



International experience in decentralised fiscal systems

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Key messages

Don't forget the macro picture

- Spain has some space for temporarily continuing with moderate deficits.
- Borrowed money must be well spent.

There is a need for improving public spending quality

- **Spain's** quality of the spending mix deteriorated during and in response to the crisis.
- **Growth priorities involve public investment and education (which can be seen as “soft” investment).**
- Reallocating social spending towards family benefits has great potential to help the poor

Spain's subnational governments are key players in achieving these goals

- They decide most of public spending on
 - Investment
 - Education

International experience provides insights for Spain

- Spain is a highly fiscally decentralised country from a global perspective
- **Spain's** subnational governments have relatively standard revenue mixes
- Stronger metropolitan governance can support more inclusive growth in cities
- The OECD recommendation on effective public investment across government levels provides directions

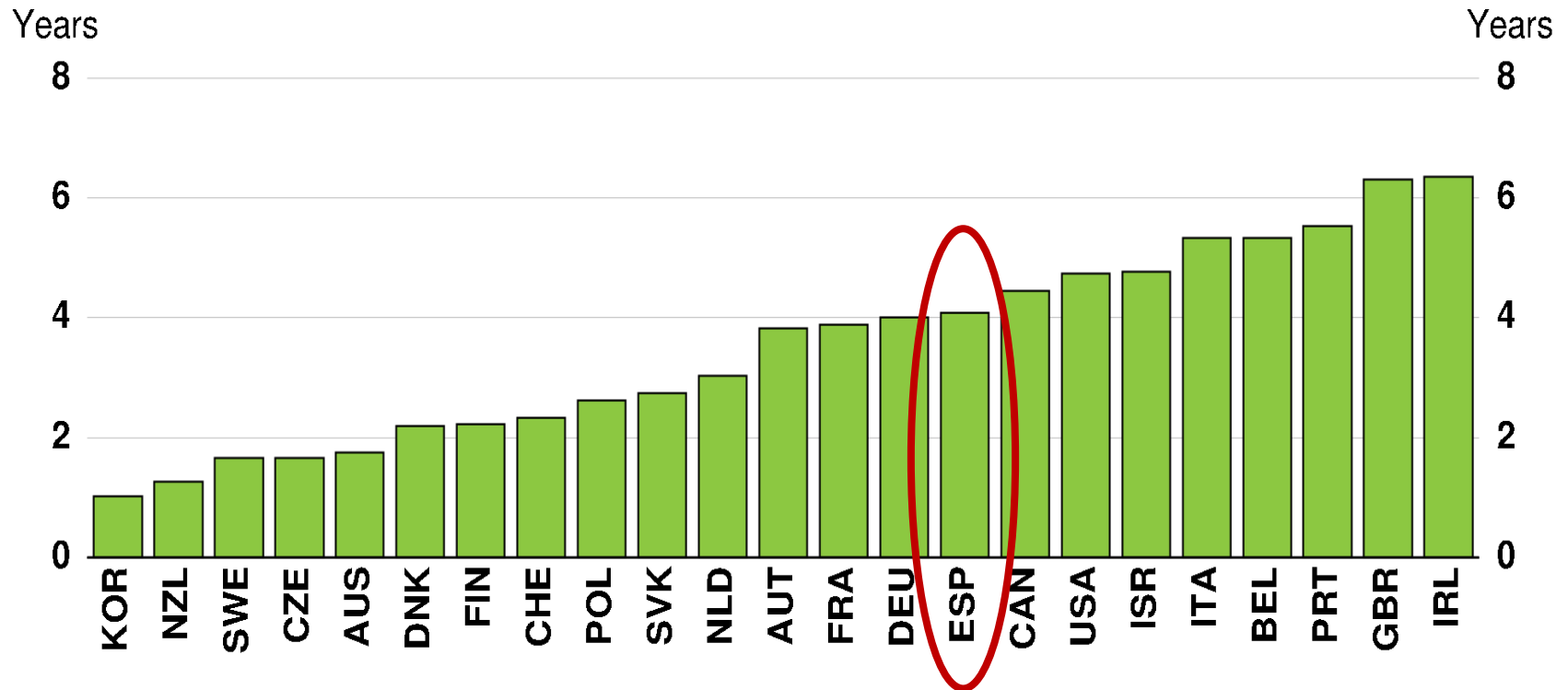


Don't forget the macro picture



Spain has space for temporarily maintaining moderate deficits

Number of years during which a fiscal initiative can be financed through temporary deficits



Note: For this graph it is assumed the fiscal initiative consists of an 0.5% of GDP increase in public investment.
Source: OECD calculations based on Mourougane et al (2016).



Spain's fiscal stance appears well suited to the circumstances

		Recommended fiscal stance				
		Contractionary	Mildly contractionary	Broadly neutral	Mildly expansionary	Expansionary
Projected fiscal stance	Contractionary					
	Mildly contractionary		ARG, BRA, COL, CRI, GRC, SVK	BEL	AUS, GBR, IDN, KOR	
	Broadly neutral			CHL, CZE, DNK, ESP, IND, IRL, ISR, JPN, LTU, MEX, NZL, PRT, TUR, SWE, ZAF	AUT, FIN, NLD, FRA, RUS	CHE
	Mildly expansionary	HUN		SVN	CAN, ITA, NOR, POL	DEU, EST, LVA
	Expansionary	ISL			CHN	LUX, USA

OECD recommends more expansionary policy than planned

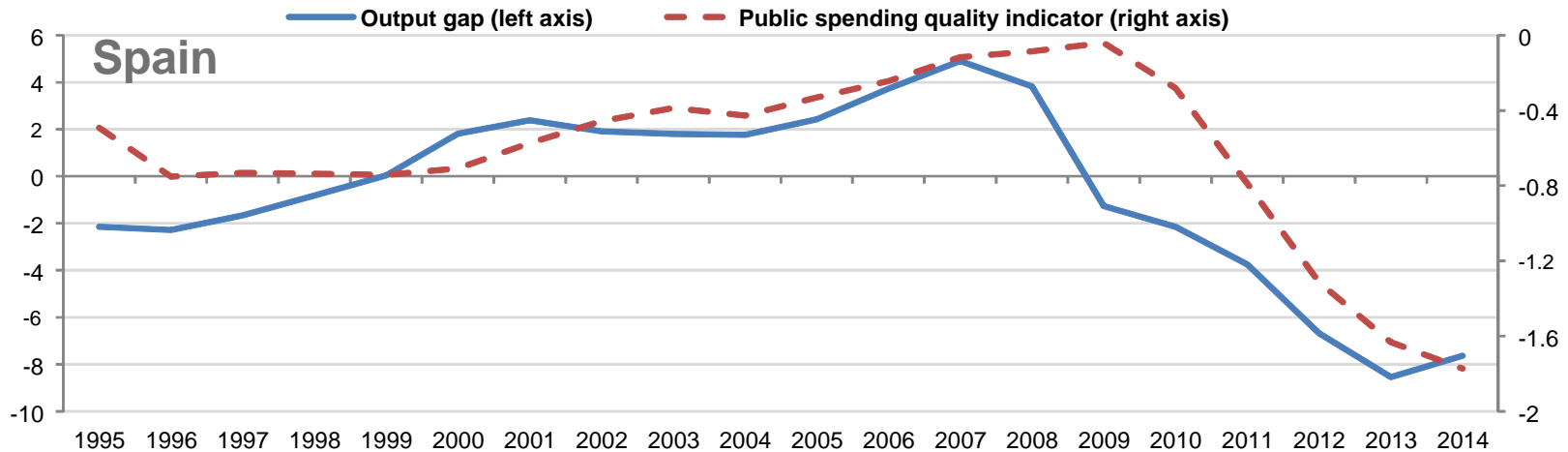
OECD recommends less expansionary policy than planned



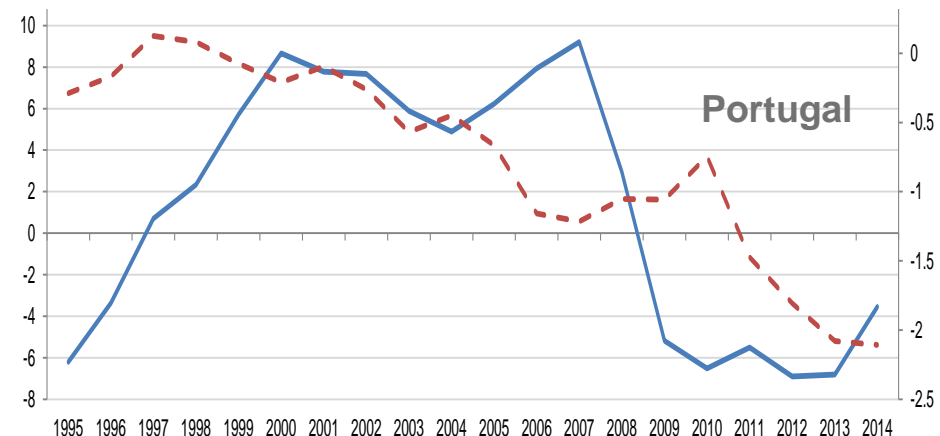
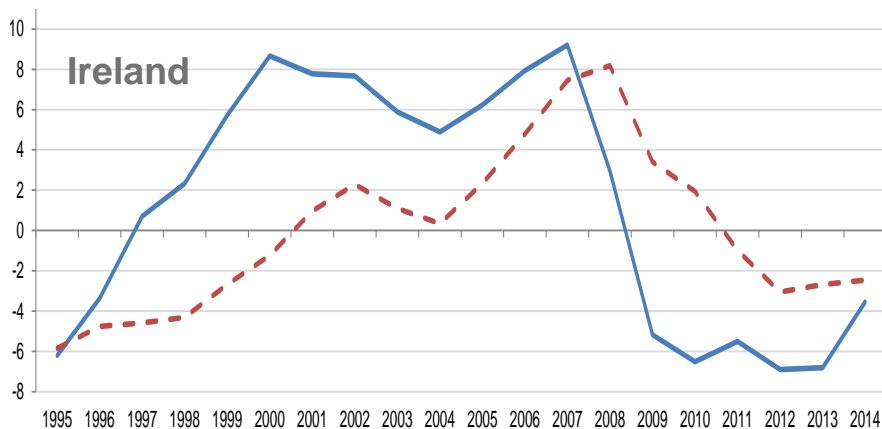
**There is a need for enhancing
public spending quality**



The recent deterioration in the quality of public spending must be reversed



Spain is not an isolated case:



Source: Bloch and Fournier (2017), Forthcoming.



Impact of different instruments on growth and equity

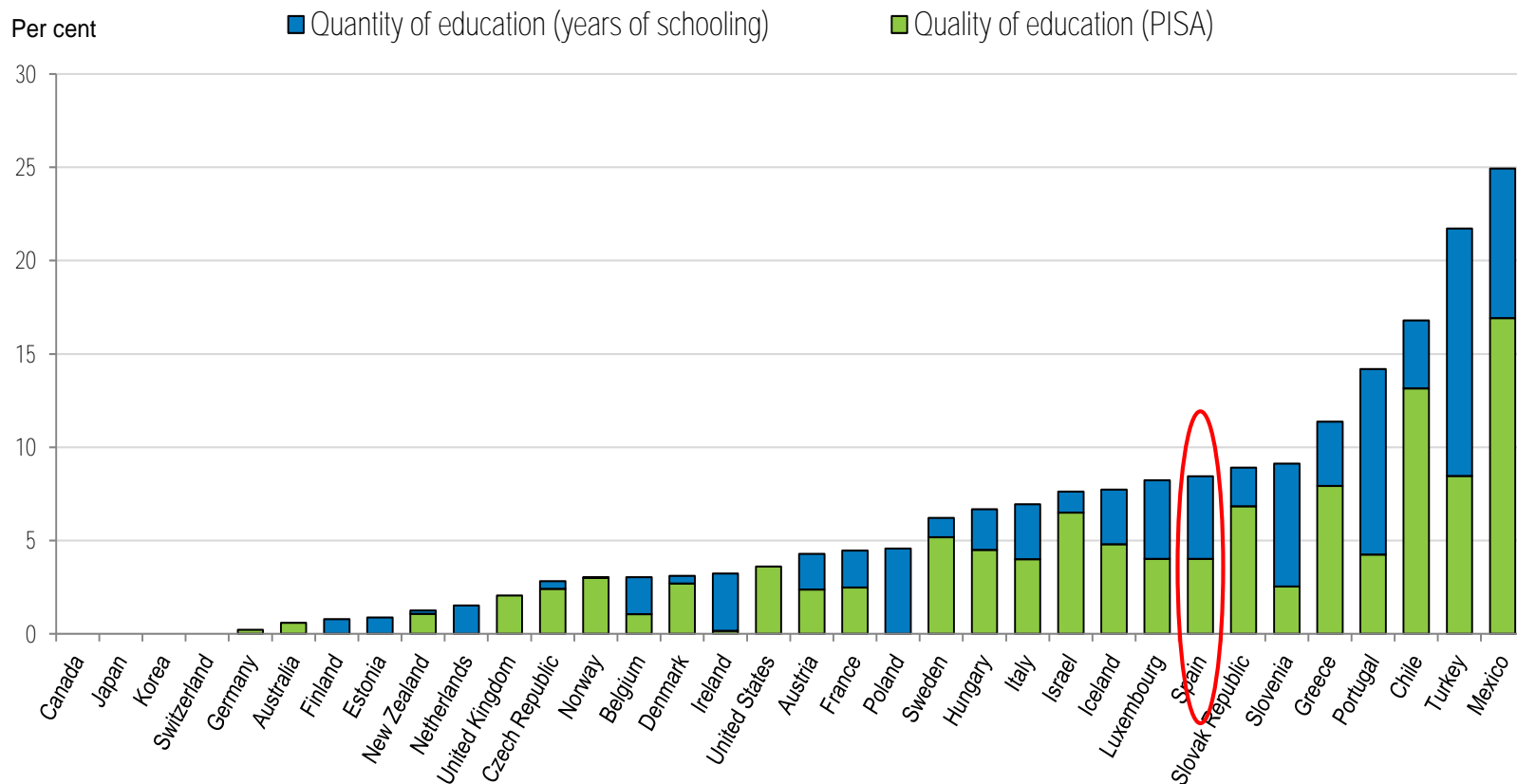
Policy		Growth	Equity	Income of the poor	Countries with the most room for growth gains
Decreasing the size of government	Low to moderate government effectiveness	+	-	+	BEL, CZE, FRA, GRC, HUN, ITA, POL, PRT, SVN
	High government effectiveness	n.s.	-	-	
Increasing government effectiveness		+	+	+	FRA, GRC, HUN, ITA, SVN
Increasing education outcomes		+	0/+	+	CHL, GRC, MEX, PRT, TUR
Increasing public investment (including R&D)		+	n.s.	+	BEL, DEU, GBR, IRL, ISR, ITA, MEX, TUR
Pension reform		+	n.s.	+	AUT, DEU, FIN, FRA, GRC, ITA, JPN, POL, PRT, SVN
Increasing family benefits		n.s.	+	+	CHE, ESP, GRC, PRT
Decreasing public subsidies		+	-	n.s.	BEL, CHE

Note: + stands for a positively significant, – for a negatively significant and n.s. for non-significant effect.

Source: Fournier and Johansson (2016), “The Effect of the Size and the Mix of Public Spending on Growth and Inequality”, OECD Economics Department Working Papers, No. 1344.



Investing in education can have a large growth pay-off in Spain

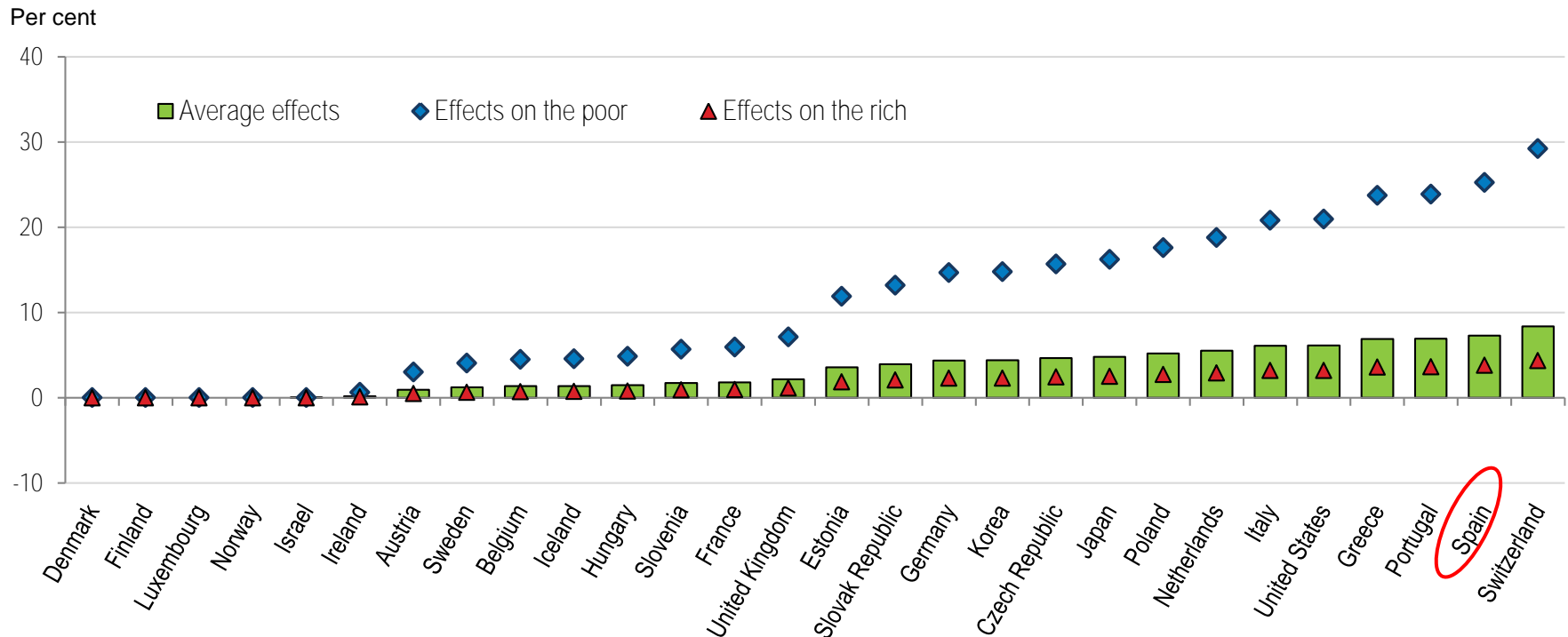


Note: In countries where the mean PISA score or average years of schooling are below the average level of countries in the top half of the sample, educational attainment is assumed to gradually converge to this level. The figure reports the effect after 45 years of a reform phased in over 45 years.

Source: Fournier and Johansson (2016), "The Effect of the Size and the Mix of Public Spending on Growth and Inequality", OECD Economics Department Working Papers, No. 1344.



Reallocating spending towards family benefits can help Spain's poor a lot



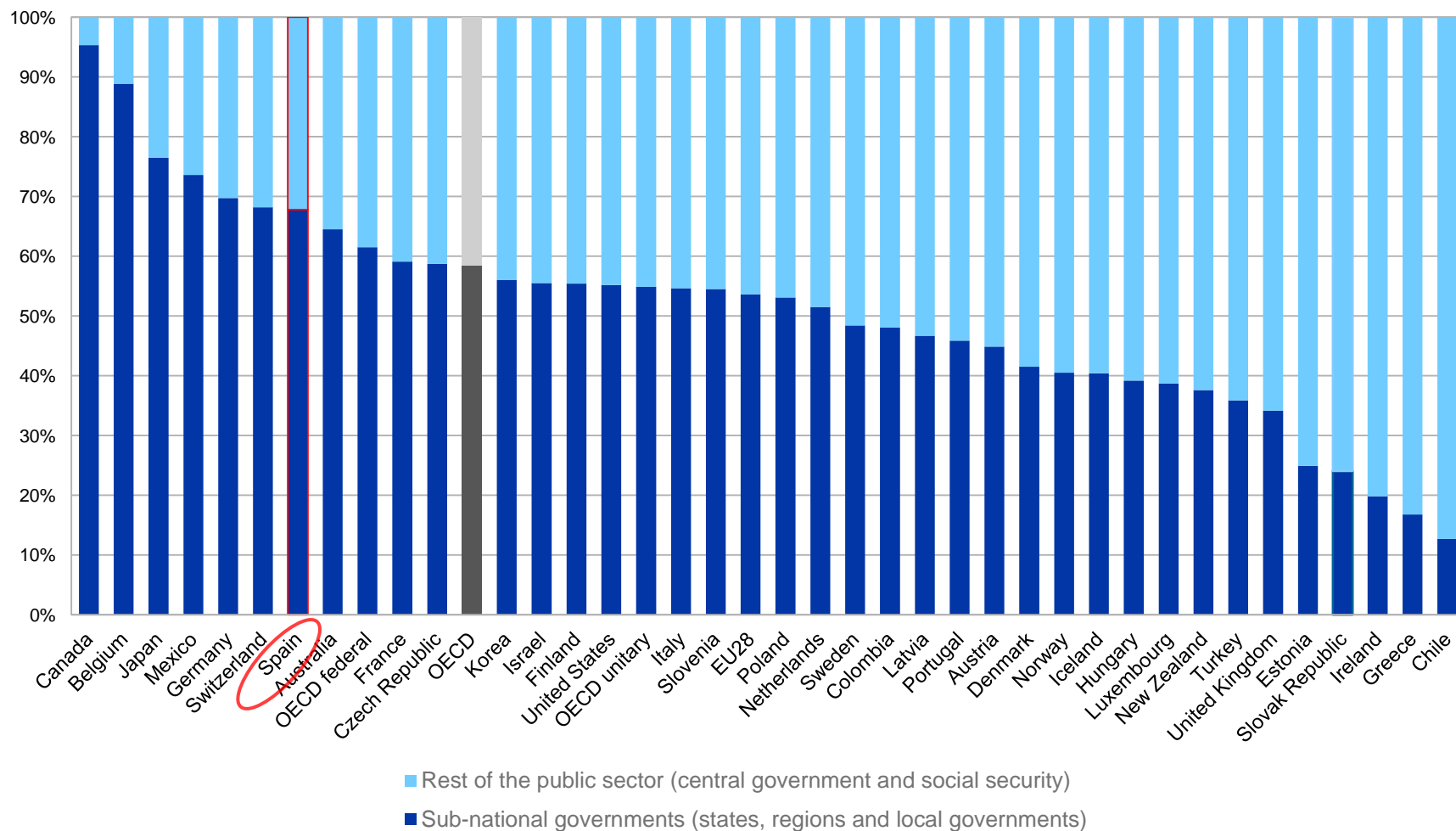
Note: In countries where family benefits to potential GDP is below the average ratio of that of countries in the top half of the sample, family benefits are assumed to converge to this average ratio.



**Subnational authorities have
a central role to play in
achieving fiscal goals**



Subnational authorities, particularly in Spain, are the main sources of public investment...

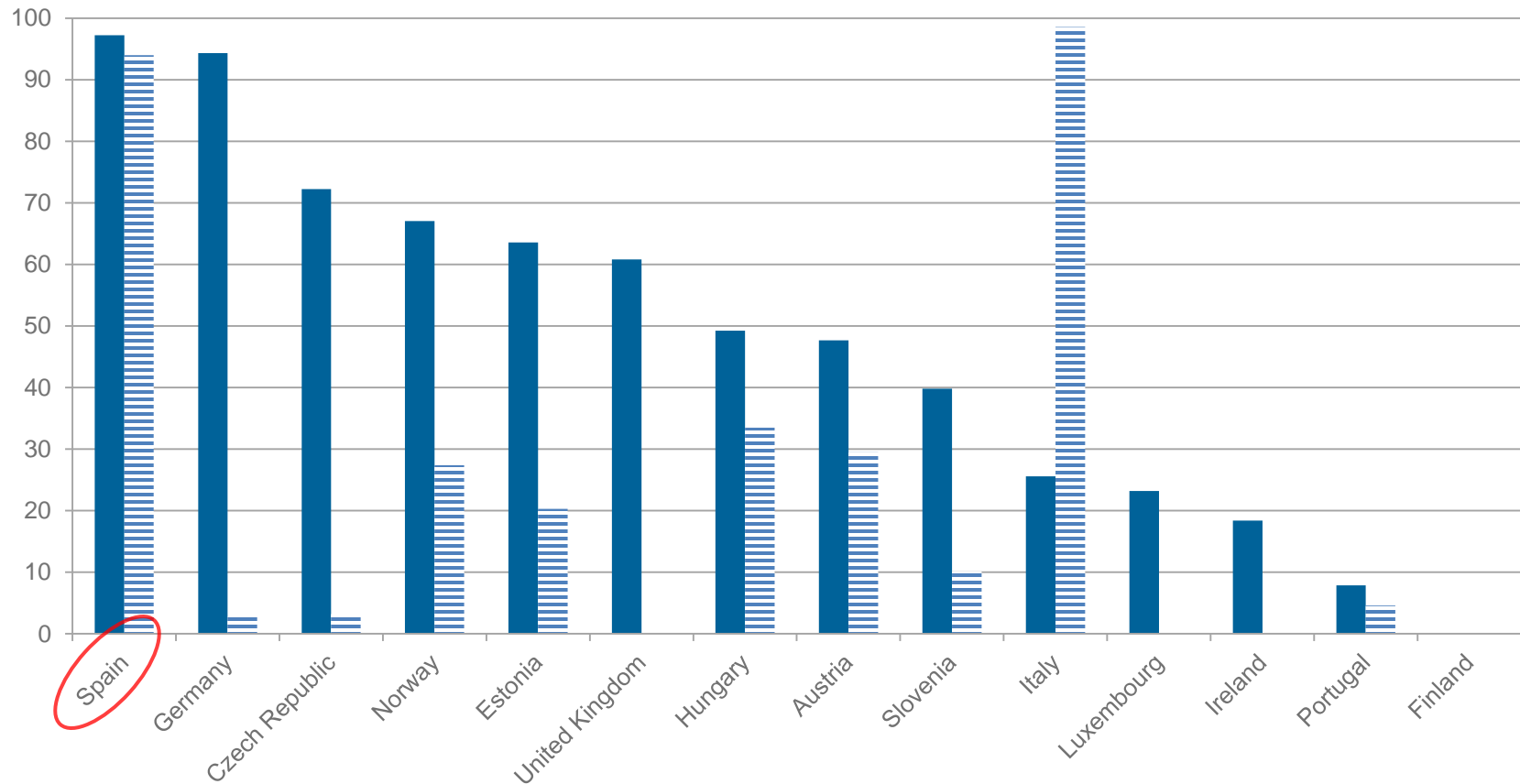




... and education as well as health spending

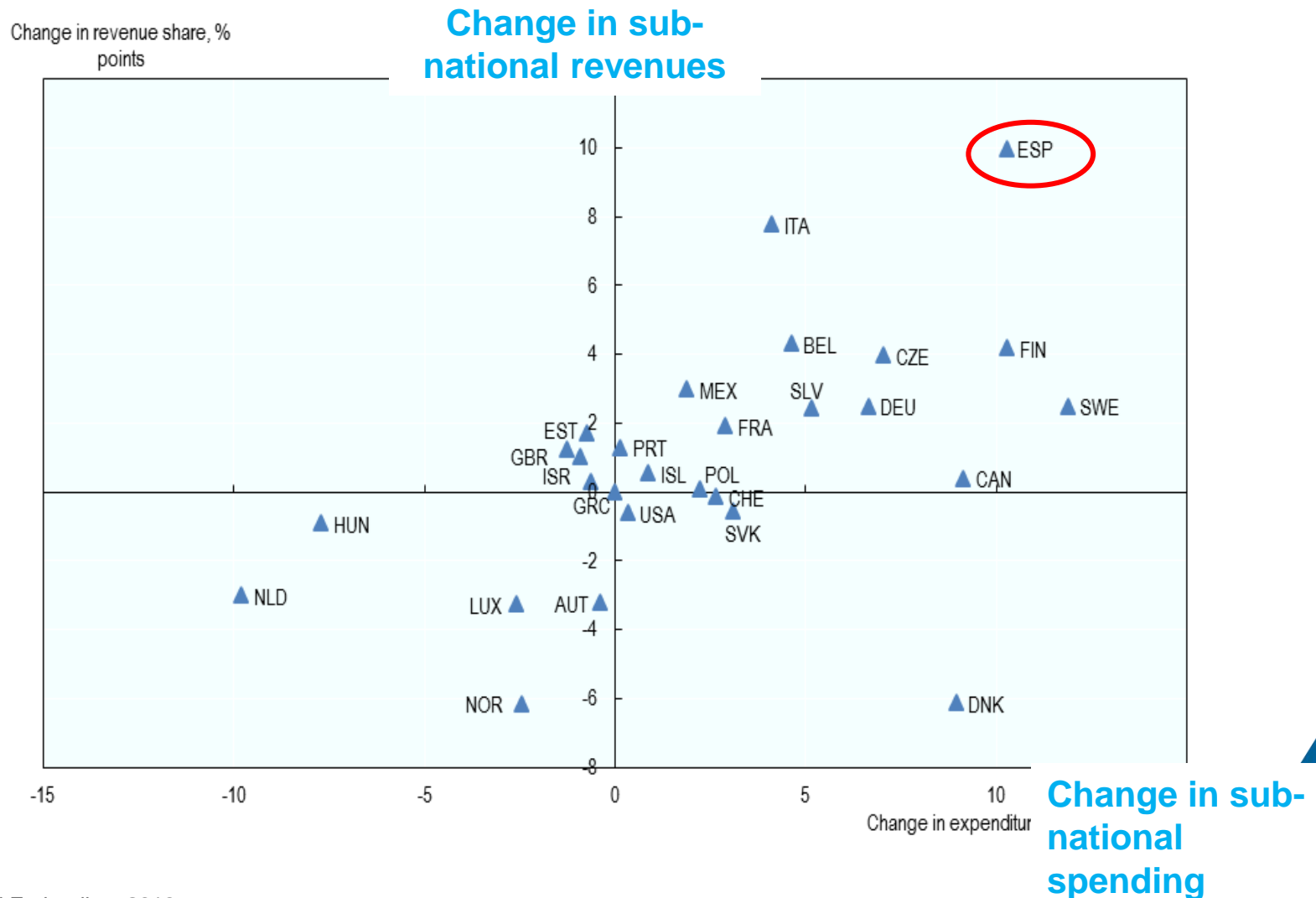
Share of subnational government, %

■ Education ■ Health





Spain has become more decentralised over the last decade



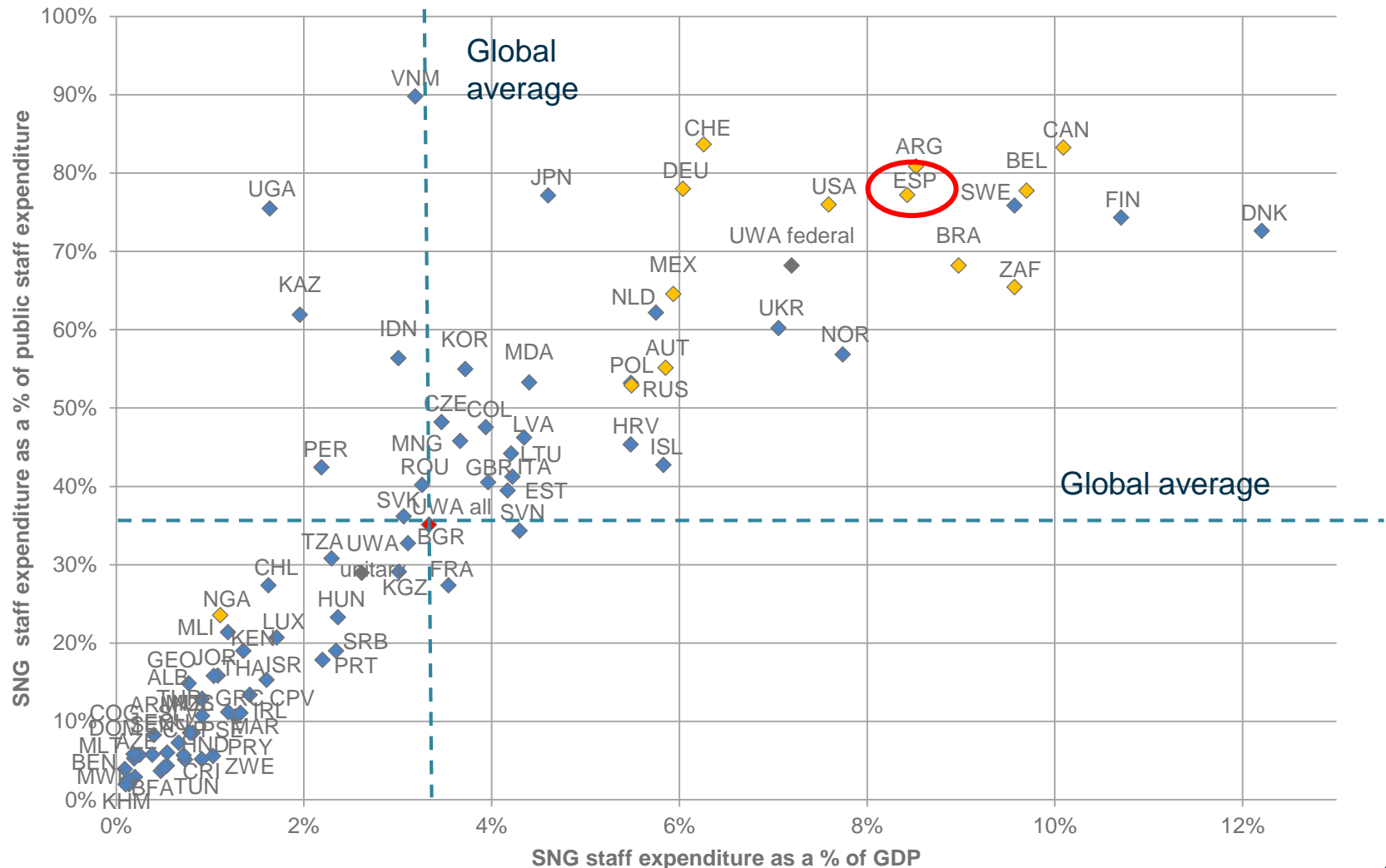


Taking a global view





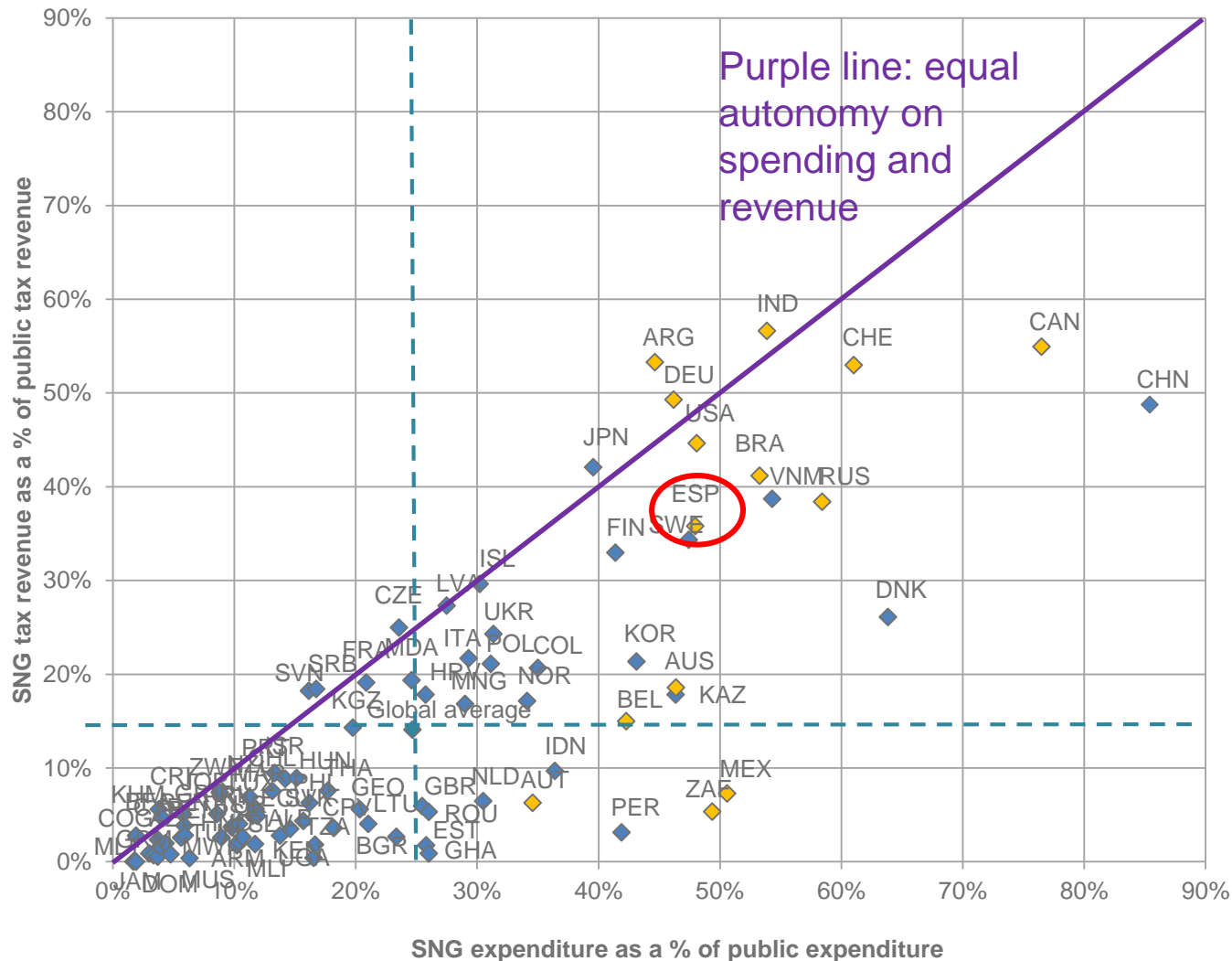
Subnational governments are major employers, especially in Spain



Source: OECD/UCLG (2016) *Subnational Governments Around The World: Structure And Finance*



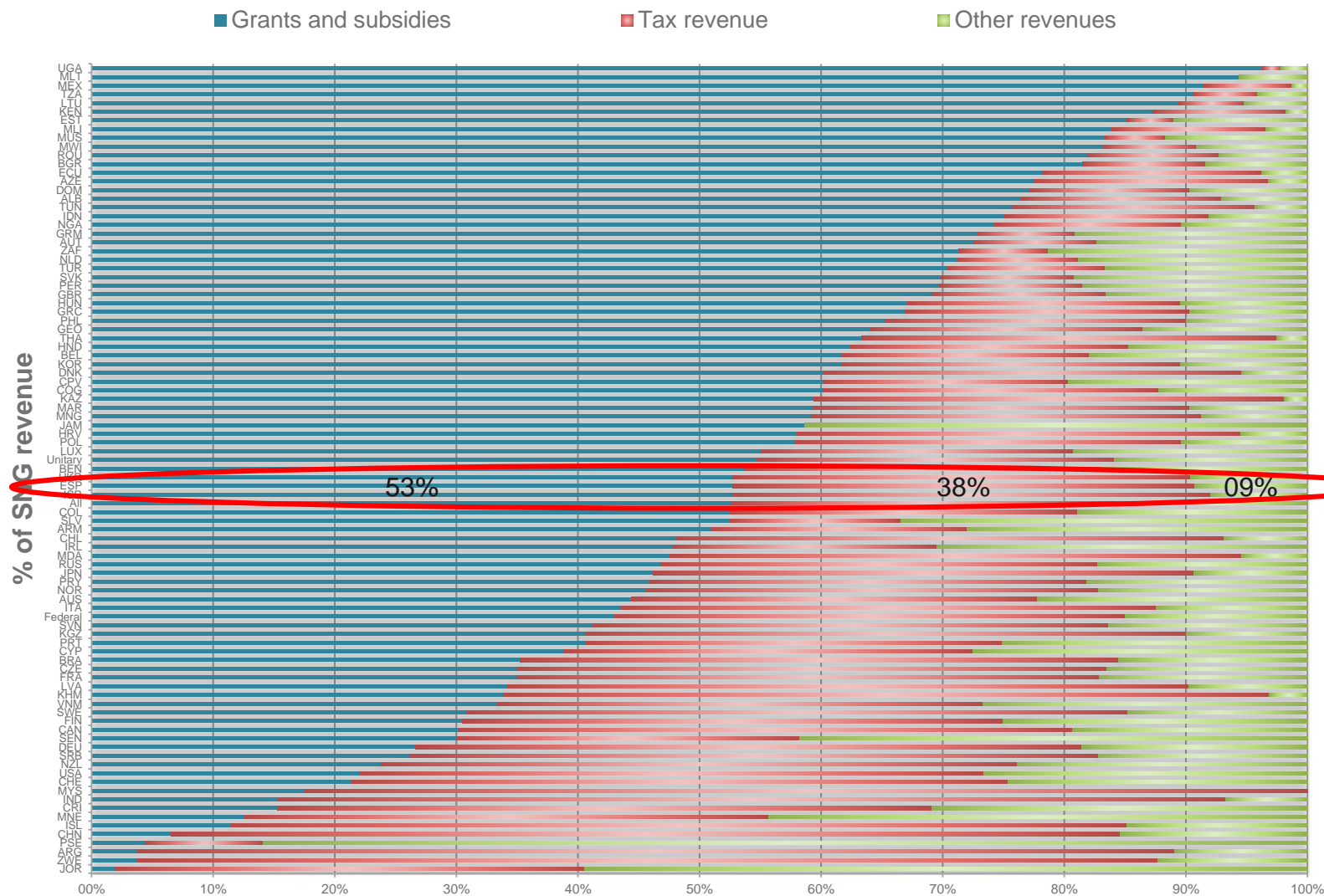
Subnational governments typically have more spending than revenue autonomy



Source: OECD/UCLG (2016) *Subnational Governments Around The World: Structure And Finance*



The revenue mix of Spanish subnational governments is fairly typical





Reaping the benefits of decentralisation



Why decentralise?

- More investment and other productive spending in decentralised countries
- Better education outcomes when more power for education policy is handed to sub-national governments and schools
- Higher tax mobilisation when the tax system is more decentralised
- Faster convergence between the low-income and the high-income jurisdictions of a country
- More growth in countries which are more decentralised, although effect is not that strong
- Helps take into account different preferences in large and/or diverse countries



How to decentralise?

- Spending decentralisation should be similar to revenue decentralisation
- Sub-national governments should be given both some spending/regulatory autonomy and some tax autonomy
- Tax decentralisation: property tax, share in the personal or corporate income tax
- Which policy areas can be more decentralised: many – but much depends on size and capacity of sub-national government



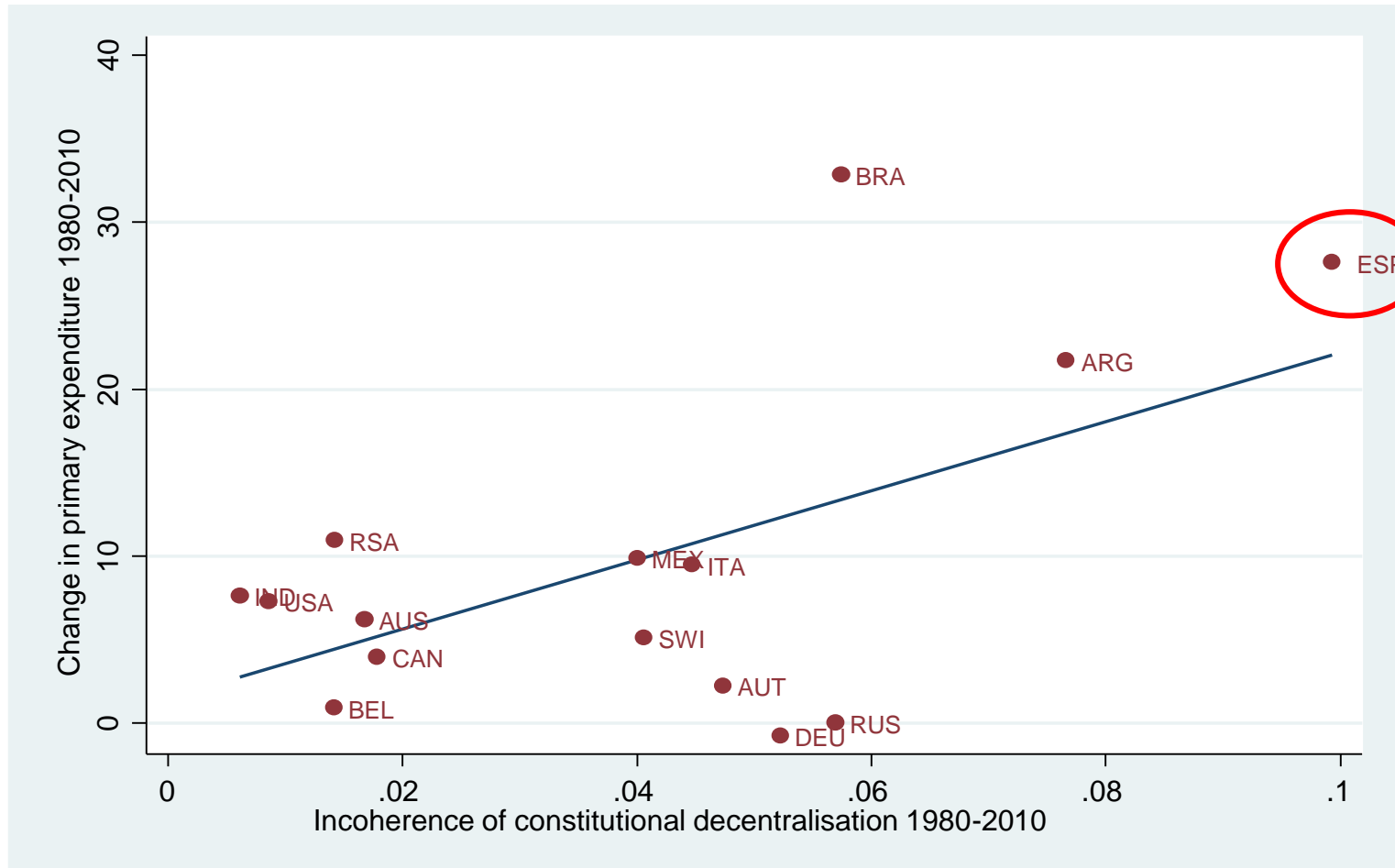
Making decentralisation a success

- Fiscal/interregional equalisation system
- Macro-fiscal and institutional reforms: fiscal rules, intergovernmental budget frameworks, debt management, insolvency frameworks, etc.
- Financial markets (sub-national debt for investment!)
- Intergovernmental coordination bodies



Coherent fiscal decentralisation is key to keeping spending in check

Incoherence of fiscal constitutions and growth of primary spending

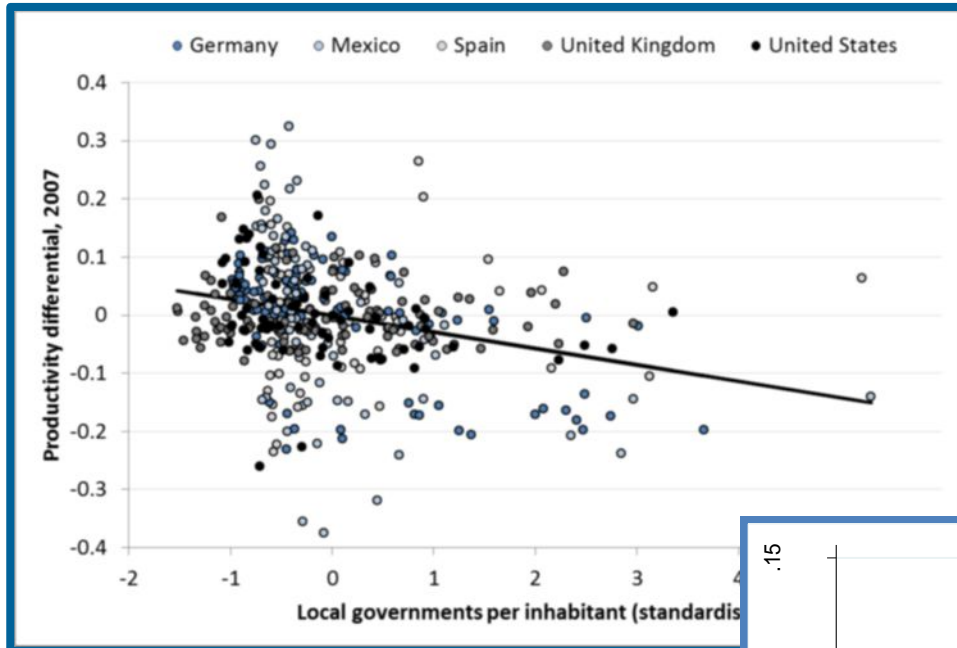




Strengthening subnational government performance



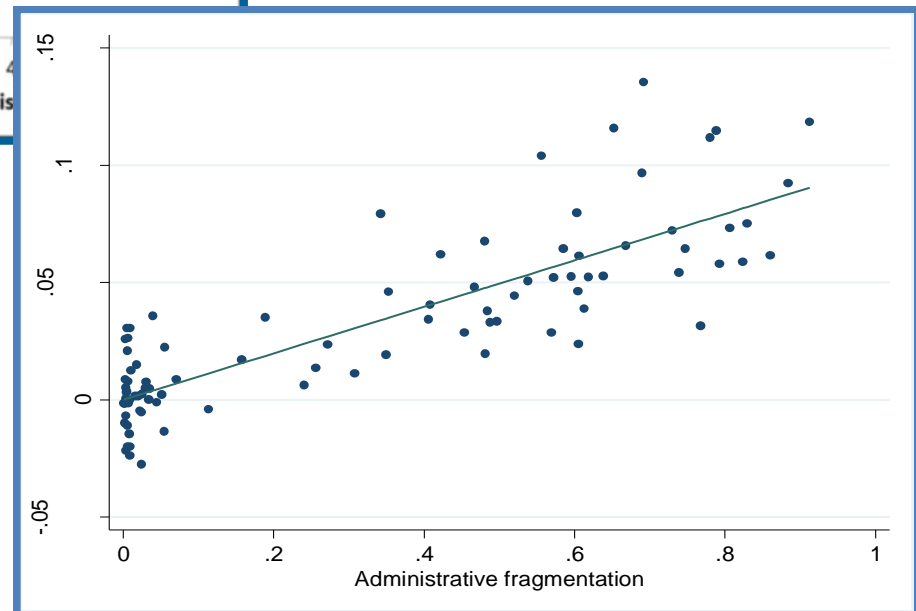
Better metro governance can enhance productivity and reduce inequalities



Higher administrative fragmentation reduces city productivity *premia*

Source: OECD (2015) *The Metropolitan Century*

Higher administrative fragmentation increases municipal inequality and segregation



Source: OECD (2016) *Making Cities Work For All*



The OECD Recommendation on Effective Public Investment across Levels of Government

Pillar 1

Co-ordinate across governments and policy areas

- Invest using an integrated strategy tailored to different places
- Adopt effective co-ordination instruments across levels of government
- Co-ordinate across SNGs to invest at the relevant scale

Pillar 2

Strengthen capacities and promote policy learning across levels of government

- Assess upfront long term impacts and risks
- Encourage stakeholder involvement throughout investment cycle
- Mobilise private actors and financing institutions
- Reinforce the expertise of public officials & institutions
- Focus on results and promote learning

Pillar 3

Ensure sound framework conditions at all levels of government

- Develop a fiscal framework adapted to the objectives pursued
- Require sound, transparent financial management
- Promote transparency and strategic use of procurement
- Strive for quality and consistency in regulatory systems across levels of government



Further information

Mourougane, A., J. Botev, J.-M. Fournier, N. Pain and E. Rusticelli (2016), “[Can an increase in public investment sustainably lift economic growth?](#)”, *OECD Economics Department Working Papers*, No. 1351.

Fournier, J-M. and A Johansson (2016), “[The effect of the size and mix of public spending on growth and inequality](#)”, *OECD Economics Department Working Papers*, No. 1344.

Bloch, D. and Fournier, J-M. (2017), “The Deterioration of Public Spending Quality during the Global Financial Crisis: Insights from new Indicators”, *OECD Economics Department Working Papers*, forthcoming.

Cournède, B., A. Goujard and A. Pina (2013) “[How to Achieve Growth- and Equity-Friendly Fiscal Consolidation](#),” *OECD Economics Department Working Papers*, No. 1088

OECD (2016) [Fiscal Federalism 2016](#)

OECD-UCLG (2016), [Subnational Governments Around the World: Structure and Finance](#).

Blöchliger, H. and J. Kantorowicz (2015), “[Fiscal constitutions: The fundamental drivers of intergovernmental fiscal policy](#),” in OECD (2015) *Institutions of Intergovernmental Fiscal Relations*

OECD (2015) [The Metropolitan Century](#)

OECD (2016) [Making Cities Work For All](#)

ECOSCOPE blog: oecdecoscope.wordpress.com

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Additional slides



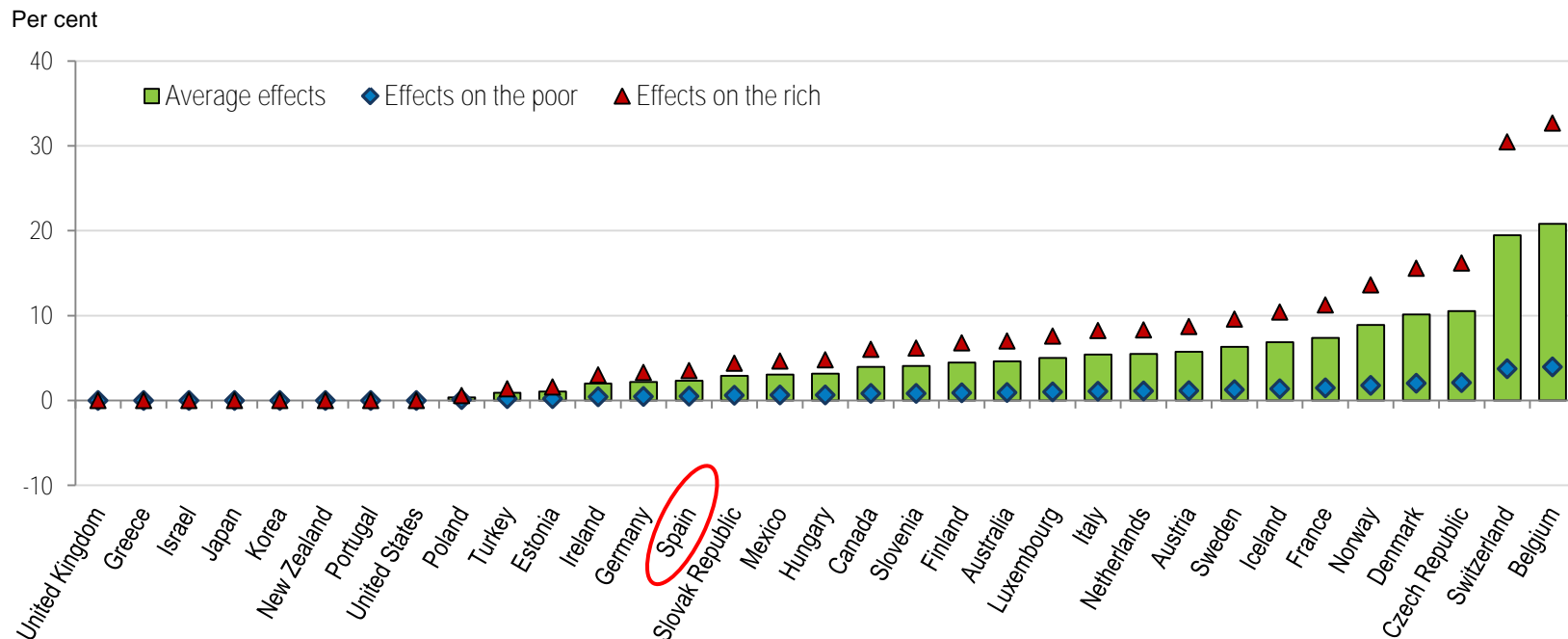
Long-term GDP gains from decreasing pension spending



Note: In countries where spending to the potential GDP ratio on pensions is above the average level of countries in the bottom half of the sample, spending will gradually decline to this level. The figure reports the effect after 45 years of a reform phased in over 10 years.



Illustrative gains from decreasing public subsidies



Note: In countries where subsidies to potential GDP are above the average ratio of that of countries in the bottom half of the sample, subsidies will gradually decline to this ratio.



Public spending quality deteriorated in many OECD countries after the crisis hit

