

Fiscal Policy in Decentralized Countries : Principles, Challenges, Frameworks, and Evidence

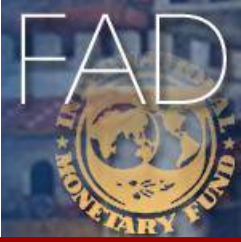
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*“Fiscal Policy in Decentralized Countries:
Design, Implementation, and Coordination”*

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Outline



1. Terminology

2. Principles

3. Challenges

4. Frameworks

5. Evidence

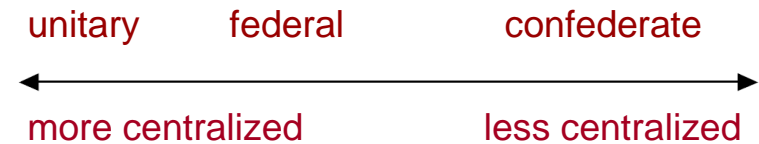
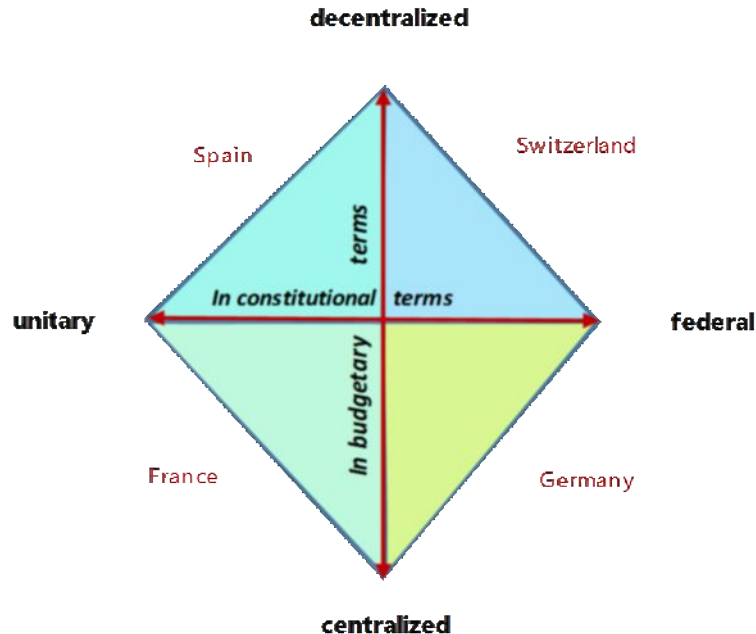
1. Terminology

Federal vs. Decentralized Systems

Two approaches

Constitutional

Economic



Source: Dafflon and Madies (2011)

- Neither synonyms nor antonyms;
- **Federal**: “system of voluntary self-rule and shared rule” in the Constitution;
- **Decentralized**: “system with **significant powers** assigned away from central government;”
 - not necessarily in Constitution;
 - powers broadly defined (political, fiscal, economic, administrative)
 - “significant” depends on quantitative and qualitative measures

Decentralization Modalities



❖ Deconcentration

- Transfer of power over certain decisions re well-defined function; central gov. retains command/resources/responsibility
- Aims to improve the operational efficiency of the central gov. action;
- Accountable only to central government with whom responsibility lies.
- Mostly geographic: e.g. regional branches of tax revenue authority;

❖ Delegation

- Transfer of power and resources over well-defined function; central gov. retains responsibility
- Accountable only to central government with whom responsibility lies.
- Mostly functional: e.g. state-owned utility companies;

❖ Devolution

- Transfer of power and resources over specific functions and autonomy on how to accomplish these functions and on how to use resources accordingly.
- Political decentralization when SNG accountable to local electorates

❖ Fiscal Decentralization : Our focus

- Fiscal/Budgetary counterpart of the above mentioned modalities.
 - What transfer of power to accomplish functions means in terms of spending autonomy?
 - What transfer of resources to finance functions means in terms of revenue autonomy?

Federal Fiscal Constitutions



❖ Cooperative Federalism

- Greater interdependency between levels of government;
- Close/Constant exchange between “regions” and “center”;
- Vertical fragmentation: each level of government contributes to public policy.
- E.g.: Germany, Austria, Spain

❖ Competitive Federalism

- Competition between (local or regional) governments re public policy
- “Race to the bottom” vs “Taming Leviathan”/ “Laboratory Federalism”
- E.g. Switzerland, United States, Canada

❖ Other types

✓ Dual Federalism:

- Clear separation of powers/No sharing of responsibilities/Very rare

✓ Federalism of Execution:

- Central government keeps responsibilities/powers; SNG execute them

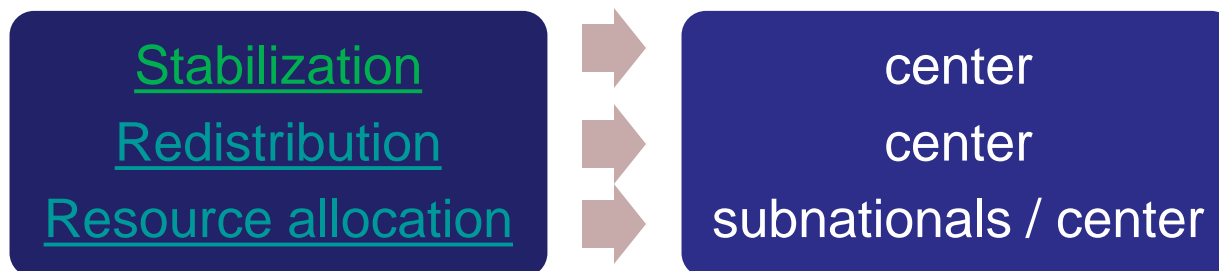
2. Principles

Theories of Fiscal Decentralization



- **Traditional theories—what fiscal decentralization should be (normative)**

- Three government functions



- **Second generation theories—what fiscal decentralization looks like (positive)**

- Incentives of self-interested government officials
- Political economy/institutions/frameworks matter

Assigning Expenditure Responsibilities

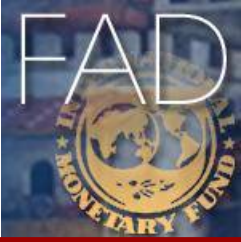


- Public good/service “should be provided by the jurisdiction with control over minimum geographic area that would internalize benefits and costs of such provision” (Oates Decentralization Theorem);**
- National public goods (defense, foreign affairs, and macroeconomic stabilization) should be centrally provided (diseconomies of scale, spillovers if locally provided)**
- Even if the provision of a given public good not subject to economies of scale, does not generate spillovers, it should not be decentralized if SNG lacks the technical capacity and accountability systems to deliver it.**
- Ability of SNG citizens to vote, migrate, demand comparable treatment (yardstick competition) strengthen accountability**

Assigning Revenue Raising Responsibilities



- ❑ Funds should follow functions (matching principle)
- ❑ Revenue assignments to be preceded by clear assignment of functions they are intended to fund.
- ❑ SNGs should be allowed access to own revenue (discretion over tax rates, bases, etc.) at the margin
- ❑ Taxes with large and elastic bases (income taxes) should be assigned to the central government as best instruments for macroeconomic stabilization and income redistribution;
- ❑ User charges and other fees (benefit taxation) should be used by all government tiers.
- ❑ Lower levels of government should tax relatively immobile tax bases to prevent revenue losses due to tax competition; their yields should be relatively stable to allow SNGs steady revenues. Property taxes and land taxes are good candidates.
- ❑ Tax bases that are very unevenly distributed throughout the national territory must be “centralized” (e.g. natural resources) to avoid horizontal fiscal imbalances.



Design of Intergovernmental Transfers

- **Different transfers serve different purposes.**

Transfer Types	
Type	Purpose
Unconditional/General Funding transfers	Vertical fiscal imbalances
Equalization transfers	Horizontal fiscal imbalances
Block grants	Fund specific sector
Special purpose/Earmarked grants	Mandate spending for given sector

Source : IMF (2009)

- **All transfers may also serve the purpose of sharing risk from macroeconomic shocks.**
- **A transfer system should complement the choices on the spending responsibilities and revenue assignments to subnational governments.**
- **Equalization systems should be separated from revenue sharing and other intergovernmental transfer system to improve transparency.**
- **Design of equalization system should be simple and take into account spending needs and revenue capacities through indicators not subject to manipulation and not relative to historical/actual values (as these could discourage revenue collection, or promote excessive spending).**
- **Degree of SNG co-participation (matching) in transfers needs to be chosen carefully to avoid reducing other spending and exacerbating horizontal inequalities (i.e. ensuring poorer SNGs can access transfers).**

3. Challenges

Assignment of Expenditure and Revenue Responsibilities



- ❑ Identifying “minimum geographic areas” where the costs and benefits and costs of public service provision can be internalized is generally not feasible (“political jurisdictions,” not “economic clubs”) leading to **diseconomies of scale and spillovers**.
- ❑ Most spending assignments/functions tend to overlap leading to duplication of tasks and **unclear expenditure mandates**;
- ❑ Revenue and Expenditure Decentralization never aligned leading to **over/under funded expenditure mandates**;
- ❑ Most taxes tend to be assigned to central government for efficiency, stabilization, redistribution, and administrative considerations leading to **vertical fiscal imbalances relative to the center; limited SNG revenue autonomy**.
- ❑ Revenue assignments rarely take the form of full and exclusive assignments of taxes to one government level and tend to overlap leading under some circumstances to **over-taxation**

Fiscal Discipline and Soft Budget Constraints (SBC)



- ❑ Fiscal decentralization may undermine fiscal discipline owing to....
 - ❖ Moral Hazard: Central government cannot credibly commit to not bail out SNGs.
 - ❖ Common Pool : SNGs fail to internalize full cost of SNG spending as funding comes from central transfers, shared revenues collected from other SNGs.
- ❑ Moral Hazard/Common Pool → SBC → SNG overspend/undertax/overborrow
- ❑ Subnational SBC creates negative vertical and horizontal spillovers
 - ❖ Vertical : Central Government fiscal positions deteriorate owing to increases in transfers, borrowing to SNG, increase in borrowing costs reflecting higher risk premia on sovereign issuances
 - ❖ Horizontal : fiscal positions of fiscally responsible SNGs deteriorate as a result of (i) increase in SNG credit risk premium, (ii) race to the bottom for SNG own tax revenues, (iii) race to the top for public spending.
- ❑ SBC → General Government fiscal position deteriorate

Origins of Soft Budget Constraints



- ❑ **Flaws in intergovernmental fiscal arrangements giving rise SBCs**
- ❖ **CGs' reliance on markets to impose fiscal discipline on their SNGs, when the essential pre-conditions for the effectiveness of such discipline are lacking;**
- ❖ **Ineffective 'cooperative federalism' arrangements;**
- ❖ **Weaknesses in more hierarchical control mechanisms:**
 - **Significant discretion in direct control of subnational borrowing by the CG;**
 - **Inappropriate design and/or inadequate enforcement of subnational fiscal rules;**
- ❖ **Unclear expenditure assignments or unfunded CG mandates for SNGs;**
- ❖ **Little or no revenue autonomy for SNGs; and**
- ❖ **Substantial discretion in intergovernmental transfers**

Macroeconomic Stabilization and Coordination Failures



- ❑ In a decentralized system, SNGs and CGs policies are not necessarily consistent, even when SNGs are fiscally responsible;
- ❑ Lack of coordination tends to accentuate the greater is subnational fiscal autonomy, reflected in revenue and expenditure decentralization ratios
- ❑ SNG generally pursue **pro-cyclical policies (high spending/low taxes in good times/upturns; low spending/high taxes in bad times/downturns)**
- ❑ SNG fiscal pro-cyclicity:
 - ✓ SNG heavy dependency of income sensitive taxes (CIT, PIT)
 - ✓ Pro-cyclical transfers from the center (CG passing down the buck of fiscal adjustment in some cases)
 - ✓ Limited SNG access to borrowing during downturns owing to upturn borrowing binges.

4. Frameworks

Subnational Fiscal Constraints

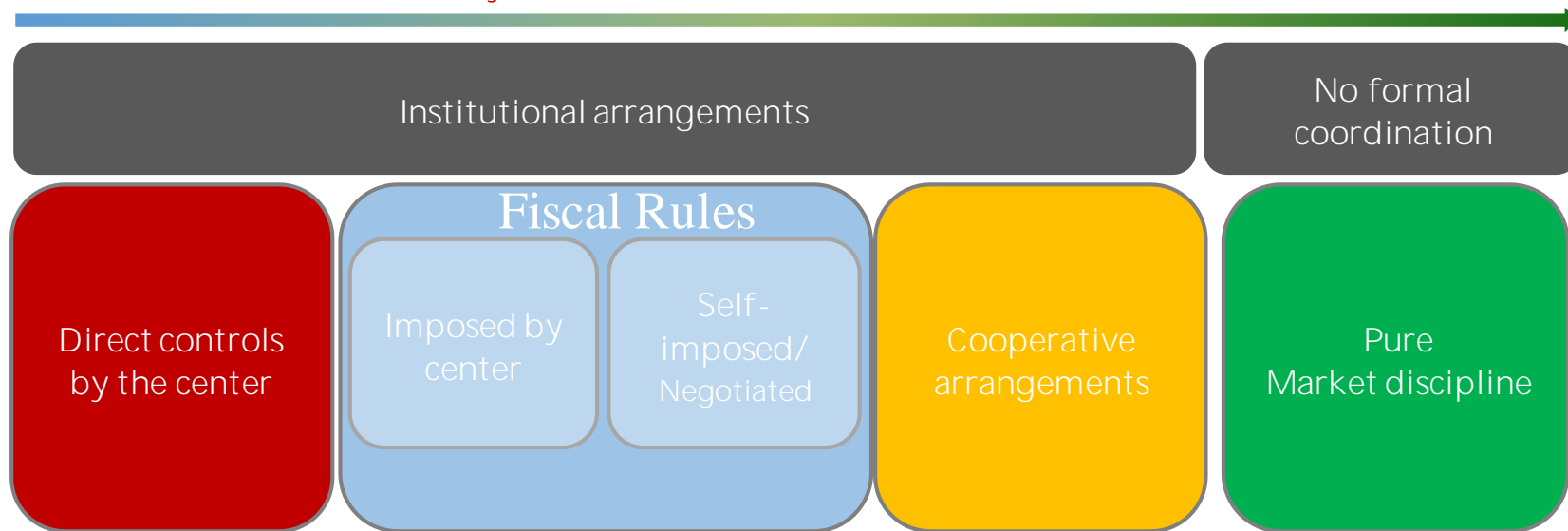


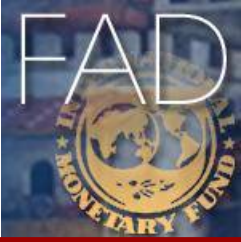
- Different arrangements can help mitigate SBC and foster coordination

Arrangements to constrain Subnational Fiscal Policy

Less sub-national autonomy

More autonomy





Subnational Fiscal Constraints : Selected evidence

Institutional Constraints on Subnational Governments: Types and Number

	Fiscal rule	Direct control	Cooperative approach
Argentina	3	...	...
Australia	3	...	1
Austria	1	...	1
Belgium	1	...	1
Brazil	3	...	...
Canada	3	1	...
Germany	3	...	...
India	4	1	...
Mexico	2	...	...
South Africa	2	...	...
Spain	6	...	...
Switzerland	5	...	...
United States	5	...	...



Fiscal rules: Definition

A fiscal rule imposes a long-lasting constraint on fiscal policy through numerical limits on budgetary aggregates.

- **Fiscal Rules**
 - **Limit discretion** of policymakers in the collective decision-making process and contain pressures to overspend
 - **Signaling device** to anchor expectations about fiscal policy
 - Powerful communication tool to assure public that future policy will be responsible and consistent with targets defined by fiscal rules, thereby reducing uncertainty.

3. Subnational fiscal rules: pros and cons of different rules



DEBT RULES

Set an explicit limit for public debt

- + Direct link to debt sustainability
- + Easy to communicate and monitor
- No clear short-term guidance
- Can lead to pro-cyclicality

BUDGET BALANCE RULES

Constrain the evolution of the debt ratio

- + Clear operational guidance
- + Easy to communicate and monitor
- Can lead to pro-cyclicality

But: Structural budget balance rule

- More complicated, less transparent, difficult to implement at subnational level

EXPENDITURE RULES

Limit total / primary / current spending

- + Clear operational guidance
- + Allows for economic stabilization
- + Rel. easy to communicate / monitor
- No direct link to debt sustainability
- Could lead to composition changes

REVENUE RULES

Set ceilings or floors on revenues

- + Steers the size of government
- + Can improve revenue policy and admin.
- No direct link to debt sustainability
- Can lead to pro-cyclicality

Considerations behind rule design



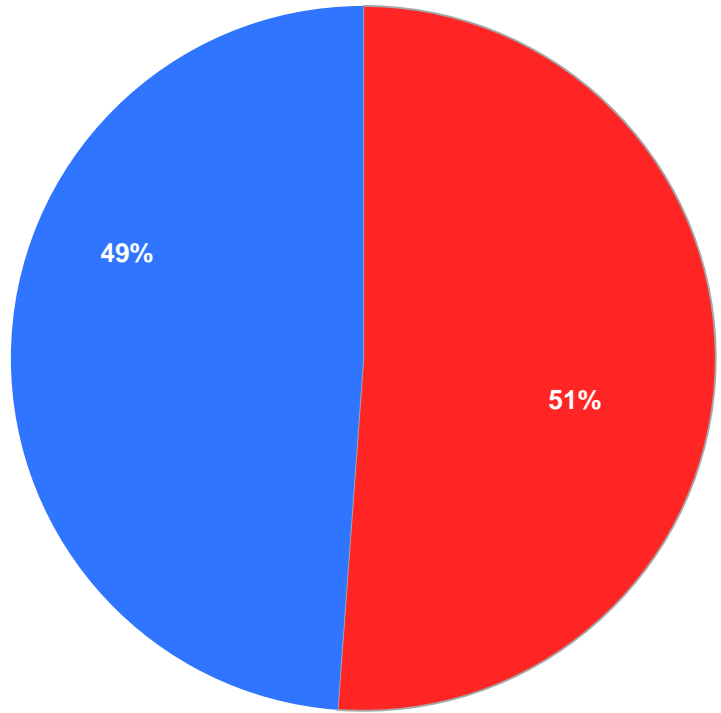
- **Legal basis:** constitutional, statutory, coalition agreement, political commitment
- **Coverage:** level of government (public sector, general or central government) and budgetary items (interest, capital spending)
- **Flexibility:** multi-annual budgets, stabilization funds, and escape clause
- **Monitoring:** PFM procedures, fiscal councils
- **Enforcement:** sanctions and corrective actions

Subnational fiscal rules : origin

Fiscal Constitution matters :

- Self-imposed in competitive federations (U.S., Switzerland)
- Top-down in cooperative federations (E.U.), unitary countries

Origin of Fiscal Rules on Subnational Governments



■ Self-imposed/Negotiated ■ Imposed by higher level

Subnational Fiscal Rules: Selected Evidence from Federations

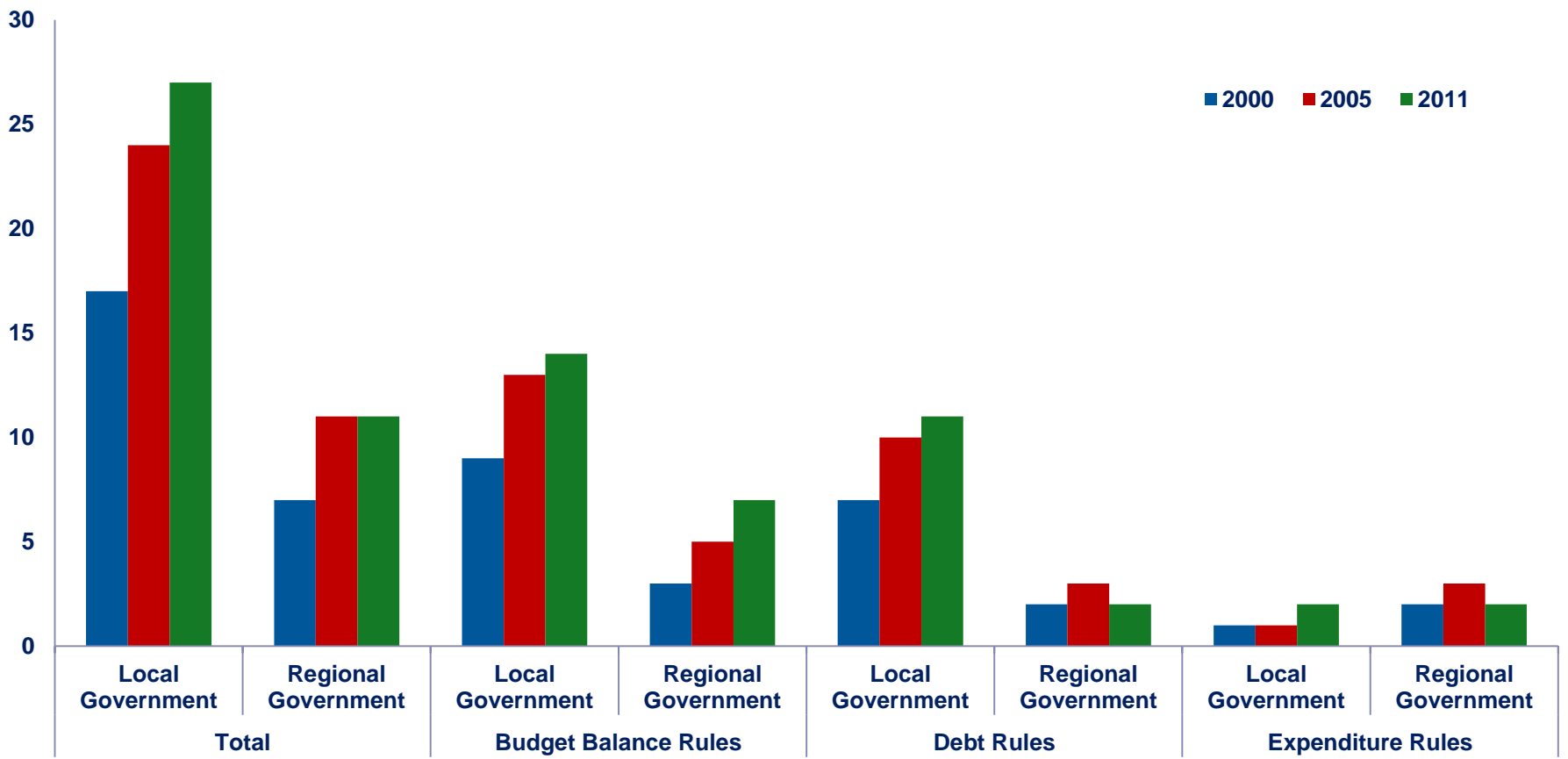
Fiscal Indicator Targeted by the Institutional Constraint

Fiscal Rule **Cooperative Arrangements** **Direct Control from a Higher Government Level**

	Fiscal Balance			Borrowing	Debt		Expenditure		Revenue
	Overall balance	Golden rule	Structural balance		Debt stock	Debt service	Aggregate	Subcomponent	Tax ceiling
Argentina		Green				Green	Green		
Australia	Green			Yellow	Green		Green		
Austria	Yellow	Green							
Belgium	Yellow	Green							
Brazil				Green	Green			Green	
Canada	Green			Red	Green		Green		
Germany	Green		Green	Green					
India	Green			Red	Green	Green			
Mexico				Green					
South Africa	Green			Green					
Spain	Green		Green		Green	Green	Green		
Switzerland	Green	Green	Green				Green		
United States		Green		Green	Green	Green	Green		Green

Subnational Fiscal Rules in the EU:2000-2011

Subnational Fiscal Rules in EU Member States

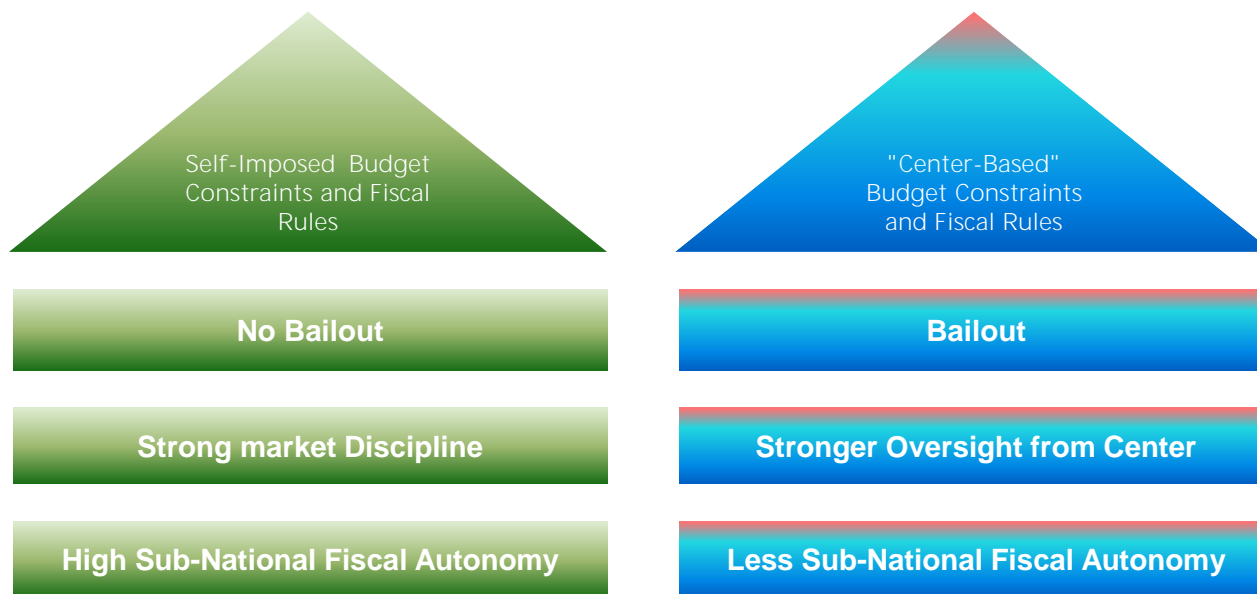


Fiscal Frameworks for Fiscal Discipline and Coordination



- In practice, fiscal frameworks have adopted different mixes of institutional arrangements and market discipline.

Alternative Frameworks for Fiscal Discipline



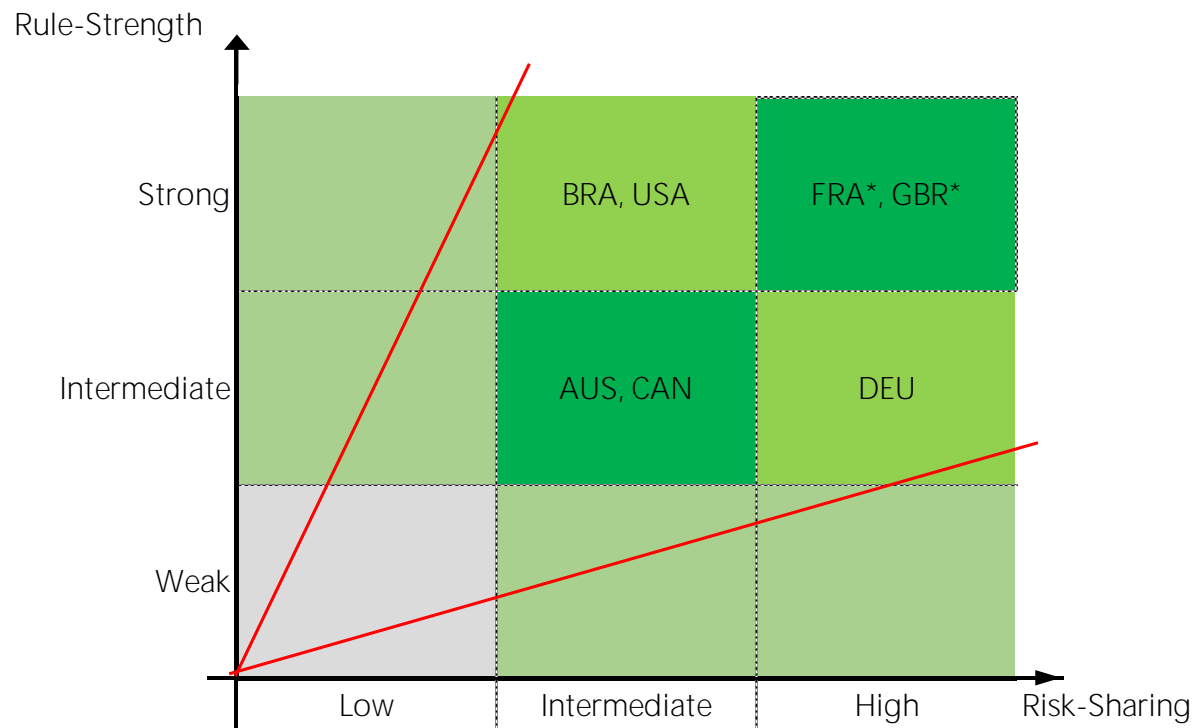
Fiscal Frameworks for Fiscal Resilience :

Greater governance as pre-requisite for greater risk-sharing



- **Stronger risk-sharing and stronger governance typically go hand in hand.**

Nexus between risk sharing and governance



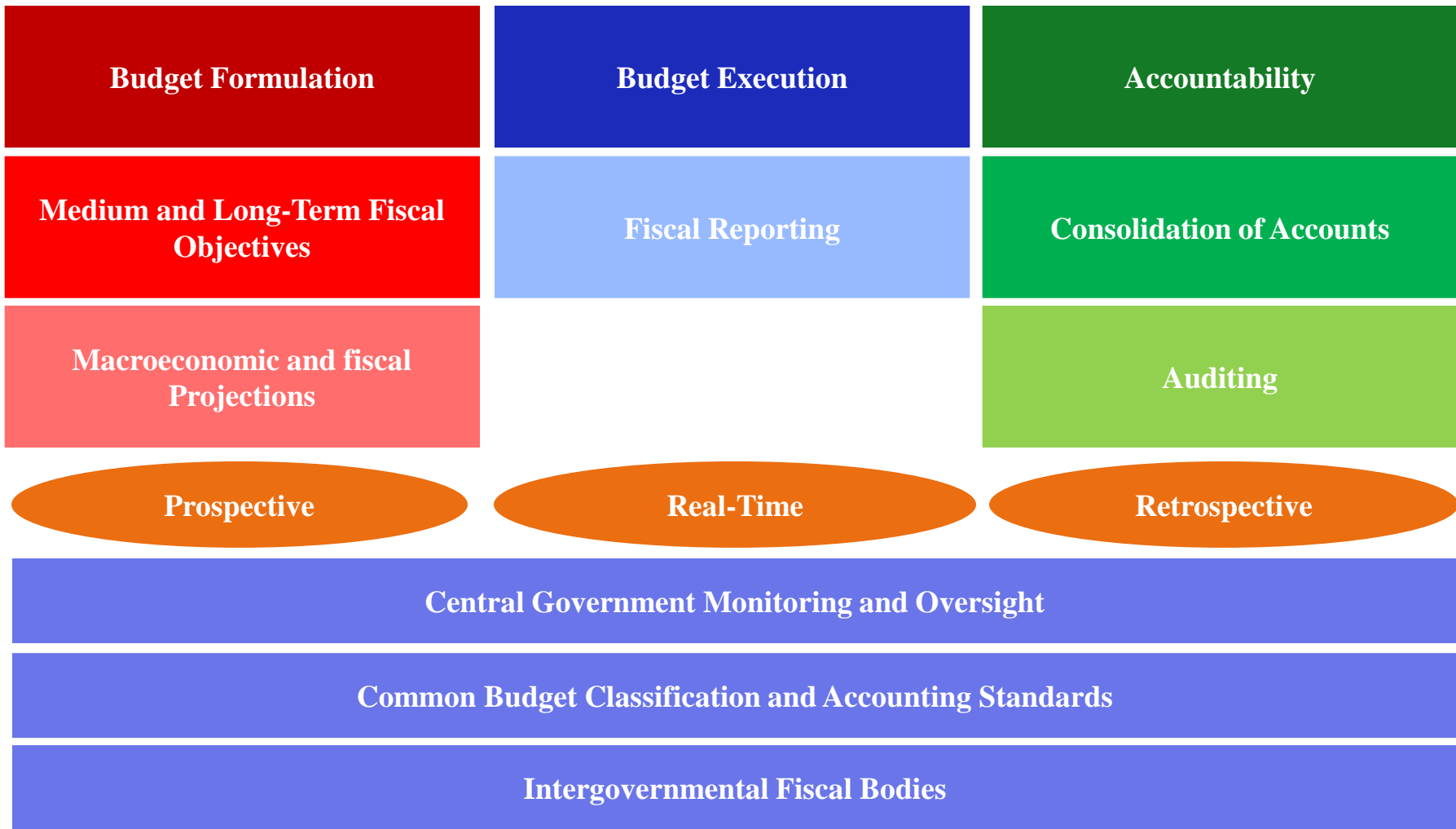
Note: The risk-sharing classification is based on estimates from the literature of the share of income shocks to subnational entities that are absorbed by central transfers. The rule strength classification is based on a review of each country's codified rules and an assessment of their effectiveness in constraining sub-national budgets.

Source: Allard and others (2013)



Public Financial Management Systems: The Fiscal Framework Plumbing

Features of Sound Fiscal Management and Oversight in Federations



Role of the Fiscal Council



- **Assess whether current fiscal rules/procedures are working well and propose measures to improve them**
- **Propose standardization of budgeting, accounting, and reporting to facilitate monitoring, consolidation, and evaluation**
- **Monitor the implementation of fiscal rules**
- **Incentive transparency and facilitate communication**
- **Help coordination and consensus building between central and subnational governments**

5. Evidence

Selected Empirical Findings – Focus Fiscal Performance



- ❑ **Design of intergovernmental fiscal framework, more than the degree of fiscal decentralization, affects fiscal performance.**
 - Impact of spending and revenue decentralization on fiscal performance is mixed. (see Escolano and others, 2012, Ter-Minassian, 2015 for a review)
 - Large VFI/Transfer dependency → negative effect GG, SNG fiscal balances. (e.g. Eyraud and Lusinyan, 2013; Asatryan et al., 2012; Hernandez de Cos and Perez, 2012)

- ❑ **Effect of subnational fiscal rules/constraints on fiscal discipline depends on rule design, intergovernmental fiscal framework, PFM.**
 - Limited evidence of unconditional impact (mainly for U.S./Switzerland)
 - Design (legal basis, coverage, flexibility) matters (U.S./Switzerland/EU) (see Ter-Minassian, 2015 for review)
 - Rules more effective in unitary countries than in federations (Foremny, 2014), in countries with reduced VFIs (Lledó and Kotia, forthcoming), strong PFM (Plekanov and Singh, 2006)

- ❑ **Fiscal coordination critical for successful fiscal consolidations**
 - Concerted fiscal consolidation efforts across government levels → sustainable debt reductions (Molnar, 2012, Vammalle and Hulbert, 2013).
 - Fiscal consolidation efforts became more synchronized after the crisis (Lledó and Pereira, 2015)

Large VFI undermine Fiscal Performance

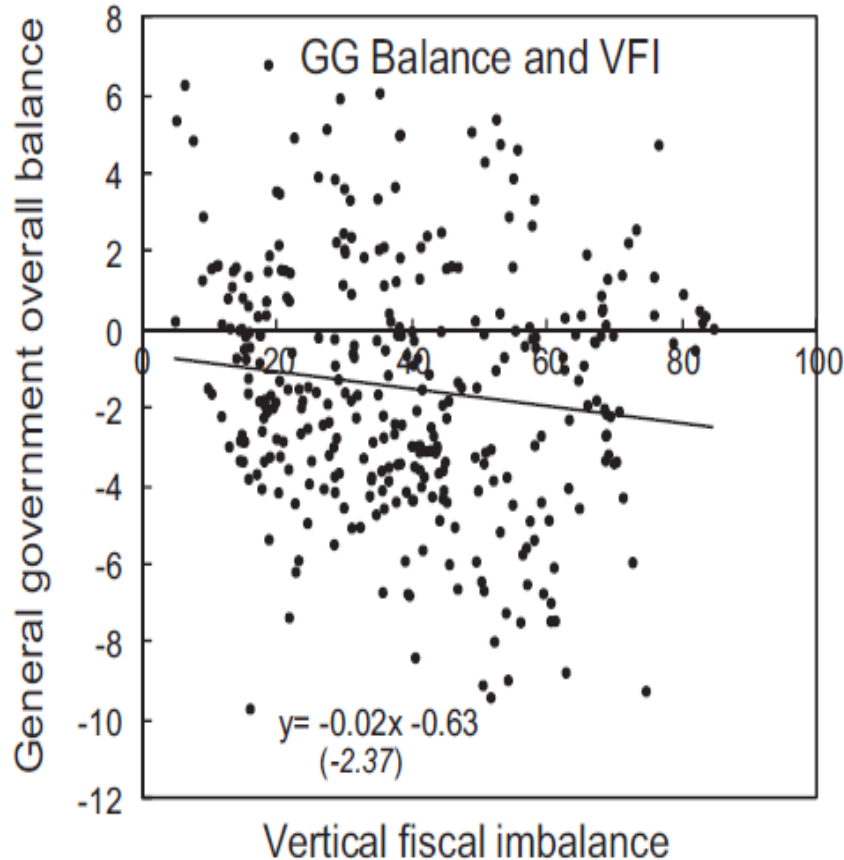


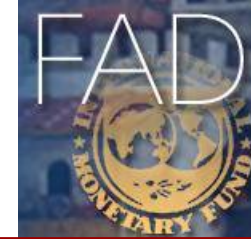
Table 1

Main regression results (dependent variable: general government primary balance, percent of GDP).

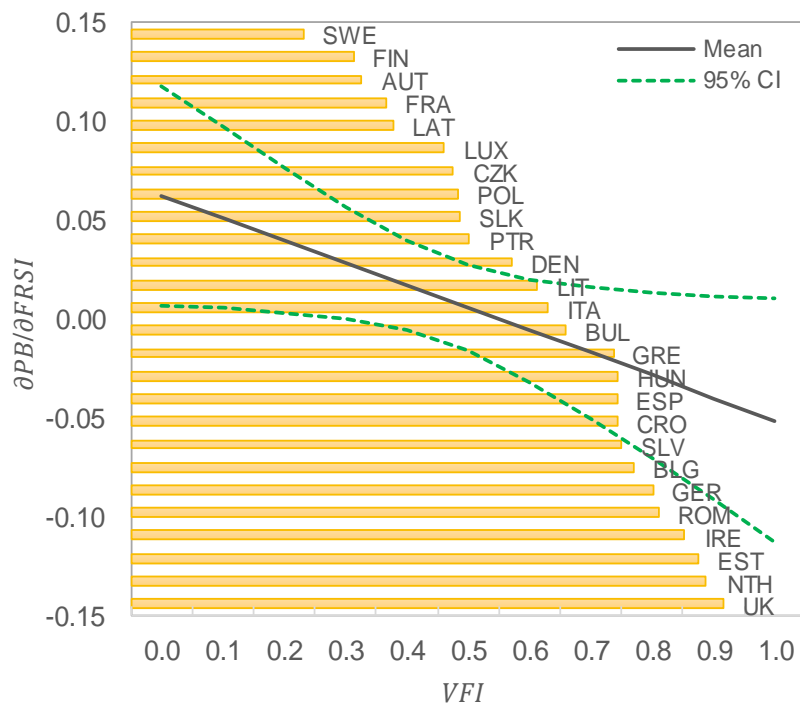
	(1)	(2)	(3)
VFI	-0.15*** (-6.35)	-0.12*** (-3.06)	-0.17 (-1.33)
Expenditure decentralization	0.21*** (3.24)	0.22*** (3.49)	0.21** (2.51)
Lag debt-to-GDP ratio		0.06*** (4.56)	0.06*** (4.51)
Lag of output gap		0.20* (1.97)	0.20* (1.97)
Rule of law		5.89*** (5.67)	5.72*** (5.48)
VFI squared			0.00 (0.43)
Overall R^2	0.10	0.22	0.22
Within R^2	0.48	0.54	0.54
Number of observations	485	273	273
Number of countries	28	25	25

Source : Eyraud and Lusinyan (2013)

Effectiveness of subnational fiscal rules in promoting fiscal discipline at the subnational level weakens as VFI increases



VFI Impact on Fiscal Rule Effectiveness



Source : Lledó and Kotia (forthcoming)

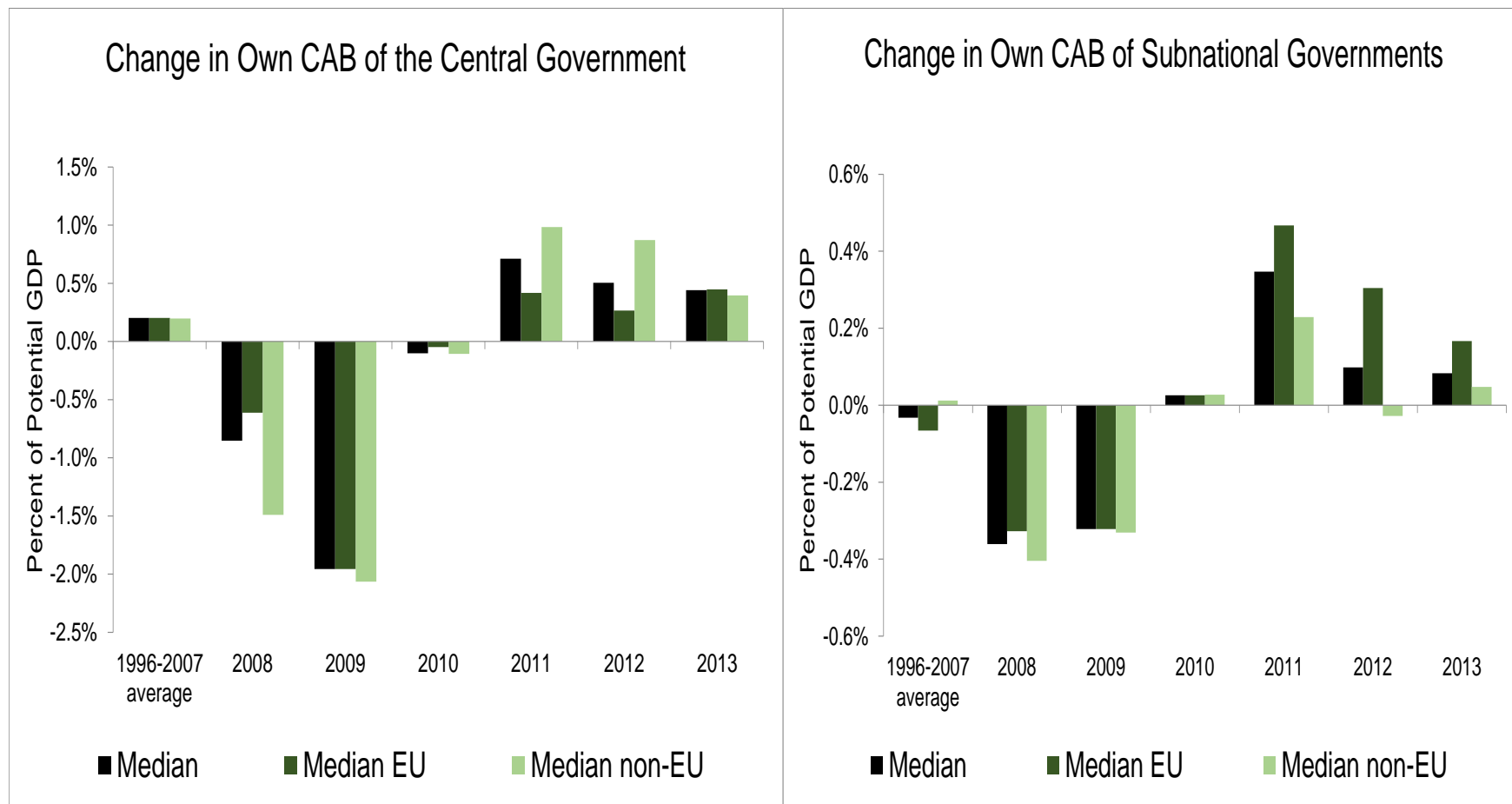
FD GMM Estimates of the Impact VFI on the Effectiveness of SNG Fiscal Rules
(Dependent Variable: Sub National Primary Balance)

Lagged Dependent Variable	0.108 (0.09)	0.112 √(0.10)	0.118 (0.09)	0.099 (0.08)	0.109 √(0.10)	0.075 (0.08)
Overall	0.064** (0.03)					
Overall*VFI	-0.114* (0.06)					
Statutory Base		√0.072** (0.03)				
Statutory Base*VFI		√-0.143** (0.07)				
Monitoring and Enforcement					√0.056** (0.03)	
Monitoring and Enforcement*VFI					√-0.104* (0.06)	
Non Compliance						√0.087** (0.03)
Non Compliance*VFI						√-0.136* (0.07)
Media Visibility						√0.062** (0.03)
Media Visibility*VFI						√-0.111* (0.06)
Flexibility						0.076** (0.04)
Flexibility*VFI						-0.130** (0.06)
VFI	0.026 (0.02)	√0.027* (0.01)	0.026 (0.02)	0.031* (0.02)	0.021 (0.02)	0.021 (0.02)
Output Gap	-0.001*** (0.00)	-0.001*** (0.00)	-0.001*** (0.00)	-0.001** (0.00)	-0.001** (0.00)	-0.001*** (0.00)
Population > 65	√0.006 (0.00)	0.003 (0.01)	0.007 (0.01)	√0.009** (0.00)	0.007 (0.00)	√0.008* (0.00)
Number of Observations	321	321	321	321	321	321
m1	-2.42	-2.44	-2.4	-2.5	-2.19	-2.2
m2	-0.43	-0.61	-0.46	0.1	-0.39	-0.42
Instruments	30	30	30	30	30	30
Hansen	3.35	1.9	3.12	4.41	3.09	4.14

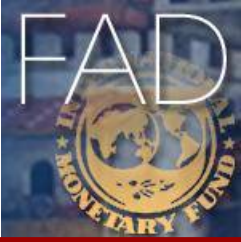
Fiscal policy responses across government levels became more synchronized following the crisis



OECD: Fiscal Stance by Level of Government, 1995-2012 Median across Countries



Source : Lledó and Pereira (2015)



Muchas Gracias!



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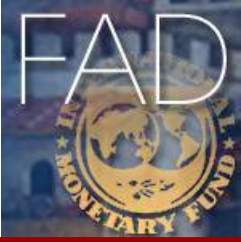
5. Additional Slides

Tax Arrangements in Selected Countries



	CIT	PIT	Consumption Taxes (VAT, sales, excise)	Wealth Taxes (property, inheritance, etc)	Other Business Tax	Other State/Provincial Taxes
Argentina	Federal, shared with states	Federal, shared with states	Federal, shared with states	Provincial property tax	Provincial turnover tax	Some provinces tax labor or sales of utilities, and the 12 provinces that did not transfer their pay-as-you-go pension system collect labor taxes on public employees. Resource-rich provinces collect royalties from mining, electricity and the production of crude oil and natural gas.
Australia	Federal	Federal	federal VAT shared with states, possible piggyback on excise	State stamp tax on property transfer, motor vehicle tax, land tax		State payroll tax, limited natural resource royalty revenues, gambling tax, insurance tax
Belgium	Federal	Federal, municipalities can impose surcharge	Federal	Regional real estate tax, inheritance tax, but federal level has some control over tax base		Other local taxes, like waste, leisure (amusement, gambling) tax
Brazil	Federal	Federal	federal VAT, state VAT	State taxes on property transfer, taxes on vehicle, taxes on inheritance and gifts		Federal natural resource revenues (royalties and special rents) shared with states
Canada	Both central and provincial CIT, but many provinces have federal government collect their CIT	Both central and provincial PIT, but many provinces use federal PIT as tax base and have federal gov collect it for them	provincial (QST or HST), with some provinces using own rate and collection, some using the federal gov to collect for them, state excises			Payroll taxes, resource royalties (both deductible from federal CIT)
Germany	Federal, shared with states	Federal, shared with states	federal, shared with states	State inheritance tax, motor vehicle tax		Gambling tax
India	Federal	Federal, except state tax on agricultural income	state VAT, but rate set by the federal government, federal sales tax, federal excises, except alcohol, that is state; federal value added tax that is in effect duty of excise	State taxes on land and buildings, vehicle tax	State business tax	A fixed proportion of overall central tax revenues is shared with states, tax on mineral rights
Mexico	Federal, shared with states	Federal, shared with states	federal, VAT shared with states	State tax on vehicle ownership, tax on acquisition of used motor vehicles		Payroll tax, lodging tax, tax on lotteries, entertainment tax
South Africa	Federal	Federal	Federal			Motor vehicle license, gambling tax, liquor licences
Spain	Central except in Basque Country and Navarra	Central except in Basque Country and Navarra, shared with regions	central shared with regions. No applied VAT in Canary Islands.	Wealth tax, gifts and inheritance tax, tax on vehicles	Tax on building works, tax on the increase of value of urban land	Tax on gambling
Switzerland	Both federal and cantonal CIT and tax on capital, tax base harmonized	Cantonal PIT and net wealth tax, tax base harmonized but social deductions may differ among cantons.	Federal	Cantonal real estate tax, capital gains tax, capital transfer tax, inheritance and gift tax		
United States	Both state CIT and federal CIT	Both state PIT and federal PIT	State sales tax, federal and state excise tax	Property tax usually local tax, but states set rules; inheritance tax; also federal estate tax		Payroll tax, taxes on natural resources

Source: Cottarelli and Guerguil (2015)



Is Health Care Centralized, Decentralized, or Harmonized?

Rank of Health Care Decentralization index 1/	Characteristics of Health Care Systems	Is a List of Benefit Basket Defined for Medical Procedures at the Central Level?	
Australia	9	Universal health care coverage is established at the central level, administered by the federal government, and financed mostly by general taxation. Subnational governments are responsible for planning hospital capacities. Both central and subnational governments finance construction and maintenance of public hospitals.	Yes (positive list)
Belgium	21	Universal health care coverage is established at the central level, administered by social security institutions, and financed by payroll taxes. Both central and subnational governments are responsible for planning hospital capacities, and finance construction and maintenance of public hospitals.	Yes (positive list)
Canada	2	Universal health care is established at the level of subnational governments (provinces and territories). Public health spending is financed by subnational taxes as well as earmarked federal transfers for health. Subnational governments are responsible for planning hospital capacities, and finance construction and maintenance of public hospitals.	Yes. The Canada Health Act mandates provincial and territorial governments to offer health insurance for specific health services universally and equitably.
Germany	16	Universal health care coverage is established at the central level, administered by social security institutions, and financed by payroll taxes. Subnational governments are responsible for planning hospital capacities. Subnational governments and social security institutions finance construction and maintenance of public hospitals.	Yes (negative list)
Mexico	14	More than half of the population is covered under social security. Another 20 percent of the population is covered under a publicly-subsidized voluntary health program. Both central and subnational governments are responsible for planning hospital capacities. Central government, subnational governments, and social security institutions finance construction and maintenance of public hospitals.	Yes (positive list)
Spain	1	Universal health care coverage is established at the level of subnational governments (regions), financed mostly by general taxation. Subnational governments are responsible for planning hospital capacities, and finance construction and maintenance of public hospitals.	Yes (positive list)
Switzerland	4	Universal health care coverage is established at the central level. Residents are required to purchase health insurance, which is offered by competing private health insurance companies. Subnational governments are responsible for planning hospital capacities, and finance construction and maintenance of public hospitals.	Yes (negative list)

Sources: Joumard, Andre and C. Nicq (2010).

1/ The index ranks the degree of decentralization in decision making over key health policy issues for 28 OECD countries.

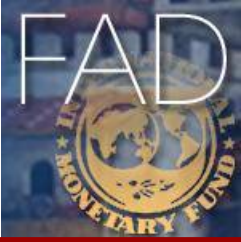


Is Social Protection Centralized, Decentralized, or Harmonized?

	Is Public Pension Centralized?	Is Unemployment Insurance Centralized?	Is There a Centrally-Administered Family Assistance Program?	Is There a Centrally-Administered Social Assistance Program?
Argentina	Yes	Yes	n.a.	n.a.
Austria	Yes	Yes	Yes	Yes
Australia	Yes	Yes	Yes	Yes
Belgium	Yes	Yes	Yes	Yes
Brazil	Yes	Yes	Yes	n.a.
Canada	No. The Canadian province Quebec decided to opt out of the federal pension plan and has implemented its own pension plan in the 1960s.	Yes	Yes. Family assistance programs in Canada comprise federal tax credit as well as the National Child Benefit Supplement program provided by a partnership of federal, provincial, and territorial governments.	No. Social assistance programs are governed by the provinces and territories.
Germany	Yes	Yes	Yes	Yes
Mexico	Yes	Yes	Yes	n.a.
Switzerland	Yes	Yes	No. Child allowances are financed and administered by cantons and municipalities. However, the federal government establishes a minimum monthly benefit.	No. Social assistance programs are administered and financed by the cantons.
Spain	Yes	Yes	Yes	No. The minimum income scheme "Ingreso Mínimo/Renta Mínima de Inserción" is governed by the regional governments.
United States	Yes	No. Unemployment benefit schemes are designed and administered by state governments.	No. The Temporary Assistance for Needy Families (TANF) program is administered and implemented by the states.	Yes

Sources: International Social Security Association and OECD country database on benefits and wages.

1/ "n.a." indicates that information is not available from the sources.



Is Public Education Centralized, Decentralized, or Harmonized?

Country	Responsibilities of Central and Subnational Governments	Policies to Ensure Harmonization Across Subnational Governments
Australia	Each state government manages its own primary and secondary school system and is responsible for financing and regulation.	Regional governments and the federal government coordinate through an intergovernment council for primary and secondary education. The federal government is currently formulating a national curriculum in some subjects for primary and secondary education.
Belgium	The three communities (Flemish, French and German-speaking) are responsible for their own educational systems. The communities finance over 80 percent of public educational spending, while the federal government provides financial transfers to them based on the number of pupils aged between 6 and 17 years old.	The federal government sets national standards on the compulsory education period, minimum requirements for awarding diplomas, and the pension scheme of teachers.
Brazil	The educational system is a collaborative organization between federal, state, and municipal government organizations. Each year the federal government is mandated to apply no less than 18 percent of public expenditures on education. The federal district, states, and municipalities must apply at least 25 percent of their tax revenues, including those resulting from transfers from the federal government.	The federal government legislates on guidelines for national education, and provides technical and financial assistance to state and local governments. The states can legislate on regional educational issues, provided that the federal legislation is respected.
Canada	Regional governments are responsible for elementary and secondary education in their own regions. Regional and local governments finance over 95 percent of total public spending on education.	There is no federal department of education or integrated national system of education. The Council of Ministers of Education provides a forum for provincial and territorial education ministers to discuss and coordinate on educational issues.
Germany	Education is primarily the responsibility of the states (Länder), which finance over 90 percent of public education expenditure. Within the states, the state governments are responsible for teaching staff payroll in public primary and secondary schools, while local authorities bear the costs of non-teaching staff and the material costs.	A regional coordinating body called the Standing Conference of the Ministers of Education and Cultural Affairs sets national educational standards for quality assurance. The schools in each state are evaluated by external evaluation agencies against the national standards.
Spain	The responsibility of education has been divided by law between the central government and regional governments (Autonomous Communities). Regional governments contribute over 95 percent of total public education funding. Regional governments are also responsible for teaching their own co-official language, such as Aranese, Catalan, Valencian, Galician and Basque.	The Ministry of Education of the central government sets basic educational standards and regulation of academic diplomas. Regional governments are responsible for the implementation of such basic national standards and the regulation of non-basic aspects of the education system.
Switzerland	The nine-year compulsory primary and lower secondary education are responsibilities shared between the cantons and their municipalities, which finance about 87 percent of total public spending on education.	Switzerland does not have a federal ministry of education. The 26 members of the Swiss Conference of Cantonal Ministers of Education ensure the coordination of the primary and secondary education system across cantons.
United States	Education is primarily a responsibility shared by the state and local governments. The ages and achievement standards for compulsory education vary by state. The federal government contributes about 11 percent of total spending on elementary and secondary education, mainly targeted at economically disadvantaged and disabled students through the federal program “No Child Left Behind” (NCLB) launched in 2001.	NCLB requires the annual tests of reading and mathematics proficiency of students in selected grades of all public schools (not just those receiving the funds) in participating states; and the states are responsible for monitoring students’ progress and collecting data.

Source: Staff research based on various publications.