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The reform of fiscal decentralization systems - an international comparison

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Character of Task

- ☞ positive effects of reform in the long run
- ☞ costs highly visible in the short run
- ☞ framed as zero sum-game
- ☞ distributive conflicts between central and regional of governments and between regional governments
- ☞ intergovernmental conflict reinforced by party politics (role of parliaments)

Two types of processes

principle
of distributive justice



political agreement



calculation

calculation



political agreement



(principle
of distributive justice)

Selected Cases

Germany	Canada	Australia	Switzerland
tax sharing	tax autonomy, federal grants	central taxation, federal grants	tax autonomy, federal grants
integrated party system	divided party system	integrated party system	(divided party system)
Fiscal imbalance after unification	Diverse regional economies	Diverse regional economies	Inefficient fiscal equalization

Cases

- Germany: Fiscal equalisation law 2005/
(reform of federalism 2006/2009)
- Canada: Fiscal equalization reform 2007
- Australia: Intergov. Agreement on Fiscal Relations 2008
- Switzerland: New Fiscal Equalisation and Allocation of Powers
(NFA) 2004

Intergovernmental bargaining: Germany



- 1999 Federal Constitutional Court: Need for a law defining standards for distribution
 - Drafts, models calculated by Federal and *Länder* administration
 - academic advisors consulted by individual governments
 - negotiation among experts in administration
 - ministers of Finance: intergovernmental bargaining in private meetings
 - legislation based on pre-parliamentary compromise
- ⇒ *incremental adjustment of fiscal equalisation*

Politicized intergovernmental negotiations: Canada



- Increasing fiscal imbalance → 2007 equalization reform
 - Fiscal equalization as federal-provincial conflict
 - highly politicized conflict
 - group of experts from federal/provincial executive
 - Federal Ministry of Finance in control of calculation
 - hearings (stake holders, administrations)
 - negotiations among prime ministers
 - often bilateral negotiations
- ⇒ *Moderate change of fiscal equalization, but not stable*

Depoliticized intergovernmental negotiations: Australia



- Introduction of Goods and Service Tax;
Expert reports identifying weakness of grant system
 - Initiative of new Labour government (2007)
 - Consensus on reform principles (decentralization, efficiency)
 - Policy formulation dominated by experts of federal and state governments (Commonwealth Grant Commission, Council of Australian Governments)
 - Limited concessions to interest groups
 - Monitoring of implementation by COAG reform commission
- ⇒ *Significant change*

Sequential reform: Switzerland

- Sequential elaboration of NFA (New Fiscal Equalization Scheme)
 1. Normative Framework (basic principles of fiscal federalism)
 2. Rules of fiscal system (constitutional amendments)
 3. Implementation (legislation and application)
 - Sequential inclusion of actors
 1. Experts in Administration, Scientific advisors
 2. Ministers of Finance: political support
 3. Consultation with interest organisations
 4. Legislation/formal decision
- ⇒ *Significant change*

Conclusions

- ☞ Separation of negotiations on principles, rules and negotiations on distribution of money
- ☞ Sequential Process
- ☞ Role of experts important
- ☞ Consultation of interest groups
- ☞ Combination of „positive“ and „negative coordination“
- ☞ A continuing tasks: institutionalization of reform



The „construction of fiscal federalism ... is a problem, which can never be solved to the complete satisfaction of central and regional governments“

(Theodor Eschenburg, 1963, my translation)

