



# Inter-governmental Fiscal Relations

**Sean M. Dougherty**

Head of Secretariat, OECD Network on Fiscal Relations

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# 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>

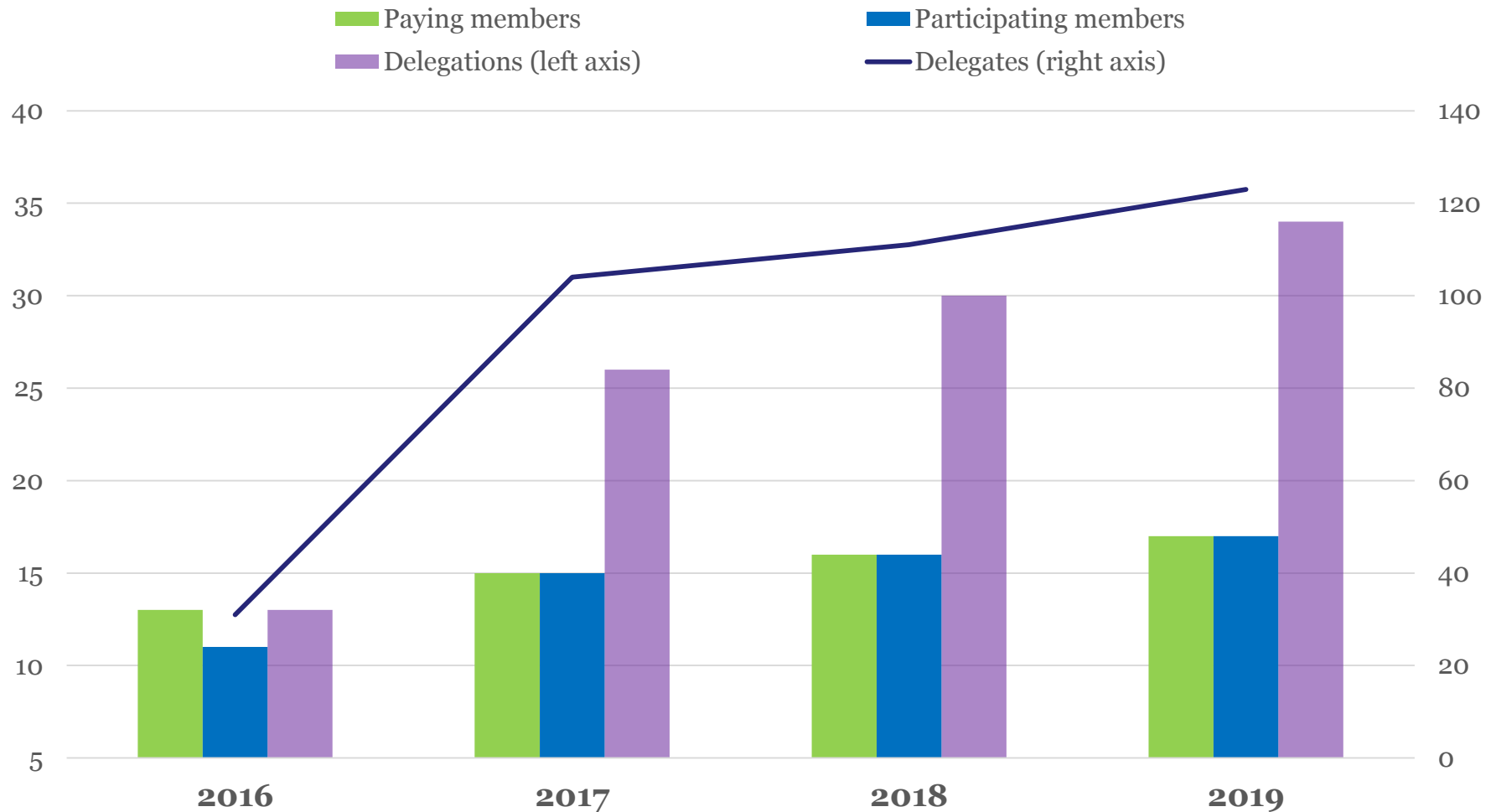


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# Growing country engagement

## Membership and engagement





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

## Breakdown of SNG expenditure by economic function



# OECD countries follow various fiscal models

*Decentralised*

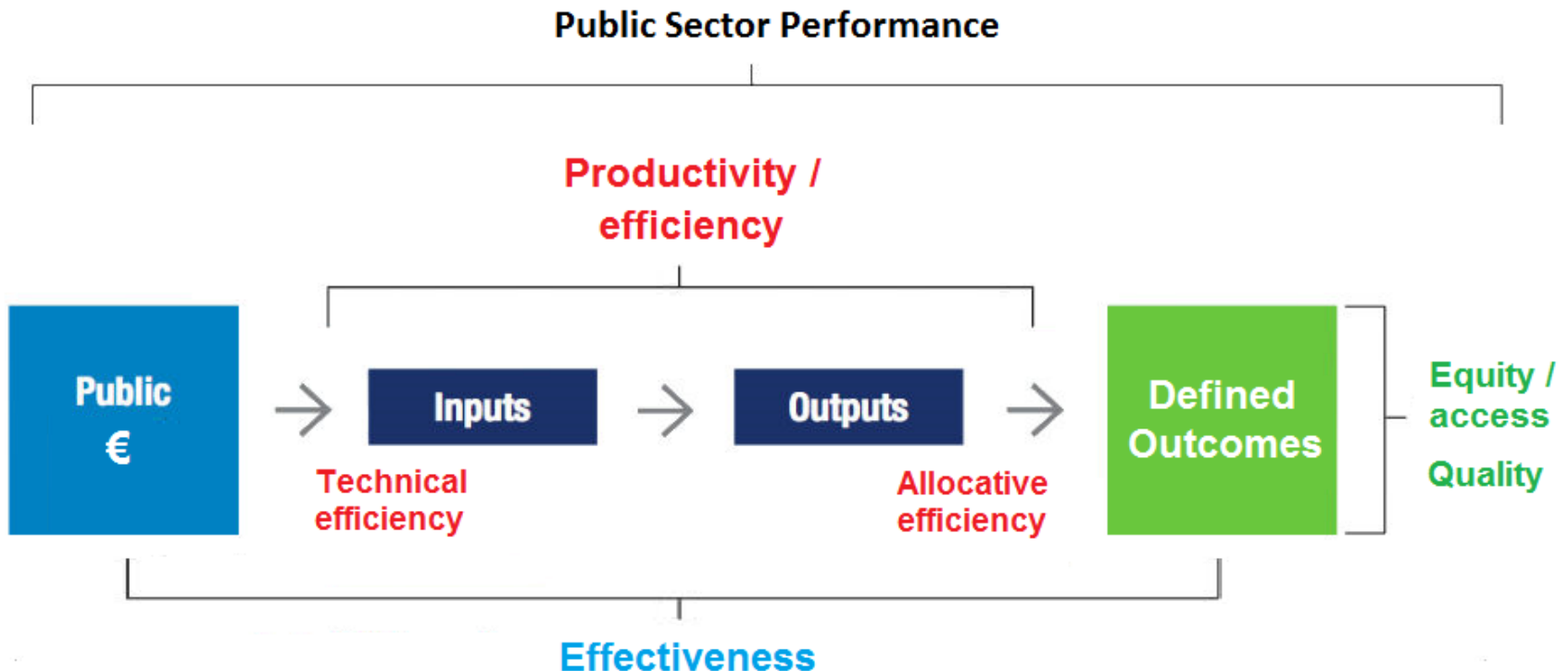


*Centralised*

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

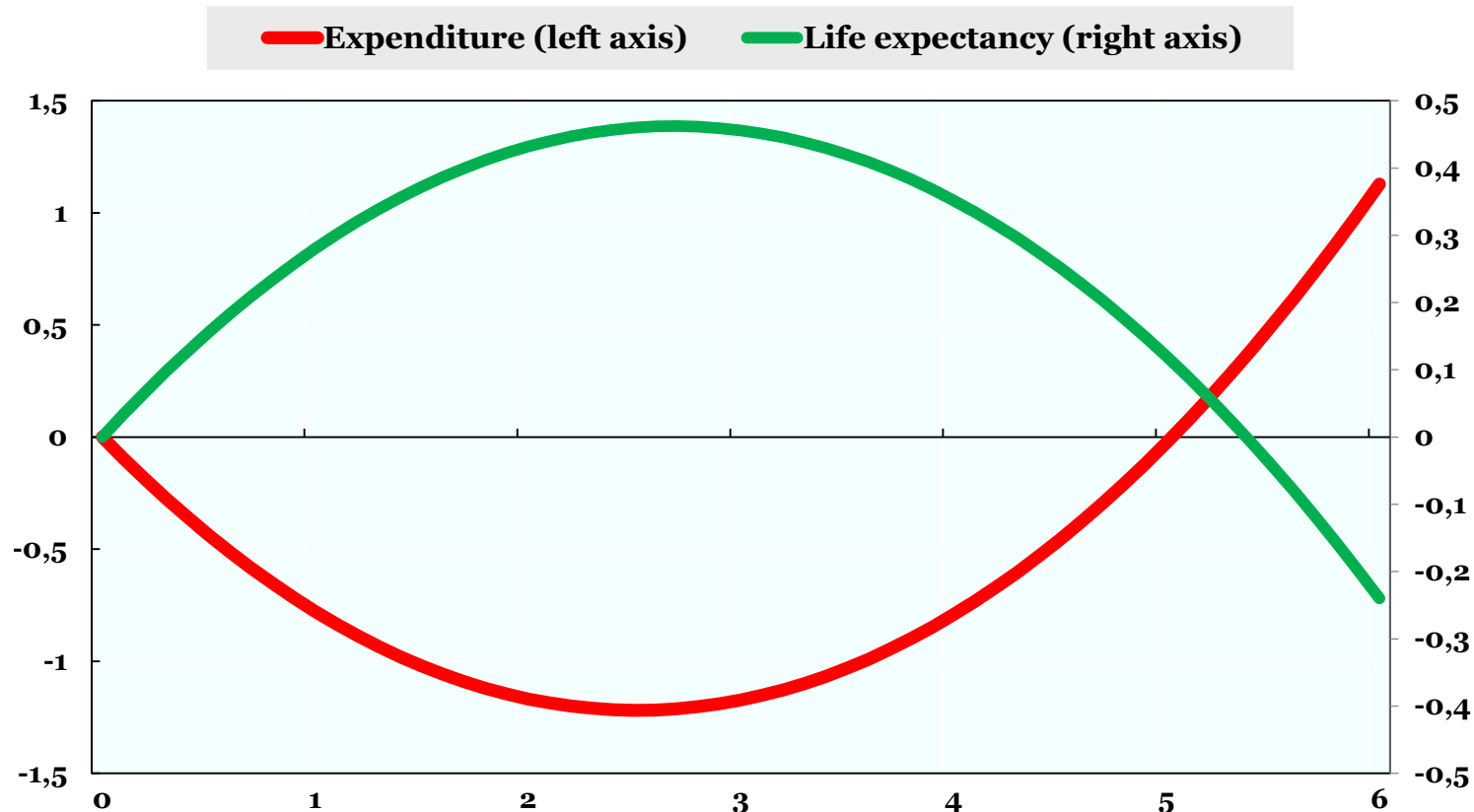
# Can decentralisation promote sub-national government performance?

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



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

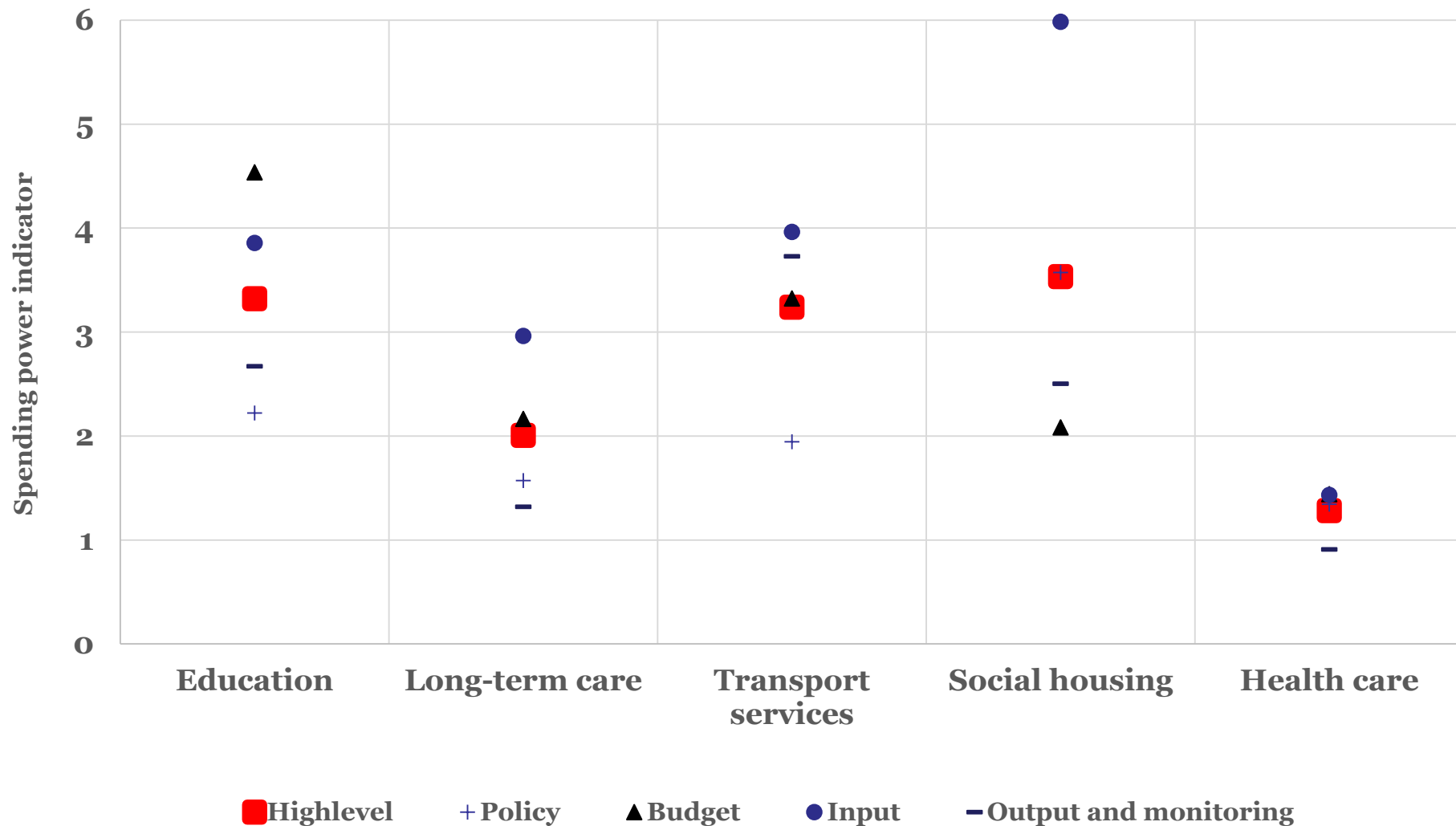
*Better health outcomes are associated with moderate decentralisation*



Decentralisation index (0 = fully centralised; 6 = fully decentralised)

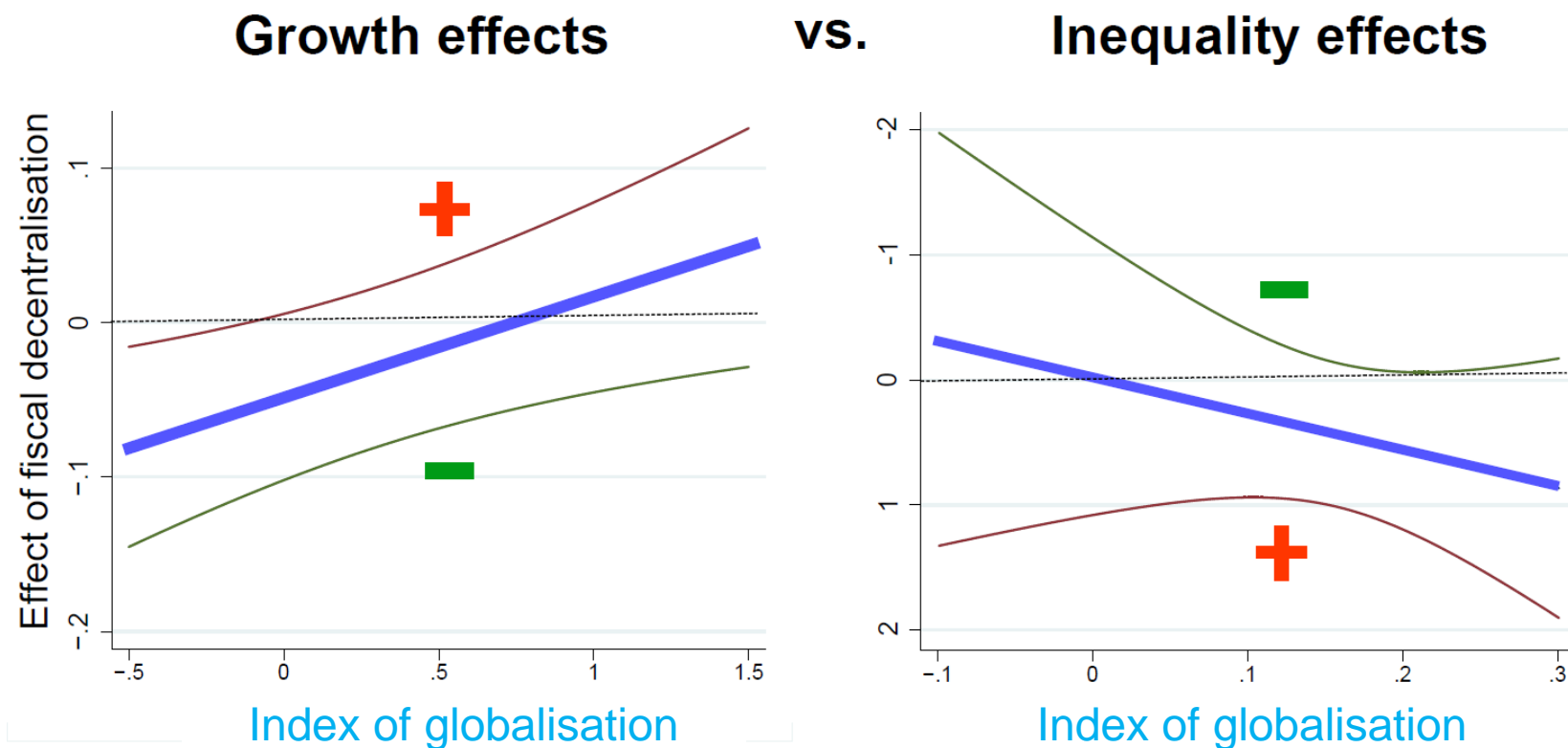


# Healthcare tends to be more centralised, while other sectors are more decentralised



# Decentralisation can boost economic growth, yet may also increase inequality

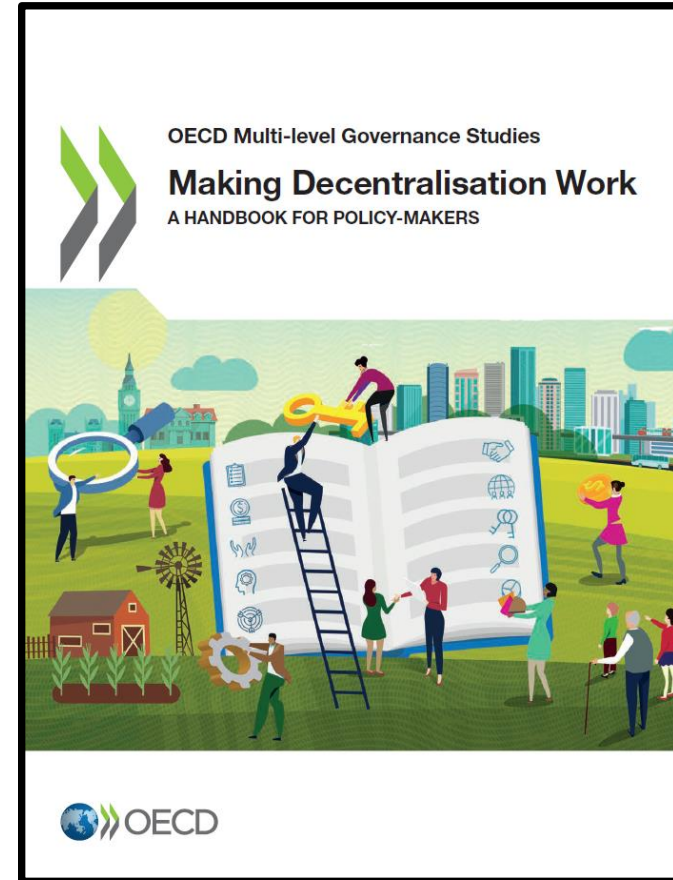
*Effect of increasing centralisation or decentralisation of revenues*



# Key lessons from the Fiscal Network

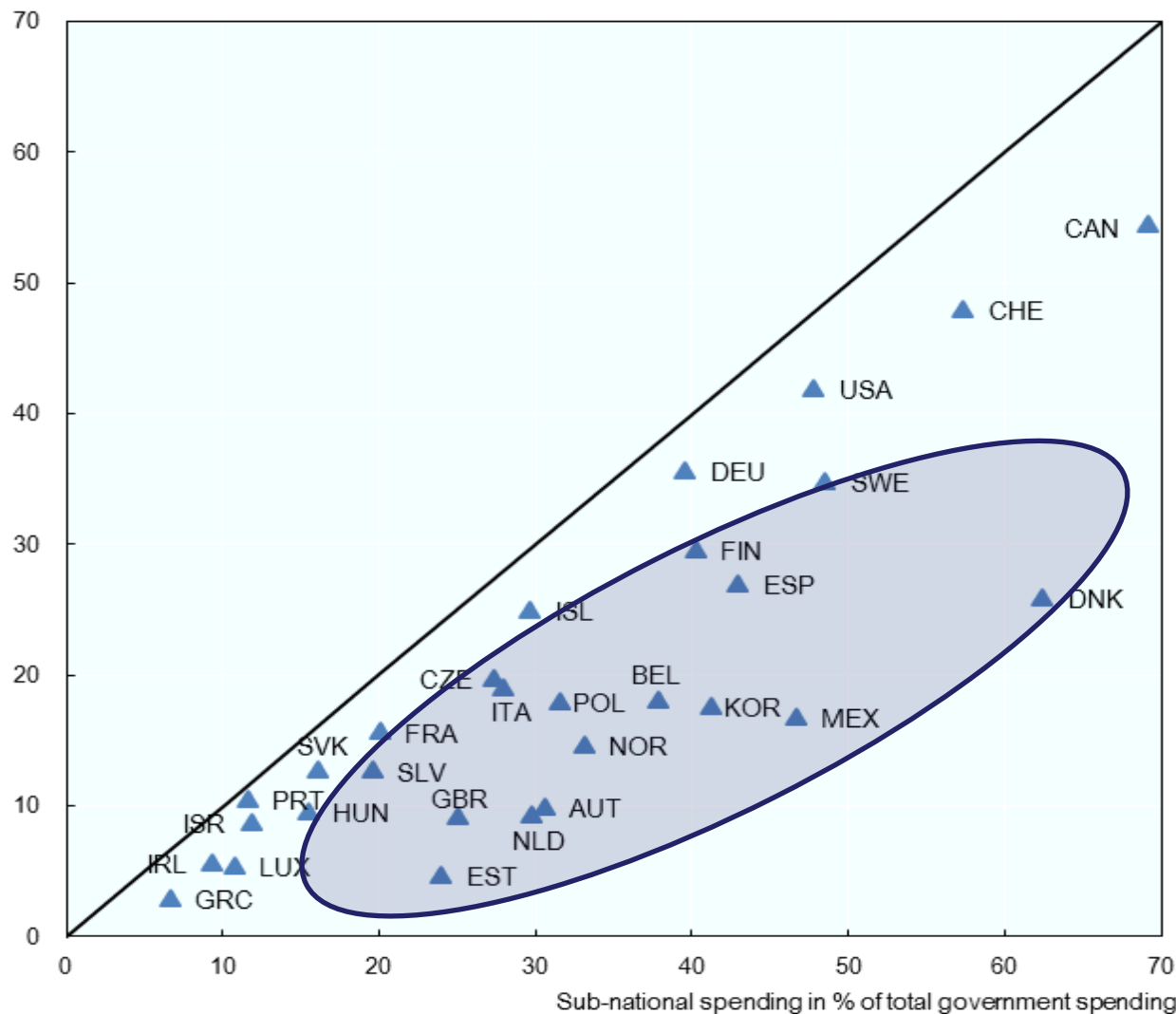
## Based on the new Handbook and Synthesis:

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



# Most countries decentralise spending more than revenues

Sub-national  
revenues



Sub-  
national  
spending



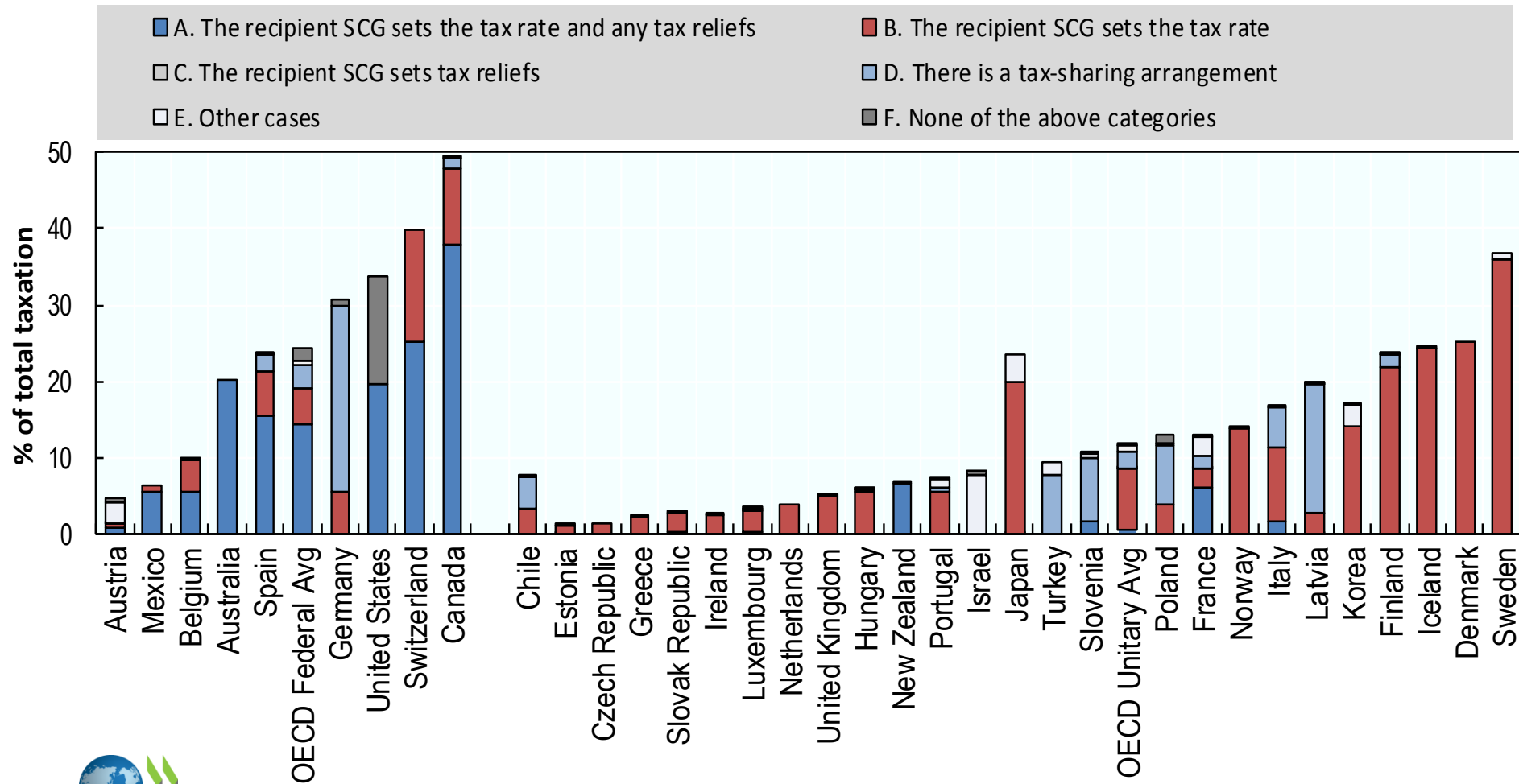
# Public policy responses to challenges



# Tax autonomy in OECD countries

## Federal Countries

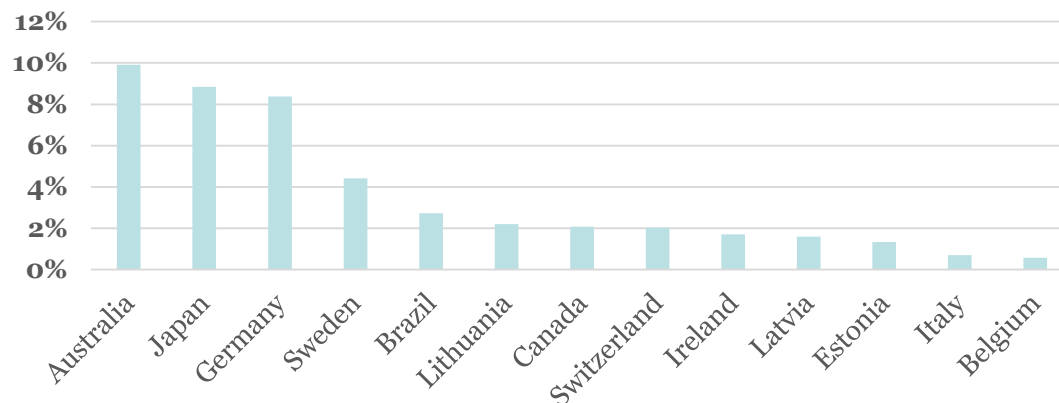
## Unitary Countries



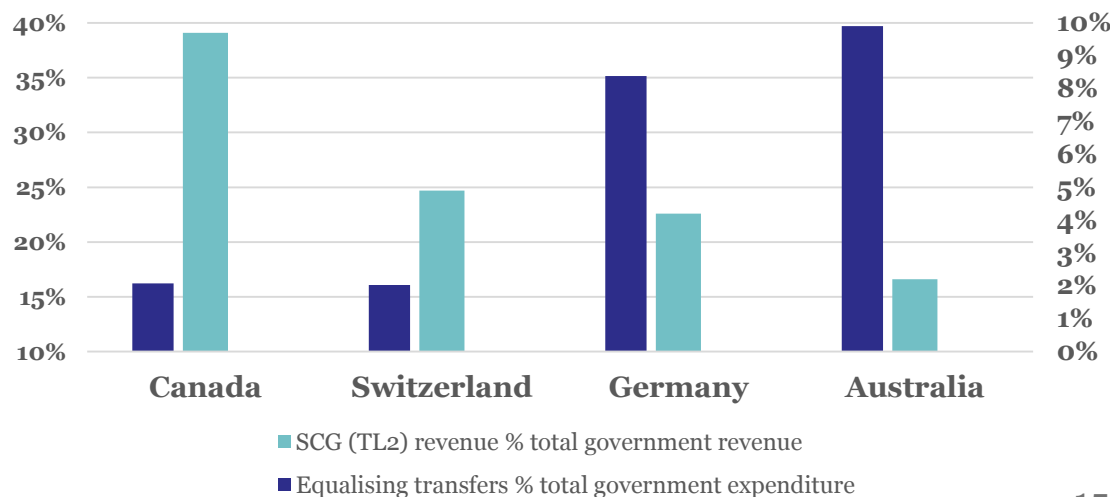
# New fiscal equalisation benchmarking

- The scale of equalisation varies considerably across countries
- In federal countries, the scale of equalisation may be related to fiscal autonomy

Equalising transfers as a percentage of total government expenditure, selected countries



Equalising transfers and tax autonomy, selected federal countries



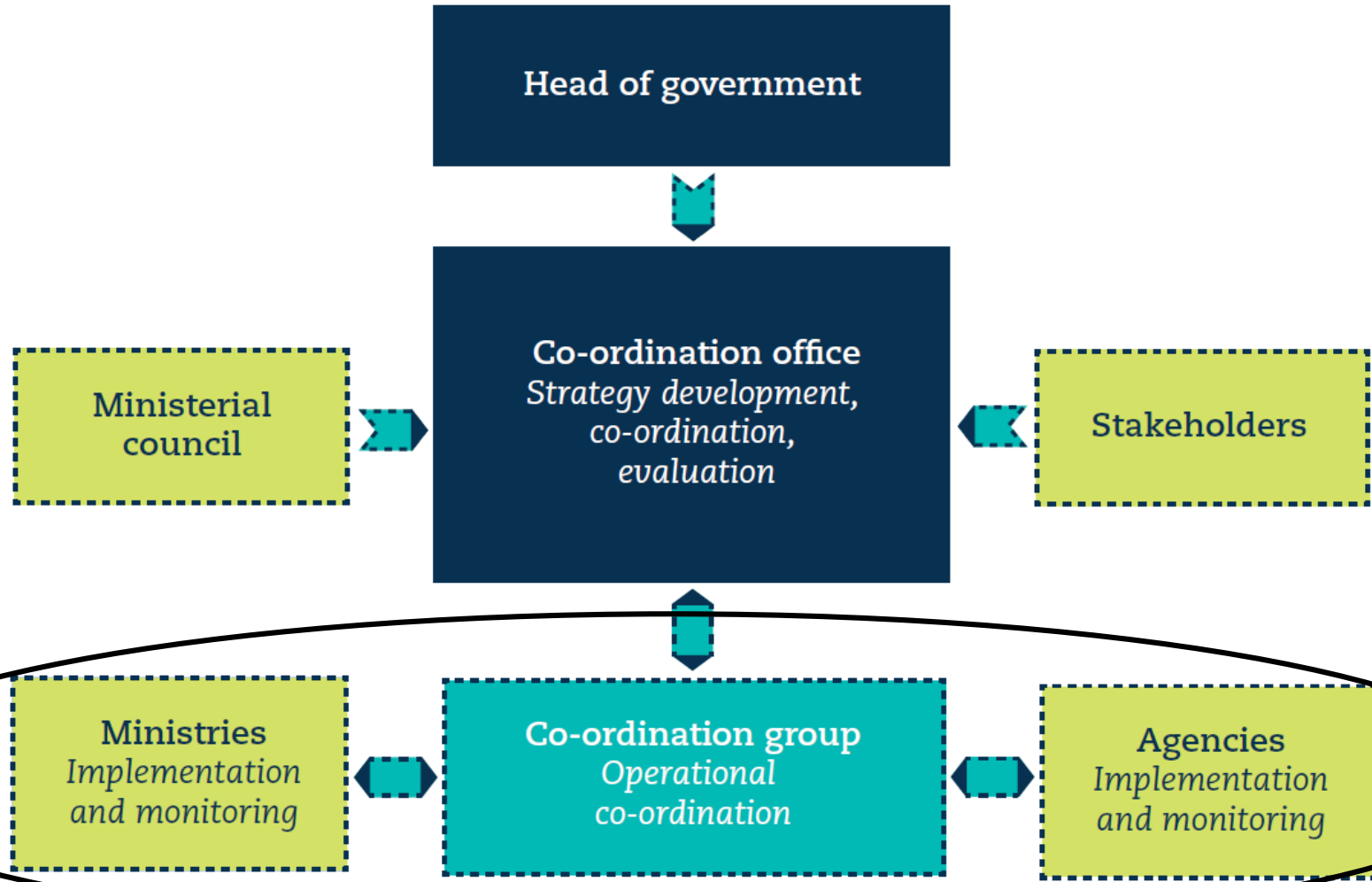
# Preliminary findings: Policy responses

- **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)*

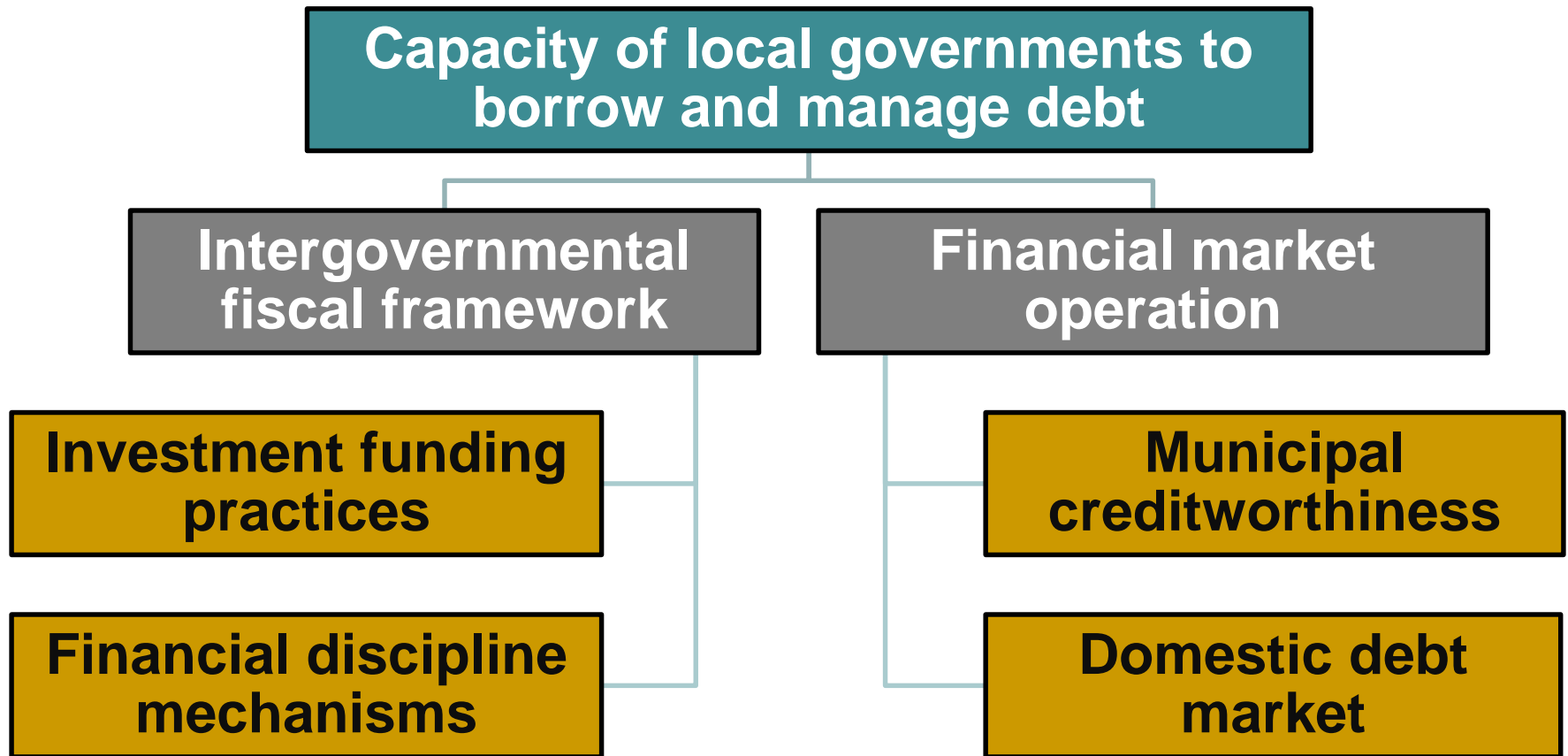


# Government co-ordination matters

High-level strategic co-ordination of digital transformation policies

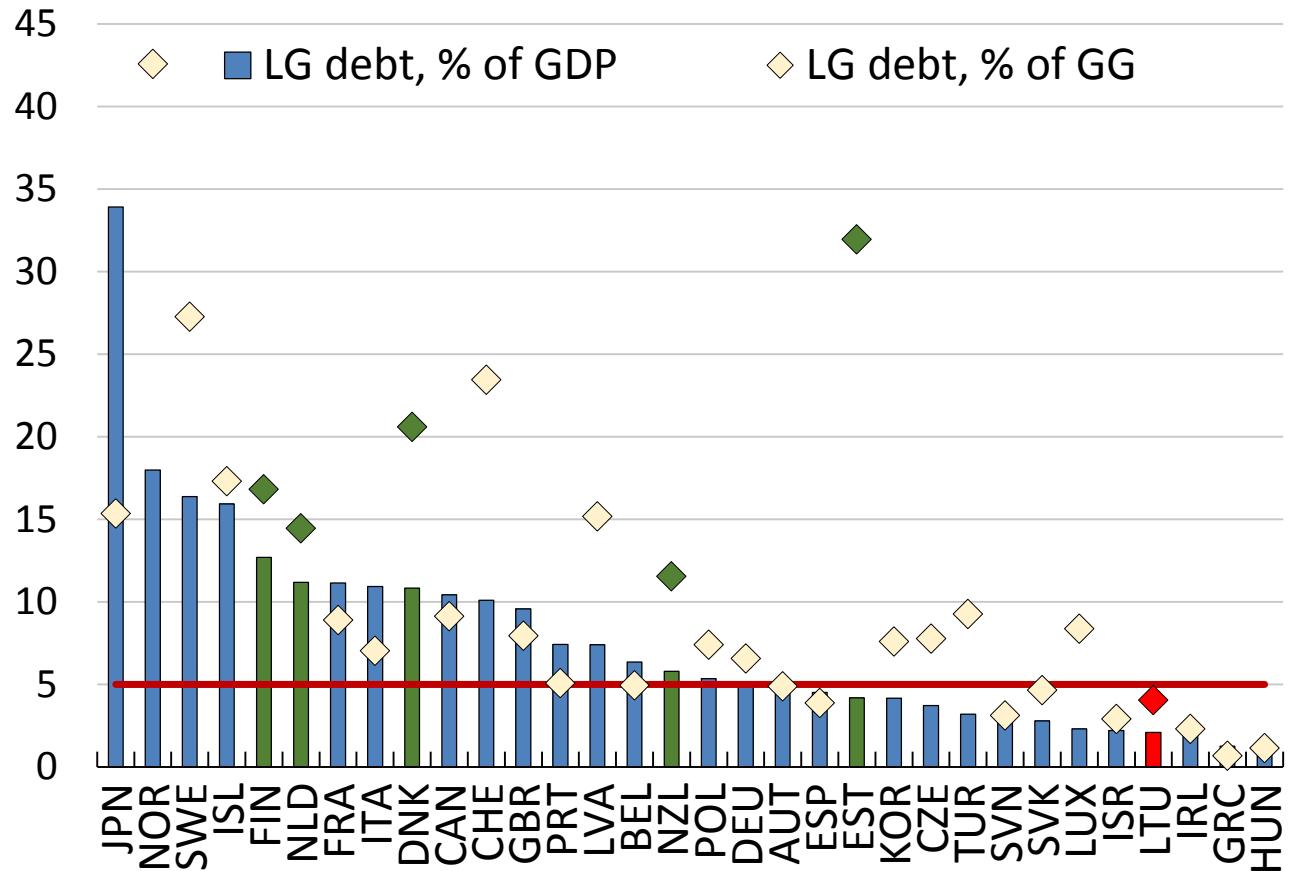


# Examining local government debt, in project to support Lithuania



# Examining frameworks of several models

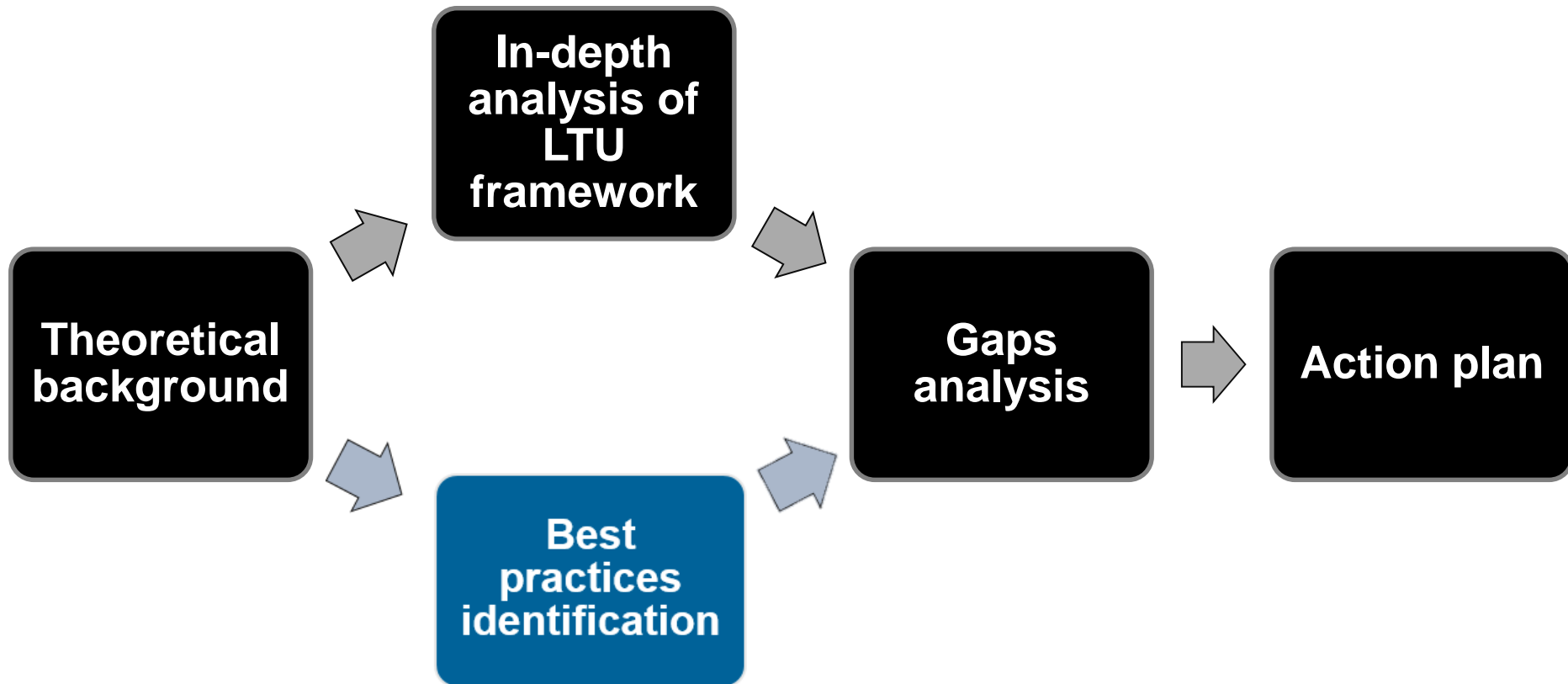
- Finland
- Estonia
- Netherlands
- Denmark
- New Zealand



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

**Source: OECD-WOFI (2018).**

# Country support for Lithuania





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