

Document de treball de l'IEB 2010/9

FISCAL EQUALIZATION AND POLITICAL CONFLICT

Maria Cubel

Fiscal Federalism

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ABSTRACT: In this paper we analyze the political viability of equalization rules in the context of a decentralized country. In concrete terms, we suggest that when equalization devices are perceived as unfair by one or more regions, political conflict may emerge as a result. Political conflict is analysed through a non cooperative game. Regions are formed by identical individuals who, through lobbying, try to impose their regional preferences on the rest of the country, and political conflict is measured as the total contribution to lobbying. We conclude that the onset of conflict depends on the degree of publicness of the regional budget. When regional budgets are used to provide pure public goods, proportional equalization is politically feasible. However, no equalization rule is immune to conflict when budgets are used to provide private goods or a linear combination of private and public goods.

JEL Codes: D74, D31,H77, R51

Keywords: political conflict, lobbying, equalization grants, social decision rules.

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