drawn that although officials may have different opinions on whether the national government should provide funding for local development needs, they do agree that funding for local basic fiscal needs should be guaranteed by the national government.

It is argued that the decentralization would be meaningless if local governments are not guaranteed enough revenue to support local basic needs (2005053001, personal communication, May 30, 2005). It is reasoned that without guaranteeing to fulfill local basic needs, local governments will not have financial resources necessary to meet local other development needs (2005052502, personal communication, May 25, 2005). In fact, in the current system of intergovernmental transfers, fiscal needs as a factor are considered in the formulae of distributing both national shared tax and the general grant. Like the indicators just discussed earlier in this section, there is a difference of opinion between the national and local officials regarding how the basic fiscal needs or basic local expenditures should be defined. One official explicitly argued that national and local officials should both agree that the current estimation of the level of basic local expenditures does not reflect the actual fiscal needs of local governments (2005062102, personal communication, June 21, 2005). Indeed, local governments may need more from the national government in order to meet their basic spending needs, but as one official argued, the national government does not have the financial resources needed to fully guarantee local basic spending needs (2005070701, personal communication, July 07, 2005). In general, it is expected that the national government will continue to use national shared tax and

the general grant to meet local basic spending needs, but local governments are also expected to raise more local revenues by themselves. Statement 33 is listed in the following.

33. The national government should guarantee local governments sufficient financial resources to support their basic public programs. (+1, +4, +1, +1, +4)

Statement 12 is a policy statement proposing that the national government should make more national grants unconditional in order to increase local autonomy in resources allocation. The statement was strongly agreed with by officials of Pattern II, and moderately agreed with by officials of Patterns I, III, IV, and II. It is argued that local governments know local needs better than the national government does. Accordingly, the national government should not constrain local governments' flexibility to provide local services. In fact, during the 2001 reform on the system of intergovernmental aid, many categorical grants were replaced by the general grant, as we may recall from our discussion in Chapter Four. The national government later found that local governments often used the funding of general grants to fund programs and projects that were not considered basic, and no appropriate funding was allocated to maintain basic public infrastructure, such as sewerage system.

As a result, the system of memorandum was established to ask local governments to make plans in advance regarding how the funding from the general grant will be allocated. The national government will then evaluate how these plans are implemented, and the result may affect the level of general grants in the following fiscal year to hold them accountable. The system has become the center of criticism made by local officials for the system of the general grant. From local officials' viewpoints, the system seriously hurts local autonomy in allocating funds and violates the general principle of providing a general grant. However, from national officials' point of view, they just want to make sure that basic local infrastructure is adequately funded. The debate will continue, but the overall direction, as agreed by officials of all patterns, will continue to be reducing the constraints for local governments to freely allocate local funds. Statement 12 is provided for reference.

12. The national government should reduce the amount of conditional grants year by year to allow local governments more flexibility for resource allocation. (+1, +4, +2, +2, +2)

In sum, the national officials constantly express their deep concern on how local politics would negatively affect local fiscal behavior. Although it is generally agreed that decentralization is the right way to go, they still hope to maintain a certain level of control on local fiscal behavior through mechanisms such as the system of memorandum. On the other hand, the major concern of local officials is to raise sufficient revenue for local expenditure needs. Decentralization will no doubt increase the responsibility of local governments to provide more local services. However, local governments currently do not even have sufficient funds to pay for basic local spending. As a result, it is argued that if the national government does not guarantee the funding for basic local spending, it is just not financially viable for local governments to meet other local needs in a decentralized system.

8.0 POLICY RECOMMENDATIONS AND CONCLUSION

In the final chapter of this study, policy recommendations will be made to pursue fiscal decentralization in Taiwan. Long-term and short-term recommendations will be discussed separately in the first section of this chapter. In the next section, possible future researches will be suggested to add our understanding of Taiwan's fiscal decentralization process and ways to pursue future reforms. Finally, a briefly summary of this dissertation and few final thoughts will be presented in the final section.

8.1 POLICY RECOMMENDATIONS

Once labeled “guarded self-governance” (Huang, Jin-Tang, 1995: 1-2), the local governments system in Taiwan was highly centralized. This centralization in intergovernmental administrative relationship led to an intergovernmental fiscal relationship in which local governments were extremely dependent on national transfers. In a sense, the national government was acting like the parents of local governments, advising them on what to do, giving them an allowance or pocket money for spending needs, telling them to behave in a good manner, and asking them to keep out of trouble. What the national government did not do, intentionally or unintentionally, was teach them how to become an independent and responsible grownups. This relationship worked just fine before the beginning of democratization in the late 1980s.

After democratization and the decentralization that followed, local governments suddenly found themselves on the verge of moving out and away from the big family. They were asked to support themselves and be independent, but they also quickly discovered that they did not have the knowledge and resources to do so. They began to enjoy the freedom of not living with

parents, but they lost the financial security that was once guaranteed as well. They could not make enough money to pay for their expenses, and they asked their parents for help. On the other hand, facing a financial hardship themselves, the parents were no longer able to completely meet their children's financial demands. The parents tried to help their children to live at a minimal acceptable level, and tried to tell the children how they should live. Their children did not listen, continued to spend, and asked for more financial help. In the end, the parents sighed and said, "you are a grown person, and you go to find a way to make money yourself."

I am sure this is not a completely appropriate analogy to describe the national-local relationship in Taiwan, and the national and local governments have sustained a good working relationship to deal with the problem of poor local fiscal health together. What I want to demonstrate in this analogy is how unprepared both levels of government are to deal with the new intergovernmental relationship that has emerged after decentralization. Based on the discussion in the previous two chapters, it is not difficult to conclude that the national government is not ready to trust local governments and thus reduce its control of local public administration. The same applies to local governments as well in that they are not ready to be financially independent and share more responsibility in raising local revenues. In fact, regardless of the degree of decentralization, administrative and fiscal relationships need to be redefined between these two levels of governments in Taiwan. When local governments are given more autonomy to prioritize local services and programs, they are expected to share more responsibility to raise local revenues and pay for local services. However, it is obvious that both levels of government in Taiwan are not prepared to pursue this new relationship yet.

In addition, there seems to be a distrust of the ability for ordinary people to demonstrate responsible citizenship. Based on the scores of statements 13 and 22, both national and local officials tend to disagree with allowing people to vote on proposals for local revenue collection and establishing a system of referenda on local fiscal issues. Pattern IV is the only pattern that ranked these two statements positively. Two officials of Pattern IV include an official with academic experience and an official influenced by his former minister who was a public finance scholar. In other words, regardless of which levels of government they are working for and regardless of whether they are career civil servants or political appointees, most officials in Taiwan do not think that it is a good idea to allow people to directly make local fiscal choices. As this belief that people do not have the knowledge and democratic experience necessary to

make the right choices is expressed by Taiwanese officials again and again in our previous discussion, a question should be asked: what efforts are being made to give people the knowledge and experience necessary for responsible citizenship?

A policy learning process is needed to develop trust between national and local officials and between officials and people. The existing distrust among stakeholders in the policy process of fiscal decentralization can be conceptualized by using the idea of “defensive routine” (Argyris, 1993). In fact, holding local governments accountable through national control and monitoring is only a process of single-loop learning, which can only produce strategies to bypass and cover-up, as Argyris (1993) has told us. Therefore, a process of double-loop learning needs to be initiated to transform espoused theories of stakeholders in the policy process of fiscal decentralization into theories-in-use by learning a “new” set of skills and a “new” set of governing values (Argyris, 1993). In other words, the reform process of fiscal decentralization should not be ended right after redefinition of a new set of intergovernmental administrative and fiscal relationships is completed. Rather, what is more important is to develop a strategy that allows officials and people to learn and be prepared to participate and act in the policy process of a decentralized system.

In order to facilitate this learning process, an incremental approach should be adopted. As Lindblom argued, public administrators and policy analysts in Western democracies in general do largely limit their analyses to incremental or marginal differences in policies that are chosen to differ only incrementally in order to be relevant (1959: 84). In other words, incremental policy changes increase the knowledge and experience of stakeholders in the policy process, allow this new knowledge and experience to be relevant in dealing with the policy problems, and eventually facilitate the learning process of stakeholders to adopt a new set of skills and a new set of governing values.

The formulation of policy recommendations in this dissertation will follow these two general guidelines described above. Both short-term and long-term policy recommendations will be developed to suggest directions of future reform of fiscal decentralization. These recommendations are formulated mainly based on the policy consensus shared by five identified patterns in this study, with a few exceptions that reflect my views on what should be accomplished through the process of fiscal decentralization.

8.1.1 Short-Term Policy Recommendations

This subsection makes policy recommendations based on the policy consensus identified in Chapter Seven. As we can remember, there were two general themes discussed. The first theme was to ensure local fiscal accountability by improving local fiscal efforts, strengthening the linkage between local service provision and local taxation, and encouraging people to get involved in the local policy process. The second theme was to improve local autonomy by guaranteeing sufficient revenue for local basic spending needs and increasing the proportion of unconditional grants. Suggestions are made based on these discussions.

8.1.1.1 Developing indicators of fiscal efforts with local officials' participation

Incorporating indicators of fiscal efforts into the formulas of distributing national transfers is not a new idea in Taiwan. The scores that statement 29 received from the revealed five patterns show that there is a consensus among officials to continue and improve the current practices. As we discussed in the previous chapter, the real challenge, however, is to develop a set of indicators that are acceptable to all parties involved. Based on the earlier analysis of policy consensus, it is suggested that a set of indicators measuring fiscal efforts should be developed to guide the fiscal behavior of local governments. It is also discovered that existing indicators of fiscal efforts are unsatisfactory, at least, to some local officials participating in this study. It goes beyond the scope of this study to suggest a set of indicators to be adopted. Rather, it is recommended that local officials should be allowed an opportunity to participate in the process of developing these indicators, and they should be allowed to make suggestions based on the interests of the localities they serve. Each locality has different social, economic, and fiscal conditions, and each faces different advantages and challenges when it makes fiscal decisions. By going through a deliberative process in which all national and local officials can freely exchange their ideas, evaluate each proposal, and eventually reach a collective decision, it is more likely that an appropriate and acceptable set of indicators would be adopted to guide the behavior of local governments and to improve local fiscal accountability.

8.1.1.2 Encouraging local governments to apply the General Law on Local Taxation

The General Law on Local Taxation was enacted in 2002 to authorize local governments to impose special taxes, provisional taxes, or added taxes, and to increase some specified national and local tax rates up to 30% of the existing rates. The goal is to give local governments authority raising local taxes in order to pay for their local services and improve local fiscal condition. The law can be seen as the first step in Taiwan to establish the notion of paying local services by local taxes as described by Statement 34. A few years have passed since the passage of the law, and there were only few attempts of local governments to utilize this new authority. As we discussed in the first section of Chapter Five, local officials believe that the political costs to raising local taxes are very high while the benefits or revenues generated are low.

If establishing the notion of paying local services by local taxes is a desired policy goal to pursue, the General Law on Local Taxation needs to be better utilized to facilitate the learning process of accepting and adopting this notion. It is often argued that Taiwan is small, and a uniform local taxation system is more appropriate in Taiwan. However, the fact is that people have begun to ask local governments to do a lot more different things in different localities after democratization. Local service provision is no longer uniform, and it is difficult for a uniform local revenue collection system to generate enough revenue to meet these different needs. There is no doubt that it is not easy for local governments to ask their voters and the councils to agree to a local tax hike. A question can easily be asked: why do nearby local governments not need to do this while continuing to provide all the same services?

In order for local governments to answer the question, it is argued that the national government has to provide more financial incentives and help local governments convince their voters and the councils. The existing mechanism that counts the efforts of raising local revenue through the law as an indicator of fiscal efforts will not be able to get the job done. A new grant, in addition to the existing national shared tax and intergovernmental aid, can be made available on a temporary basis to reward local efforts of collecting taxes through the authorization of the General Law on Local Taxation. By clearly establishing the linkage between local tax hikes and financial rewards that follow, local people and councils are more likely to approve the proposal of raising local taxes.

8.1.1.3 Increasing the size of national shared tax and eliminating the use general grants

Officials of the five patterns scored statement 12 positively, and they generally agreed that the national government should use unconditional grants to replace conditional grants in order to provide local governments more flexibility for local revenue allocation. In fact, as discussed in Chapter Four, the DGBAS has drastically replaced categorical grants by a general grant in 2001 to meet local basic spending needs. It is hoped that the general grant can increase local autonomy since it is unconditional and local governments would have complete autonomy to allocate these funds in order to meet their basic spending needs.

After the reform was implemented, the national government found that local governments often allocate the funding from the general grant to fund projects or programs that are not considered basic spending needs by the national government. The system of memorandum was established to ask local governments to specify the amount of funds that will allocate to the spending categories considered basic by the national government. Although the purpose is to make sure that local basic infrastructures and services are funded, the system makes the general grant conditional again, and there is no doubt that local autonomy would be hurt.

It is recommended that the national government should increase the size of the national shared tax and eliminate the current practice of granting the general grant. By transforming the general grant to conditional grants, the funding can be designed to fund specified local basic spending needs without worrying that local governments would reallocate the funding to other spending needs. On the other hand, the size of the national shared tax should be increased to make up the reduction in the general grant and to allow local governments more financial resources to work with. The goal is to make sure that local basic spending needs can be met while local governments would know in advance the amount of money available to fund locally prioritized spending needs.

8.1.2 Long-Term Policy Recommendations

Policy recommendations proposed in this subsection may not be feasible for implementation in the immediate future or would require a major change in the current system for adoption. Therefore, only after officials and people begin to realize the benefits of decentralization and become ready for more changes, can these recommendations be adopted for implementation. In

addition, it is hoped that these recommendations can serve as a starting point to facilitate deliberation and on issues concerning fiscal decentralization and future reforms. When ideas are freely exchanged, criticized, and debated, new policy relevant knowledge and ideas can be generated for future reforms.

8.1.2.1 Sharing power of policymaking with local officials

Most officials in charge of local finance agree that fiscal decentralization is a trend happening in Taiwan right now. Although there seems to be a lack of enthusiasm outside of the policy community to pursue this policy goal, the differences in opinions among officials regarding which approach should be adopted to achieve fiscal decentralization has become an obstacle to the reform. Therefore, the process of fiscal decentralization has been mostly stagnant in recent years. For example, a major amendment bill of the Law on Allocation of Government Revenues and Expenditures was introduced to the congress in 2002 to initiate a major reform of the system of national shared tax and intergovernmental aid. Although there is no strong opposition to the bill, it has attracted almost no attention in the congress and has not been reviewed for passage. In order to understand the lack of support for reform in this policy area, the process in which the policies are formulated and made needs to be evaluated.

As a unitary country, the national government has the power to make final decisions to define intergovernmental administrative and fiscal relationships. In regards to the policy process of fiscal decentralization, the policies are often formulated at the center before meetings are called to invite local officials for comment and input. A local official indicated that when there is a difference in opinions between national officials and local officials, the only thing local officials can do is keep telling national officials what local opinions are (2005060901, personal communication, June 09, 2005). When there are disputes between the national and local officials, local officials have little leverage to change the policy decisions that are already made. Although it is said that local officials would be consulted before the final decisions are made, they are informed, instead, in reality. Therefore, when policies are formulated, they are often only intended to deal with the problems that the national government feels strongly need to be solved, and local needs are mostly ignored in the policy process. This will lead either to a strong opposition from local governments or reluctance to support the proposals. The 2002 incident in which Taipei City Mayor Ying-jeou Ma utilized his popularity and support in the congress to

pass an amendment to the Law on Allocation of Government Revenues and Expenditures best demonstrates the resentment which local opinions are ignored by the national government. Their reluctance to support can best be seen through their limited actions to apply the General Law on Local Taxation enacted in 2002 in order to raise local taxes for improving fiscal conditions.

It is clear that national and local officials do not share similar views on how fiscal decentralization should be achieved. However, this does not mean that national officials should mostly ignore the needs of local governments in order to formulate policies that they like most. Instead, because there is a difference in views, a proactive effort should be taken in order to search for consensus by sharing the power to make policy decisions with local governments. When local needs are addressed in the new policy proposals, a sense of ownership for these proposals can be developed among local governments. Then collaborative efforts can be initiated to get these proposals legislated and implemented. Summarizing the lessons of fiscal decentralization learned in developing countries, Bird and Vaillancourt (1998: 35) said that “what may matter more than the precise nature of the technical solutions found in the different countries is the process through which such solutions are reached.”

In conclusion, an appropriate political forum involving both national and local officials in charge of local finance should be established to make policy decisions of fiscal decentralization and facilitate the reform process to move forward. The organization and authority of the forum may be subjected to more analyses and debates, and they will not be discussed here. In the end, only when local governments are allowed to share the responsibility of making policy decisions of fiscal decentralization, will they support and faithfully implement the policies.

8.1.2.2 Allowing people to vote on local fiscal policies

The main idea of the statement 36 is that local people should be encouraged to get involved in local policy making process. The statement was strongly agreed with by officials of Patterns III, IV, and V, while it received a zero score from officials of Patterns I and II. The other two statements concerning the people’s role in the policy process of fiscal decentralization are more controversial. Statement 22 advocates establishing a system of referenda on local fiscal issues while statement 13 argues that local people should be allowed to vote on proposals for local revenue collections. Both of these two statements were scored negatively by all patterns other than Pattern IV. Therefore, although it is generally agreed that local people should be

encouraged to get involved in the policy process, the majority of national and local officials still disagree that local people should participate by voting. They claim that people should not be trusted and cannot make the right choices when they vote on the fiscal issues.

There is another school of thought, however. It recommends that people should be allowed to vote on local fiscal matters. Voting is the most direct way of expressing the people's ideas and making decisions in a democratic society. However, it is also agreed that the claims made by officials is valid, and people should be given the knowledge and experience necessary to become responsible citizens. In fact, voting on local fiscal decisions can be the process that encourages people to participate in the policy making process, to obtain more knowledge regarding a public issue, and ultimately to learn how to make policy choices. With a carefully designed procedure and clearly defined question, it is believed that people will be able to vote responsibly and improve local fiscal accountability in the long run.

It is suggested that at the initiation stages of allowing people to vote on local fiscal issues, they should be limited to vote on a projects basis. For example, the question can be to increase certain percentage of property tax for a certain number of years in order to pay for a stadium. This avoids the possibility that people would vote for a tax cut to make local fiscal health even worse. Moreover, when people begin to realize that there are costs they have to pay in order to get new projects or services, they will pay more attention to compare the costs and benefits before they make their voting decisions. Accordingly, they can begin to learn to accept the notion of paying local services by local taxes, and the linkage between the level of local tax revenue and the level of local expenditures can be strengthened.

8.1.2.3 Controlling only the minimum level of local tax revenue

One of keys for fiscal decentralization to succeed is to strengthen the linkage between local taxation and local expenditures. Officials of the five patterns all agree with this idea by ranking statement 34 positively. However, under the existing centralized and uniform local taxation system, it is almost practically impossible for local governments to adjust the level of local taxation in accordance with the level of local spending. The fact that local governments are reluctant to utilize the General Law on Local Taxation can best demonstrate how difficult it is to make changes to the existing local taxation system. As a result, it is suggested that efforts should

be made to encourage local governments utilizing the new authority given in the General Law on Local Taxation to increase local tax revenue in the short run.

In the long run, it is recommended that more flexibility should be given to local governments. Currently, even with the enactment of the Law on Local Taxation, local governments are still constrained or handicapped to develop a tax portfolio according to their unique socioeconomic conditions. As a result, it is recommended that, based on their local socioeconomic characteristics and local needs, local governments should be allowed to adjust their local tax bundle above a certain minimum level of local tax revenues set by the national government. In other words, while maintaining the level of local tax revenue, local governments should be allowed to increase or decrease the level of individual local taxes within the tax bundle. Viewing the system of local taxation as a package of local taxes rather than many separate local tax streams allows local governments more flexibility and autonomy while making sure that there will be no competition for tax reduction. The national government only controls and monitors the preset minimum level of local tax revenue and no longer maintains a nationally uniform rate and base for local taxes.

8.2 FUTURE RESEARCHS AND QUESTIONS

The focus of this study was to understand Taiwanese officials' subjective views toward fiscal decentralization. It was discovered, among other things, that there was a clear difference in views toward fiscal decentralization between national and local officials. In fact, there were five patterns revealed in this study. This indicated that at least five different views toward fiscal decentralization existing among officials in Taiwan. These different patterns of attitudes were analyzed, compared, contrasted, and evaluated to see the difference and similarities among these different points of view. Policy consensuses were identified, and policy recommendations were made to suggest future directions of the reform. However, due to the constraints of time and resources, the scope of this study could not be extended to make more specific suggestions on some of the issues discussed in this study. It is suggested that more research is needed to produce policy relevant knowledge in order to add to the policy discussion and deliberation on fiscal decentralization. These future research areas are discussed in this section.

8.2.1 Policy Process of Fiscal Decentralization in Taiwan

There are at least two questions that need to be addressed regarding the policy process of fiscal decentralization in Taiwan. First, it is important to identify stakeholders in the policy process and understand their relationships. Second, research should be conducted to search for an appropriate forum that allows national and local officials to discuss, debate, and reach policy consensus on issues of fiscal decentralization.

During the stage of conducting interviews for this study, it was found that discussion and debates concerning fiscal decentralization are held only among national and local officials in charge of local finance. Legislators, including those in the Finance Committee, do not actively and continuously participate in the policy deliberation process. In addition, the new amendment bill of the Law on Allocation of Government Revenues and Expenditures was submitted to the congress in 2002, and the bill has not generated enough attention to be reviewed by the congress. Therefore, in order to facilitate the reform process of fiscal decentralization, a better understanding needs to be gained about the stakeholders involved in the process, their relationships, and the motivation for actions or inaction.

In the section of recommendations, it is recommended that an appropriate political forum involving both national and local officials in charge of local finance should be established to provide opportunities for national and local officials to jointly formulate a proposal that can address both national and local needs. In order to establish the forum, there are several questions that need to be answered. How the forum is going to be organized? To what extent is the forum authorized to make policy recommendations or policy decisions? Who should be invited to participate and should they meet regularly or meet on a need basis? These questions are essential to determine whether the forum can successfully facilitate the process to reach policy consensus between national and local officials and, therefore, warrant further research.

8.2.2 Local Taxation System

Taiwan's local taxation system is highly centralized and uniform. Local governments have very little autonomy to adjust the level of local taxation even after the General Law on Local Taxation was passed in 2002. As a result, it is recommended that the national government should

encourage local governments to apply the law for increasing local tax revenue in the short run, and allow local governments to adjust their tax bundle above a preset minimum level of local tax revenue in the long run. The hope is to strengthen the linkage between the level of local taxation and the level of local expenditures.

It is assumed that if local governments decide to take more responsibility of raising local tax revenues, local fiscal health would be improved because not only they would increase the level of local revenue but also local fiscal accountability would be improved. However, based on the fiscal data of FY 2004 presented in Table 4.4, more than 87% of local tax revenues were generated from land tax, property tax, and license tax if national shared tax is not included in the calculation. In other words, even if local governments are willing to take more responsibility to raise local taxes, it is questionable whether there is enough room for them to do that. There are at least four questions that can be studied. First, to what extent can the rates of land tax, property tax, and license tax be raised and how much tax revenues can be generated? Second, to what extent can the level of other local taxes be increased and how much tax revenues can be generated? Third, are there any items or activities on which local governments can impose local taxes and how much local tax revenue can be generated from these new local taxes? Finally, is there a need for the national government to assign a portion of certain national taxes to local governments in order to give them an more adequate local tax base? For example, it might assign one or two percent of the income tax to localities where the tax revenue is collected and allowing local governments to adjust this rate.

When the local taxation system is designed properly, it cannot only generate sufficient local revenue, but it can also facilitate local development and improve social equity. The four questions above would only be starting points to research local taxes in a decentralized local fiscal system. More information is needed for policymaking to make appropriate policy decisions and for academics to debate and generate new ideas for future reforms.

8.3 SUMMING UP THE STUDY

This is a study of subjectivity. By employing Q methodology, this study intends to investigate officials' patterns of attitudes toward fiscal decentralization. Unlike other studies that are

devoted to search for the best way of dealing with many problems of local public finance in Taiwan, this research attempts to understand the problems and issues at stake through the eyes of officials participating in this research and to formulate recommendations for future reforms by looking for consensus among the different views identified.

This dissertation began by defining the research problem and briefly introducing the background of this study. A literature review followed to depict the theoretical framework that this research is based on. Two approaches of fiscal decentralization, both the centralist approach and the localist approach, were introduced by surveying the literature of fiscal decentralization. Literature written by Taiwanese scholars concerning five policy objectives, including efficiency, autonomy, accountability, development, and equity was summarized in order to develop this body of literature into a concourse, from which Q statements were selected. It was also emphasized that the policy process of fiscal decentralization is a political process in nature, involving stakeholders negotiating and searching for policy consensuses. When policy consensus is reached, both national and local officials are more likely to faithfully implement the proposed policies and make these policies more likely to succeed. Therefore, it is important to understand the views held by officials participating in the policy process in order to search for the policy consensus.

Taiwan's current administrative and fiscal decentralization reforms were discussed next. Recent administrative reforms of the local governments system were introduced to demonstrate that power and autonomy have been decentralized in the recent years for local governments to meet different local needs and improve efficiency. However, because the local fiscal system in Taiwan is highly centralized and uniform, local governments do not have the flexibility necessary to set the level of local spending, set local priorities to reflect local preferences, and be held accountable for local fiscal decisions.

After research questions, hypotheses, and methodology were outlined, five revealed patterns of officials' attitudes toward fiscal decentralization were analyzed. It was found that officials working at different levels of government tend to perceive the concept of fiscal decentralization differently. However, this does not mean that national officials tend to support the centralist approach while local officials would advocate for the localist approach. In fact, it was discovered that Taiwanese officials tend to support the centralist approach in general with the few exceptions that officials of Patterns III and IV support the ideas of ensuring local

accountability via a localist approach while officials of Pattern II prefer adopting a localist approach to pursuing local development.

With understanding of each pattern's attitudes toward fiscal decentralization, the emphasis of the study became to find the differences and similarities in the officials' views and ultimately to identify policy consensus for formulating policy recommendations. The analysis showed that the centralist approach is often the choice of Taiwanese officials. It is agreed that a national mechanism to reward or punish local fiscal behavior should be established to ensure local fiscal accountability. It is also proposed that the national government should guarantee local governments sufficient financial resources for local development and reduce the use of conditional grants to increase local autonomy. Although involving people in the policy process and making them share more responsibility for paying local services are generally encouraged, it is found that Taiwanese officials are not ready to agree with the notion of allowing local people to vote on local fiscal policies.

Based on the consensuses identified, three short-term policy recommendations were suggested: (1) developing indicators of fiscal efforts with local officials' participation; (2) encouraging local governments to apply the General Law on Local Taxation; and (3) increasing the size of the national shared tax and eliminating the use of general grants. In addition, there were three long-term policy recommendations proposed: (1) sharing power of policymaking with local officials; (2) allowing people to vote on local fiscal policies; and (3) controlling only the minimum level of local tax revenue. It was hoped that these short-term and long-term policy recommendations would be adopted to improve the local fiscal system in Taiwan.

It should also be noted that this research contributes to the existing literature by confirming the existence of national-local dichotomy. Moreover, the research reveals additional theories of fiscal decentralization to demonstrate that the discussion of the national-local dichotomy can only explain part of the story, not the whole. It is shown that that multiple theories coexist and are employed by officials participating in the process of fiscal decentralization. This further opens up the likelihood of policy learning in the reform process to reach a compromised proposal such as cooperative fiscal decentralization.

Many Taiwanese scholars have studied the problems of poor local fiscal health, and policy recommendations have been made to reform different aspects of the local fiscal system in order to address the problems. This research has attempted to understand the problem though the

eyes of officials participating in the process. Although several recommendations have been made to improve the current system, what also matters is the process in which policy decisions are made. As suggested, policy learning of fiscal decentralization has to occur, and an incremental approach should be adopted for the future reforms of fiscal decentralization. Only after a culture of learning, deliberation, and collaboration is developed among stakeholders involved in the policy process, can local fiscal system in Taiwan begin to evolve and gradually to improve.

APPENDIX A

SELECTED REPORTS FROM PQMETHOD OUTPUTS

Appendix A provides selected reports generated through PQMethod. These reports provide useful information about results of the Q methodology study conducted but are deemed to detailed to be included as one of the tables in this dissertation.

A.1 CORRELATION MATRIX BETWEEN Q SORTS

38	37	36	35	34	33	32	31	30	29	28	27	26	25	24	23	22	21	20	19	18	17	16	15	14	13	12	11	10	9	8	7	6	5	4	3	2	1		
39	39	-14	34	52	35	14	23	17	47	16	32	46	19	38	18	18	31	22	11	39	27	-24	10	32	1	36	2	6	45	17	17	2	33	-14	33	26	100	1	
20	33	16	47	23	55	16	12	17	29	14	21	22	2	38	17	22	17	35	25	31	13	26	8	36	37	17	21	11	35	21	35	27	17	33	22	100	26	2	
4	31	23	23	1	30	4	-10	7	17	31	16	31	33	2	-9	10	39	22	10	11	9	0	25	-16	7	8	0	7	27	-1	13	12	18	3	100	22	33	3	
23	9	23	54	6	32	23	39	30	10	18	26	22	21	13	2	13	3	-1	25	15	9	23	33	20	35	12	33	14	33	42	18	47	22	100	3	33	-14	4	
38	23	2	47	24	36	41	37	53	48	39	39	36	52	30	23	23	45	33	31	23	47	24	38	14	13	53	46	31	36	41	18	44	100	22	18	17	33	5	
29	16	38	31	23	55	38	44	7	22	26	40	34	22	31	-2	32	22	7	6	12	32	17	22	11	23	27	41	20	25	32	0	100	44	47	12	27	2	6	
13	-18	-10	41	37	17	30	44	33	27	35	38	39	6	19	34	13	0	36	34	46	27	44	31	26	51	33	27	65	22	100	0	18	18	13	35	17	7		
63	20	4	42	26	25	51	32	45	16	27	35	44	38	10	-12	-1	12	-2	29	14	4	20	44	17	8	43	28	34	100	22	32	41	42	-1	21	17	8		
28	8	-11	57	39	38	32	54	43	50	47	64	49	25	32	34	17	10	28	28	64	46	32	25	18	53	36	35	34	100	34	65	23	36	33	27	35	45	9	
15	-31	20	40	24	29	39	44	39	31	49	33	50	32	8	25	15	22	46	34	27	28	40	60	13	36	39	25	100	34	28	65	20	31	14	7	11	6	10	
26	17	-10	35	15	25	35	45	42	35	34	27	24	44	28	-14	17	16	17	38	41	37	18	23	27	26	100	25	35	43	27	41	46	33	0	21	2	11		
11	15	-6	31	41	48	28	53	34	49	27	53	41	30	19	33	42	42	47	53	49	65	33	36	21	15	100	26	39	36	8	33	27	53	12	8	17	36	12	
4	-15	4	36	28	27	24	30	39	16	10	36	33	4	35	23	4	2	33	41	23	30	42	12	15	100	15	27	36	53	17	51	23	13	35	7	37	1	13	
50	33	-22	29	34	10	11	28	30	37	4	14	30	13	59	-7	6	3	25	10	49	22	11	16	100	15	21	23	13	18	44	26	11	14	20	-16	36	32	14	
18	4	20	49	20	38	18	35	44	29	50	34	47	35	6	0	12	33	27	40	33	28	14	100	16	12	36	18	60	25	20	31	22	38	33	25	8	10	15	
-5	-17	10	33	3	15	15	27	33	32	40	32	28	12	15	35	0	14	28	50	25	37	100	14	11	42	33	37	40	32	4	44	17	24	23	0	26	-24	16	
28	13	-17	38	41	37	35	39	48	49	41	66	52	30	32	22	17	28	27	36	100	37	28	22	30	65	41	28	46	14	27	32	47	9	13	27	17	17		
36	33	-5	44	37	40	9	47	37	51	36	43	36	25	44	17	17	28	38	17	100	36	25	33	49	23	49	38	27	64	29	46	12	23	15	11	31	39	18	
-11	-5	21	29	18	23	-3	42	38	25	14	38	33	-7	1	51	11	26	56	100	17	27	50	40	10	41	53	17	34	28	-2	34	6	31	25	10	25	11	19	
10	16	8	28	15	30	2	30	40	22	5	19	33	17	10	45	30	33	100	56	38	27	28	27	25	33	47	16	46	28	12	36	7	33	-1	22	35	22	20	
33	37	31	50	13	55	-1	8	20	41	32	30	30	44	14	1	41	100	33	26	28	28	14	33	3	2	42	17	22	10	-1	0	22	45	3	39	17	31	21	
19	17	4	22	31	44	2	14	3	17	0	44	12	28	10	5	100	41	30	11	17	17	0	12	6	4	42	-14	15	17	-12	13	32	23	13	10	22	18	22	
0	-25	-4	23	13	30	8	49	48	28	12	31	33	0	17	100	5	1	45	51	17	22	35	0	-7	23	33	28	25	34	10	34	-2	23	2	-9	17	18	23	
47	33	-16	32	57	42	16	33	46	54	27	37	37	31	100	17	10	14	10	1	44	32	15	6	59	35	19	44	8	32	38	19	31	30	13	2	38	38	24	
51	28	2	37	15	34	38	5	50	52	35	36	32	100	31	0	28	44	17	-7	25	30	12	35	13	4	30	24	32	25	44	6	22	52	21	33	2	19	25	
41	17	22	62	54	48	28	46	60	48	47	50	100	32	37	33	12	30	33	36	52	28	47	30	33	41	27	50	49	35	39	34	36	22	31	22	46	26		
34	11	0	45	60	54	26	48	44	53	46	100	50	36	37	31	44	30	19	38	43	66	32	34	14	36	53	34	33	64	27	38	40	39	26	16	21	32	27	
17	-1	11	57	13	31	22	31	22	31	42	45	100	46	47	35	27	12	0	32	5	14	36	41	40	50	4	10	27	34	49	47	16	35	26	39	18	31	14	16
43	19	-7	55	36	46	22	44	57	100	45	53	48	52	54	28	17	41	22	25	51	49	32	29	37	16	49	35	31	50	45	27	22	48	10	17	29	47	29	
36	14	-12	56	32	27	14	42	100	57	42	44	60	50	46	48	3	20	40	38	37	48	33	44	30	39	34	42	39	43	45	33	7	53	30	7	17	17	30	
26	-11	3	41	31	39	26	100	42	44	31	48	46	5	33	49	14	8	30	42	47	39	27	35	28	30	53	45	44	54	32	44	44	37	39	-10	12	23	31	
40	-7	4	22	19	32	100	26	14	22	22	26	28	38	16	8	2	-1	2	-3	9	35	15	18	11	24	28	35	39	32	51	30	38	41	23	4	16	14	32	
33	22	32	56	37	100	32	39	27	46	31	54	48	34	42	30	44	55	30	23	40	37	15	38	10	27	48	25	29	38	25	17	55	36	32	30	55	35	33	
38	40	-1	27	100	37	19	31	32	36	13	60	54	15	57	13	31	13	15	18	37	41	3	20	34	28	41	15	24	39	26	37	23	24	6	1	23	52	34	
41	19	18	100	27	56	22	41	56	55	57	45	62	37	32	23	22	50	28	29	44	38	33	49	29	36	31	35	40	57	42	41	31	47	54	23	47	34	35	
6	8	100	18	-1	32	4	3	-12	-7	11	0	22	2	-16	-4	4	31	8	21	-5	-17	10	20	-22	4	-6	-10	20	-11	4	-10	38	2	23	23	16	-14	36	
37	100	8	19	40	22	-7	-11	14	19	-1	11	17	28	33	-25	17	37	16	-5	33	13	-17	4	33	-15	15	17	-31	8	20	-18	16	23	9	31	33	39	37	
100	37	6	41	38	33	40	26	36	43	17	34	41	51	47	0	19	33	10	-11	36	28	-5	18	50	4	11	26	15	28	63	13	29	38	23	4	20	39	38	

A.2 UNROTATED FACTOR MATRIX

		Factors						
		1	2	3	4	5	6	7
SORTS								
1 05040801		0.4328	0.2380	0.0363	0.3773	0.1262	0.0868	-0.3530
2 05041801		0.4700	0.2004	0.0258	-0.1342	0.1241	0.0143	-0.2934
3 05042601		0.2555	0.1362	0.0121	-0.0555	0.4648	0.1120	-0.0365
4 05042801		0.4023	0.0539	0.0021	-0.4934	-0.1548	0.1419	0.0367
5 05050501		0.6462	0.0844	0.0049	0.0868	-0.0809	0.0089	0.3042
6 05050502		0.4809	0.2659	0.0454	-0.3611	-0.1353	0.0757	0.4113
7 05051301		0.5300	-0.4453	0.1250	-0.1763	0.0209	0.0139	-0.3247
8 05052001		0.4918	0.2636	0.0446	-0.1291	-0.5007	0.1506	-0.1488
9 05052401		0.7002	-0.1942	0.0216	-0.0681	-0.0424	0.0030	-0.2769
10 05052501		0.5537	-0.3635	0.0805	-0.2598	0.1524	0.0425	0.0751
11 05052502		0.5146	-0.0564	0.0015	-0.0715	-0.4065	0.0942	0.0773
12 05052701		0.6381	-0.1638	0.0151	0.3639	0.1197	0.0804	0.4032
13 05053001		0.4478	-0.2600	0.0396	-0.2271	-0.1060	0.0309	-0.1845
14 05053002		0.3935	0.1256	0.0104	0.1810	-0.1489	0.0318	-0.3704
15 05060701		0.5208	-0.0822	0.0035	-0.1305	0.2812	0.0454	0.1971
16 05060801		0.4116	-0.4620	0.1356	-0.1260	-0.0202	0.0071	0.0983
17 05060802		0.6160	-0.1847	0.0194	0.2158	-0.1539	0.0404	0.1999
18 05060901		0.6263	-0.0417	0.0008	0.1316	0.0224	0.0103	-0.2315
19 05061001		0.4485	-0.4612	0.1351	0.0411	0.2203	0.0239	0.0513
20 05061002		0.4913	-0.2099	0.0253	0.1952	0.3358	0.0782	-0.0853
21 05061501		0.4685	0.2452	0.0385	0.1516	0.4839	0.1363	0.2890
22 05061502		0.3078	0.1719	0.0191	0.2230	0.1984	0.0466	0.2478
23 05062101		0.3499	-0.4658	0.1381	0.1063	-0.0194	0.0073	-0.0484
24 05062102		0.5437	0.2215	0.0315	0.1646	-0.3851	0.0997	-0.2792
25 05062301		0.5037	0.3013	0.0584	0.0645	-0.0672	0.0058	0.1676
26 05062302		0.7424	-0.0181	0.0001	-0.0246	0.0492	0.0008	-0.1000
27 05070501		0.7203	-0.0746	0.0029	0.0916	-0.0870	0.0100	0.1614
28 05070701		0.5367	-0.1243	0.0084	-0.2112	0.0443	0.0211	0.0838
29 05070702		0.7038	0.0573	0.0024	0.2327	-0.1110	0.0381	-0.0004
30 05071501		0.6666	-0.1922	0.0211	0.1540	-0.2227	0.0420	-0.0961
31 05072101		0.6185	-0.2957	0.0519	-0.0059	-0.1645	0.0155	0.0479
32 05080201		0.4055	0.0551	0.0022	-0.2710	-0.3037	0.0881	0.1327
33 05081701		0.6939	0.2761	0.0490	-0.0847	0.2051	0.0222	0.1392
34 05082201		0.5382	0.0610	0.0026	0.2690	-0.0039	0.0405	-0.1612
35 05082401		0.7643	0.0695	0.0034	-0.2183	0.1131	0.0275	-0.0872
36 05083101		0.1012	0.1422	0.0132	-0.4142	0.3772	0.1641	0.1640
37 05090501		0.2478	0.6035	0.2636	0.3202	0.0976	0.0613	-0.1381
38 05091201		0.5163	0.5117	0.1795	0.0709	-0.3023	0.0542	-0.0733
Eigenvalues	10.8104	2.5893	0.2012	1.7497	1.9682	0.1778	1.6066	
% expl.Var.	28	7	1	5	5	0	4	

A.3 ROTATING ANGLES USED BETWEEN FACTORS

FTR#1	FTR#2	ANGLE
1	3	10.
2	7	10.
5	7	-5.
4	7	-8.
1	7	-2.
1	5	10.

A.4 RANK STATEMENT TOTALS WITH EACH FACTOR

No.	Statement	No.	Factors									
			1	2	3	4	5					
1	Reliance on nat transfers makes L_comp. planing impo	1	-1.04	35	1.05	6	-0.64	29	1.59	2	-0.66	29
2	N_gov't have authority to monitor L_debts, budget, &	2	1.50	3	-0.39	25	-1.17	35	-1.27	36	0.38	16
3	More efficient to allow Lgov provide L_services	3	0.14	20	1.17	5	0.65	12	-0.86	31	0.73	11
4	Lgov can achieve distributional objectives in E, MC,	4	-1.01	34	-1.08	34	0.12	19	-1.50	39	-0.55	26
5	Redistributive policies can be a L_public goods	5	0.18	18	-0.70	30	-0.67	30	-0.51	26	-1.09	34
6	L_politics, lobbying, & P_groups L_spending grows	6	1.13	7	0.30	13	0.94	8	2.13	1	1.67	3
7	L_governance & L_fiscal system should be enacted int	7	0.83	11	0.28	14	1.21	6	-0.42	24	1.48	4
8	Paying taxes, people will ask for costs_Red & effe_i	8	-0.58	26	-1.18	37	0.22	17	0.62	14	-0.57	27
9	To itemize what L_gov'ts are prohitited to do	9	0.45	14	-0.13	23	1.24	5	-1.39	38	0.01	21
10	Rich will move out and the poor will move in for L_	10	-0.91	32	-1.08	35	-0.07	22	0.86	11	-0.70	31
11	N_mech. should be estab. to reward or pubish L_gov'	11	1.22	6	0.12	21	0.66	11	0.74	12	0.39	15
12	N_gov't should reduce conditional grants for L_flex	12	0.63	13	2.17	3	0.77	10	0.95	9	0.90	8
13	L_residents should vote for proposal of L_Revenue C	13	-1.15	36	-1.76	40	-0.60	27	0.67	13	-1.58	38
14	L_gov'ts promote equity, L_econ. resour. will be dr	14	-1.27	37	0.25	16	-1.29	36	0.86	11	0.09	18
15	L_gov'ts incapable of unemp., inflation, and I_redi	15	-0.40	24	0.55	10	-0.83	32	1.29	4	-0.19	24
16	N_grants lead to ignore projects unfunded by the ce	16	-1.80	39	-0.72	31	-0.81	31	0.21	19	-0.16	23
17	L_gov'ts can be creative and effective if more resp	17	-0.70	28	-0.03	22	0.53	14	-0.95	33	-1.39	37
18	Law of NST be enacted to set stand., formu., & proc	18	1.08	9	0.94	7	1.68	2	-0.74	29	0.82	10
19	Tax competition will enhance the efficiency	19	-0.33	23	-1.05	33	-0.90	33	-1.39	38	-1.77	40
20	Law to regulate IT to min. N_gov't intervention	20	0.33	15	0.27	15	0.86	9	-0.74	29	0.43	14
21	I_grants will foster L_overspending	21	-1.81	40	-1.35	38	-1.68	38	-0.88	32	-0.59	28
22	To hold L_officials accountable, enact referenda	22	-1.00	33	-1.73	39	-0.33	25	0.97	8	-0.83	32
23	Decentral. will facilitate L_creativity to differen	23	-0.15	22	0.80	8	0.65	13	1.06	6	0.01	20
24	Money & power central., L_gov't can't be act. in L_	24	-0.76	29	2.18	2	-0.91	34	-1.80	40	0.05	19
25	L_determine tax rate & base leads competition tax r	25	-0.50	25	-0.20	24	-1.73	39	-0.23	22	1.80	2
26	L_gov'ts should have autonomy to set L_priorities	26	-0.78	30	1.23	4	1.28	4	-0.51	26	-0.47	25
27	More L_respons. allows welfare prog. better fit L_n	27	-0.85	31	-0.47	27	-0.28	24	-0.53	27	-1.75	39
28	N_gov't should revoke control of L_revenue collecti	28	0.20	17	0.15	20	-0.04	21	-0.86	31	-1.09	33
29	N_gov't to establish indicators for distr. NST & IT	29	1.09	8	0.44	11	1.13	7	0.51	15	0.59	12
30	L_decisions will better reflect L_interests	30	-0.65	27	0.32	12	0.51	15	0.00	21	0.44	13
31	N_grants can stimulate local private investments	31	1.25	5	-0.67	28	-0.63	28	-1.09	34	-0.06	22
32	Law on L_Budgeting should be enacted for N_monitori	32	1.63	2	-0.45	26	-1.96	40	-0.35	23	-1.12	35
33	N_gov't should guarantee sufficient L_revenue	33	0.22	16	2.20	1	0.45	16	0.42	17	1.97	1
34	L_gov't establ. the notion paying L_services by L_r	34	1.76	1	0.75	9	2.09	1	1.48	3	0.36	17
35	Over_decen. will make N_wide fiscal policy impossib	35	0.74	12	0.18	19	-0.43	26	0.32	18	0.90	9
36	L_people to involve in L_policy to realize costs &	36	0.13	21	0.20	18	1.36	3	1.18	5	1.12	6
37	N_gov't should organize a technical assistance team	37	0.99	10	0.23	17	0.18	18	0.00	21	-0.69	30
38	Progressive income tax for I_grants can equalize	38	0.17	19	-1.03	32	-0.08	23	-1.27	36	1.07	7
39	Purpose of IA is to offset inefficiency from spillo	39	-1.43	38	-1.09	36	-1.45	37	0.44	16	-1.19	36
40	Sufficient N_resources to promote balanced L_growth	40	1.45	4	-0.69	29	-0.03	20	0.97	8	1.21	5

A.5 CORRELATIONS BETWEEN FACTOR SCORES

	1	2	3	4	5
1	1.0000	0.2726	0.3980	0.0443	0.4459
2	0.2726	1.0000	0.4187	0.1044	0.4751
3	0.3980	0.4187	1.0000	0.1738	0.3709
4	0.0443	0.1044	0.1738	1.0000	0.2117
5	0.4459	0.4751	0.3709	0.2117	1.0000

A.6 NORMALIZED FACTOR SCORES FOR FACTOR 1

No.	Statement	No.	Z-SCORES
34	L_gov't establ. the notion paying L_services by L_reven.	34	1.755
32	Law on L_Budgeting should be enacted for N_monitoring	32	1.631
2	N_gov't have authority to monitor L_debts, budget, & tax	2	1.495
40	Sufficient N_resources to promote balanced L_growth	40	1.452
31	N_grants can stimulate local private investments	31	1.250
11	N_mech. should be estab. to reward or punish L_gov'ts	11	1.220
6	L_politics, lobbying, & P_groups L_spending grows	6	1.127
29	N_gov't to establish indicators for distr. NST & IT	29	1.085
18	Law of NST be enacted to set stand., formu., & proced.	18	1.082
37	N_gov't should organize a technical assistance team	37	0.988
7	L_governance & L_fiscal systems should be enacted into law	7	0.831
35	Over_decen. will make N_wide fiscal policy impossible	35	0.744
12	N_gov't should reduce conditional grants for L_flex	12	0.632
9	To itemize what L_gov'ts are prohibited to do	9	0.449
20	Law to regulate IT to min. N_gov't intervention	20	0.333
33	N_gov't should guarantee sufficient L_revenue	33	0.225
28	N_gov't should revoke control of L_revenue collection	28	0.202
5	Redistributive policies can be a L_public goods	5	0.180
38	Progressive income tax for I_grants can equalize	38	0.172
3	More efficient to allow Lgov provide L_services	3	0.142
36	L_people to involve in L_policy to realize costs & bene.	36	0.127
23	Decentral. will facilitate L_creativity to differentiate	23	-0.152
19	Tax competition will enhance the efficiency	19	-0.326
15	L_gov'ts incapable of unemp., inflation, and I_redistri.	15	-0.401
25	L_determine tax rate & base leads competition tax reduc.	25	-0.503
8	Paying taxes, people will ask for costs_Red & effe_impro.	8	-0.578
30	L_decisions will better reflect L_interests	30	-0.654
17	L_gov'ts can be creative and effective if more respon.	17	-0.700
24	Money & power central., L_gov't can't be act. in L_proj.	24	-0.755
26	L_gov'ts should have autonomy to set L_priorities	26	-0.780
27	More L_respons. allows welfare prog. better fit L_needs	27	-0.851
10	Rich will move out and the poor will move in for L_Redis	10	-0.911
22	To hold L_officials accountable, enact referenda	22	-1.004
4	Lgov can achieve distributional objectives in E, MC, & HA	4	-1.006
1	Reliance on nat transfers makes L_comp. planing imposs	1	-1.043
13	L_residents should vote for proposal of L_Revenue Coll.	13	-1.145
14	L_gov'ts promote equity, L_econ. resour. will be drained	14	-1.272
39	Purpose of IA is to offset inefficiency from spillover	39	-1.430
16	N_grants lead to ignore projects unfunded by the center	16	-1.797
21	I_grants will foster L_overspending	21	-1.814

A.7 NORMALIZED FACTOR SCORES FOR FACTOR 2

No.	Statement	No.	Z-SCORES
33	N_gov't should guarantee sufficient L_revenue	33	2.203
24	Money & power central., L_gov't can't be act. in L_proj.	24	2.184
12	N_gov't should reduce conditional grants for L_flex	12	2.168
26	L_gov'ts should have autonomy to set L_priorities	26	1.227
3	More efficient to allow Lgov provide L_services	3	1.172
1	Reliance on nat transfers makes L_comp. planing imposs	1	1.054
18	Law of NST be enacted to set stand., formu., & proced.	18	0.937
23	Decentral. will facilitate L_creativity to differentiate	23	0.798
34	L_gov't establ. the notion paying L_services by L_reven.	34	0.749
15	L_gov'ts incapable of unemp., inflation, and I_redistri.	15	0.551
29	N_gov't to establish indicators for distr. NST & IT	29	0.444
30	L_decisions will better reflect L_interests	30	0.317
6	L_politics, lobbying, & P_groups L_spending grows	6	0.299
7	L_governance & L_fiscal systems should be enacted into law	7	0.279
20	Law to regulate IT to min. N_gov't intervention	20	0.273
14	L_gov'ts promote equity, L_econ. resour. will be drained	14	0.255
37	N_gov't should organize a technical assistance team	37	0.226
36	L_people to involve in L_policy to realize costs & bene.	36	0.201
35	Over_decen. will make N_wide fiscal policy impossible	35	0.184
28	N_gov't should revoke control of L_revenue collection	28	0.155
11	N_mech. should be estab. to reward or punish L_gov'ts	11	0.118
17	L_gov'ts can be creative and effective if more respon.	17	-0.030
9	To itemize what L_gov'ts are prohibited to do	9	-0.130
25	L_determine tax rate & base leads competition tax reduc.	25	-0.202
2	N_gov't have authority to monitor L_debts, budget, & tax	2	-0.391
32	Law on L_Budgeting should be enacted for N_monitoring	32	-0.446
27	More L_respons. allows welfare prog. better fit L_needs	27	-0.471
31	N_grants can stimulate local private investments	31	-0.672
40	Sufficient N_resources to promote balanced L_growth	40	-0.692
5	Redistributive policies can be a L_public goods	5	-0.699
16	N_grants lead to ignore projects unfunded by the center	16	-0.723
38	Progressive income tax for I_grants can equalize	38	-1.029
19	Tax competition will enhance the efficiency	19	-1.049
4	Lgov can achieve distributional objectives in E, MC, & HA	4	-1.076
10	Rich will move out and the poor will move in for L_Redis	10	-1.080
39	Purpose of IA is to offset inefficiency from spillover	39	-1.095
8	Paying taxes, people will ask for costs_Red & effe_impro.	8	-1.176
21	I_grants will foster L_overspending	21	-1.349
22	To hold L_officials accountable, enact referenda	22	-1.727
13	L_residents should vote for proposal of L_Revenue Coll.	13	-1.759

A.8 NORMALIZED FACTOR SCORES FOR FACTOR 3

No.	Statement	No.	Z-SCORES
34	L_gov't establ. the notion paying L_services by L_reven.	34	2.087
18	Law of NST be enacted to set stand., formu., & proced.	18	1.678
36	L_people to involve in L_policy to realize costs & bene.	36	1.358
26	L_gov'ts should have autonomy to set L_priorities	26	1.283
9	To itemize what L_gov'ts are prohibited to do	9	1.239
7	L_governance & L_fiscal systems should be enacted into law	7	1.211
29	N_gov't to establish indicators for distr. NST & IT	29	1.128
6	L_politics, lobbying, & P_groups L_spending grows	6	0.936
20	Law to regulate IT to min. N_gov't intervention	20	0.857
12	N_gov't should reduce conditional grants for L_flex	12	0.770
11	N_mech. should be estab. to reward or punish L_gov'ts	11	0.660
3	More efficient to allow Lgov provide L_services	3	0.648
23	Decentral. will facilitate L_creativity to differentiate	23	0.645
17	L_gov'ts can be creative and effective if more respon.	17	0.533
30	L_decisions will better reflect L_interests	30	0.514
33	N_gov't should guarantee sufficient L_revenue	33	0.446
8	Paying taxes, people will ask for costs_Red & effe_impro.	8	0.220
37	N_gov't should organize a technical assistance team	37	0.178
4	Lgov can achieve distributional objectives in E, MC, & HA	4	0.118
40	Sufficient N_resources to promote balanced L_growth	40	-0.027
28	N_gov't should revoke control of L_revenue collection	28	-0.038
10	Rich will move out and the poor will move in for L_Redis	10	-0.070
38	Progressive income tax for I_grants can equalize	38	-0.083
27	More L_respons. allows welfare prog. better fit L_needs	27	-0.276
22	To hold L_officials accountable, enact referenda	22	-0.330
35	Over_decen. will make N_wide fiscal policy impossible	35	-0.427
13	L_residents should vote for proposal of L_Revenue Coll.	13	-0.595
31	N_grants can stimulate local private investments	31	-0.627
1	Reliance on nat transfers makes L_comp. planing imposs	1	-0.643
5	Redistributive policies can be a L_public goods	5	-0.669
16	N_grants lead to ignore projects unfunded by the center	16	-0.809
15	L_gov'ts incapable of unemp., inflation, and I_redistri.	15	-0.831
19	Tax competition will enhance the efficiency	19	-0.902
24	Money & power central., L_gov't can't be act. in L_proj.	24	-0.909
2	N_gov't have authority to monitor L_debts, budget, & tax	2	-1.169
14	L_gov'ts promote equity, L_econ. resour. will be drained	14	-1.287
39	Purpose of IA is to offset inefficiency from spillover	39	-1.453
21	I_grants will foster L_overspending	21	-1.677
25	L_determine tax rate & base leads competition tax reduc.	25	-1.725
32	Law on L_Budgeting should be enacted for N_monitoring	32	-1.963

A.9 NORMALIZED FACTOR SCORES FOR FACTOR 4

No.	Statement	No.	Z-SCORES
6	L_politics, lobbying, & P_groups L_spending grows	6	2.127
1	Reliance on nat transfers makes L_comp. planing imposs	1	1.595
34	L_gov't establ. the notion paying L_services by L_reven.	34	1.479
15	L_gov'ts incapable of unemp., inflation, and I_redistri.	15	1.295
36	L_people to involve in L_policy to realize costs & bene.	36	1.179
23	Decentral. will facilitate L_creativity to differentiate	23	1.063
22	To hold L_officials accountable, enact referenda	22	0.971
40	Sufficient N_resources to promote balanced L_growth	40	0.971
12	N_gov't should reduce conditional grants for L_flex	12	0.948
10	Rich will move out and the poor will move in for L_Redis	10	0.855
14	L_gov'ts promote equity, L_econ. resour. will be drained	14	0.855
11	N_mech. should be estab. to reward or punish L_gov'ts	11	0.740
13	L_residents should vote for proposal of L_Revenue Coll.	13	0.671
8	Paying taxes, people will ask for costs_Red & effe_impro.	8	0.624
29	N_gov't to establish indicators for distr. NST & IT	29	0.508
39	Purpose of IA is to offset inefficiency from spillover	39	0.439
33	N_gov't should guarantee sufficient L_revenue	33	0.416
35	Over_decen. will make N_wide fiscal policy impossible	35	0.324
16	N_grants lead to ignore projects unfunded by the center	16	0.208
30	L_decisions will better reflect L_interests	30	0.000
37	N_gov't should organize a technical assistance team	37	0.000
25	L_determine tax rate & base leads competition tax reduc.	25	-0.231
32	Law on L_Budgeting should be enacted for N_monitoring	32	-0.347
7	L_governance & L_fiscal systems should be enacted into law	7	-0.416
26	L_gov'ts should have autonomy to set L_priorities	26	-0.508
5	Redistributive policies can be a L_public goods	5	-0.508
27	More L_respons. allows welfare prog. better fit L_needs	27	-0.532
20	Law to regulate IT to min. N_gov't intervention	20	-0.740
18	Law of NST be enacted to set stand., formu., & proced.	18	-0.740
28	N_gov't should revoke control of L_revenue collection	28	-0.855
3	More efficient to allow Lgov provide L_services	3	-0.855
21	I_grants will foster L_overspending	21	-0.879
17	L_gov'ts can be creative and effective if more respon.	17	-0.948
31	N_grants can stimulate local private investments	31	-1.087
2	N_gov't have authority to monitor L_debts, budget, & tax	2	-1.271
38	Progressive income tax for I_grants can equalize	38	-1.271
19	Tax competition will enhance the efficiency	19	-1.387
9	To itemize what L_gov'ts are prohibited to do	9	-1.387
4	Lgov can achieve distributional objectives in E, MC, & HA	4	-1.503
24	Money & power central., L_gov't can't be act. in L_proj.	24	-1.803

A.10 NORMALIZED FACTOR SCORES FOR FACTOR 5

No.	Statement	No.	Z-SCORES
33	N_gov't should guarantee sufficient L_revenue	33	1.973
25	L_determine tax rate & base leads competition tax reduc.	25	1.798
6	L_politics, lobbying, & P_groups L_spending grows	6	1.673
7	L_governance & L_fiscal systems should be enacted into law	7	1.481
40	Sufficient N_resources to promote balanced L_growth	40	1.215
36	L_people to involve in L_policy to realize costs & bene.	36	1.120
38	Progressive income tax for I_grants can equalize	38	1.067
12	N_gov't should reduce conditional grants for L_flex	12	0.900
35	Over_decen. will make N_wide fiscal policy impossible	35	0.896
18	Law of NST be enacted to set stand., formu., & proced.	18	0.820
3	More efficient to allow Lgov provide L_services	3	0.734
29	N_gov't to establish indicators for distr. NST & IT	29	0.591
30	L_decisions will better reflect L_interests	30	0.438
20	Law to regulate IT to min. N_gov't intervention	20	0.432
11	N_mech. should be estab. to reward or punish L_gov'ts	11	0.386
2	N_gov't have authority to monitor L_debts, budget, & tax	2	0.385
34	L_gov't establ. the notion paying L_services by L_reven.	34	0.361
14	L_gov'ts promote equity, L_econ. resour. will be drained	14	0.093
24	Money & power central., L_gov't can't be act. in L_proj.	24	0.053
23	Decentral. will facilitate L_creativity to differentiate	23	0.014
9	To itemize what L_gov'ts are prohibited to do	9	0.008
31	N_grants can stimulate local private investments	31	-0.057
16	N_grants lead to ignore projects unfunded by the center	16	-0.156
15	L_gov'ts incapable of unemp., inflation, and I_redistri.	15	-0.189
26	L_gov'ts should have autonomy to set L_priorities	26	-0.470
4	Lgov can achieve distributional objectives in E, MC, & HA	4	-0.554
8	Paying taxes, people will ask for costs_Red & effe_impro.	8	-0.573
21	I_grants will foster L_overspending	21	-0.586
1	Reliance on nat transfers makes L_comp. planing imposs	1	-0.659
37	N_gov't should organize a technical assistance team	37	-0.686
10	Rich will move out and the poor will move in for L_Redis	10	-0.697
22	To hold L_officials accountable, enact referenda	22	-0.832
28	N_gov't should revoke control of L_revenue collection	28	-1.089
5	Redistributive policies can be a L_public goods	5	-1.090
32	Law on L_Budgeting should be enacted for N_monitoring	32	-1.116
39	Purpose of IA is to offset inefficiency from spillover	39	-1.186
17	L_gov'ts can be creative and effective if more respon.	17	-1.392
13	L_residents should vote for proposal of L_Revenue Coll.	13	-1.581
27	More L_respons. allows welfare prog. better fit L_needs	27	-1.752
19	Tax competition will enhance the efficiency	19	-1.772

A.11 FACTOR Q-SORT VALUES FOR EACH STATEMENT

No.	Statement	No.	Factor Arrays				
			1	2	3	4	5
1	Reliance on nat transfers makes L_comp. planing imposs	1	-3	3	-2	4	-2
2	N_gov't have authority to monitor L_debts, budget, & tax	2	4	-1	-3	-3	1
3	More efficient to allow Lgov provide L_services	3	0	3	2	-2	2
4	Lgov can achieve distributional objectives in E, MC, & HA	4	-3	-3	0	-4	-1
5	Redistributive policies can be a L_public goods	5	0	-2	-2	-1	-3
6	L_politics, lobbying, & P_groups L_spending grows	6	3	1	2	4	4
7	L_governance & L_fiscal systems should be enacted into law	7	2	1	3	-1	3
8	Paying taxes, people will ask for costs_Red & effe_impro.	8	-1	-3	1	1	-1
9	To itemize what L_gov'ts are prohitited to do	9	1	0	3	-4	0
10	Rich will move out and the poor will move in for L_Redis	10	-2	-3	0	2	-2
11	N_mech. should be estab. to reward or pubish L_gov'ts	11	3	0	2	2	1
12	N_gov't should reduce conditional grants for L_flex	12	1	4	2	2	2
13	L_residents should vote for proposal of L_Revenue Coll.	13	-3	-4	-1	1	-4
14	L_gov'ts promote equity, L_econ. resour. will be drained	14	-3	1	-3	2	0
15	L_gov'ts incapable of unemp., inflation, and I_redistri.	15	-1	2	-2	3	-1
16	N_grants lead to ignore projects unfunded by the center	16	-4	-2	-2	0	0
17	L_gov'ts can be creative and effective if more respon.	17	-1	0	1	-2	-3
18	Law of NST be enacted to set stand., formu., & proced.	18	2	3	4	-2	2
19	Tax competition will enhance the efficiency	19	0	-2	-2	-4	-4
20	Law to regulate IT to min. N_gov't intervention	20	1	1	2	-2	1
21	I_grants will foster L_overspending	21	-4	-4	-4	-2	-1
22	To hold L_officials accountable, enact referenda	22	-2	-4	-1	2	-2
23	Decentral. will facilitate L_creativity to differentiate	23	0	2	1	3	0
24	Money & power central., L_gov't can't be act. in L_proj.	24	-2	4	-3	-4	0
25	L_determine tax rate & base leads competition tax reduc.	25	-1	-1	-4	0	4
26	L_gov'ts should have autonomy to set L_priorities	26	-2	3	3	-1	-1
27	More L_respons. allows welfare prog. better fit L_needs	27	-2	-1	-1	-1	-4
28	N_gov't should revoke control of L_revenue collection	28	1	0	0	-2	-2
29	N_gov't to establish indicators for distr. NST & IT	29	2	2	3	1	2
30	L_decisions will better reflect L_interests	30	-1	2	1	0	1
31	N_grants can stimulate local private investments	31	3	-1	-1	-3	0
32	Law on L_Budgeting should be enacted for N_monitoring	32	4	-1	-4	0	-3
33	N_gov't should guarantee sufficient L_revenue	33	1	4	1	1	4
34	L_gov't establ. the notion paying L_services by L_reven.	34	4	2	4	4	1
35	Over_decen. will make N_wide fiscal policy impossible	35	2	0	-1	0	2
36	L_people to involve in L_policy to realize costs & bene.	36	0	0	4	3	3
37	N_gov't should organize a technical assistance team	37	2	1	0	0	-2
38	Progressive income tax for I_grants can equalize	38	0	-2	0	-3	3
39	Purpose of IA is to offset inefficiency from spillover	39	-4	-3	-3	1	-3
40	Sufficient N_resources to promote balanced L_growth	40	3	-2	0	2	3

Variance = 5.450 St. Dev. = 2.335

APPENDIX B

FACTOR ARRAYS

B.1 FACTOR ARRAYS OF FIVE REVEALED PATTERNS

Factor Array of Pattern I

Most Agree								Most Disagree	
4	3	2	1	0	-1	-2	-3	-4	
34	40	29	12	05	15	24	04	39	
32	31	18	09	38	25	26	01	16	
02	11	37	20	03	08	27	13	21	
(3)	06	07	33	36	30	10	14	(3)	
	(4)	35	28	23	17	22	(4)		
		(5)	(5)	19	(5)	(5)			
				(6)					

Factor Array of Pattern II

Most Agree								Most Disagree	
4	3	2	1	0	-1	-2	-3	-4	
33	26	23	06	36	25	40	04	21	
24	03	34	07	35	02	05	10	22	
12	01	15	20	28	32	16	39	13	
(3)	18	29	14	11	27	38	08	(3)	
	(4)	30	37	17	31	19	(4)		
		(5)	(5)	09	(5)	(5)			
				(6)					

Factor Array of Pattern III

Most Agree									Most Disagree			
4	3	2	1	0	-1	-2	-3	-4				
34	26	06	23	37	27	01	24	21				
18	09	20	17	04	22	05	02	25				
36	07	12	30	40	35	16	14	32				
(3)	29	11	33	28	13	15	39	(3)				
	(4)	03	08	10	31	19	(4)					
		(5)	(5)	38	(5)	(5)						
				(6)								

Factor Array of Pattern IV

Most Agree									Most Disagree			
4	3	2	1	0	-1	-2	-3	-4				
06	15	40	13	35	07	18	31	09				
01	36	12	08	16	26	28	02	04				
34	23	10	29	30	05	03	38	24				
(3)	22	14	39	37	27	21	19	(3)				
	(4)	11	33	25	20	17	(4)					
		(5)	(5)	32	(5)	(5)						
				(6)								

Factor Array of Pattern V

Most Agree									Most Disagree			
4	3	2	1	0	-1	-2	-3	-4				
33	07	12	30	14	15	01	05	13				
25	40	35	20	24	26	37	32	27				
06	36	18	11	23	04	10	39	19				
(3)	38	03	02	09	08	22	17	(3)				
	(4)	29	34	31	21	28	(4)					
		(5)	(5)	16	(5)	(5)						
				(6)								

B.2 FACTOR ARRAYS BY CATEGORIES

C	N	Q Statements	I	II	III	IV	V
Efficiency-Central Control	39	The main purpose of granting intergovernmental aid is to offset inefficiency caused by the spillover effect, which means benefits of local services can be enjoyed by residents in other jurisdictions.	-4	-3	-3	1	-3
	06	Due to local politics, interests lobbying, and pressure groups, local spending keeps growing and becomes inefficient.	3	1	2	4	4
	25	Once local government officials obtain authority to determine local tax bases and rates, it is easy for them to engage in a competition for tax reduction.	-1	-1	-4	0	4
	35	Over decentralization will make a consistent nation-wide fiscal policy impossible, resulting in an even more severe fiscal imbalance among localities.	2	0	-1	0	2
Efficiency-Local Freedom	03	It would be far more efficient to allow local governments to provide local public services at different levels than to regulate them under a uniform level set by the national government.	0	3	2	-2	2
	19	Tax competition will enhance the efficiency of economic resource allocation.	0	-2	-2	-3	-4
	23	Decentralization will facilitate local governments' creativity to differentiate service provisions for meeting different needs.	0	2	1	3	0
	21	Intergovernmental grants from the national government will foster local overspending.	-4	-4	-4	-2	-1
Autonomy-Central Control	07	The establishment of self-governance and local fiscal systems should be enacted into law.	2	1	3	-1	3
	18	The Law of Shared Tax should be enacted to regulate standards, formulas, and procedures of shared tax distribution.	2	3	4	-2	2
	20	A law should be enacted to regulate the system of intergovernmental transfer in order to minimize the possibility that national government would use intergovernmental transfers as a policy tool to intervene in local affairs.	1	1	2	-1	1
	12	The national government should reduce the amount of conditional grants year by year to allow local governments more flexibility for resource allocation.	1	4	2	2	2

C	N	Q Statements	I	II	III	IV	V
Autonomy-Local Freedom	09	The principle of regulating local governments is to itemize what they are prohibited to do.	1	0	3	-4	0
	28	The national government should revoke control of local revenue collection.	1	0	0	-2	-2
	13	Following certain administrative procedures, local residents should be able to vote on proposals for local revenue collection.	-3	-4	-1	1	-4
	26	Local government should have complete independent autonomy to set policy priorities for its administrative activities.	-2	3	3	-1	-1
Accountability-Central Control	11	In order to ensure a link between local public service provision and local tax collection, the national government should establish a mechanism to reward or punish local governments.	3	0	2	2	1
	29	The national government should establish a set of objective indicators to evaluate local fiscal efforts and take them into account in the mechanism of distributing national shared tax revenue and intergovernmental transfers.	2	2	3	1	2
	02	The national government should have the authority to monitor and control local governments' practices in raising debts, budgeting, taxing, and collecting other local revenues.	4	-1	-3	-3	1
	32	The Law on Local Budgeting, which includes penalties for unlawful practices, should be enacted to strengthen the ability of the Ministry of Finance and Directorate General of Budget Accounting and Statistics in the national government to monitor local budgeting processes and implementation.	4	-1	-4	0	-3
Accountability-Local Freedom	36	Local people should be encouraged to get involved in the local policy making process to realize the costs and benefits of local services, and to better hold local officials accountable for local spending.	0	0	4	3	3
	34	Local government officials should recognize the essence of local self-governance, establish the notion of paying local services by local revenues, and aggressively collect own-source revenue based on the law.	4	2	4	4	1
	22	In order to better hold local government officials accountable, a system of referenda on local fiscal issues should be established.	-2	-4	-1	3	-2
	08	Only after local people feel the pain of paying taxes, will they actively ask local government officials for more cost reduction and effectiveness improvement.	-1	-3	1	1	-1

C	N	Q Statements	I	II	III	IV	V
Development-Central Control	40	When sufficient financial resources are retained, the national government will be better able to push development projects with national significance in order to promote balanced growth among localities.	3	-2	0	2	3
	31	Grants from the national government can stimulate local private investments.	3	-1	-1	-3	0
	33	The national government should guarantee local governments sufficient financial resources to support their basic public programs.	1	4	1	1	4
	37	The national government should organize a technical assistance team to help each local government develop a financial plan based on their unique economic activities to ensure sufficient financial resources for local development.	2	1	0	0	-2
Development-Local Freedom	16	Reliance on national grants will lead local governments to ignore projects not funded by the central government, resulting in an imbalance of local development.	-4	-2	-2	0	0
	24	Money and power are centralized to make local governments unable to actively design and implement local development projects.	-2	4	-3	-4	0
	30	Local governments' decisions on resource allocation will better reflect local interests because they are closer to local people.	-1	2	1	0	1
	01	Local governments continually and chronically rely on national grants to support local spending needs, rendering comprehensive local development planning impossible.	-3	3	-2	4	-2
Equity-Central Control	15	Local governments are incapable of dealing with unemployment, inflation, and income redistribution successfully.	-1	2	-2	3	-1
	14	If local governments get involved in the policies to promote equity, local economic resources will be drained.	-3	1	-3	2	0
	38	If revenues collected from the progressive income tax can be the source for intergovernmental grants, income distribution will be better equalized.	0	-2	0	-3	3
	10	If a local government performs redistribution functions, such as social welfare policies, rich residents will move out and the poor will move in.	-2	-3	0	2	-2

C	N	Q Statements	I	II	III	IV	V
Equity-Local Freedom	04	Generally speaking, local governments can achieve distributional objectives by getting involved in policy areas such as education, medical care, or housing assistance.	-3	-3	0	-4	-1
	17	Local governments are expected to respond creatively and effectively if given increased responsibility for welfare policy.	-1	0	1	-2	-3
	27	Locating more responsibility for redistributive policy with local governments allows them to design welfare programs that are more appropriate to their own needs and better reflect the preferences of their residents.	-2	-1	-1	-1	-4
	05	Redistributive policies can also be a local public good implemented by local governments.	0	-2	-2	-1	-3

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