

AGENDA

22 March 2022 | Virtual

Informal Workshop

Going Beyond Fiscal Equalisation: Institutional and fiscal tools to fight territorial inequalities

13:00 Opening session

WELCOME **Dorothee Allain-Dupré** – Head of Regional Development and Multi-Level Governance, OECD Centre for Entrepreneurship, SMEs, Regions and Cities

Session A: Fiscal equalisation and territorial inequalities

13:05-13:45 Presentations

INTRODUCTION **Antti Moisio** – Economist, Regional Development and Multi-Level Governance, OECD Centre for Entrepreneurship, SMEs, Regions and Cities

13:10 SPEAKER **Philip McCann** – Professor, University of Sheffield Management School

13:20 SPEAKER **Enid Slack** – Director, Institute on Municipal Finance and Governance at the Munk School of Global Affairs and Public Policy, University of Toronto

13:30 SPEAKER **Lars-Erik Borge** – Professor, Norwegian University of Science and Technology

13:40 COMMENT **Sverker Lindblad** – Senior Adviser, Ministry of Enterprise and Innovation, Sweden

13:45 OPEN DISCUSSION

Session B – New approaches to equalisation after the crisis

13:55-15:00 Presentations

13:55 INTRODUCTION **Sean Dougherty** – Senior Advisor and Head of Secretariat for the OECD Network on Fiscal Relations across Levels of Government

14:00 SPEAKER **Paul Smoke** – Professor of Public Finance and Planning, Wagner Graduate School of Public Service, New York University

14:10 SPEAKER **Andrew Reschovsky** – Professor Emeritus, University of Wisconsin-Madison

14:20 SPEAKER **Diego Martinez-Lopez** – Professor, Universidad Pablo de Olavide, Spain

14:30 COMMENT **Willem Sas** – Professor, Economics Division, Stirling University

14:35 OPEN DISCUSSION

14.50-15.00 Wrap-up / Close

14:50 **Junghun Kim** – Chair, OECD Network on Fiscal Relations)- Korea

Going Beyond Fiscal Equalisation: Institutional and fiscal tools to fight territorial inequalities

■ Background

Fiscal equalisation systems have been designed to address differences in revenue-raising capacities and spending needs across jurisdictions, helping subnational governments to provide residents with sufficient public services. Yet fiscal equalisation approaches vary widely, and not every model has demonstrated the same flexibility to adapt to the pandemic's fiscal shock, with as many as half expected to be underfunded following the pandemic (see [this brief on COVID-19 and Fiscal Relations](#)). As the evidence of institutional and fiscal responses to Coronavirus pandemic mounts, it may now be possible to evaluate the institutional and fiscal tools used to address territorial inequalities.

Regional development has been a strong motivation of many decentralisation reforms (see [Making Decentralisation Work: A Handbook for Policymakers](#)). While strengthening the incentives to develop own-source revenues at the subnational government level is a key for regional growth when combined with high institutional quality, many subnational governments nevertheless need substantial central government financing to provide the services that they are assigned. At best, fiscal equalisation can contribute to economic growth by creating a level playing field, which facilitates inter-regional movement of labour and business in response to economic stimuli, but slows down their movements in response to fiscal considerations alone (see [this working paper on Evaluating Fiscal Equalisation](#)). Without specific measures that strengthen the capacity of poor regions, the benefits of decentralisation may accrue only to the most developed and prosperous regions, hence contributing to increased regional disparities.

It is nevertheless unclear whether fiscal equalisation and regional development can and should be strongly coordinated. Regional policy instruments usually go far beyond fiscal equalisation, notably because regional policy measures target not only the delivery of public services but also inadequacies in private infrastructure and deficiencies in private production. In addition, it is often recommended that equalisation transfers be separated from transfers intended to affect policies of public agencies, or individuals. In practice, however, these features often mixed in subnational government financing.

The Coronavirus pandemic has posed an unprecedented shock to the public finances of virtually all OECD countries, although not all regions in each country have been equally affected (see [this brief on COVID-19 and Territorial Impacts](#)). In fact, some regions have been far more severely impacted than others, and the education and health dimensions of the crisis may further aggravate regional income and well-being disparities in the future (see [OECD Regional Recovery Platform](#)). Multilevel governance systems have faced severe fiscal shocks that have been met with massive vertical state aid, to enable subnational governments to provide essential front-line public services in facing the pandemic (see [the flagship Fiscal Federalism 2022](#)). Furthermore, in countries with a well-developed horizontal equalisation system, the impact of the crisis on the local government economy has been smaller.

■ This Workshop

In this context, the purpose of the workshop is to discuss policy options “Beyond Fiscal Equalisation” in order to understand better how fiscal equalisation and regional policy can become more resilient and sustainable.

■ Key questions

Session A

1. Should fiscal equalisation and regional development measures be more connected and coordinated, or should they be kept separate? Why and how?
2. What should be the role of fiscal equalisation be regarding so-called “levelling-up” goals, in order to reduce gaps across regions and cities, and particularly between urban and rural areas within countries?
3. How can equalisation systems be reformed to minimise regional asymmetries and increase the pace of regional convergence?

Session B

1. Should equalisation systems be fine-tuned following the Coronavirus crisis, for example to reduce crisis-induced fiscal imbalances and prepare for future economic shocks? In what way?
2. What is the right balance between inter-regional and interpersonal equalisation: can the objectives of addressing individual inequity and boosting regional convergence be integrated within fiscal transfer frameworks?
3. Should environmental, climate change or sustainability criteria be integrated into fiscal equalisation? If so, how?

