Session 1: Distribution of Fiscal Responsibilities in Federations

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Brief Overview of the Research Project

Designing A European Fiscal Union: Lessons from the Experience of Fiscal Federations

Fiscal Affairs Department
Four Questions

• What is the role of centralized fiscal policies in federations, and hence what is the relative size of centralized taxes and outlays?
• What are the institutional arrangements between central and subnational budget authorities?
• What are the financial links between federal and subnational governments, and how have subnational crises been handled, when they occurred?
• Drawing from these, what steps could be taken to strengthen fiscal integration in Europe?
The Sample

13 federations: Argentina, Australia, Austria, Belgium, Brazil, Canada, Germany, India, Mexico, South Africa, Spain, Switzerland, USA
Distribution of Fiscal Responsibilities: Overview

① Distribution of tax and spending responsibilities

② Transfers

③ Comparison with the European Union
How Big are Central Budgets?

Revenue of the Central Government
(in percent of GG revenue)

Spending of the Central Government
(in percent of GG spending)
Central Government Spending
(in percent of general government spending)
Structure of Tax Revenue

Central Government Excluding Social Security Funds

Subnational Governments

Legend:
- Taxes on Income - Individual
- Taxes on Income - Corporate
- Taxes on Goods and Services
- Taxes on Property
- Other
Distribution of Fiscal Responsibilities: Overview

① Distribution of tax and spending responsibilities

② Transfers

③ Comparison with the European Union
Transfers
(in percent of SNG revenue; 1995-2010 average)

- Tax Sharing with the Central Government
- Transfers

Countries included:
- Germany
- South Africa
- Canada
- Brazil
- India
- United States
- Switzerland
- Austria
- Australia
- Spain
- Belgium
- Mexico
Transfers, risk-sharing and redistribution

USA
Canada
Australia

Risk-sharing
Redistribution
# Net fiscal transfers: the composition matters

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<thead>
<tr>
<th></th>
<th>Risk-sharing</th>
<th>Redistribution</th>
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<tbody>
<tr>
<td><strong>Transfers to state budgets</strong></td>
<td>Insignificant</td>
<td>AUS, CAN (7-8 percent)</td>
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<tr>
<td><strong>Gross transfers to individuals</strong></td>
<td>USA, CAN (7 percent)</td>
<td>USA, AUS, CAN (12-16 percent)</td>
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<tr>
<td><strong>Federal taxes</strong></td>
<td>USA, AUS (17-21 percent)</td>
<td>AUS (9 percent)</td>
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Distribution of Fiscal Responsibilities: Overview

① Distribution of tax and spending responsibilities

② Transfers

③ Comparison with the European Union
• The European budget is much smaller
• Spending is largely concentrated on agricultural subsidies and structural funds
• The European budget is mostly financed by transfers from member states

➢ Very limited stabilization role
➢ Some harmonization efforts but also limited in scope
Thank You!