Inter-governmental Fiscal Relations

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CDDG, Strasbourg, 9 December 2019



Key points

1. Approach of the Network

2. Work programme priorities

3. Studies and country support





OECD Network on Fiscal Relations

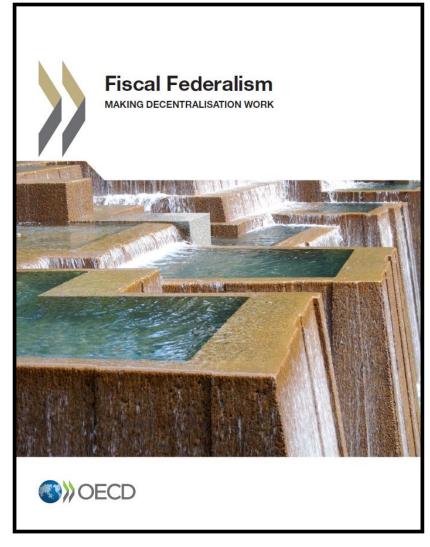
Objectives:

- Share experiences on all aspects of fiscal federalism and sub-national public finance, on both the revenue and spending sides of the budget
- Annual Network meetings, as well as workshops and expert seminars
- Unique policy analysis, database and reports

Web: http://oe.cd/fiscalnetwork

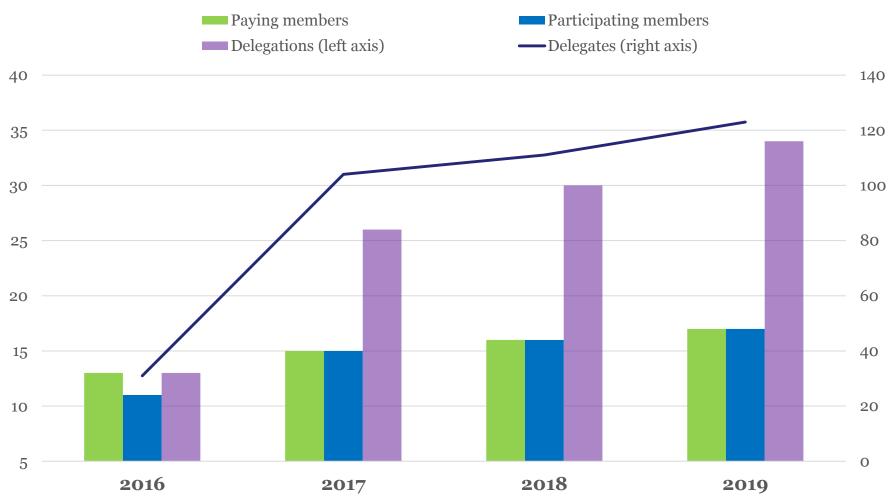






Growing country engagement

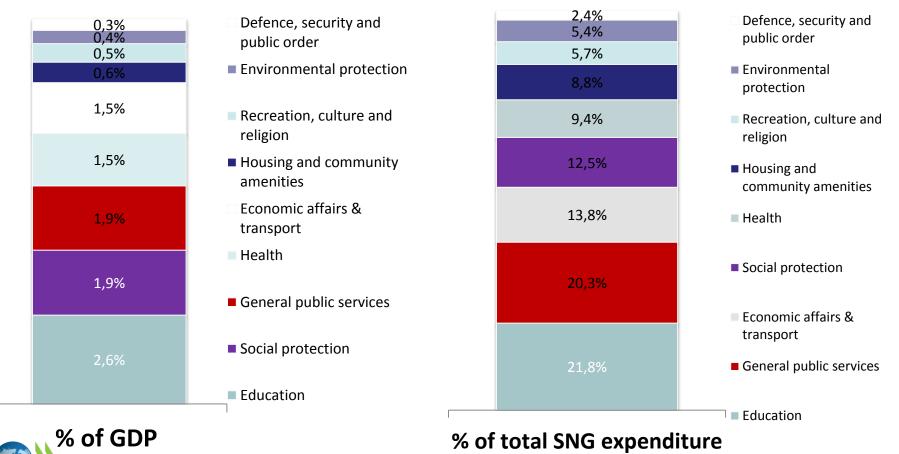
Membership and engagement





Certain areas are more decentralised than others: education, social protection, health, public transport, housing

Breakdown of SNG expenditure by economic function





Source: OECE

OECD countries follow various fiscal models

Decentralised

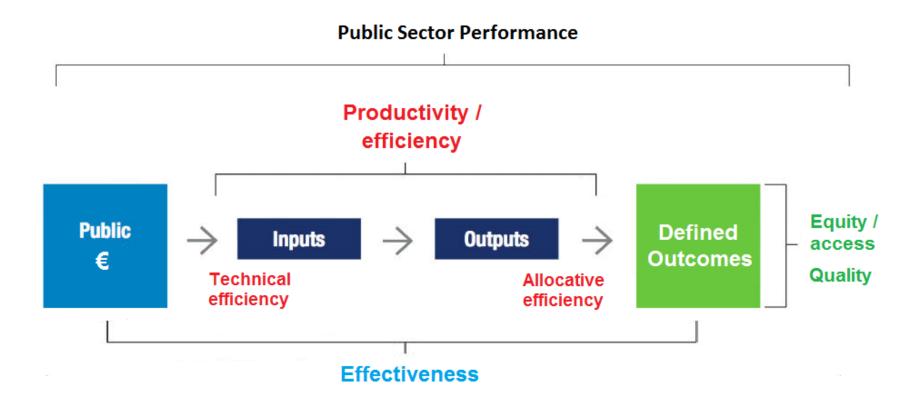
	Type 1	High decentralised spending and high tax revenues	Canada, Denmark, Sweden, Finland, Germany, United States, Japan, Spain, Switzerland, Australia, Belgium
	Type 2	Medium decentralised spending and medium tax revenues	Slovenia, France, Czech rep, Italy, Norway, Poland, Korea, Latvia, Iceland, Australia
	Type 3	Medium decentralised spending and low tax revenues	Estonia, UK, Netherlands, Mexico, Austria
	Type 4	Low decentralised spending and low tax revenues	Greece, New Zealand, Ireland, Chile, Turkey, Portugal, Slovakia, Hungary, Luxembourg, Israel
Centralised			



Source: OECD (2019), Making Decentralisation Work 6

Can decentralisation promote sub-national government performance?

Central governments can help sub-nationals to enhance public sector productivity

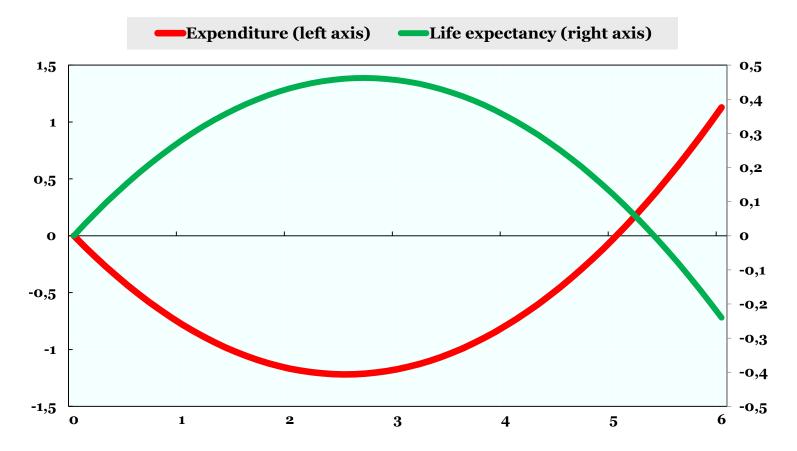




Source: OECD Fiscal Federalism 2020

Decentralisation can improve outcomes, only to a certain extent (e.g. healthcare)

Better health outcomes are associated with moderate decentralisation

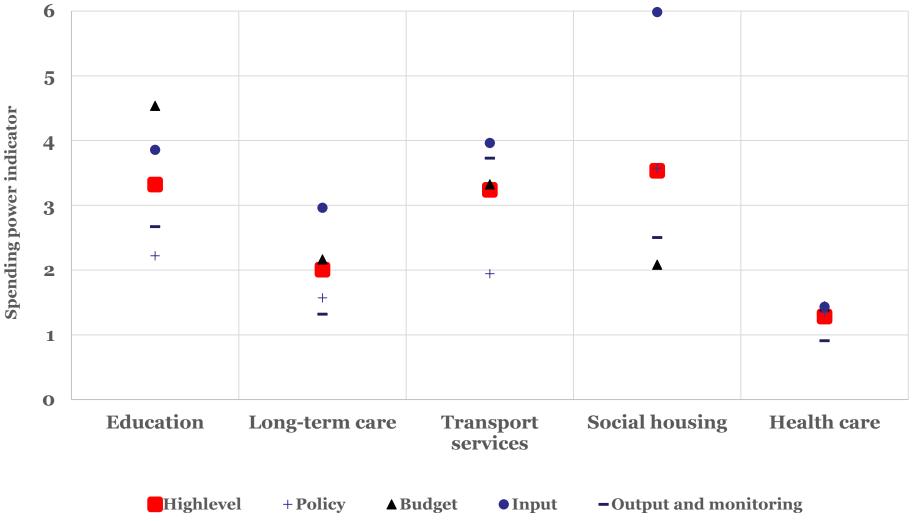


Decentralisation index (o = fully centralised; 6 = fully decentralised)

Source: OECD Fiscal Federalism Paper No. 27



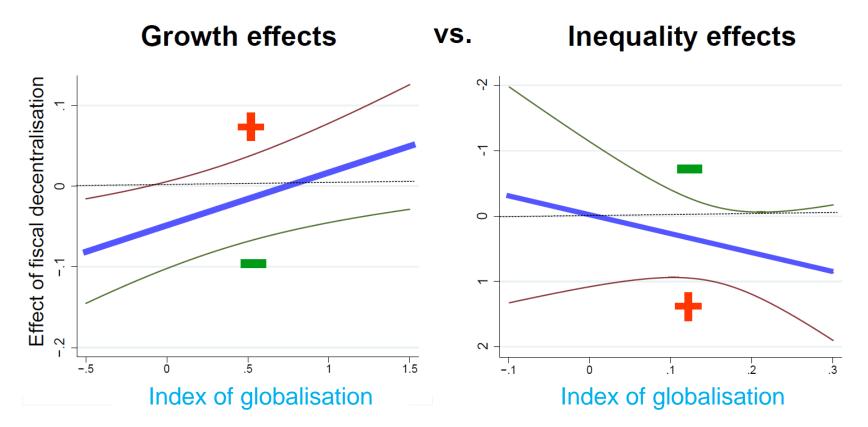
Healthcare tends to be more centralised, while other sectors are more decentralised





Decentralisation can boost economic growth, yet may also increase inequality

Effect of increasing centralisation or decentralisation of revenues



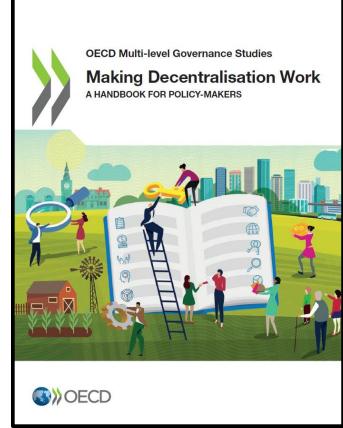


Source: Boadway and Dougherty (2019) in OECD-KIPF, Fiscal Decentralisation and Inclusive Growth in Asia

Key lessons from the Fiscal Network

Based on the new Handbook and Synthesis:

- 1. Better <u>align</u> sub-central spending with own-source revenue
- 2. Raise sub-central spending power and tax <u>autonomy</u> to reduce the need for earmarked grants
- 3. Strengthen fiscal <u>equalisation</u> systems
- 4. <u>Delineate</u> responsibilities and functions clearly
- 5. Improve transparency, data collection and performance <u>monitoring</u> to enhance co-ordination

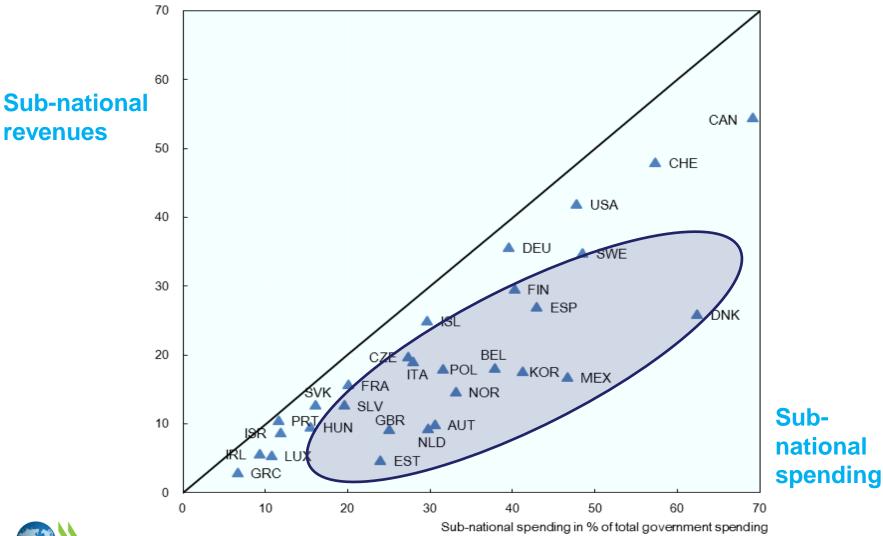




Source: OECD (2019), *Making Decentralisation Work* and «Synthesis of Fiscal Federalism Reviews» (OECD, 2020)

Most countries decentralise spending more

than revenues





Source: OECD Fiscal Federalism 2020 and Fiscal Decentralisation database

Public policy responses to challenges

1) SCG own-revenues only partially cover expenses (low tax autonomy)

2) SCGs have limited capacity to respond to fiscal needs (low spending power)

Strengthen subcentral fiscal autonomy by aligning revenues and spending

 Extensive joint government initiatives (overlap)
Administrative borders that

2) Administrative borders that do not correspond to geography of issues (e.g. transport/planning exclusively local) Delineate subcentral responsibilities and improve incentives

1) Intra-national barriers to labour mobility

2) Inadequate performance evaluation and monitoring

3) Failure to centralise coordination functions of government

Improve internal markets, information sharing and coordination



Source: OECD (2020), Synthesis of Fiscal Federalism Reviews

Tax autonomy in OECD countries

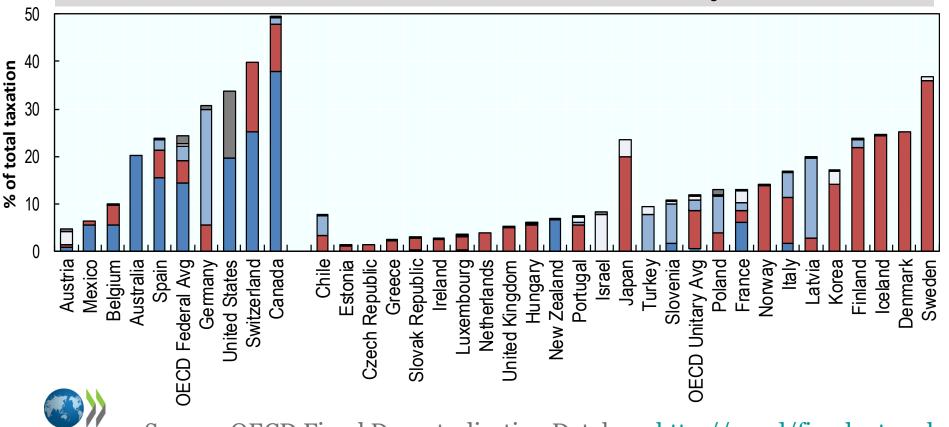
Federal Countries

□ C. The recipient SCG sets tax reliefs

□ E. Other cases

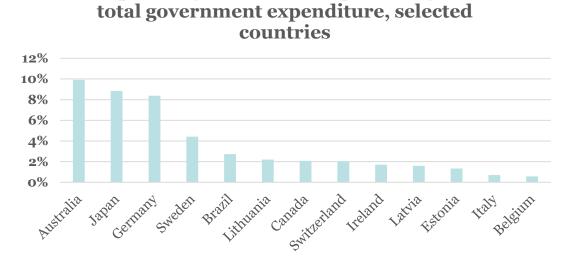
Unitary Countries

- A. The recipient SCG sets the tax rate and any tax reliefs B. The recipient SCG sets the tax rate
 - D. There is a tax-sharing arrangement
 - F. None of the above categories



Source: OECD Fiscal Decentralisation Database <u>http://oe.cd/fiscalnetwork</u>

New fiscal equalisation benchmarking



Equalising transfers as a percentage of

Equalising transfers and tax autonomy, selected federal countries

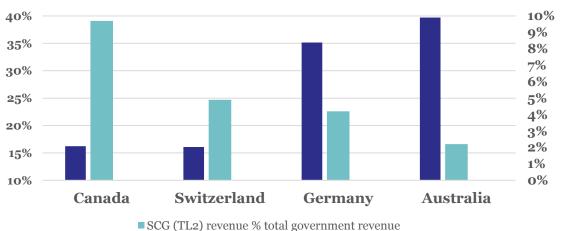
 In federal countries, the scale of equalisation may be related to fiscal autonomy

The scale of

countries

equalisation varies

considerably across



Equalising transfers % total government expenditure



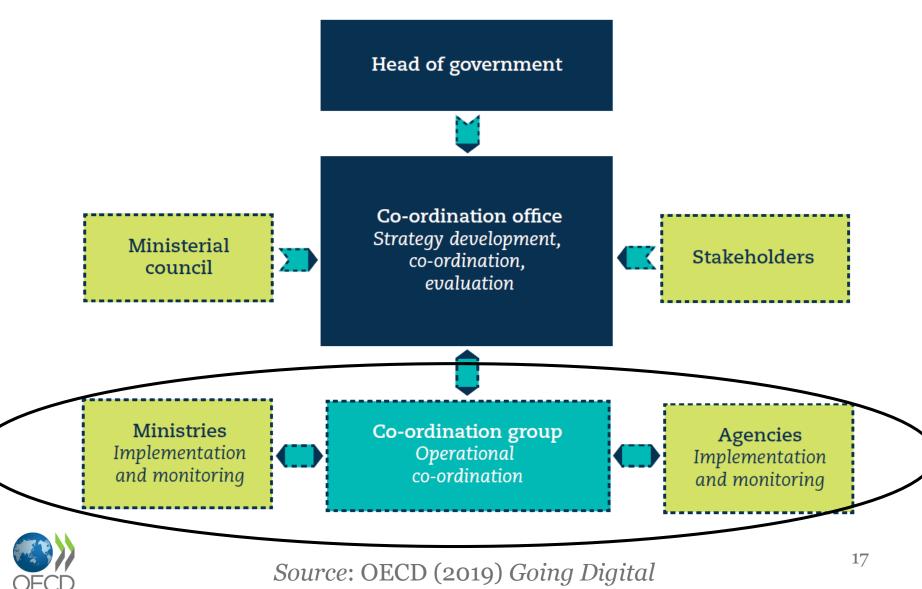
Preliminary findings: Policy responses

- A few key mechanism design approaches have been identified to help equalisation policy be more neutral from the perspective of the SCG:
 - Use of a representative tax system (e.g. Canada, Australia, Germany)
 - Use of standardized costs (e.g. Japan, Korea)
 - Incomplete equalisation (e.g. Germany, Lithuania, Estonia)
 - Separating equalising transfers from other transfers (e.g. Canada)
 - Arms-length commissions (e.g. India, Australia)



Government co-ordination matters

High-level strategic co-ordination of digital transformation policies

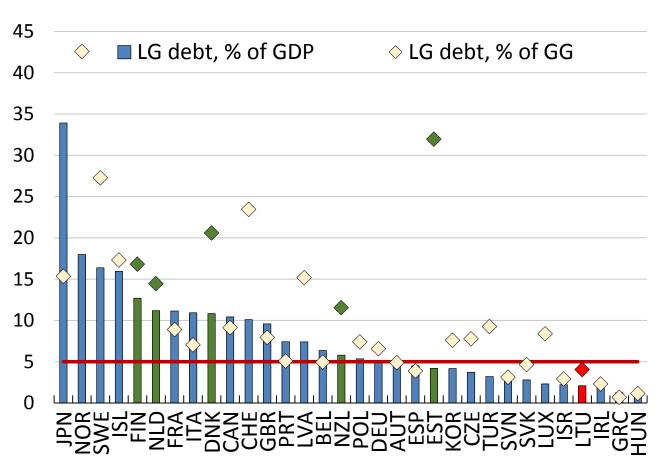






Examining frameworks of several models

- Finland
- Estonia
- Netherlands
- Denmark
- New Zealand

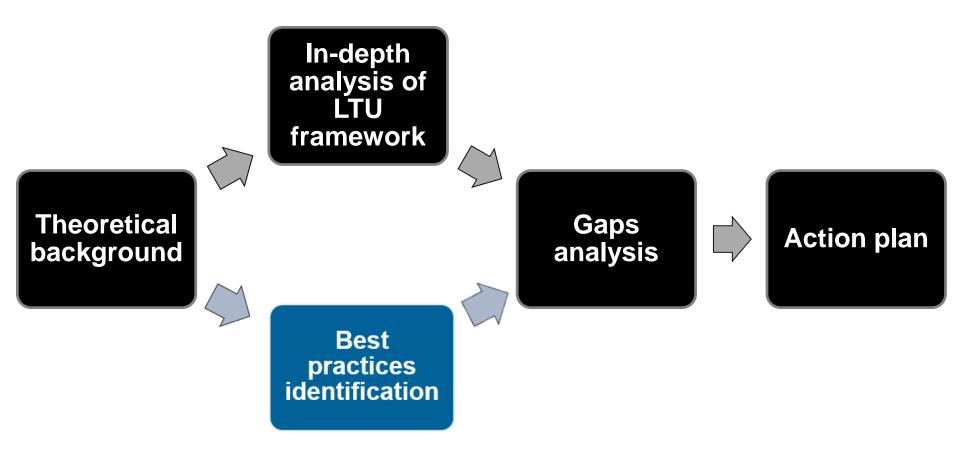


Note: Countries in green that are selected as a comparators.

Source: OECD-WOFI (2018).



Country support for Lithuania





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