

**FISCAL DECENTRALIZATION
IN SELECTED INDUSTRIAL COUNTRIES**

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PREFACE

The Fiscal Policy Series has the purpose of disseminating the results of the activities developed by the ECLAC-UNDP Regional Project on Fiscal Policy and by the ECLAC-GTZ Regional Project on Fiscal Decentralization. Both projects operate under close coordination and have objectives and activities covering a vast array of topics related to the public finances and fiscal policy of Latin American countries.

This paper was prepared in the course of the joint ECLAC-GTZ Regional Project on Fiscal Decentralization, in order to examine this kind of process in selected industrialized countries. The experiences of these countries are described and analyzed in term of the distribution of functions and resources among the different levels of government. The study shows that the countries' organizational features (either federal or unitary) determine, to a certain extent, how the process will be conducted. The countries selected were the United States, France, Germany, Italy, Canada and Switzerland. The analysis ranges from institutional political determinants to the economic factors which have served as a framework for the processes under way in each of these countries. This paper will be appraised in the light of Latin America's experiences and is intended to improve the comparative analysis proposed in the project and the general recommendations of minimum requirements for the success of fiscal decentralization processes in Latin America and the Caribbean.

It is hoped that this issue of the Fiscal Policy Series will provide a better understanding of these matters -as well as towards a wide dissemination of the results here presented- among the authorities responsible for the formulation, design and implementation of fiscal policy, as much as among all those, within the public and private sector, interested in the broad field of public finances.

A. A COMPARATIVE STUDY

I. Introductory Remarks

Decentralization in real fiscal systems, though it comes in a variety of different ways and forms, has one property in common: there exists autonomy below the level of a country's central government. It may be the case on the local level or on an intermediate level, formed by "states" in a federation or by other regional jurisdictions in a unitary state.

In a federation, fiscal autonomy of the states is a natural ingredient of their (limited) sovereignty and, generally, part of the federal constitution. In unitary states, self-government of jurisdictions on an intermediate level (and on the local level for that matter) is by far not obvious, and certainly not the rule. On the other hand, quite a few unitary states have established an intermediate level of government (departments, regions) and have it provided with fiscal autonomy in a limited form. Though, in general, subcentral fiscal autonomy in unitary states is not guaranteed by the constitution but more or less granted by the central level, which by simply changing the law is generally in a position to restore its own full competence. Fiscal systems with a "derivative" autonomy on the intermediate level exist e.g. in France and in Italy, whereas within the traditional federations, e.g. in the U.S., in Canada, Germany or Switzerland, the states' fiscal autonomy is original and in principle unalienable.

There is, of course, more of a difference within fiscal autonomy than mere originality and derivation. It goes without saying that fiscal autonomy, to be meaningful at all, must include fiscal independence in matters of relevance. (It certainly does not suffice a local government to be free to raise the dog tax rate.) But what exactly are "matters of relevance"? People might have very different opinions on what is relevant, and therefore a general definition is not easy to find. In a way, the principle of subsidiarity gives an answer: there exists, certainly, a substantial - and in fact optimal - degree of fiscal autonomy on the subcentral levels, if of all levels always the lowest, which could handle matters efficiently, is competent to do so. Unfortunately, one cannot rule out fiscal autonomy, if a subcentral government has less competence than the principle of subsidiarity would suggest. Anyway, the term fiscal autonomy must be reserved for decentral competence in matters of political interest and clearly be separated from deconcentration or delegation as mere organizational characteristics of a principal central competence and responsibility.

Now, whereas fiscal competence of a certain level should not be confused with the volume of that level's budget, it is certainly manifested in the stream of public finances a government is able to handle. In other words: fiscal autonomy of a sublevel government is

related to that level's own public expenditures and revenues. So, a first distinction of fiscal competences might be drawn with respect to the side of the budget, i.e. whether it is related to expenditures or to revenues of the respective jurisdiction.

Expenditure-related as well as revenue-related competences can be subdivided further into three different partial competences each. As far as the expenditures are concerned, the three partial competences may be described by asking the following questions:

- Who is competent to determine the scope and the method of public intervention on a certain field (on which public expenditures are to be spent), i.e. who has legislative competence within the respective public function?
- Who is competent to administer a function (connected with certain expenditures), i.e. who has administrative competence with respect to the function in question?
- Who is competent to budget the expenditures, i.e. who is going to run the budgetary process? Who has budgetary competence?

All three partial competences, obviously, are related to each other in a certain hierarchy: No public administration without legal foundation, no public expenditures without public administration.

Analogously, on the revenue side also competences can be divided into three different parts by answering the following questions:

- Who is competent to make the revenue laws, i.e. who has legislative competence with respect to a certain public revenue?
- Who is competent to collect a public revenue, i.e. who has administrative competence?
- Who is going to budget the revenues, i.e. who has budgetary competence?

Again, the partial competences are related in a certain hierarchy. No revenue administration without the legal introduction of public revenues, no public income, without revenue collecting.

Theoretically, with respect to a certain public expenditure (e.g. expenditures on a new school building) as well as with respect to a certain revenue (e.g. the property tax), all three subcompetences can either be assigned in a package to the same level of government or can be allotted to two or even three different levels of government. As it turns out, the real fiscal systems of industrialized countries display all possible varieties. It seems therefore to be appropriate, to discuss problems of fiscal decentralization in industrial countries by referring to the allocation of partial fiscal competences with respect to both sides of the budget.

II. Allocation of Competences on the Expenditure Side

a. Legislative Competence

There are several ways legislative competence is allocated to subcentral level governments. A concept of merely theoretical relevance is to let all levels of governments freely compete in all matters of (fiscal) legislation, short of dissolving the whole system, e.g. by a single region declaring independence. In practice, legislative competences of different level governments are rather separated. Though, within limited areas, there is something like "parallel competence", i.e. acting two different levels at a time (Switzerland).

A natural way to demarcate legislative competences is to define certain fields of public activities (like education, health, transportation) which confine a level's competence. In a two-level fiscal system, i.e. in a system, where legislative competence is allocated to the central as well as to the intermediate level, that kind of separation can be done by defining certain fields of competence, either for the intermediate level and leaving all undefined fields to the central level, or the other way round, leaving the residual competence to the intermediate level. In principle, the first way is chosen e.g. in Canada, while the second model applies to e.g. Germany, U.S. and Switzerland.

But things are generally too complex, to have them solved by such a simple concept. More specifically: Allocations of competences, which at some time seem to be appropriate, may later turn out unacceptable, e.g. if aspects of "uniformity of living conditions" within a whole country play a major role. One therefore needs a more variable rule, which allows to reshuffle the legislative competences between different governments, if the provision of public goods is not to be accomplished effectively otherwise. The way to do it, is to have competing competences (on certain areas) with dominance of one level (generally the central one) in case of conflict. Dominance can be accomplished by letting federal law displace state law or having a federal framework legislation, by which legislative competences of the states are limited.

Especially the first way is widely used in Germany, where huge areas fall under "competing legislature", dominated by the central government. Also in the U.S. the federal government has the right to repeal state law on activities which substantially influence interstate commerce. Similar rules exist in Canada, where on the field of agriculture and immigration the federal government and the provinces have concurrent competences, with federal laws being predominant in a case of conflict. On other fields, i.e. in the area of property and civil right, federal laws providing uniformity do not run unless the affected province has agreed explicitly. E.g. in the case of old-aged pension plans, the Québec pension plan exists parallel to the Canadian pension plans, valid in all other provinces (BOADWAY AND HOBSON, 1993). So, Canada presents also an example for state dominance in case of conflicting legislation.

Framework legislation also is well known in Germany (e.g. with respect to universities or civil service) and even more so in Switzerland, where the federal government

sets basic norms in the field of civil rights, regional development, hunting and fishing. Even in Italy, a unitary state, some legislative competences are on the regions' level, but closely limited by central frame-work legislation. On the contrary, in France no legislative competences (with the exception of some minor influence on certain tax rates, see below) are assigned to any subcentral level.

A minimum central legislation, though, is only one way to reach some degree of uniformity within decentral fiscal systems. Another way is negotiating contracts either between the different subcentral governments or between the central government on one side and all or some subcentral governments on the other one. If the central government is involved, it can set incentives to make the individual subcentral governments cooperate. If the subcentral governments are on their own, overall agreements are more difficult to reach. In fact, it often takes years of frustrating political poker until some collective rationality is found - if it is found at all. Where that way is used, it generally does not look much better than the tiresome harmonization process between the member states of the European Community. But even that process eventually leads to surprisingly far-reaching agreements (e.g. the European monetary union).

Uniformity, though, has not necessarily to encompass the whole country; it often suffices to have uniformity in some parts of the country and diversity in relation to the rest. This is the rationale behind having in some countries a special status of autonomy in regions of a distinct character (like in Aosta-Valley in Italy, the Basque Country in Spain and Québec in Canada).

Considering central legislation as one way to reach similar living conditions, also in matters of principal competence of the subcentral level, negotiating as another one, there seems to exist a third way somewhere in between, which might combine the advantages of the former two: Participation of the subcentral governments in the central legislation. Ideally, on that way the central governments' interest in a certain degree of uniformity and the subcentral governments' interest in exercising their own will are both taken care of. However, in the political practice, as e.g. in Germany, the system works satisfactorily only to a certain extent. Whenever Länder interests are involved, the central legislature needs approval from the (weighted) majority of the Länder. That pretty often leads to a mutual blocking of the central and the Länder governments, especially when political majorities in both legislative bodies, the Parliament (Bundestag) and the representative body of the Länder (Bundesrat) are opposite. The Bundesrat is involved even in matters of genuine central competence. Here, a two-thirds majority blocking of the Bundesrat can be outvoted by a two-thirds majority of the Bundestag only.

To a smaller degree also in Switzerland the intermediate level is involved in the federal legislation. The cantons are to be heard in all matters of economic and social policy, of culture and of sports. Actually, the cantons are consulted in nearly all fields - not the least to avoid subsequent plebiscites.¹

By the way: Whereas the German Länder and the Swiss cantons participate in the central legislature, there is no such thing as participation of governments of the third level in the Länder (cantons) legislation.

Clearly, any allocation of legislative competences to subcentral levels entails the possibility that the law differs substantially from one state to the other (or from one local community to the other, for that matter). But that possibility is in a way the rationale of fiscal decentralization. One cannot have the people in different parts of the country have it their own way and, simultaneously deplore differences in the fiscal systems from one region to the other.

So far, financial systems of the countries have been taken as given. This, of course, is not necessarily so. Financial systems can be reformed, constitutions can be amended. Generally, there are rules to change the rules.

In the U.S., constitutional amendments require ratification by the legislators (or by conventions) in three quarters of the states; legislators of two thirds of the states can initiate a constitutional change (Art. 5, const.). In Canada, constitutional amendments require resolutions of the assemblies of at least two thirds of the provinces, which in the aggregate include at least 50 percent of the population (Canada Act, Sect. 38,1). In Switzerland, a double referendum is required, approval is needed by the majority of the voting population and by the majority of the majorities within the cantons. In Germany, two-thirds-majorities are required in the Bundestag as well as in the Bundesrat (Art. 79 I). Any reform of the constitution which would question the existence of the Länder and their principal participation in (federal) legislation is inadmissible. So, even if the Länder themselves would not want further existence, they could not effectively decide so.

Comparing distributions of legislative competences in several countries, one must be aware of the fact, that institutional relations are but one element determining the working of a real fiscal system; another element are the persons involved and how they think to serve best their individual interests. So, e.g. in France, the local (or regional) "notables" very often not only dominate the subcentral levels' political bodies (the provinces and the regions) but have also - supported by their local clientele - a substantial influence on the central legislation. A well-known characteristic is their holding of a multiplicity of public offices - from the mayorship of a town to the office of the chief of the French government.² Under such circumstances, the regional or local influences on central policy might be much stronger than the French constitution suggests. Though, "pork barrel politics" -each deputy trying to bring home some goodies for his electorate - is not considered to be on line with efficient policy-making. The phenomenon, by the way, seems to be quite independent from the fiscal system, whether unitary or federal.³

Another possible gap between formal and material fiscal decentralization might occur, if a political career within the central government is considered more estimable than any position within a subcentral government. In that case, the more influential and ambitious politicians will seek a career on the central level and thereby, possibly, provide

the central level with more power than the formal rules let expect. This, in fact, seems to be the case in most of the large federations.

b. Administrative Competence

In principle, administrative competence begins where legislative competence ends: the latter refers to law-making, the former to law-applying. In practice, the distinction is not that easy to draw. Whoever is in charge of administrating the public sector, i.e. rendering public goods and services, might be either bounded to very narrow rules or enjoying freedom of individual action on a wide scope, i.e. in a way making his own rules. So, administrative competence of a subcentral level, while having the central level in charge with the legislation, might have a very different meaning - depending on how detail work is already fixed by the law. In the extreme, the decentral levels merely act as agents of the central level, as when e.g. in Italy or in Germany communities are issuing passports. The general impression is, that unitary states, when granting administrative competences to the subcentral level, are setting rules much more narrow, than those which are to be observed by the intermediate level governments in federations, when here the central level happens to have legislative competence. So, e.g. in France and Italy the central levels intervene substantially in local affairs, if they feel national interests affected.

One could, of course, question the rationale of separating legislative and administrative competences at all. Wouldn't it be sensible to have whoever is making the laws also in charge of putting them through? This, indeed, is the concept of most of the federations, like the U.S. or Canada. The advantage of such a concept is obvious. As far as a function, e.g. education, falls into the competence of a certain government, that government has to take full responsibility and, consequently, will be held responsible by the public for whatever on that field the country is doing and not doing.

On the other hand, especially when legislation leaves a wide range for administrative variety, the combination of central rule-setting and decentral rule-applying has some merits of its own. The central government might standardize as far as necessary, and the decentral governments can diversify as far as desirable. So, in unitary states, legislation is widely reserved to the central, even if - like in France - substantial administrative competences are delegated to the regions or provinces (in the areas of education, health, social security, transportation, urban development).

Among federations, a notable exception for that matter is Germany and, to a certain extent, Switzerland. In Germany, priority in public administration belongs to the intermediate level. That refers also to the application of central law. Central administration is reserved for a few fields only, specified by the constitution (appendix). Also in Switzerland the cantons are involved in the execution of federal laws (have "executive competence").

Administrative decentralization, not unlike decentralization in general, by definition implies decentral competence in matters of relevance. This, again, entails the possibility that the availability as well as the standard of public goods and services vary substantially from

one jurisdiction to the other. Variety - as repeatedly mentioned - is a coin with two different sides: it might mean orientation at the different preferences of different people, it might also mean strategic behavior at the cost of others (i.e. other states, regions, provinces etc.). So, while appraising administrative decentralization, one must not overlook the possibility that a subcentral government (mis-)uses its administrative power, e.g. to attract welcome (rich) and to repel unwelcome (poor) people.

Administrative decentralization, in other words, might cause external effects. It is therefore important, to let jurisdictions cooperate to internalize their administrative externalities. Cooperation, again, can be left to the decentral jurisdictions themselves or can be "institutionalized" by the central government or the constitution. But one must be aware of the fact that any institutionalization entails the danger of additional complexities and mismanagements. Especially the French system of institutionalized corporations between the multilevel governments has often been deplored to be much too complex to be efficient. Administrative competences of one level often can only be executed if other levels cooperate. In other words, administrative competences of different levels in some fields severely overlap.

Examples are regional planning, where literally four levels (central state, region, province, local communities) are involved or vocational trainee programs, where again all four levels participate. As "chaotically entangled" one author characterizes the distribution of competences with respect to ports and waterways: "Seawater is a regional responsibility; seawater ports are a departmental concern; freshwater ports come under the region, but freshwater crop irrigation is a departmental matter. But when freshwater flows into seawater, it remains a departmental responsibility."⁴ According to another author⁵ local communities are responsible with respect to ports which serve exclusively private entertainments, whereas river ports of national interest (like Paris or Straßbourg), come under the central.

Not quite as dramatic, but nevertheless unsatisfactory is the execution of so-called "joint tasks" (as e.g. construction of university buildings) in Germany. Responsible are, in principle, the states - but the central level is involved in the central planning process. Here actually the federal government and all states' governments have to take part and according to a wide-spread impression, the federal government is playing off one state against the other.

After all, it seems to be the better alternative to have clear-cut separation of administrative competences and let decentral jurisdictions find their own way of cooperation -neither impeded nor forced by the central government. In any event, to set proper incentives the central government might be entitled to reward successful cooperation (Canada).

c. *Budgetary Competence*

In a market economy, the state is directing resources into public use by public spending. This is true, whether the state is engaged in producing or merely reallocating

goods and services. Now, to spend public money in a democracy presupposes a budget, approved by the parliament. In a multilevel fiscal system, any public expenditure must be budgeted in - at least - one of these levels. That level has "budgetary competence".

Budgetary competence might mean much or little. If a subcentral government has administrative competence and can indeed fulfil a certain task widely according to its own preferences, then the competence of putting the respective expenditures into the budget opens the chance to fully exhaust the administrative potentials. If, on the other hand, what a lower level government has to spend on a certain purpose is completely fixed by the central governments (as in Germany, e.g. social security benefits to be paid from the communities are more or less fixed by the central government), then budgetary competence means not more than estimating and putting the necessary expenditures into the budget.

What makes the notion of budgetary competence interesting is the fact, that very often budgetary competence and administrative competence are allocated to different levels. This, indeed, is a peculiar situation: One level of the government being in charge of a certain task, i.e. rendering certain public goods and services, the other one deciding on the amount of public money assigned to it. Nevertheless, that is the way it is done with a variety of public goods, e.g. in Germany. Federal roads are completely financed out of the federal budget, but actually built (by private firms) under the supervision of the states. Apart from providing the money, the federal government is only involved in the general planning, but cannot put through a single kilometer unless the states are willing to cooperate. As it turns out, the states generally are eager to cooperate as they are the ones which benefit most. Other German examples are the "joint tasks" (already mentioned). Here again, the administrative competence lies mainly at the states' level, while the federal government has to carry half of the cost.

In principle, all intergovernmental transfers are indicators of - at least a partial - separation between administrative and budgetary competences. Consequently, the level in charge with administration can be severely hampered in the execution of his competence, depending on the good will of the payer (unless the payer is legally or even constitutionally obliged to pay, in which case budgetary competence again has no relevant meaning). Asking for the rationale of such a competence mix, which in practice leads to the situation that no level can do anything without cooperation with the other, one can point to distributional as well as allocational aspects. Intergovernmental transfers can always be used for equalization purposes (see Ch. III.3 below). Another good reason for intergovernmental transfers are omnipresent externalities, i.e. public goods, supplied by one state providing benefits to another state or to the country as a whole. Cooperation between the federal and the state level then seems to be a good idea. On the other hand, cooperation might in practice turn to dependency (generally of the level receiving the money from the one paying it), states use to queue up at the federal government, and what was originally meant as federal support quite often developed into federal dominance. Such a turn might not be fully senseless; but the way the federal involvement is accomplished causes rent seeking and political inefficiencies both on the recipient's as well as on the payer's side, blurs responsibilities and steers up politicking, instead of promoting rational decision-making.

It is then, after all, and especially taking into account practical experiences, not unwise to stick to the "principle of connexity", i.e. to connect the budgetary competence with at least the administrative competence to fulfil a certain public task. In other words: the level in charge of a certain public function ought to be equipped with the necessary means (or the bases, from which the necessary revenues can be raised). Consequently, instead of having the federal government supporting or even fully financing lower levels' activities, the revenues (or the bases, for that matter) should be allocated to the effect, that each level of government can finance its own needs as arising from the execution of its administrative competences. At least, that should be the general rule. Exceptions justified by the aims of equalization and internalization of externalities should be kept as little as possible.

III. Allocation of Competences on the Revenue Side

a. Legislative Competence

Legislation in matters of public revenues, principally, could be left to the free competition of all levels. But that is not the way it is done in the fiscal systems of industrialized countries. Instead, generally all levels have legislative competences on different groups of taxes, though often the subcentral levels only in a limited range.

For example, in Canada, according to the constitution, indirect taxes - with the exception of taxes on non-renewable natural resources and the primary production therefrom - are exclusively assigned to the federal level. The political practice, though, looks somewhat different from that.

As the provincial needs could not be met by direct taxes alone, the definition of indirect taxes was widened or better: deformed in such a way, that retail sales taxes which are clearly indirect taxes according to the standard terms of public finance, would fall under direct taxes.⁶ What seems to amount to another deviation from the constitutional rule is the federal involvement in state income taxation. The federal government offered the states to administer the states' personal and corporate income taxes, in fact is prepared to collect these taxes at its own cost, as long as the states are willing to comply with certain harmonization rules. All states but Québec joined a respective treaty, with Alberta and Ontario not participating with respect to the corporate income tax. So, most of the states agreed to have their legislative competences (slightly) reduced. Local governments have legislative competence mainly on the property tax and some special local consumption taxes, as it is wide-spread practice in most of the inspected countries.

In the U.S. the states have legislative competence in principle on all taxes except those on exports and imports and inter-state trade. In consequence, all possible taxes are found as state taxes, reaching from general income taxes to taxes on riverboat gambling. On the other extreme, in France, there is only very little legislative competence on any sub-central level. Departments and regions can, within certain limits, influence the tax rates or levy surcharges with respect to motor vehicles, special inheritances and gifts, and property

transfers. Communities have influence on the rates of the real property tax, the entertainment tax, the trade tax and the taxes on apartments and garbage collection.

In Switzerland, the cantons - within certain limitations - are free to impose any tax. Excluded by the federal constitution are only taxes reserved for the federal level; inter-cantonal double taxation and discriminatory taxation is prohibited. So cantons levy income taxes (to be harmonized by the year 2001, at the latest), taxes on wealth of individuals, motorway vouchers, taxes on transfers of property, taxes on inheritances and gifts, taxes on immovable property, entertainments, dogs, lotteries etc.

In Germany, the direct legislative competence of the Länder is practically nil. They can legislate only on local taxes, or more specific: each state can decide on which taxes of purely local relevance its local communities are entitled to collect. On the other hand, the representative body of the Länder, the Bundesrat, has to approve any federal tax legislation as far as the revenues of the respective tax go - even partly - to the states or to the local communities. Now, as the most important German taxes (personal income tax, corporation income tax, value-added tax) are "collective" taxes (are shared by two or three levels of government) and some other major taxes (property tax, trade tax, motor vehicle tax, inheritance tax and others) go to the states or the local communities anyway, the (weighted) majority of the Länder has to approve to legislation on about 80% of the actual German tax revenues.

This again proves the constitutionally strong position of the German Länder. And - as on the expenditure side - one can acknowledge quite a few points in favour of such a system. Apart from the general strengthening of decentral units and the "institutionalized" need for cooperation - already mentioned above - such a system prevents the states from being deprived of their tax bases by the federal government.

On the other hand, the German system tends - from time to time - to fall into stalemate or even agony in all matters of tax reform. Neither the federal government nor the states can move on their own. If in the past the federal government wished a tax reform, to get a majority of the Bundesrat, it - not seldom - literally had to bribe individual states by granting them federal subsidies or making other concessions. But even that might not help, if the opposition in Bonn has a majority in the Bundesrat.

Anyway, the Länder-involvement in the federal tax legislation is but a poor substitute for a direct legislative competence on their own. For one thing, whatever the outcome of federal legislation might be, as a general rule valid for all states in the country, it will not be adapted to the special needs of an individual state. It, therefore, has been suggested by scientific advisers, to let the states, at least, exercise the right to vary proportionally the average income tax rates (with respect to that part of the income tax which goes to the states). But not even the states themselves seem to like the idea, maybe because they do not want to be driven into tax competition or they just prefer to have the federal government bear the responsibilities for burdening the tax payers.

So, in Germany the local governments enjoy more competence in tax legislation than the states. They can determine the effective rates of the trade tax and the property tax which are main revenues of the local communities (the largest single tax revenue stems from a 15 percent communities' share in the general income tax).

b. Administrative Competence

One might expect to find competence to administer, i.e. to collect a tax, assigned to the level which possesses legislative or/and budgetary competence. The level in charge with legislation is supposed to collect taxes strictly according to the law and the level receiving the revenues is likely to exhaust all taxable sources with utmost care. And, indeed, most fiscal systems are organized one way or the other.

In France, tax administration goes with tax legislation and is more or less a matter of the central level. In Canada and in the U.S., each level, principally, is in possession of all three partial competences; but as already mentioned, in Canada most states made a deal with the federal government, handing over administration as well as part of the legislation on state income taxation. In Switzerland, it is the other way round: the cantons collect income tax on behalf of the central government. In Germany, with the exception of a few purely federal taxes (mineral oil tax, special excises), all taxes are collected by the states. Certainly, as most taxes are shared by at least two levels, it would not make sense, to have each level collect its own share of a revenue. But one can question the rationale of having the states collecting taxes which to a large part go to the federal budget. Fair or not - there is some suspicion, one state or the other might be intentionally weak in its tax-collecting efforts, hoping to attract business at the cost of the central level.

In general, decentralization of tax legislation and revenues seems much more relevant and appropriate than decentralization of tax administration. Tax collection does not seem to be apt for informal handling or preference-orientation. At least there is no point in having tax collection more decentralized than distribution of the revenues.

c. Budgetary Competence

The question of who is going to get what part of the cake seems to be the most important problem in tax distribution, too. At least, this is the impression one can get by observing the tax struggle between the different government levels. Efficiency aspects, e.g. how to make good tax laws, often seem to be of secondary relevance. Now, how are "budgetary competences" allocated within the here inspected fiscal systems?

To begin with, one has to acknowledge an important distinction between "primary" and "secondary" distribution of revenues. There is not one fiscal system which solves the problem of revenue distribution properly in a single step. Instead, the original distribution is followed by a redistribution process and, consequently, most of the budgets contain

original as well as derivative revenues. Accordingly, some of the expenditures are transfers to other budgets.

The general reason for being in need of more than one step to reach the desirable distribution of yields is simply that more aspects ought to be taken into account than a single step could do. It is not only that the vertical distribution between the different levels has to be in accordance with the levels' needs and the horizontal distribution on a certain level has to be in accordance with the needs of different jurisdictions of that level. Additionally, the distribution of yields must not set wrong incentives (causing policy inefficiencies), must not be at variance with stability requirements, should support regional growth targets, should support national goals on income distribution and equality of opportunities, ought to stabilize society, etc. Clearly, not all fiscal systems try to meet all those targets but even to aim at a few of them generally means to have a "second try". Naturally, the second distribution can be the smaller, the better the first is already hitting the targets, and also the less rigorously the single policy targets are to be put through.

The U.S. "separating system" is a relatively simple one. Each government of each level is mainly self-responsible for what revenues it is going to get into its budget. In Canada, each level gets the revenues of those taxes, on which it has legislative competence (notwithstanding the possibility that some legislative competences as with respect to the state income tax are reduced by treaty).

In the German system, the original vertical distribution of tax revenues between the central and the states' level is fixed by the constitution, i.e. the constitution determines, which taxes go to the central level and which go to the states and how tax revenues are to be divided between the two, if taxes are shared (as in the case of the personal income and the corporate income tax). There is one notable exception from the general rule: the shares of the VAT are not constitutionally fixed, but are - again according to the constitution - to be determined in such a way that the needs of both levels are equally met. The VAT, in other words, is functioning as a buffer, which has to be adjusted whenever the relative financial positions of both levels are drifting apart. Now, whenever there is more than one jurisdiction on one level - which is the case in all levels but the central one - a rule has to be established to distribute the finances among the jurisdictions of that level. There should not be any double taxation.

Generally, the residence principle is used with respect to direct taxes and the origin principle with respect to indirect taxes. According to the residence principle, the personal income tax is going to the state (local community) where the person is actually living (which might not be easy to define). And the corporate income tax either goes to the state (local community) where the corporation is registered or to the one where its central management is located or to where it has a permanent establishment. Generally, as in international taxation, the permanent establishment rule is valid. (This rule, of course, looks much more to be in line with the source principle rather than the residence principle.) It still is to be decided how the total profits of a corporation are to be assigned to its different establishments. A reasonable method is to choose a simple indicator, like the payroll (Germany).

In the U.S., for the purpose of taxation company profits are assigned according to a "apportionment formula", which entails not only payrolls but also invested capital and sales. Clearly, all three elements contribute to company profits (and others more, for that matter), so the formula seems to be fairer than any one-dimensional indicator - at the price of being a lot more complicated.

According to the origin principle, a state or a local community generally is entitled to the tax revenues, which "originate" within the boundaries of its jurisdiction. There is no such thing as a border adjustment. From an economic viewpoint, of course, this is a rather technical interpretation of the origin principle as it has little to do with the origin (production) of the goods and services involved. But again, the most simple rule seems to be the best.

Germany is not following the (technical) origin principle. Here, the value-added tax (i.e. that part of the tax which goes to the states) is (mainly) distributed per head. The general idea of the VAT might suggest distribution according to consumption expenditures of the consumers living in the different states. But surely, distribution per head is easier, the indicator is statistically more reliable and the redistributive effect implied is not unwelcome.

As already stressed, the original horizontal distribution might not be satisfactory - at least if some macro targets are to be regarded. The most important one generally is equalization between jurisdictions, i.e. providing all jurisdictions with the necessary means to finance a minimum of public goods and services. Differences in the original financial positions result from the fact that tax bases used to be distributed rather unequally between different jurisdictions. This again has two different reasons, the dominant one: public revenues somehow are reflecting the general economic situation of a region. Another reason is the fact, that distribution of tax bases also varies with structural properties of a region. (A region without access to the sea will not get much taxes, if the respective tax basis is profits from seafood production.)

There are principally two ways to improve the original revenue distribution, both horizontally and vertically. One could alter the primary distribution rule - and one could add a second distribution. Often enough, indeed, a change of the primary distribution rule would be the wisest thing to do. If the different levels are financially in a fundamental imbalance, i.e. one level is in a much better financial status than another, then a new vertical distribution seems to be appropriate. Likewise, if on a certain level the jurisdictions differ substantially in their financial positions, one ought to think about assigning to that level a more appropriate tax base or about introducing a new horizontal distribution rule. A reform of the primary revenue distribution seems to be the logical consequence of a fundamental and permanent fiscal imbalance between the different levels and/or the different jurisdictions on a given level.

But reforms of primary distribution rules are extremely hard to come by. There are the ones, who would gain and the ones who are destined to lose. And the latter ones will put up every political fight to keep the given rules. After all, they will almost certainly gain

political influence, if the unsatisfactory revenue distribution is handled the alternative way, i.e. by redistribution.

In a secondary revenue distribution, revenues which originally go to one public budget are redistributed via transfer payments from that budget to another one. These transfer payments might flow between different levels and within one level between different jurisdictions.

Vertical transfers, principally, can go either way, i.e. from higher to lower as well as from lower to higher levels. The second variant applies e.g. to the European Community, where the member states have to contribute to the central budget. But in the fiscal systems here to be inspected it generally goes the other way round: The central level is giving financial support to the intermediate (or even to the local) level.

These vertical transfers can be very different in character, depending on the intended purposes. Generally, vertical transfers can either leave the horizontal distribution of the receiving level unchanged or can cause horizontal effects. And they can be given unconditioned (at the disposal of the receiver) or conditioned (on the use for a certain purpose, or even on a certain [well-]behaving of the receiving jurisdiction).

In Germany, one can find all kinds of transfers from the central to the subcentral level. (Though, transfers meant for the communities have always to be given to the Länder, which are in charge with representing their communities' interests.) Some transfers are meant to stipulate certain public investments of the lower government levels and, principally, do not serve any distributional purpose. Others aim at equalization and are not conditioned on any special use. The latter ones are relatively small (2 percent of the VAT-yield), as any major involvement of the central government in horizontal equalization processes is considered unconstitutional, the horizontal equalization being a genuine matter of the respective government level itself.

In all the other traditional federations - if horizontal equalization is a political goal at all - it is just the other way round; there are practically no direct horizontal equalization payments between the states (provinces, cantons); all horizontal equalization is left to the central levels, which, indeed, are spending considerable expenditures to equalize the fiscal positions of the single jurisdictions of the intermediate levels.

So, in the U.S. federal transfers flow to the states and to the local communities, which also get transfers from the states. These transfers are generally earmarked for certain purposes and related to the financial status of the receivers. But interstate equalization is not a major aim at all.

On the contrary, in Canada, inter-province equalization is an important constitutional target under federal responsibility. In consequence, substantial amounts of transfers flow from the central government to the provinces. Conditioned programs are aimed to provide acceptable minimum standards in health care and social welfare;

unconditioned transfers go to those provinces, the tax capacity of which is below a representative ("five province") standard.

One can, indeed, question the rationale of either leaning on direct horizontal equalization payments or on vertical payments with horizontal equalization effects. The German system prefers the former method, obviously because horizontal equalization is seen as a problem entirely or at least mainly of the respective level. Moreover: Problems of vertical and horizontal distribution are not to be mixed, and the vertical distribution ought to shift enough finances to each level to solve any horizontal distribution problems on its own.

One advantage of a purely horizontal equalization scheme is its more obvious evidence of who is going to pay and who is going to receive money. It is therefore less endangered to set false signals, i.e. to spoil the poorer jurisdictions for ever to lean on others. The richer ones just will not buy it. On the contrary, in a system of vertical payments, one level seems to have its problems solved at the cost of another one. From the viewpoint of the receiving level, fiscal equalization does not seem to be a zero-sum game any more.

On the other hand, it might well be considered a function of the central government, to guarantee a certain degree of equality or at least of equal chances between its member states (provinces, cantons). Without equalization, there might not be a stable federation, there might not be a federation at all. It is therefore well in the interest of the central government to have an eye on proper equalization efforts and it has all reason to be involved. Moreover, the central government much rather than the decentral level seems to be in a position to combine transfer payments to the poorer jurisdictions with proper incentives to improve their financial situation on their own. Transfers can be made dependent on the fiscal efforts of the receiver or can be earmarked for the special use of promoting economic development. All this is hardly to be accomplished within a scheme of purely horizontal transfer payments, considering the difficulties to create a common policy of the different governments involved.

It is therefore not surprising that the German system of horizontal equalization payments is merely averaging per-head revenues of the states, disregarding needs as well as incentives or disincentives. More appropriate, for that matter, seem to be vertical equalization payments like e.g. in Canada, where horizontal equalization is entirely unknown.

B. COUNTRY REPORTS

I. CANADA

a. Cultural and Economical Disparities

The country is divided into ten provinces and two large northern territories (Yukon and Northwest Territories), which enclose 40 per cent of the Canadian area and are sparsely populated with about 0.3 % of the population (1991).⁷ Significant economic disparities exist between the richer western provinces with natural resources like oil and natural gas and the poorer Atlantic provinces.

Well known are cultural rivalries among the French-speaking Quebec and the English-speaking provinces. In Canada there live several ethnical minorities like Escimos and Indians with own linguistic, cultural and social identifications.

b. Division of Competences

Canada was founded a federation of British Colonies in the British North America Act (BNA) of 1867. With the Constitutional Act of 1982 Great Britain transferred full constitutional powers to Canada.⁸ The constitution allocates responsibilities to provinces and the federal government.⁹ Canadian fiscal federalism is characterized as being highly decentralized in federal-provincial relations, but relatively centralized in provincial-local terms.

1. Assignment of Functions

(a) Federal Government

The main federal functions are set out in Section 91 of the constitution: The federal government has exclusive and explicit responsibilities in the areas of peace, order, public debt, property, regulation of trade and commerce, defence, money and banking, criminal law, Indian and Escimo affairs, international transport and communications, unemployment insurance.

General spending powers enable the federal government to use transfers to individuals or firms, and grants to subnational levels of government if it is deemed to be in public or national interest.

The federal government also determines functions and taxing powers of the territories, and has residual power in any area, not assigned explicitly to provinces.

Provinces and federal government have concurrent competences in agriculture and immigration. In case of conflict, federal laws are predominant. Concurrence with provincial laws exist in the field of property and civil rights laws (except Quebec): federal laws providing uniformity don't run unless the affected province has agreed explicitly.¹⁰

With the Constitution Act in 1982 (Section 36) equalization goals became shared federal-provincial responsibility promoting equal opportunities for individuals, reducing also regional disparities, and providing everywhere essential public services at acceptable standards. The latter justifies the federal influence through shared-cost programs in the exclusive provincial functions health, education, and welfare.

The federal government is additionally responsible to pursue interprovincial equity, ensuring comparable financial possibilities for provinces to exercise their duties at reasonably comparable levels of taxation.¹¹

(b) Provincial Governments

Important regulations concerning provinces are set out in Sections 92, 93, 95 of the constitution:

Provinces have exclusive legislative, administrative and expenditure competences in various areas concerning their territory: property and civil rights, management and sale of public lands, health, education, welfare, transportation except roads in national parks and defense areas, administration of justice.¹² Provinces also determine the role of municipalities or other forms of local governments. Each province can decide whether to decentralize or deconcentrate (parts of its) functions. Therefore the degree of local autonomy varies a lot across provinces.

(c) Local Governments

The division of competences in providing (and financing) public services between provinces and local governments differs from province to province. There are about 5000 Canadian municipalities¹³. With different degrees of autonomy they are generally responsible for the usual local functions like police, urban roads, sewer and water, garbage collection, parks, libraries, and in some provinces also for welfare and health.

Municipalities' autonomy is often limited by provincial legislation, setting minimum standards or providing supervision and technical advice or by other means of control, to ensure that standards are met.

Restrictions on municipalities' borrowing exist in all provinces. In general municipalities have to balance deficits in current account in the following year at the latest

and need provincial approval on long term borrowing for capital expenditures. Details differ across provinces.¹⁴

2. *Assignment of Taxes*

(a) Federal Government

The federal government has constitutionally unlimited taxing power except taxation of provincial lands and property. The most important taxes are income taxes. In 1989 they amount to 52.4 % of total federal revenues, followed by domestic taxes on goods and services (18.8 %).¹⁵

Nearly 3/4 of the total tax revenues in 1989 were shared by the federal and the provincial/local level of government. The federal and the provincial governments are levying income taxes, general sales taxes, special sales taxes and licenses e.g. on alcohol beverages, tobacco, and fuels.¹⁶

(b) Provincial Governments

To finance their activities, Provinces are restricted by constitution to raise

- direct taxes¹⁷ within the province and for provincial purposes and
- indirect taxes on non-renewable natural resources and the primary production therefrom (since 1982), if they do not discriminate between production for markets in and outside the province or not
- fees and licenses (e.g. on shops, saloons) for provincial and local purposes.

Provinces are prohibited to erect customs barriers, to impose tariffs or something like to hinder the interprovincial trade of goods.

Within these restrictions each province has full revenue competences in legislation, administration and collection. In case of income taxation most of the provinces abandon parts of their competences joining tax collection agreements with the federal government.¹⁸

In 1991-92 tax revenues amount to 63.2 % of total provincial revenues. The most important taxes are those on income with nearly 50 % of total tax revenues, though their relative importance varies from province to province. E.g. in Newfoundland, income taxes are about 41 % of total provincial tax revenues, in Alberta about 77 % (in 1990-91). The share of retail sales taxes on total provincial revenues is 13.3%, motive fuel taxes 3.2 %, alcohol and tobacco taxes 2.1 %.¹⁹

Non-tax revenues from own sources form 19.2 % of total provincial revenues, with charges on natural resources (mines and minerals, oil and gas) as the major single source (4.1 %) though there are remarkable differences among the provinces: from Alberta (24 % of total revenues) to Prince Edward Island (0.1 %).²⁰

(c) Local Governments

Local governments derive their taxing power from the provinces. The most important local tax revenue source is the real property tax (in 1990 about 36.9 % of total local revenues or 99.7 % of all local tax revenues).²¹ Local governments have competences to determine the rates, and collect the taxes. The tax base is determined by the province which usually also assesses the taxable value (except Quebec where assessment is of local responsibility).²²

In some provinces as Quebec, Saskatchewan, municipalities are allowed to raise amusement taxes. Usually local governments also levy annual fees for corporations' registration and licenses for business, sometimes based on a flat rate or dependent on the capital of the company. This kind of quasi-tax revenue forms only a small part of local government revenues.

c. The System of Intergovernmental Transfers

1. Unconditional Transfers

The most important unconditional federal payments to provinces are made for equalization purposes. According to the representative five-province standard, provinces with a relatively low tax capacity are levelled up to the average of five representative provinces (Ontario, Quebec, Manitoba, Saskatchewan, and British Columbia).^{23 24}

If the total amount exceeds the upper ceiling (rate of growth of GNP over total payments in 1987) the entitlements are cut by an equal per capita base.²⁵ To avoid that total revenues of a province fall below those of the preceding year, "stabilization" payments are made up to a fixed per capita amount. If any shortfall is left, the difference is provided in form of interest-free loan.²⁶

2. Conditional Transfers

Established Programs Financing (EPF)

Within the EPF the federal governments provides block grants for health and postsecondary education to all provinces. The grants are made on an equal per capita basis. Conditions are only attached to the provision of health care to get comparable minimum standards. To achieve the full amount of transfers, the provincial medical care plans have to adhere to federal standards.²⁷

Canada Assistance Plan (CAP)

The Canada Assistance Plan was developed in cooperation with provinces and the federal government in 1966 to provide a basis to coordinate the various provincial social

welfare programs. Components of the program are e.g. old age assistance, blind person allowances, rehabilitation, child care institutions, welfare programs for native people.

Federal grants under the CAP are matching and conditional. The federal government shares 50 % of the costs for providing social assistance and welfare to persons in need who require public support. The conditions are also attached to the provision of minimum standards.²⁸

Though designed to be open-ended grants, the federal government decided in 1990 to put a ceiling on the annual growth of transfers for the richer provinces (5 % until 1994-95).²⁹

II. FRANCE

a. Cultural and Economical Disparities

France is divided into 22 regions within Europe, four overseas regions, and regions in the area of New-Caledonia.³⁰ Even the European regions differ significantly in size, population and economic development.

The region Rhone-Alpes (43,693 km²) encompasses about 8 % of the total territory, Alsace only 1.5 %. Second to the Ile-de-France with about 12 million people, the most densely populated region is Nor-Pas-de-Calais (318 people per km²), while in Bourgogne only 51 people live on a square kilometer, in Korsika 28.

Differences in economic development, measured by regional per capita GNP, range from 67,048 Francs in Languedoc-Roussillon to 136,279 in Ile-de-France.

Cultural and ethnical variety is represented by national minorities, having their own regional but not official language as Basque, Breton, Catalan, Corsican, Flemish, German. Besides, many foreign people from Africa or Europe are working in France, keeping their cultural identity.

b. Division of Competences

Intergovernmental relations in France are characterized by supremacy of the central government in all areas of fiscal policy. Division of responsibilities seems to be "frequently chaotically entangled".³¹

1. Assignment of Functions

(a) Central Government

To guarantee unity and indivisibility, the constitution allocates exclusive legislative competences in all areas to the central government (Art. 34). The central government is also competent to create other levels of government and determine their role (Art. 72). Central supremacy is also reflected in budgetary competences. In 1989 central spending added up to 88.5 % of total public sector expenditure.³²

Supervision of lower level governments' activities was exercised extensively for a long time by a central agent, the prefect. With recent reforms to decentralize

intergovernmental relations in 1982 and 1986, central control is mostly limited to legality of actions.³³

(b) Regional governments

The 22 regions were initially created by law in 1956 to act as central agents. With the first direct elections to the regional council in 1986 they got governments with own administrative and budgetary competences.

Regions mainly have planning competences for regional economic development, especially in housing, where they have to take into account communal programs. Regional governments further plan and administrate vocational training, build and maintain high schools and special schools.³⁴

(c) Departmental Governments

There are 95 departments of comparable size.³⁵ Departments have administrative and financing competences in the area of transportation, urban development, health. They are also engaged in social security providing aid for aged and handicapped persons; in the field of education, provinces are responsible for building and maintaining of secondary and technical schools and care for transportation of pupils. Departments are also involved in developing various kinds of regional and communal plans.³⁶

(d) Communal Governments

There exist about 36,400 french communities, from which 60 % have less than 500 citizens.³⁷ These governments have administrative and budgetary competences in typical local functions as streets, water, sewerage and planning, building and maintaining of pre- and primary schools. Communities also have centrally limited competences in zoning.³⁸

Regions, departments and communities have concurrence competences in tourism and culture. Besides the overlapping responsibilities in nearly all kinds of plannings, all subcentral governments are involved in economic interventions. Within centrally limits they provide e.g. grants for settlement of business and employment, loan guarantees, interest-rate subsidies.³⁹

2. *Assignment of Taxes*

(a) Central Government

The central government assigns annually by the law of finance revenue competences to the lower levels of government while keeping administrative and legislative competences in all areas of relevance, e.g. determining the tax bases and rate structures. In 1991 central revenues amount to about 89 % of total public sector revenues.⁴⁰

(b) Regional Governments

Regional governments are allowed to determine the rates and to budget the yield of licenses on motor vehicles. Up to certain limits they can levy surcharges on the centrally imposed taxes on transfers of residential property. Regions also get revenues from driving licenses and participate in the yields of some minor centrally levied taxes.⁴¹ The central government further restricts regions in setting a per capita maximum amount of total tax revenues.⁴²

(c) Departmental Governments

Departments have competences to fix the rates and to budget revenues from taxes on motor vehicles, on special inheritances and gifts, on transfers of nonresidential property. They also levy a surcharge on the central tax on residential property. Departments are further allowed to determine surcharges on communal real property and trade taxes. Other revenues derive from user fees or charges.⁴³

(d) Communal Governments

Besides user fees and charges, communities receive revenues taxing real property, apartments, trade, entertainments or garbage collection. In general, communities are allowed to fix the rates, at least within limits, set by the central government.⁴⁴ As regions and departments, also communities levy a surcharge on the central tax on transfers of residential property.⁴⁵

c. The System of Intergovernmental Transfers

1. Unconditional Transfers

Unconditional payments play only a minor part in the system of transfers. To reimburse subcentral governments for imbalanced decentralization of expenditure and revenue competences, the central government created a "Global Decentralization Fund" in 1983. The total amount of transfers from this fund (1988 about 9 billion Francs⁴⁶ or nearly 0.4 % of total central revenues) is indexed to the development of the consumer price index and the real growth rate.⁴⁷

2. Conditional Transfers

Central conditional transfers exist for current as well as for capital expenditures. The major programs have not only a fiscal but also an equalizing effect.

Dotation globale de fonctionnement

Since 1979 the "Dotatiatiion globale de fonctionnement" provides financial aid to departments and communities. Transfers are used for current expenditures. The program is composed of:

- annually decreasing lump sums for each government
- annually increasing equalizing payments, distributed according to fiscal potential
- special transfers for small and fiscally weak communities.

Dotation globale de équipement

In 1983 the system of single transfers for investment purposes was replaced by a program called "Dotation globale de équipement". Payments are distributed to communities according to the following criteria:

- at least 70 % of the total amount reserved for communities is related to the actual capital expenditures
- at least 15 % according to the financial potential, considering e.g. population, length of streets
- the remainder is paid to small communities with very low fiscal potential.⁴⁸

Grants to departments are distributed

- up to 45 % according to a formula, considering especially capital expenditures but also length of department streets
- up to 45 % are related and attached to expenditures on rural investments
- at least 10 % according to fiscal potential.⁴⁹

Reimbursements

Departments and communities also receive transfer payments from a central fund to reimburse these governments for value-added tax included in their investment expenditures. The transfers are distributed among departments and communities according to a fixed percentage of the respective amount of capital expenditures.⁵⁰ Though being formally unconditioned in use these payments are intended to give incentives for higher investments.

Regions do not participate in these programs but receive conditioned grants for special purposes as e.g. promotion of vocational training.⁵¹

III. GERMANY

a. Historical and Socio-Economical Background

The decentral structure of Germany has a long tradition and goes back to the foundation of the German empire more than a thousand years ago. In fact, the German Kaiser often enough was not more than a representative figure, whereas the rulers of the member states acted more or less at their own will and from time to time refused even to pay their duties or to contribute military assistance. The first democratic constitution of 1919 followed the federal tradition and after the interval from 1933 to 1945, when independence from the central power became illusory, the fathers of the 1949 constitution of the federal republic of Germany cared all the more to have the member states hold a strong position. Naturally, a decentral structure of the new Germany complied also with the interests of the allied winners of world war II.

Germany, nowadays, includes 16 states: Berlin, ten "old" and five "young" ones; the latter joined the federation in the "unity treaty" of 1990. One state, the metropolitan area of Berlin, contains the old "West-" and "East-"Berlin. With respect to the population, the states vary substantially, from more than 17 million (North-Rhine-Westphalia) to less than one million (Bremen). Three states (Berlin, Hamburg, Bremen) are merely municipalities and relatively densely populated. About 3862 people live on a square kilometer in Berlin, 2188 resp. 1686 in Hamburg and Bremen, while Brandenburg has only 89 people per km².⁵²

Basically, the German federation is a representative democracy with elected parliaments expressing the peoples' will. Though the constitution at least allows for some elements of direct democracy, like local communities having a general assembly of the people acting instead of a local parliament (art. 28, I) and a general referendum in case of an intended restructuring of the states (e.g. change of state borders or even unification of several states) (art. 29, II), its practical relevance so far is null.

Within the old republic (i.e. before unification) one could observe a very close resemblance of the cultural, economical and political structure of all member states, if compared with the situation in other large federations. One even finds the opinion, Germany is no genuine federation at all, because there are really no important differences between one member state and the other and there is not to be expected any separation movement, if Germany would be governed in a more centralistic way. Leaving that speculation aside, indeed it would not be easy to mark significant differences from one end of the country to the other - or better: it would not have been easy to find these differences before re-unification. The new parts differ, of course, dramatically from the rest of the federation,

especially in economic terms.⁵³ But it is a general feeling that these differences should be and will be overcome within a decade or two. Anyway, the economical gap between the old West- and East-Germany has nothing to do with the federal structure of Germany and the East-Germans would have joined a unitary state of Germany quite as willingly.

b. Division of Competences

1. Assignment of Functions

(a) Federal Government

Most important is art. 30 of the German constitution which gives competence in all public matters to the states (Länder), unless the constitution says something different. So, it is the central governments which - whenever it wants to take action - must verify its constitutional right to do so.

With respect to legislation (art. 70), the federal government has competence in matters, which the constitution either expressly assigns to the federal level ("exclusive competence") or permits the federal government to take charge of ("competitive competence") on the following conditions: A matter can not be legislated efficiently by a single state; legislation of a single state would be in conflict with the interest of another; uniformity of living conditions cannot be maintained otherwise.

Exclusive federal functions are essentially foreign affairs, defense incl. civil protection, currency and money, railways and airways, post and Telecom. Competitive federal functions are civil and criminal law, business law, labor law. Besides, the federal level can set frame-work legislation with respect to public service (also on subcentral levels), universities and press and movie industries.

As the federal government has extensively used its competitive and framework competences, the states' own legislative competence is much smaller than the general rule of art. 30 might suggest and has shrunk ever since the early days of the constitution. On the other hand, one has to take into account - what seems to be a peculiarity of the German model of federalism - the states' governments' participation at the federal legislature (art. 20). Each federal law has to pass the representative body of the states' governments (Bundesrat), many laws need a majority of the (weighted) votes of the states and no law can be made against a two-thirds majority of the Bundesrat unless it is supported by a two-thirds majority of the parliament. Mainly because of the inherent pressure which that rule brings to bear on the central and the states' governments to cooperate, the German model has been named as "cooperative federalism".

Contrary to the rather central assignment of legislative competences, public administration in Germany is mainly a matter of the states' governments (art. 83). Here, indeed, the federal government is restricted to a few fields, where it is running an administration of its own. The list includes foreign affairs, defense, railways, post and

Telecom, secret service. In some other fields, the federal government is supervising states' administration, like in construction of federal roads, or in the military sector and nuclear energy.

(b) State Governments

There is little left of legislative competences for the states of their own. The most important fields are elections in states and local communities, police and safety, communal law, culture and education, housing and regional development. But as already mentioned, the states are very much involved in the federal law-making process.

The huge bulk of administrative competence lies in the hands of the states. They are literally responsible for administering the country, for applying federal and states' law. Consequently, they are employing a civil service larger (and much more expensive for that matter) than the one the federal government employs.

In 1989, the largest part of total state expenditure is used for education (22.2 %), followed by social security and welfare (18.0 %).⁵⁴

(c) Local Governments

Though encompassing less than one half of the West-German territory, surprisingly nearly the same number of 'east' as 'west' communities exist (7,590 resp. 8,505 in 1992).⁵⁵ Certainly the number of east communities will be reduced in the near future due to necessary territorial reorganizations.

Local communities (have a constitutional right of self-government (art. 28, II). Specification of that right falls under the competence of the states, which have issued slightly different communal regulations. Generally included in matters of local self-government are construction of school buildings, public hospitals, public museums, public theatres, etc. Besides, the local governments are fulfilling administrative functions with respect to federal and state tasks - from social welfare to issuing passports.

2. *Assignment of Taxes*

(a) Federal Government

Also with respect to taxes, legislative and administrative competences must be distinguished. Even more important is, of course, the competence to budget the tax revenues.

The federal government has nearly total legislative competence in tax matters. Few exceptions are an almost irrelevant right of the states to invent new taxes (which must not

conflict with existing taxes) and to allow their local communities to levy certain small taxes of purely local character (like dog taxes or entertainment taxes). The local governments have the constitutional right (art. 107, VI) to apply a multiplier to the uniform basic property and trade taxes (mainly a local communities' revenue). This way, the actual tax rates differ from community to community.

All other tax matters are within the central levels' legislative competence (in which again the state governments participate through the Bundesrat). On the contrary, administrative competence of the federal government is again very small and restricted only to customs and excises.

Only a small part of federal tax revenues comes from exclusively federal taxes (excises, the beer tax excepted). The bulk of tax revenues of all governmental levels, i.e. nearly four fifths of all tax revenues results from shared taxes (like personal and corporate income tax, value-added tax and - to a certain degree - the trade tax).⁵⁶ The shares of the income taxes are constitutionally fixed, whereas the value-added tax is to be distributed in a way, that the central and the state level have equal opportunity to meet their needs (art. 106, III). In practice, the distribution of the value-added tax revenues between the central government and the states is a matter of continuous negotiations (and struggling).

(b) State Governments

As already mentioned, the states have practically no legislative competence in tax matters, whereas tax collection is nearly totally in their hands. Again, the bulk of state revenues originates from tax sharing, only a few taxes being exclusively state taxes, like the wealth tax, the inheritance tax and the car tax. The interstate horizontal distribution generally follows the principle of residence (direct taxes) or the revenues simply go to the state which collects them (indirect taxes). The states' share of the VAT is by 75% distributed per head, the rest is used to equalize a state's per head tax revenues (so that after distribution of the VAT each state reaches principally at least 92% of the average).

(c) Local Governments

As already mentioned, the local governments can vary the (effective) tax rate of the trade tax, which is considered also as a local community's tax (in spite of the fact, that parts of the tax revenues go to the federal and the state level). The local communities can also decide whether they want to introduce specific local taxes (allowed for according to the respective states' communal law).

c. The System of Intergovernmental Transfers

1. Unconditional Transfers

Principally, each level of government is supposed to finance its activities by means of its own (art. 104, I). But in practice, intergovernmental transfers play a major role,

basically of two reasons: maintenance of the (constitutional) principle of "uniformity of living conditions" and internalization of interjurisdictional external effects. The former aim generally leads to unconditional, the latter to conditional intergovernmental transfers.

As already mentioned, "uniformity of living conditions" is a major aim of German fiscal federalism. For that purpose, "horizontal equalization payments" flow from the rich to the poor states, guaranteeing each state at least 95% of the average per-head tax revenues (with special consideration of local tax revenues) (art. 107, I).

For the same purpose, the federal government is making supplementary payments to the poorer states (art. 107, I). According to the ruling of the German Federal Constitutional Court, these vertical payments with "horizontal effect" have to have a ranking strictly secondary to the interstate horizontal equalization payments.

The states make major payments to the communities, based on a multiplicity of different local aspects (population density and structure, regional function of a city, local unemployment rate, etc.). These payments, unconditioned with respect to the receivers' use of the payments, of course, have substantial effects on the receivers' behavior. Likewise, the interstate equalization payments are assumed to have tremendous effects on the policy of the receivers as well as of the donors.

2. *Conditional Transfers*

Conditional transfers from the federal to the states' level flow as

- cost restitution with respect to administration, run by the states "in behalf" of the federal government (like construction of federal roads, art. 104 a, II);
- cost restitution with respect to transfers to the private sector on the basis of federal laws (like housing subsidies, art. 104 a, III);
- cost restitution, if the federal government causes the states or local governments to install certain institutions (art. 106, VIII);
- cost restitution to the states, if a federal law causes the states a short-term additional financial burden (art. 106, IV);
- cost sharing in "joint tasks" (art. 91 a), like construction of university buildings, improvement of regional economic structures, improvement of coast protection;
- cost sharing in public education and research programs (art. 91 b).

Federal transfers in huge amounts (more than 100 billion DM p.a.) went to the "young" states since re-unification.

Conditional transfers for many purposes (defined by the different states' laws) flow from the states to the local communities.

IV. ITALY

a. Cultural and Economical Disparities

Italy is divided into 20 regions, two (Sardinia and Sicily) of which being islands. Differences in regional size range from Piedmont (25,399 km²) encompassing 8.4 % of the whole territory to Aosta Valley with only 1.1 %.

Population density varies from 416 people per square kilometer in Campania and 372 in Lombardia to 35 in Aosta Valley. The average population/square kilometer ratio was about 190 in 1985.⁵⁷

Significant disparities in economic development occur between the richer northern and the poorer southern part of Italy. E.g. the regional per capita GNP of Lombardia is twice as much as that of Calabria.⁵⁸

Cultural and ethnical variety becomes manifest by the fact that five regions possess a special statute providing them a larger degree of autonomy than granted to ordinary regions.⁵⁹ E.g. in Aosta Valley and in Trentino-Sud Tyrol, second official languages (French resp. German) are permitted.⁶⁰

b. Division of Competences

Intergovernmental fiscal relations in Italy are characterized by a significant vertical imbalance. The subcentral levels of government have relatively wide expenditure competences, but are heavily controlled on the revenue side.⁶¹

1. Assignment of Functions

(a) Central Government

The Italian constitution proclaims unity and indivisibility of the Republic, respecting and encouraging self-government of lower levels of government (Art. 5). To meet the constitutional norms the central government has legislative, administrative and budgetary competences in all areas of national interest. In addition, the central government is competent to provide framework legislation setting basic norms in all areas of relevance.⁶²

(b) Regional Governments

Though being created with the constitution of 1949, ordinary regions were not able to operate until 1970. Regional governments⁶³ are constitutionally provided with legislative, administrative and budgetary competence in areas of regional development and planning, transportation, social welfare, culture, tourism. Within their jurisdictions, they are also supervising communities' legality of action.⁶⁴

In fact, regional autonomy is not only restricted in legislation but also in administration and budgeting by extensive use of central framework competences.

(c) Provincial Governments

As a consequence of increasing regionalization the 95 Italian provinces lost major parts of administrative and budgetary competences.⁶⁵ Essentially they act as deconcentrated central agents, providing public services e.g. in employment offices or treasury branches.

In each province the prefect as a representative of the central government supervises communities as far as they are concerned with administration of central functions.

(d) Communal Governments

There are about 8086 communities of different size and population. Few communities exceed 500,000 inhabitants e.g. Rome, Milan, Naples, Palermo, but 45.3 % have less than 2,000 people in 1981.⁶⁶

In principal, municipalities have regulative, administrative and budgetary competences in typical local functions e.g. town planning and zoning, local police and traffic, social welfare, pre-school and compulsory education buildings, museums, theaters, water, sewage, roads and street-lighting, cemeteries.⁶⁷

To control expenditures, the central government restricted communal budgetary competences, fixing ceilings on the growth rate of total budget or specific spending categories. So, local governments' autonomy is restricted to decide how and on which area the money is to spend.⁶⁸

2. *Assignment of Taxes*

(a) Central Government

The central government keeps legislative competences in all areas of relevance. Regulations concerning revenues and especially taxing competences of lower level government are fixed annually by central law. With the tax reform in 1973 the government centralized nearly all taxing competences of lower level governments.⁶⁹

From 1980 to 1987 the percentage of central on total tax revenues of all levels of government has been constant between 95.8 % and 94.0 %.⁷⁰

(b) Regional Governments

Since 1977 the regions in principle rely on financial sources of their own, but attempts for realization failed as yet.⁷¹ Therefore the regions hardly have any own source revenues at their disposal.

In 1985 own revenues amount only to 1 % of total regional revenues. They derive from a fixed percentage of the wealth tax and from parts of the central motor vehicle tax.⁷² The overwhelming part of the regional budget (96 %) is grant financed.⁷³

(c) Provincial and Communal Governments

Provinces and communities as well as regions participate in the yield of the wealth tax and levy a surcharge on the electricity tax. Other small local taxes are e.g. dog taxes and taxes on disposal.

In any case, the central government is able to determine the level of tax rates and user fees or charges. E.g. in 1987, tax rates on disposal had to be increased up to a level assuring coverage of 40 % of costs in 1987, and of 60 % in 1988. Communities had to raise fees on communal concessions by 10 %. Communities which do not follow central instructions must be aware of cuts on equalization payments.⁷⁴

From 1978 to 1987 the percentage of tax revenues on total communal revenues amounted to about 12 % each year. Nearly 65 % of current revenues derive from central and regional grants.⁷⁵

Borrowing is generally restricted to capital spending. Interest payments must not exceed 25 % of total current revenues. Communities are supposed to take credits from the central Deposits and Loans Funds. In case of rejection they can contract with other credit institutions.⁷⁶

c. The System of Intergovernmental Transfers

Due to the fact that subcentral levels of government have only few own revenues, grants play an important role in financing regional, provincial and communal governments. In 1989 they amount to 79.5 % of total subcentral level's revenues.⁷⁷ For flexibility the amount of grants is fixed annually, which in consequence leads to continuous negotiations between the central and subcentral levels of government.⁷⁸ Transfers flow via equalization fund and special purpose funds.

Equalization Grants

Transfers from the equalization fund have two components:

Ordinary grants (in 1984 about 15 % of the equalization funds) are distributed according to historical expenditures among governments (on a 1984 base). Each government receives a fixed nominal amount, with real payments decreasing over time due to the rate of inflation.

To reduce differences in per capita spending equalization grants are given to municipalities grouped into several classes of population size. Within each class the equalization formula takes into account the municipality's status and per capita income, as well as the average per capita income of the respective province, and of the county.⁷⁹

To qualify for equalization grants, each local government must demonstrate that it meets the requirement of a minimum coverage of costs for certain public services as e.g. water supply, solid waste removal.⁸⁰ The grants have to be used to improve public services and to create new ones.

Special Purpose Funds

Special purpose conditioned grants flow from the central government which transfers parts to regions, provinces and communities. The regions again transfer parts of their grants received to provinces and communities. Special grants are financed from different funds e.g. National Health Fund, funds for public transportation, pre-schools, school buildings, public housing. In general, these grants are given with matching conditions.⁸¹

V. SWITZERLAND

a. Cultural and Economical Disparities

Switzerland is composed of 26 cantons. For historical reasons, three cantons (Unterwalden, Appenzell, Basel) are divided, so that 6 of the 26 cantons are half-cantons.⁸² With 17.2 % of the total Swiss territory, Grisons (7,106 km²) is the largest but also the most scarcely populated (25 per km² in 1989) canton followed by Bern (6,050 km²). The smallest canton Basel-City (37 km²) is also the most densely populated one (5,189 per km²). Economical disparities in terms of per capita GNP in 1989 range from 27,840 SFr in Oberwalden to 53,304 in Basel-City and 66,769 SFr in Zug.⁸³

Cultural and ethnical variety is reflected by the existence of four national languages: 65 % of the population in 1988 speak German, 18 % French, 10 % Italian, and in the canton of Grisons a minority of 1 % speaks Romansh. Cultivation of traditions and a high degree of identification with the respective canton, lead to a relatively low mobility.⁸⁴

b. Division of Competences

Switzerland was founded as a federation in 1848. The constitution allocates competences to the federal government, leaving the cantons with residual powers. Legislative and administrative competences are often divided between the federal and the cantonal level. In consequence, the Swiss system can be characterized as a model of cooperative federalism.⁸⁵

1. Assignment of Functions

(a) Federal Government

Federal exclusive functions are foreign affairs, currency, postal services, military and civil defense. The federal government is responsible of social insurances, and can give licenses to other levels of government or to the private sector in the areas of railways, navigation, aviation, atomic energy.

The federal government often holds legislative competences, but delegates administering and mainly financing to the cantons in social insurances, immigration, environmental care, family policy, housing, national streets.

Legislative competences are shared between federal and cantonal government in the fields of civil rights, regional development, hunting and fishing. The federal government provides basis norms or framework legislation, leaving the residual legislation to the cantons.⁸⁶

(b) Cantonal Governments

Though not participating directly in federal legislature, cantons have formal and informal possibilities to influence division of responsibilities: Constitutional amendments need the majority of all people eligible to vote and the majority of all cantons. Informally cantons participate in the preliminaries of legislative process as advisers to improve the administrability and acceptance of future laws.⁸⁷

Besides the wide range of delegated administrative and budgetary competences, Cantons have residual powers in all areas not allocated to the federal government. Restricted only by a few limitations cantons are free to create their own constitution, to determine the official language, the political and administrative organization, courts, political rights of residents, and the role of local governments.⁸⁸

In 1988, cantons spent 27.5 % of their budget for education, 16.9 % for health, 12.1 % for social services, and 11.4 % for transportation and roads.⁸⁹

(c) Local Governments

The 3,019 Swiss communities derive their power from the respective canton. They substantially differ in size, reaching from 347,000 residents (Zürich) to 11 (Largario). In general they are responsible for the typical local functions as primary education, streets, sewerage, water. Communities, with varying degree of autonomy, are also often administering and financing federal and cantonal functions, as e.g. environmental or health care.⁹⁰

In 1988 the largest part of communal expenditures is used for education (22 %), followed by health (15.1 %) and social services (10.8 %).⁹¹

2. *Assignment of Taxes*

(a) Federal Government

The federal government is restricted by constitution to levy only taxes explicitly enumerated. Exclusively 'indirect' federal taxes are: turnovers, tobacco, distilled spirits, other special consumption or expenditure taxes as beer, motor fuel and petrol, natural gas, and customs duties.

Exclusively 'direct' taxes are stamp duties, withholding tax (on income from capital, lottery winning, pensions and annuities, and insurance payments), and the military exemption tax which is a kind of poll tax, levied on persons refusing to serve in the army.⁹²

Income taxation, which doesn't fall under the exclusive powers, and taxation of turnovers are constitutionally restricted: both taxes are limited to a time period, and the maximum rates are fixed.⁹³ Changes need approval of the majority of voting people and of the majority of cantons.⁹⁴ Administering of income and military tax is delegated to cantons.

Taxes on income and wealth amount to 41.4 % of total federal revenues in 1988⁹⁵, while turnover taxes contribute 30.6 %, taxes on tobacco, motor fuel and petrol and the monopoly on alcohol 14 % to the total. Minor revenues derive from stamp duties (7.5 %) and military tax (0.4 %).⁹⁶

(b) Cantonal Governments

Within few limitations cantons are free to impose any taxes. Excluded by federal constitution are only

- taxes, exclusively assigned to the federal government,
- intercantonal double-taxation (Art. 46.2),
- prohibitive and discriminating taxes (Art. 31).

Besides each canton can choose his appropriate tax system. Tax bases and rate structures differ across cantons. Though cantons' administration of federal income taxes (assessment and collection) lead to a certain convergence of cantonal and federal income tax bases.^{97 98}

The main cantonal tax sources in relation to total cantonal revenues are: income taxes (42.9 %), taxes on wealth of individuals and motorway vouchers each 3.0 %, taxes on transfers of immovable property and taxes on inheritance and gifts each about 2 %. Smaller taxes are those on immovable property, entertainments, dogs and lotteries.⁹⁹

(c) Local Governments

Tax autonomy of the communities depends on the constitutional rules of the respective canton. In general the tax base is determined by the canton, while the communities can (within limits) choose the rates or surcharges.¹⁰⁰ Communities are generally free in determining user charges.

Local autonomy is further restricted to present a balanced current budget. Public debts are allowed for investment expenditures if interest payments and repayments can be financed out of the current budget.¹⁰¹

The main local tax sources are those on income and wealth on individuals which in 1988 amount to about 49.8 % of total local revenues.¹⁰² Minor taxes are levied on entertainments and dogs.

c. The System of Intergovernmental Transfers

The federal government is obliged by constitution to encourage financial equalization among cantons, taking into account the financial capacity and the special situation of mountainous areas (Art. 42 ter). Therefore unconditioned and conditioned federal transfers in general are related to financial capacity.¹⁰³ Entanglement of functions causes a dominance of conditioned transfers.

1. Unconditional Transfers

The federal unconditional grants add up to about 6.3 % of total cantonal revenues in 1988. Transfers are provided in the form of fixed percentages on several tax revenues¹⁰⁴:

- The cantons get 30 % from the federal income taxes, from which 17/30 are distributed among cantons according to the origin principle, and 13/30 related to financial capacity.
- 10 % of the withholding tax revenues are transferred to the cantons, distributed among cantons according to population and financial capacity, each 50 %.
- Each canton keep 20 % of the collected military tax as compensation for administrative costs.¹⁰⁵

2. Conditional Transfers

There are two categories of federal conditional grants: specific grants-in-aid and reimbursements.

Specific Grants in Aid

Specific grants form about 10 % of total cantonal revenues in 1988.¹⁰⁶ Federal specific grant programs are e.g. provided for supporting higher education and water pollution control. Mostly, transfers are given in the form of matching grants with closed ends.¹⁰⁷ All programs take into account the financial capacity of the recipient canton.¹⁰⁸

Reimbursements

Reimbursements are made to compensate cantons for delegated administration of certain federal functions. Federal excises on petrol and fuel yields and from customs duties are partly used to finance the international Alps roads, national motorways, and cantonal main roads. The distribution formula is very complex taking into account e.g. cantonal expenditures on roads, length of roads, cantonal rate of motor vehicle tax.¹⁰⁹ In 1988 federal reimbursements amount to 3.6 % of total cantonal revenues.

VI. USA

a. Cultural and Economical Disparities

The country is divided into the federal District of Columbia (Washington D.C.) and 50 states, 48 neighboring and the two 'outside' states Alaska and Hawaii. With 1.5 million km² Alaska is the biggest and the most sparsely populated state (1977 about 0.4 people per km²). The territory of the other states range from over 692.000 km² (Texas) and 411.000 km² (California) to 3.000 km² (Rhode Island), with the latter being not only the smallest but also a densely populated one (334 people per km²).

Economical disparities in terms of personal income per capita occur especially between the poorer states as Mississippi, Arkansas, Louisiana, Alabama, South Carolina in the Southeast ranging from 12,084 \$ to 15,274 \$ in 1990 and the richer Atlantic states like Connecticut (24,395), New Jersey (23,616 \$), Massachusetts (21,851 \$).¹¹⁰

The United States are a melting pot of immigrants with different origin: Africa, Asia, Europe, Latin-America. Native people like Escimos in Alaska and Indians who live in about 500 reservations also form small ethnical and cultural minorities.

b. Division of Competences

The USA were founded as a federation in 1789 after thirteen british colonies had declared their independence from the British Crown. The fiscal system has created relatively strong federal and local governments and is characterized as being only little formally structured.¹¹¹

1. Assignment of Functions

(a) Federal Government

The constitution allocates exclusive competences to the federal government in the areas of money and banking, public debt, defence, foreign affairs. General clauses provide for federal

- responsibilities related to activities that influence substantially interstate trade and commerce¹¹²,
- spending powers to ensure the general welfare of the country.¹¹³

Especially the latter clause is used as legitimation for federal grant programs in matters of state and local responsibility. To carry out its policy, the federal government often delegates the administration of special grant programs as "Medicaid" to states, which execute the programs with remarkable competences of their own.

Financial assistance also leads to a close federal-local relationship with strong federal influence even in typical local functions as fire protection, urban mass transit, public libraries. To ensure that things get to the right addressee, state governments are often bypassed.¹¹⁴

(b) State Governments

States have residual powers: they are originally responsible for all functions being not reserved by constitution to the federal government. Each of the 50 states has its own constitution which also determines the role of local governments within that state.

Responsibilities are often shared between all levels of government. In the case of health-care, the federal government provides financial assistance for aged people, while federal and state government share the respective costs for welfare beneficiaries. Provision of health services is to a large extent organized by the private sector.¹¹⁵

Especially during the Reagan era 'decentralization' increased. In the field of social services e.g. several federal welfare programs were cut, shifting more responsibility and financial burden to the states.¹¹⁶

In 1990, the largest part of total state expenditures is used for education (33.4 %), followed by health with 18.3 %, security and welfare (16.7 %). Transportation and communication amount to 8.7 %.¹¹⁷

(c) Local Governments

In 1987 the U.S. Bureau of Census listed 83,166 local governments. Nearly 47 % are general purpose governments as counties, municipalities, and townships, 53 % form special purpose governments, school districts (1/2) and districts e.g. for national resources, fire protection, housing development.¹¹⁸

Though allocation of competences varies across states, local governments traditionally have large autonomy providing typical local services as education, fire protection, police, health, streets, sanitation, water systems, libraries. They also often administrate federal and state welfare programs.¹¹⁹

In 1990 local governments spent most of their money (43.6 %) for education. General public services and public order and safety add up to 14.9 % of total expenditures, health 8.4 %, social security and welfare 7.4 %, transportation and communication 6.2 %.^{120 121}

2. *Assignment of Taxes*

One of the peculiarities of the U.S. tax system is concurrence between federal and state governments. In some states even the local governments are involved. Any government having legislative competences, in general also controls administration and budgeting of the respective tax.

(a) Federal Government

Though having the competence to levy any tax that serves the general welfare, the constitution prohibits federal taxes on exports, and taxes on other levels of government. Federal indirect taxes, must fulfil the criteria of uniformity throughout the country.

Restrictions in federal budgetary competence exist in respect to personal income tax yields: federal-state arrangements allow deductibility of state and local income taxes, property taxes and general sales taxes from the federal income tax base.¹²²

The federal government refrains from levying a general property and a general sales tax, but imposes significant excise taxes e.g. on alcohol beverages and tobacco.

The most important tax sources are taxes on income, profits and capital gains. In 1989 they amount to 51.6 % of total federal revenues.¹²³

(b) State Governments

In their capacities to raise revenues, states are formally restricted twice: by federal and the respective state constitution. Federal constitution prohibits to levy import and export duties, as well as to tax interstate trade. Though the respective state constitutions vary a lot, nearly all states have adopted limits of general fund appropriations or tax revenues, often linked to growth rates of state personal income.¹²⁴

Each state has its own tax system with own tax bases and rates.¹²⁵ All states impose taxes on gasoline, cigarettes, alcoholic beverages. They also levy death and gift taxes, mainly to make use of the federal estate tax credits for state death taxes paid. Most states levy individual and corporation income taxes except Nevada, South Dakota, Texas, Washington, Wyoming. Alaska and Florida only abandon individual income taxes.¹²⁶ In most of the states (limited) local property tax credits against state income tax payments are possible. All but five states levy general sales taxes.¹²⁷

Tax revenues in 1990 add up to about 53.4 % of total state's revenues incl. grants (nearly 20 %), nontax revenues amount to 26.6 %. The main tax sources are those on goods and services. State taxes on property are less relevant.¹²⁸

(c) Local governments

Local governments derive their taxing power from the states. They can generally choose the appropriate mix of taxes within state limits. Local governments in all states levy property taxes. In 29 states, municipalities impose general sales taxes, most states in the Mideast and Great Lakes allow individual income taxes, the cities New York and Washington also levy a corporation income tax.¹²⁹

Tax bases and rates vary across local governments in different states.¹³⁰ Within a state, locals are often limited to maximum tax rates. In case of general sales and income taxes, there is also a certain harmonization of local and state tax bases.

In 1990 own tax source revenues amount to 40.7 % of total local revenues incl. grants (36.8 %). About 22.4 % come from nontax revenues. The dominating taxes are those on property (30.3 % of total revenues), followed by taxes on goods and services (nearly 8.1 %), and those on income (2.3 %). These ratios vary across states.¹³¹

To raise more revenues without bearing the political costs of higher property and sales tax rates, the state and local governments try to diversify their revenue sources:

- In 28 states, state lottery games are found,
- besides Nevada also New Jersey and Atlantic City raise revenues from casino gambling,
- Iowa legalized in 1989 riverboat gambling, other state like Indiana, Illinois are also considering permissions.
- Many local governments initiated a Rounded Program: Residents are asked to round the payable amount of taxes or charges up to the next full dollar or more. Knowing, that the additional amount raised by this technique is used to buy land for a park, people in Irving donated \$ 90,000.¹³²

c. The System of Intergovernmental Transfers

1. Unconditional Transfers

Equalization has never been a primary goal in the United States. Therefore, unconditional equalizing grants play a minor role within the system of transfers. The federal government has finished his small unconditional grant programs to states in 1980 and to local governments in 1986.¹³³

Only states provide unconditional financial assistance. For the last decade the percentage of general grants to local governments have been about 10 % each year.¹³⁴

2. *Conditional Transfers*

All three levels of government cooperate in shared program financing on nearly all important fields of public functions: education, welfare, health, housing, transportation, natural resources and environment.

Payments are therefore made in the form of block grants, i.e. related to a specific function, or in the form of categorical grants, i.e. related to parts of a specific function. The grants are attached to special spendings and sometimes to matching conditions. Generally they are distributed by a formula, considering the fiscal situation of the recipient government.^{135 136}

In 1990 grants are to 40.5 % used for education, the overwhelming part financed by states. The federal government is more engaged in health and social security & welfare which amount to 18 % and 19.1 % of total intergovernmental transfers.¹³⁷

Notes

1. See Eichenberger, 1990, at 31.
2. It is not without irony, when a mayor (e.g. Deferre) becomes the chief (secretary of the home office) of his own chief (prefect of the town).
3. See reports from the U.S., Inman and Rubinfeld, 1992.
4. Fromont, 1987, at 516.
5. Müller, 1989, at 628.
6. "To meet the constitutional definition of direct tax, provincial sales taxes are levied on and paid by those who purchase or import goods and some services for consumption or use in the province or who acquire taxable services in the province. The merchants who regularly sell those goods or services act as collectors for the provincial governments." Canadian Tax Foundation, 1992, at 11:1.
7. For data of the provinces see Canadian Tax Foundation, 1992, Table 1.3 at 1:6.
8. See McReady, 1989, at 120 - 122.
9. See Boadway, 1992, at 14 - 17.
10. See Boadway, Hobson, 1993, at 4.
11. For equity goals in the constitution see Sheppard, 1986, at 158 and Boadway, 1992, at 34.

12. For relative importance in terms of expenditure see Appendix, Table 1.
13. These municipalities consist of about 120 cities, 800 towns, 1000 villages, 3,000 rural municipalities (1991). See Canadian Tax Foundation, 1992, at 2:3.
14. E.g. Local governments in New Brunswick and Nova Scotia are restricted to borrow from special governmental financial institutions. Municipalities in some provinces are directly controlled by electors: E.g in Prince Edward Island approval of the residents at a public meeting is required if the total amount of outstanding municipal debt exceeds the limit of 10 % of current taxable assessment. In British Columbia short term borrowing needs the consent of the electors if a defined per-capita amount is exceeded (1991: \$ 35). See Canadian Tax Foundation, 1992, chapter 2.
15. See Appendix, Table 7.
16. See Ip; Mintz, at 24, table 1.
17. What comes under direct taxes has been interpreted by courts and differs partly from the economical view: the retail sales tax levied by all provinces except Alberta and the Territories is considered to be direct. In the legal sense, a tax cannot be called direct, if the incidence of the tax is uncertain at the moment of payment. See Sheppard, 1986, at 152.
18. Actually Quebec doesn't join the tax collection agreement at all, Ontario, and Alberta do not participate with respect to corporate income tax. In general contracting out provinces have tax bases close to the federal. For details see Boadway; Hobson, 1993, at 48 - 52 and Ip; Mintz, 1992, at 51 - 57.
19. For data see Canadian Tax Foundation, 1992, table 3.10 at 3:17 and table 10.1 at 10:2.
20. See Canadian Tax Foundation, 1992, at 11:4 also table 11.4.
21. Canadian Tax Foundation, 1992, at 10:2, table 10.2.
22. For details see Kitchen, 1992 and Canadian Tax Foundation, 1992, Chapter 12.
23. Tax capacity, as the potential to generate revenues from all of the 37 representative tax bases, is measured as follows: First the national average tax rate for any source is calculated, dividing the actual revenue of all provinces by the value of a standardized base (also summed across provinces).
Second, this national average tax rate for any source is applied to the respective standardized tax base (per capita) of each province.
24. For a critical review see Bird; Slack, 1990, at 913 - 927.
25. See Boadway; Hobson, 1993, at 54 - 60.

26. For details see Canadian Tax Foundation, 1992, at 13:7,8.
27. For details see Canadian Tax Foundation, 1992, chapter 4 and Boadway, 1992, at 46, 47.
28. See Boadway, 1986, at 41 - 44.
29. This limitation concerns the provinces which don't receive general equalization payments: Alberta, Ontario, British Columbia. See Canadian Tax Foundation, 1992, at 7:1,2.
30. Overseas regions are Guadalupe, Guyana, Martinique and La Réunion. In the following, only the european mothercountry is considered.
31. Fromont, 1987, at 516.
32. See Appendix, Table 2.
33. For a critical view see Ashford, 1990, especially at 361.
34. See Benz; Benz, 1987, at 50, 51.
35. After the French Revolution the country was divided on efficiency grounds in nearly equal units. To make it comfortable for the residents, travelling from any point of the department to the department capital should not take more than one day on a horse back. See Constantinesco, 1990, at 211.
36. See Fromont, 1987, at 514, 515, Benz; Benz, 1987, at 49, 50 and Müller, 1989, at 629.
37. See Benz; Benz, 1987, at 26.
38. See Müller, 1989, at 629, and Benz; Benz, 1987, at 48.
39. For details see Marcou, 1990, at 266 - 270.
40. See Appendix, Table 8.
41. See Mennel, 1991, and Constantinesco, 1990, at 225.
42. In 1983 the limit was 150 Francs per capita. See Benz; Benz, 1987, at 60.
43. See Benz; Benz, 1987, at 38 and Mennel, 1991.
44. See Keating, 1989, at 163.
45. See Mennel, 1991.

46. Only a small part is attached to certain conditions. See Müller, 1989, at 630.
47. See OECD, 1990, at 120.
48. See Ashford, 1990, at 363, Keating, 1989, at 165 and Müller, 1989, at 630.
49. See Keating, 1989, at 165, 166.
50. See Prud'homme, 1990, at 123 and Benz; Benz, 1987, at 40.
51. See Benz; Benz, 1987, at 62.
52. For data see Statistisches Landesamt (ed.), 1992, Table 2.2 at 26, 27.
53. In 1990 the per capita GNP amounted to 20,000 DM in the old part and to 6,100 DM in the new part of Germany. See Statistisches Landesamt (ed.), 1992, Table 24.27, at 685.
54. For details see Appendix, Table 3.
55. See Statistisches Bundesamt (ed.), 1992, Table 3.3 at 52.
56. See Appendix, Table 9.
57. See Onida, 1990, at 261.
58. For details see Rey; Pola, 1990, at 377 - 379.
59. Regions with a special statute are: Aosta Valley, Trentino-Sud Tyrol, Friuli-Venezia Giulia, Sardinia, Sicily.
60. For more details see Onida, 1990, at 243 - 248.
61. See Imbriani; Roberti, 1991.
62. See Onida, 1990, at 250 - 254.
63. In the following, only ordinary regions are considered. The five special statute regions are provided with some exclusive powers.
64. See Rey; Pola, 1990, at 369, 370.
65. See Rey; Pola, 1990, at 370.
66. See Maré; Comandini, 1991, at 196, 197.
67. For further details see Rey; Pola, 1990, at 370, 371.

68. For details on local government control see Frascini; Osculati, 1991.
69. For details of the tax reform see Merk, 1988.
70. See Frascini; Osculati, 1991, at 221.
71. Maré and Comandini, 1991, at 193 think, that local authorities are not very interested in taxing power because they are not willing to bear the political costs of higher tax rates.
72. See Merk, 1988, at 77.
73. See Rey; Pola, 1990, at 374.
74. For other means of control see Frascini; Osculati, 1991.
75. See Frascini; Osculati, 1991, at 227.
76. For details see Rey; Pola, 1990 and Frascini; Osculati, 1991, at 229.
77. See Appendix, Table 10.
78. See Rey; Pola, 1990, at 376.
79. See Frascini; Osculati, 1991, at 230, 231.
80. See Maré; Comandini, 1991, at 198 - 201.
81. See Rey; Pola, 1990, at 374, 375.
82. Half-cantons only have 1 seat in the Senate, cantons 2. In all other cases half-cantons and cantons are treated equally. See Eichenberger, 1990, at 25, 31.
83. Data from Dafflon, 1991 (a), at 4, table 1.
84. 6 % speak different other languages. See Eichenberger, 1990, at 20 and Bird, 1986, at 29.
85. See Buschor; König; Rey; Rondi, 1984, at 27, and Bird, 1986, at 240.
86. For details see Fagagnini, 1991, at 25 - 66.
87. See Eichenberger, 1990, at 30, 31.
88. See Eichenberger, 1990, at 27, 28.
89. The federal government is involved in transportation and roads with 14 %, in education with 9.1 % of his total expenditures. See Appendix, Table 5.

90. See Eichenberger, 1990, at 29, 30.
91. See Appendix, Table 5.
92. See Bird, 1986, at 48, 49, and for more details: Interkantonale Kommission für Steueraufklärung, 1991.
93. The maximum income tax rate is 11.5 % on a taxable income of 501,700 (single persons). In determining the tax progression, the federal government has to take into account the cantonal and communal tax burden. See Interkantonale Kommission für Steueraufklärung, 1991, at 34.
94. Attempts to abolish the time limit failed by referendum in June 1991 as did the change of turnover tax to a value-added-tax and a raise of stamp duties. See Mennel, 1992, at 5.
95. See Appendix, Table 11.
96. Intergovernmental transfers are included. Data calculated from Dafflon, 1991 (a), at 7.
97. See Dafflon, 1991 (b), at 5; also for a detailed view of cantonal/local business taxation.
98. According to a law from 1. 1. 1993 direct taxes of cantons and communities have to be harmonized by eight years from then, lately.
99. Included are intergovernmental grants (27,4 %). For data see Dafflon, 1991 (a), at 7.
100. For details see Interkantonale Kommission für Steueraufklärung, 1991.
101. See Dafflon, 1991 (b), at 4.
102. See Dafflon, 1991 (a), at 7, 8.
103. Financial capacity is measured by a formula with four components: a) the cantonal income per head, b) tax effort of canton and local governments, c) per capita tax revenue of the canton and its communities, d) as indicator for need: population density, the part of the canton covered by mountains. For details see Dafflon, 1991 (a), at 10, 11.
104. As far as transfers are not related to fiscal capacity, they can also be viewed as tax sharing arrangements.
105. See Galliker, 1986, at 7. For details of the respective formulas see Dafflon, 1991 (a), at 13, 14.

106. See Dafflon, 1991 (a), at 7.
107. See Bird, 1986, at 57.
108. See Galliker, 1986, at 5.
109. For details see Dafflon, 1991 (a), at 15.
110. See ACIR, 1992, Vol. II, at 268.
111. See Mathews, 1985, at 3.
112. See Saunders, 1992, at 235.
113. Article I, Section 8 of the U.S. Constitution.
114. See Bird, 1986, at 148, 149, 151.
115. See Nathan; Balmaceda, 1990, at 68 and Mathews, 1985, at 4.
116. For review and evaluation of Reagan's "New Federalism" see Caraley, 1986. The impact of changing responsibilities on the distribution on income of households is examined in Quigley; Smolensky, 1991.
117. Intergovernmental transfers are included. See Appendix, Table 6.
118. Besides there exist about 500 Indian reservation which are not like 'ordinary' governments creatures of the states, but come under federal responsibility. See Kincaid, 1991, at 142, 143.
119. See King, 1988, at 89, Kincaid 1991, at 161, and Mathews, 1985, at 2.
120. See Appendix, Table 6.
121. Reading the data it must be borne in mind that special districts are included, so while e.g. school districts in 1987 spent 98 % of their budget on education, townships spent only about 27.5 %, municipalities 9.2 %, and counties 14.4 % of their respective budget. See Kincaid, 1991, at 162, Table 10.
122. See Mathews, 1985, at 12, and Bird, 1986, at 226.
123. Data include grants. For more details see Appendix, Table 12.
124. E.g. in Arizona appropriations of state tax revenues is limited to a maximum of 7 % of state personal income, Massachusetts has linked state revenues to the average growth of wages and salaries of the previous three years, in Washington growth of tax revenues is limited by the average growth (3 years) of state personal income. See ACIR, 1992, Vol. I, Table 6.

125. For the differences see ACIR, 1992, Vol. 1. For attempts to coordinate corporation income taxes see Weiner, 1992.
126. See ACIR, 1992, Vol. 1, Table 14.
127. Alaska, Delaware, Montana, New Hampshire, Oregon.
128. See Appendix, Table 12.
129. See ACIR, 1992, Vol. I, Table 23, Vol. II, Table 92 and Weiner, 1992, at 430.
130. In case of property tax there is also a wide range of rates within a state. In New York the rate in Dollars per \$ 1,000 in 1990 varies from 9.100204 Buffalo up to 294.189 in the city of Glen Cove. See ACIR, 1992, Vol. I, Table 44.
131. See Appendix, Table 12.
132. See Kincaid, 1991, at 153.
133. In 1986 unconditioned grants, referred to as 'revenue sharing', formed about 4,4 % of total federal grants. See ACIR, 1992, Vol. II, Table 28.
134. See ACIR, 1992, Vol. II, Table 32.
135. See Mathews, 1985, at 24,25 and Bird, 1986, at 159 - 167.
136. The "Medicaid" Program e.g. provides federal financial assistance according to a states matching ratio, calculated by: $[(\text{state per capita personal income})^2 / (\text{U.S. per capita personal income})^2] \times 45$ percent. See ACIR, 1992, Vol. II, Table 135.
137. See Appendix, Table 6.

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D. APPENDIX (Tables)*

I. Expenditure by Function and Level of Government

Table 1: Canada - Expenditure by Function and Level of Government in 1989 (%)

Table 2: France - Expenditure by Function and Level of Government in 1989 (%)

Table 3: Germany - Expenditure by Function and Level of Government in 1989 (%)

Table 4: Italy - Expenditure by Function and Level of Government in 1988 (%)

Table 5: Switzerland - Expenditure by Function and Level of Government in 1988 (%)

Table 6: USA - Expenditure by Function and Level of Government in 1990 (%)

II. Revenue by Character and Level of Government

Table 7: Canada - Revenue by Character and Level of Government in 1989 (%)

Table 8: France - Revenue by Character and Level of Government in 1991 (%)

Table 9: Germany - Revenue by Character and Level of Government in 1991 (%)

Table 10: Italy - Revenue by Character and Level of Government in 1989 (%)

Table 11: Switzerland - Revenue by Character and Level of Government in 1988 (%)

Table 12: USA - Revenue by Character and Level Government in 1990 (%)

* All data calculated from IMF, 1992, except Switzerland.

Table 1
Canada - Expenditure by Function and Level of Government in 1989 (%)

| Level of Govern. Function | Total Public Sector | Federal Government | Provincial Governments | Local Governments | Inter-governmental transfers |
|--|----------------------------|---------------------------|-------------------------------|--------------------------|-------------------------------------|
| Gen. Public Services, Publ. Order & Safety | 11.5 | 9.9 | 8.6 | 13.7 | 0.7 |
| Education | 11.5 | 2.9 | 18.8 | 39.9 | 38.3 |
| Health | 13.3 | 5.2 | 26.0 | 5.5 | 16.3 |
| Social Security & Welfare | 24.5 | 35.1 ^{a)} | 17.6 | 4.2 | 14.4 |
| Housing & Commun. Amenities | 2.9 | 1.3 | 1.9 | 10.0 | 3.4 |
| Transport. & Communication | 5.9 | 3.8 | 5.1 | 10.6 | 2.0 |
| Other Expenditure | 30.4 | 41.8 ^{b)} | 22.0 | 16.1 | 24.9 |
| | 100 | 100 | 100 | 100 | 100 |
| Percentage of Total Expenditure and Grants | 100 | 50.5 | 47.1 | 18.2 | -15.8 |

a) Of which 18.1 % are Social Security Funds.

b) Of which 17.8 % are Defense.

Table 2
France - Expenditure by Function and Level of Government in 1989 (%)

| Level of Govern. Function | Total ¹⁾ Public Sector | Central Government | Subcentral Governments | Inter-governmental transfers |
|--|--------------------------------------|--------------------|------------------------|------------------------------|
| Gen. Public Services, Publ. Order & Safety | | 6.9 | 12.9 | |
| Education | | 6.9 ^{a)} | 20.0 | |
| Health | | 15.3 ^{b)} | 2.2 | |
| Social Security & Welfare | | 45.0 | 17.3 | |
| Housing & Commun. Amenities | | 1.4 | 22.3 | |
| Transport. & Communication | | 1.9 | 5.4 | |
| Other Expenditure | | 22.6 ^{c)} | 19.9 | |
| | | 100 | 100 | |
| Percentage of Total Expenditure and Grants | 100 | 88.5 | 18.9 | -7.4 |

1) Data not available in the used source.

a) Of which 0.6 % are Social Security Funds.

b) Of which 97.4 % are Social Security Funds.

c) Of which 76.8 % are Social Security Funds.

d) Of which 28.1 % are Defense.

Table 3
Germany - Expenditure by Function and Level of Government in 1989 (%)

| Level of Govern. Function | Total Public Sector | Federal Government | State Governments | Local Governments | Inter-governmental transfers |
|--|---------------------|--------------------|-------------------|-------------------|------------------------------|
| Gen. Public Services, Publ. Order & Safety | 8.2 | 3.9 | 14.4 | 10.5 | 1.4 |
| Education | 7.6 | 0.6 | 22.2 | 9.6 | 5.8 |
| Health | 15.9 | 18.1 ^{a)} | 8.1 | 13.1 | 3.3 |
| Social Security & Welfare | 39.2 | 48.5 ^{b)} | 18.0 | 24.5 | 13.8 |
| Housing & Commun. Amenities | 4.0 | 0.4 | 3.8 | 16.9 | 4.9 |
| Transport. & Communication | 4.3 | 4.0 | 4.5 | 7.2 | 7.7 |
| Other Expenditure | 20.8 | 24.5 ^{c)} | 29.0 | 18.2 | 63.1 |
| | 100 | 100 | 100 | 100 | 100 |
| Percentage of Total Expenditure and Grants | 100 | 64.2 | 27.0 | 18.7 | -9.9 |

- a) Of which 99.8 % are Social Security Funds.
b) Of which 85.2 % are Social Security Funds.
c) Of which 33.9 % are Defense.

Table 4
Italy - Expenditure by Function and Level of Government in 1988 (%)

| Level of Govern. Function | Total ¹⁾ Public Sector | Central Government | Subcentral ¹⁾ Governments | Inter-governmental ¹⁾ transfers |
|--|--------------------------------------|--------------------|---|---|
| Gen. Public Services, Publ. Order & Safety | | 7.5 | | |
| Education | | 8.3 | | |
| Health | | 11.3 | | |
| Social Security & Welfare | | 18.2 ^{a)} | | |
| Housing & Commun. Amenities | | 0.6 | | |
| Transport. & Communication | | 7.1 | | |
| Other Expenditure | | 47.0 ^{b)} | | |
| | | 100 | | |
| Percentage of Total ¹⁾ Expenditure and Grants | | | | |

1) Data not available from the used source.

a) Of which 28.6 % are Social Security Funds.

b) Of which 7.8 % are Defense, and 36.7 % are Interest on Public Debt.

Table 5
Switzerland - Expenditure by Function and Level of Government in 1988 (%)

| Function | Level of Governm. | Federal Government | Cantonal Government | Local Governments |
|---|-------------------|--------------------|---------------------|-------------------|
| Spec. Serv., Fire Defense Justice Police | | 1.6 | 8.2 | 4.6 |
| Education | | 9.1 | 27.5 | 22.0 |
| Health | | 0.2 | 16.9 | 15.1 |
| Social Security | | 21.1 | 12.1 | 10.8 |
| Zoning, Land Planning | | 0.2 | 0.2 | 0.6 |
| Transportation | | 14.0 | 11.4 | 8.8 |
| | | 53.8 ^{a)} | 23.7 | 38.1 |
| | | 100 | 100 | 100 |
| Percentage of Total Expenditure | | 30.4 | 39.8 | 29.8 |

a) Of which 34.6 % are Defense.

Source: Calculated from Dafflon, 1991 (a), at 6.

Table 6.
USA - Expenditure by Function and Level of Government in 1990 (%)

| Level of Govern. Function | Total Public Sector | Federal Government | State Governments | Local Governments | Inter-governmental transfers |
|--|---------------------|--------------------|--------------------|-------------------|------------------------------|
| Gen. Public Services, Publ. Order & Safety | 11.0 | 7.5 | 7.04 | 14.9 | 1.2 |
| Education | 14.4 | 1.7 | 33.4 | 43.6 | 40.5 |
| Health | 12.9 | 13.5 ^{a)} | 18.3 | 8.4 | 18.0 |
| Social Security & Welfare | 19.8 | 25.6 ^{b)} | 16.7 ^{c)} | 7.4 | 19.1 |
| Housing & Commun. Amenities | 2.3 | 2.6 | 0.7 | 2.8 | 1.3 |
| Transport. & Communication | 4.3 | 2.4 | 8.7 | 6.2 | 7.5 |
| Other Expenditure | 35.3 | 46.7 ^{d)} | 15.2 | 16.7 | 12.4 |
| | 100 | 100 | 100 | 100 | 100 |
| Percentage of Total Expenditure and Grants | 100 | 64.2 | 26.9 | 23.6 | -14.7 |

- a) Of which 62.4 % are Social Security Funds.
b) Of which 79.1 % are Social Security Funds.
c) Of which 9.2 % are Social Security Funds.
d) Of which 48.4 % are Defense.

Table 7
Canada - Revenue by Character and Level of Government in 1989 (%)

| Level of Governm. Revenue | Federal Government | Provincial Government | Local Governments | |
|---|-------------------------------|----------------------------------|------------------------------|--|
| Tax Revenue | 88.3 | 68.2 | 39.4 | |
| Tax on Income, Profits, Capital Gains | 52.4 | 29.4 | --- | |
| Taxes on Property | --- | 2.5 | 33.3 | |
| Dom. Taxes on Goods and Services | 18.8 | 27.2 | 0.5 | |
| Social Security Contributions | 13.5 | 9.1 | --- | |
| Nontax Revenue | 11.6 | 12.7 | 14.9 | |
| Fees, Sales, Fines | 1.8 | 1.9 | 10.5 | |
| Capital Revenue | --- | --- | --- | |
| Grants | 0.1 | 19.1 | 45.7 | |
| | 100 | 100 | 100 | |
| | | | | Intergovernmental Transfers |
| Percentage of Total Revenue and Grants | 49.0 | 50.1 | 19.3 | -18.4 |

Table 8
France - Revenue by Character and Level of Government in 1991 (%)¹⁾

| Level of Governm. Revenue | Central Government | Subcentral Government | |
|--|--------------------|-----------------------|------------------------------------|
| Tax Revenue | 91.1 | 43.2 | |
| Tax on Income, Profits, Capital Gains | 17.8 | n.a. | |
| Taxes on Property | 2.6 | n.a. | |
| Dom. Taxes on Goods and Services | 26.7 | n.a. | |
| Social Security Contributions | 42.9 | n.a. | |
| Nontax Revenue | 6.8 | 19.8 | |
| Fees, Sales, Fines | 3.2 | 16.2 | |
| Capital Revenue | 0.2 | 0.8 | |
| Grants | 1.9 | 36.2 | |
| | 100 | 100 | |
| | | | Intergovernmental Transfers |
| Percentage of Total Revenue and Grants | 89.0 | 19.8 | -8.8 |

1) Calculation is based on preliminary data.

Table 9
Germany - Revenue by Character and Level of Government in 1991 (%)¹⁾

| Level of Government Revenue | Federal Government | Provincial Government | Local Governments | |
|--|-----------------------|--------------------------|----------------------|--|
| Tax Revenue | 93.7 | 70.4 | 34.0 | |
| Tax on Income, Profits, Capital Gains | 15.9 | 44.0 | 30.0 | |
| Taxes on Property | 0.1 | 4.7 | 3.9 | |
| Dom. Taxes on Goods and Services | 27.4 | 21.7 | 0.1 | |
| Social Security Contributions | 50.8 | --- | --- | |
| Nontax Revenue | 5.9 | 12.4 | 35.5 | |
| Fees, Sales, Fines | n.a. | n.a. | n.a. | |
| Capital Revenue | 0.1 | 0.2 | 3.0 | |
| Grants | 0.3 | 17.0 | 27.5 | |
| | 100 | 100 | 100 | |
| | | | | Intergovernmental Transfers |
| Percentage of Total Revenue and Grants | 66.3 | 25.1 | 18.1 | -9.5 |

1) Calculation is based on preliminary data.

Table 10
Italy - Revenue by Character and Level of Government in 1989 (%)

| Level of Government Revenue | Central Government | Subcentral Government | |
|--|-----------------------|--------------------------|--|
| Tax Revenue | 96.1 | 10.2 | |
| Tax on Income, Profits, Capital Gains | 35.9 | n.a. | |
| Taxes on Property | 1.2 | n.a. | |
| Dom. Taxes on Goods and Services | 29.0 | n.a. | |
| Social Security Contributions | 29.0 | n.a. | |
| Nontax Revenue | 2.8 | 8.1 | |
| Fees, Sales, Fines | 0.7 | 3.2 | |
| Capital Revenue | 0.4 | 2.2 | |
| Grants | 0.3 | 79.5 | |
| | 100 | 100 | |
| | | | Intergovernmental Transfers |
| Percentage of Total Revenue and Grants | 93.6 | 32.5 | -26.1 |

a) Adjustment to total revenue: 0.4 % (unclassified revenue).

Table 11
Switzerland - Revenue by Character and Level of Government in 1988 (%)

| Level of Government Revenue | Central Government | Cantonal Governments | Local Governments |
|--|-----------------------|-------------------------|----------------------|
| Taxes on income and Wealth | 41.4 | 50.4 | 49.8 |
| Taxes on Con- sumption or Expenditures | 51.7 | 3.2 | 0.2 |
| Fiscal Monopolies, Licenses | 1.5 | 0.8 | --- |
| Public Property | 2.3 | 3.8 | 6.0 |
| Indemnities and Sales | 3.1 | 14.4 | 26.4 |
| Revenue Sharing | --- | 6.3 | 2.3 |
| Grants and Reimbursements | --- | 21.1 | 15.3 |
| | 100 | 100 | 100 |

Source: Dafflon, 1991 (a), at 8.

Table 12
USA - Revenue by Character and Level of Government in 1990 (%)

| Level of Governm. Revenue | Federal Government | Provincial Government | Local Governments | |
|---|---------------------------|------------------------------|--------------------------|------------------------------------|
| Tax Revenue | 92.1 | 53.4 | 40.7 | |
| Tax on Income, Profits, Capital Gains | 51.6 | 20.4 | 2.3 | |
| Taxes on Property | 1.1 | 2.1 | 30.3 | |
| Dom. Taxes on Goods and Services | 3.2 | 29.5 | 8.1 | |
| Social Security Contributions | 34.6 | 1.4 | --- | |
| Nontax Revenue | 7.9 | 26.6 | 22.4 | |
| Fees, Sales, Fines | 1.0 | 7.0 | 10.8 | |
| Capital Revenue | --- | --- | 0.1 | |
| Grants | --- | 20.0 | 36.8 | |
| | 100 | 100 | 100 | |
| | | | | Intergovernmental Transfers |
| Percentage of Total Revenue and Grants | 58.3 | 31.1 | 26.6 | -16.0 |

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