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Editorial

This year the IEB is publishing its second World Report on Fiscal Federalism. The editors of the report are the IEB researchers and University of Barcelona professors Núria Bosch and Albert Solé-Ollé. The report is published on an annual basis and includes contributions from expert authors in the field both from the IEB and from other universities, research centres, government bodies and agencies in Spain and abroad. The purpose of the report is to contribute to the debate on the design of multi-level governments by bringing together academic analysis and policy-making expertise.

Each year, the report is built around a central theme, chosen on the grounds of its policy relevance. Contributions on this theme are commissioned from internationally renowned experts and included in the Forum section. The main theme of this year's report is the financing of local governments. Local governments are the public administrations closest to citizens; they are the first place citizens go to request public services and they are the administrations that know citizens' preferences best. The consequence is that local governments often provide services which they are not legally obliged to offer. The resulting increase in expenditure needs, especially in times of crisis, is not always covered by suitable financial systems. Local governments are the lowest level of administration and they sometimes lack sufficient fiscal flexibility and financial tools to adapt to this changing situation. The aim of this report is to analyse the fiscal and financial issues faced by local governments.

This year the first commissioned contribution is by Richard Bird (University of Toronto) who writes about trends in the latest reforms in local financing. The contribution by Enid Slack (also from the University of Toronto) discusses the role of residential and non-residential property taxes in theory and practice. The third contribution is by Lars-Erik Borge, who discusses the role of equalization grants to state and local governments under the principles of equity and efficiency. In the fourth contribution analyses the earmarking of grants to sub-national governments. The last contribution is by Bernard Dafflon who describes institutional restrictions on borrowing (rules of balance and for local borrowing, accounting requirements, administrative control) and the consequences of excessive debt and sanctions (bailout, sanctions, sustainability).

The second section of the report is called Around the world, and includes several shorter contributions on the situation of subcentral public finances and fiscal federalism reforms in different countries. The first paper, written by Luiz de Mello (OECD), discusses the main trends and challenges of local government finance in Europe. The second, by Teresa Palmer (University of Illes Balears), focuses on the different kinds of tourism taxes and the reasons for applying them. The third contribution, by Leo Rizzo (IEB and University of Ferrara) and Alberto Zanardi (University of Bologna and Econpubblica-Bocconi University) describes the

2009 reform of Italian local finance. Finally, in the last paper on road pricing and city tolls, Federico Boffa (University of Macerata) and Amedeo Piolatto (IEB and University of Barcelona) review the economics behind road pricing and provide an assessment of some road pricing experiences.

The third section of the report (Research report), includes non-technical summaries of research projects funded by the IEB or undertaken by IEB researchers themselves. The section presents the results of the IEB's research on fiscal federalism to a non-specialist audience. Marius Brülhart (University of Lausanne) and Kurt Schmidheiny (Pompeu Fabra University) point out a new way to identify the degree of "rivalness" of local policies designed to attract economic activities. Federico Revelli (University of Torino) investigates how state-wide revenue raising limitation rules shape local governments' budget constraints. Helmuth Cremer and Catarina Goulão (Toulouse School of Economics) analyse the sustainability of more redistributive insurance systems in a context of labour mobility. The last contribution in this section, by Peter Egger (ETH Zurich), Marko Koethenbueger (University of Copenhagen) and Michael Smart (University of Toronto), empirically analyses the extent to which the incentive effects of fiscal equalization depend on the electoral rules under which politicians are elected.

The report concludes with the Review section, where the latest books published on topics related to fiscal federalism are reviewed.

The editors and the IEB team hope that the 'IEB's World Report on Fiscal Federalism' will be of interest to the many scholars and practitioners working in the field of fiscal federalism and will serve to stimulate debate on multi-level governance.

Institut d'Economia de Barcelona (IEB)

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