

IEB's World Report '09 on Fiscal Federalism



IEB's World Report '09 on Fiscal Federalism

Editorial	7
------------------	----------

Forum: Sub-Central Finances in Times of Crisis

Overview: How to Give Sub-Central Governments the Right Form of Assistance

Albert Solé-Ollé Institut d'Economia de Barcelona (IEB) Universitat de Barcelona	10
---	-----------

The Impact of the Global Crisis on Sub-National Governments' Finances

Teresa Ter-Minassian Former Director of the IMF's Fiscal Affair Department	
Annalisa Fedelino IMF Fiscal Affair Department	16

Local Deficits in Times of Economic Crises: any Role?

Robert P. Inman Wharton School, University of Pennsylvania	28
--	-----------

Fiscal Policy, Grants, and Subnational Government Budget Balance

Thiess Buettner Ifo Institute and Munich University LMU	38
---	-----------

Around the world

Sub-National Dimension of Stimulus Packages

Camila Vammalle OECD	
Claire Charbit OECD	50

The Global Financial Crisis and Local Governments: Results from a Survey

Jorge Martínez-Vázquez Georgia State University	
Paul Smoke New York University	
François Vaillancourt Université de Montréal	54

The Reform of Regional Government Finances in Spain

Núria Bosch Institut d'Economia de Barcelona (IEB) University of Barcelona	58
---	-----------

Italy 2009-2016: Fiscal Federalism in the Making**Giancarlo Pola**

University of Ferrara

62

Research Report**Representation and Regional Redistribution in Federations****Jonathan Rodden**

Stanford University

68

The Rise of Partial Decentralization and Shared Responsibility Federalism**Mario Jametti**

York University

University of Lugano

CESifo

Marcelin Joanis

Université de Sherbrooke

GRÉDI

CIRANO

78

Fiscal Federalism and Electoral Accountability**Toke S. Aidt**

University of Cambridge

Jayasri Dutta

University of Birmingham

90

Database**OECD data on general versus specific intergovernmental grants**

100

OECD data on the tax autonomy of sub-national governments

104

Review

110

Author Index

116

Editorial

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

Each year, the report will be built around a central theme, chosen on the grounds of its policy relevance. Several commissioned contributions on this topic from internationally renowned experts will be included in the so-called *Forum* section of the report. The main theme of this year's report will be the Situation of Sub-central finances in times of crisis. The severity of the current crisis and its impact on public finances were misperceived by policy-makers and analysts alike. Some of us have had to renew our toolbox during the last year, recalling theories and arguments from the past. Perhaps it is too late for our recommendations to have any impact on the current situation. It would be a mistake, however, not to use this opportunity to advance in our understanding of the world and to make some policy proposals that might help us cope better with any future crisis.

This year's commissioned contributions are from Teresa Ter-Minassian & Analisa Fedelino who will write on '*The impact of the global crisis on sub-central finances*'. They will basically describe the effect of the crisis on sub-central budgets, examining the actions adopted by both central and sub-central governments to cope with it, and provide some policy proposals for the future. The contribution by Robert P. Inman (Wharton School – University of Pennsylvania), entitled '*Local deficits in times of economic crises: any role?*', discusses the appropriateness of using sub-central debt either to adjust the budget or to stimulate the local economy, and compares this policy option with the alternative of increased federal assistance. The paper concludes with some clearly articulated policy prescriptions. The third contribution, entitled '*Fiscal policy, grants, and sub-national budget balance*' is by Thiess Buettner, who focuses on the role of inter-governmental transfers in stabilizing the budgets of sub-central governments and as part of stimulus programs. The author will also provide some policy recommendations indicating how these grants should be designed so as to avoid certain undesirable side effects. These three commissioned contributions are preceded by a paper entitled '*Overview: How to assist sub-central governments the right way*', where the editors seek to summarize the main points that have been documented and to provide a critical assessment of the different policy proposals made by the three experts, most of them regarding the design of assistance programs for sub-central governments in times of crisis.

The second section of the report is called *Around the world*, and includes several shorter contributions on the situation of sub-central public finances and fiscal federalism reforms in a number of countries. The first two contributions are also related to the central topic of the report – the effects of the economic crisis on sub-central budgets. The first, written by Camila Vammalle (OECD) and entitled '*The sub-central dimension of stimulus packages*', is based on the results of a recent OECD survey and describes the role of sub-central governments in the design and implementation of policies to cope with the current crisis. The second, by Jorge Martínez-Vázquez, Paul Smoke and François Vaillancourt, entitled '*The global financial crisis and local governments: results from a survey*', uses detailed data from a recent survey conducted by United Cities and Local Governments to describe the impact of the crisis on local governments around the world and of the measures undertaken. The third contribution, by Núria Bosch (IEB University of Barcelona) is entitled '*The reform of regional government finances in Spain*' and describes the controversial 2009 reform of equalization grants in Spain. Finally, in the last contribution, entitled '*Italy 2009-2014: fiscal federalism in the making*' Giancarlo Pola (University of Ferrara) describes the recent changes in the territorial organization of the Italian state.

The third section of the report, called *Research report*, includes non-technical summaries of research projects funded by the IEB or undertaken by IEB researchers themselves. This section seeks to communicate to a non-specialist audience the results of the IEB's research on fiscal federalism. This year the report includes contributions covering a range of issues in Political Economy. Jonathan Rodden (Stanford University) writes on the effect of legislative representation on the progressivity of intergovernmental transfers. Mario Jametti (York University) and Marcelin Joannis (Université de Sherbrooke) describe their research on the determinants of partial decentralization. Toke Aidt (University of Cambridge) and Jayasri Dutta (University of Birmingham) explain the main conclusions of a research project examining the effect of unequal electoral turnout across regions on accountability in decentralized vs. centralized countries. The next section of the report is called *Database*, and includes short contributions describing useful statistical sources that provide information on sub-national budgets, either with a national or an international scope. This year the two contributions describe and assess the OECD databases on tax autonomy and intergovernmental grants. Finally, 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 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.