

Impacts of fiscal decentralisation

Using international data from subnational governments

Maarten Allers, Professor of Economics of Sub-National government
University of Groningen, Netherlands

OECD – EU Workshop

“Using municipal and regional fiscal data to analyse decentralisation and multilevel
governance”

13 December 2022

Decentralization

- Ongoing process worldwide
- High expectations
- Theory predicts benefits but warns for pitfalls
- Empirical evidence is weak

What effect of FD on:

- Health: mostly positive results in advanced & emerging economies
 - Some studies report negative effects

What effect of FD on:

- Health: mostly positive results in advanced & emerging economies
 - Some studies report negative effects
- Education: mixed findings

What effect of FD on:

- Health: mostly positive results in advanced & emerging economies
 - Some studies report negative effects
- Education: mixed findings
- Economic growth: mixed findings
 - Both u-shaped and inverted u-shaped effects have been reported

Mixed findings may point at:

- Differences in research methodology
- Mediating factors
 - Effect depends on circumstances

Mixed findings may point at:

- Differences in research methodology
 - Single country or multi country
 - Choice of FD indicators
 - Reverse causality
 - Data
 - etc

- Mediating factors

Mixed findings may point at:

- Differences in research methodology
- Mediating factors, e.g.,
 - Level of economic development
 - Governance quality, corruption
 - Positive effect of FD if governance is good, negative effect otherwise
 - Institutions, e.g., local government size, autonomy, task assignment

FD may have indirect effects:

- E.g., FD may improve labour productivity ...
- ... which then stimulates economic growth

Bottom line:

- The question is not: “Does FD have a positive effect on ...”
- Rather, the question is: “WHEN does FD have such an effect”
- Study mediating effects

Bottom line:

- The question is not: “Does FD have a positive effect on ...”
 - Rather, the question is: “WHEN does FD have such an effect”
 - Study mediating effects
-
- We need to delve deeper into the underlying mechanisms
 - This requires more fine-grained data

Multiple-country data needed

- To study mediating effects of institutions and development ...
- ... we need cross-country studies

- Existing cross-country studies use country-level data
- However, subnational jurisdiction should be unit of analysis

Multiple-country data needed

- To study mediating effects of institutions and development ...
- ... we need cross-country studies

- Existing cross-country studies use country-level data
- However, subnational jurisdiction should be unit of analysis

- Different local jurisdictions may be affected differently by FD
 - E.g., depending on governance quality, size, ...
- Extent of FD may differ among local jurisdictions
 - E.g., share of own resources is affected by equalizing grants

Data need

- We need multi-country data
- At the individual local jurisdiction level

Data need

- We need multi-country data
- At the individual local jurisdiction level
- Revenues per category
 - Own taxation
 - Intergovernmental grants (earmarked / non-earmarked)
 - Etc
- Expenditures per policy field and per economic category (wages, investment)
- Debt, deficit
- Non-financial data on institutions

Data comparability

- This will be a challenge ...
- Good metadata will be a great help to researchers

Road map

- Better data →
- Better research →
- Better policy.