

## THE NETWORK ON FISCAL RELATIONS ACROSS LEVELS OF GOVERNMENT

### What is the OECD Fiscal Network?

The OECD Network on Fiscal Relations across Levels of Government, created in 2004, provides OECD countries with the analytical and statistical underpinnings to inform decisions on how to organise the financial relations among central, regional and local governments. The Network carries out a number of statistical and policy analysis activities, and organises workshops and experts meetings. It produces comparable information on issues related to intergovernmental fiscal relations and sub-national public finance, covering both the revenue (tax) side and the spending side of the budget. The Network's analysis covers macroeconomic and structural policy issues. Much of the analysis is related to the "fiscal federalism" body of research on public finance (including tax) economics and administration.

With decentralisation issues becoming ever higher on the political agenda, the Network has established itself as a high level, multidisciplinary policy dialogue platform, which brings together policy makers on both the taxation and expenditure sides of the budget. The Network is serviced jointly by three OECD Directorates: the Centre for Tax Policy and Administration (CTP), the Economics Department (ECO) and the Directorate for Public Governance and Territorial Development (GOV) and gathers delegates from different national ministries (Department of Budget, Department of Tax, Ministry of Economy and Finance, Ministry of Interior, etc). This horizontal approach has contributed to reducing compartmentalised perspectives on policy reform. There are at present 17 member countries<sup>1</sup> that contribute financially to the Network (around €20,000 per year). Almost all OECD countries provide the Network with statistical data and policy information on public finance issues. The Network seeks to expand membership by actively inviting both OECD and non-OECD member countries to become full participants.

### Activities of the Network

The Fiscal Network has considered a variety of issues related to fiscal policy across government levels. Three broad lines of activity can be distinguished:

- *Sub-central taxation*: The Network did extensive work on the scope and limits of local taxation and local tax autonomy and assessed various taxes with respect to whether they are suitable as sub-central taxes. While property taxes emerge as the most suitable tax for local governments, property tax revenues as a share of total tax revenue have been declining; in many cases because both inflation and tax policy have been allowed to erode the tax base. The wider use of property taxes is severely constrained by political economy constraints and equity considerations. The Network also reviewed other taxes that might provide additional revenue to sub-central governments such as (autonomous) personal income taxes and consumption taxes; and the case for local corporate taxes (business taxes) was examined. A special activity dealt with the issue of inter-jurisdictional tax

---

<sup>1</sup>, Australia, Austria, Belgium, Canada, Denmark, Finland, France, India, Italy, Japan, Korea, Mexico, Norway, Netherlands, Spain, Switzerland, Turkey

competition, providing insight into the policy choices of sub-national governments that can autonomously set their taxes.

- *Spending decentralization and intergovernmental grants*: Spending is more decentralized than revenues in all OECD countries. The resulting fiscal imbalance is covered by intergovernmental transfers (or grants). Their design can have a considerable impact on sub-central government’s fiscal policy. A major question is whether grants should be earmarked or at the free disposal of state and local governments, (earmarked grants make up around half of all grants and their share is declining). The Network also examined the question of how far transfers could be replaced by sub-central taxation, without compromising equity or fiscal sustainability objectives. Macro-economic issues are also a concern as many transfer systems tend to be pro-cyclical. The Network has analysed a range of policy options for reform.
- *Macroeconomic management, fiscal rules and fiscal consolidation*: The economic and fiscal crisis has left its mark on central and sub-central finances, and issues of fiscal consolidation and fiscal sustainability at the sub-central level have become a significant concern. In an attempt to gauge the institutional framework of sub-central fiscal policy, the Network established a set of indicators assessing fiscal (or budget) rules. These indicators have recently been updated. The Network also assessed the fiscal consolidation needs of sub-central governments under different scenarios, analyzed the factors that help sustain fiscal consolidation at the sub-central level and provided an overview on the instruments – both on the (tax) revenue and spending side – that help underpin fiscal consolidation at all government levels and increase economic activity.

Further activities of the Network include:

- i) “Reforming fiscal relations across levels of Government”, providing a political economy insight into the common factors behind successful fiscal federalism and local government reforms in 10 OECD countries;
- ii) “Decentralisation and growth” which provides an empirical analysis of the relationship between the extent of sub-central fiscal powers and economic development in the long term;
- iii) “Market mechanisms in sub-central public service provision”, which argues that most public (residential) services are provided at the local and state level and that relying more strongly on market instruments (competition, user choice, price signals etc.) can help increase public service efficiency and contribute to fiscal consolidation; and
- iv) “Indicator systems” – providing a survey of national information and indicator systems that help compare and assess sub-central governments.

### **The Fiscal Decentralisation Database**

The Network has established, over the past two years, a comprehensive database covering all aspects of intergovernmental fiscal relations and state/regional and local public finance. Some of the data relate to original Network statistical activities: these are the indicators of tax autonomy of sub-national governments and the classification of intergovernmental grants. Other data include excerpts from Revenue Statistics and National Accounts that are often difficult to find and access readily. The database provides comparative information on the following indicators analyzed by level of government sector (Federal or Central including Social Security, State/regions and Local/municipalities for OECD member countries:

- Tax autonomy of state and local government

- Classification of intergovernmental grants for state and local government
- Total Revenue, Tax Revenue and Spending shares by level of government
- Revenue Structure of state and local government
- Balances and debt levels by level of government

The database is updated annually. The database can be accessed through the Fiscal Network's own website at <http://www.oecd.org/ctp/fiscalfederalismnetwork/>

### **Publications**

In 2011 the Fiscal Network developed a publication strategy to improve the visibility of its work and to disseminate salient results to a wider audience. As a result of that strategy, the OECD has published several books: on the political economy of reform of fiscal federalism and local government (2011); on measuring decentralization (2012) and on institutional and fiscal relations across government levels (2012). Another book on tax decentralization is currently being prepared.

In order to disseminate its work even further, the Network will set up a regular publication (provisional name is "Fiscal Federalism Outlook") summarizing current trends and policy issues in fiscal federalism and sub-central government finance. A first edition of the book is projected for autumn 2013. This new flagship publication should be ready for the "International Tax Dialogue Conference", to be held in December 2013 in Morocco. The current plan is to publish Fiscal Federalism Outlook every two years.

### **Website**

1. The Fiscal Network has its own website on <http://www.oecd.org/ctp/federalism>

## NFR PUBLICATIONS, WORKSHOPS AND CONFERENCES

### Books

Blöchliger, H. and C. Vammalle (2011), *Reforming Fiscal Federalism and Local Government: beyond the Zero-Sum Game*, OECD Publishing

Kim, J. and C. Vammalle (2012), *Institutional and Fiscal Relations Across Levels of Government*, OECD Publishing

Kim, J., J. Lotz and H. Blöchliger (2013), *Measuring Fiscal Decentralisation*, OECD Publishing

### OECD Journal Articles

Blöchliger, H. and C. Charbit (2007), Fiscal Equalisation, *OECD Economic Studies*, OECD, Paris.

Blöchliger, H. and D. King (2006), “Less Than You Thought: the Fiscal Autonomy of Sub-central Governments”, *OECD Economic Studies 43*, OECD, Paris.

### Working Papers

The Fiscal Network has its own Working Paper Series that can be accessed through the Network’s website. Working Paper related to fiscal federalism issues are also published in the series of the directorates servicing the Network (CTP, ECO and GOV)

- WP 13: Tax competition between sub-central governments
- WP 12: Fiscal policy across levels of government in times of crisis
- WP 11: Explaining the Sub-National Tax-Grants Balance in OECD Countries
- WP 10: Finding the Dividing Line between Tax Sharing and Grants: A Statistical Investigation
- WP 9: The Fiscal Autonomy of Sub-Central Governments: An Update
- WP 8: The Spending Power of Sub-Central Governments: A Pilot Study
- WP 7: Taxes and Grants: On the Revenue Mix of Sub-Central Governments
- WP 6: Market Mechanisms in Sub-Central Public Service Provision

- WP 5: Promoting Performance: Using Indicators to Enhance the Effectiveness of Sub Central Spending
- WP 4: Fiscal Equalization in OECD Countries
- WP 3: Intergovernmental transfers and decentralized public spending
- WP 2: Fiscal autonomy of sub-central governments
- WP 1: Fiscal rules for sub-central governments: design and impact

### **Workshops and Conferences**

#### *Taxonomy of grants*

Paris, 10-11 March 2011

#### *Tax competition Between Sub-Central Governments*

Bern, 31, May-June 2010

#### *Economic Crisis and Sub-central Fiscal Policy*

Paris, 12 June 2009

#### *Taxes versus Grants*

Vienna, May 29-30 2008

#### *Fiscal Equalisation in OECD Countries*

Zaragoza, June 2006

#### *The Efficiency of Sub-central Spending*

19-May-2006