

Cambridge University Press

978-0-521-51821-5 - Fiscal Federalism: Principles and Practices of Multiorder Governance

Robin Boadway and Anwar Shah

Frontmatter

[More information](#)

FISCAL FEDERALISM

This comprehensive account of the principles and practices of fiscal federalism is based on the currently accepted theoretical framework and best practices. The traditional topics of assignment of responsibilities, intergovernmental fiscal arrangements, fiscal competition, and grants are covered in a unified framework with reference to actual practices followed in federations around the world. Special issues such as local government and the implications of natural resource issues are considered along with emerging issues such as governance, corruption, and the effect of globalization and the information revolution on the nation-state. The treatment is nontechnical and suitable for a wide variety of audiences, including scholars, instructors, students, policy advisers, and practitioners.

Robin Boadway holds the David Chadwick Smith Chair in Economics at Queen's University, Kingston, Canada. Before that he was Sir Edward Peacock Professor of Economics at Queen's, where he has taught virtually all his career. He is an Officer of the Order of Canada and a Fellow of the Royal Society of Canada, the Institute of Intergovernmental Relations, and the Center for Economic Studies and Institute for Economic Research (CESifo). Professor Boadway is a past president of the Canadian Economics Association and is Executive Vice-President of the International Institute of Public Finance (IIPF). He served as a Member of the Academic Panel in the Fiscal Affairs Department of the IMF and is currently on the Scientific Advisory Council of the Institute for Economic Research (IFO) in Munich. He has received the Harry Johnson Memorial Prize twice and the Queen's University Prize for Research Excellence. He has served as editor of the *Canadian Journal of Economics* and the *German Economic Journal* and is currently editor of the *Journal of Public Economics*. His books include *Public Sector Economics*; *Welfare Economics*; *Canadian Tax Policy*; *Intergovernmental Fiscal Relations in Canada*; *Equalization in a Federal State*; and *Intergovernmental Fiscal Transfers*, with Anwar Shah.

Anwar Shah is Lead Economist and Program Leader, Public Sector Governance Program at the World Bank Institute, Washington, D.C. He is a Member of the Executive Board of the International Institute of Public Finance, Munich, and a Fellow of the Institute for Public Economics, Edmonton, Alberta, Canada. Dr. Shah is also affiliated as Honorary Professor with the Southwest University of Finance and Economics, Chengdu, China, and Central University of Finance and Economics, Beijing, China. He has previously served as a staff member with the Ministry of Finance, the government of Canada, the government of Alberta, and the U.S. Agency for International Development, and he was the lead author for the Second Report of the UN Intergovernmental Panel on Climate Change. Dr. Shah was coordinator of the Global Dialogue on Fiscal Federalism conducted by the Forum of Federation in partnership with Governments in Federal Countries from 2005 to 2007. He has advised the governments of Australia, Argentina, Brazil, Canada, China, Germany, India, Indonesia, Mexico, Pakistan, Poland, South Africa, and Turkey on fiscal system reform issues. In the past, he taught graduate courses in natural resources and environmental economics at the University of Ottawa. He has published about two dozen books on governance and fiscal system reform themes and numerous articles in professional journals. His most recent edited books include *The Practice of Fiscal Federalism* and *Macro Federalism and Local Finance*.

Cambridge University Press

978-0-521-51821-5 - Fiscal Federalism: Principles and Practices of Multiorder Governance

Robin Boadway and Anwar Shah

Frontmatter

[More information](#)

Fiscal Federalism

Principles and Practices of Multiorder Governance

Robin Boadway

Queens University, Canada

Anwar Shah

The World Bank, Washington, D.C.



CAMBRIDGE
UNIVERSITY PRESS

Cambridge University Press

978-0-521-51821-5 - Fiscal Federalism: Principles and Practices of Multiorder Governance

Robin Boadway and Anwar Shah

Frontmatter

[More information](#)

CAMBRIDGE UNIVERSITY PRESS

Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, São Paulo, Delhi

Cambridge University Press

32 Avenue of the Americas, New York, NY 10013-2473, USA

www.cambridge.org

Information on this title: www.cambridge.org/9780521732116

© Robin Boadway and Anwar Shah 2009

This publication is in copyright. Subject to statutory exception and to the provisions of relevant collective licensing agreements, no reproduction of any part may take place without the written permission of Cambridge University Press.

First published 2009

Printed in the United States of America

A catalog record for this publication is available from the British Library.

Library of Congress Cataloging in Publication Data

Boadway, Robin W., 1943–

Fiscal federalism : principles and practices in multiorder governance / Robin Boadway, Anwar Shah.

p. cm.

Includes bibliographical references and index.

ISBN 978-0-521-51821-5 (hardback) – ISBN 978-0-521-73211-6 (pbk.)

1. Intergovernmental fiscal relations. 2. Fiscal policy. 3. Decentralization in government. 4. Revenue sharing. I. Shah, Anwar. II. Title.

HJ197.B63 2009

336–dc22 2008045471

ISBN 978-0-521-51821-5 hardback

ISBN 978-0-521-73211-6 paperback

Cambridge University Press has no responsibility for the persistence or accuracy of URLs for external or third-party Internet Web sites referred to in this publication and does not guarantee that any content on such Web sites is, or will remain, accurate or appropriate. Information regarding prices, travel timetables, and other factual information given in this work are correct at the time of first printing, but Cambridge University Press does not guarantee the accuracy of such information thereafter.

Contents

<i>Preface</i>	<i>page vii</i>
PART ONE: DESIGNING FISCAL CONSTITUTIONS	1
1 Introduction to Federalism and the Role of Governments in Federal Economies	4
2 The Decentralization of Government Authority	61
3 Expenditure Assignment	124
4 Revenue Assignment	157
5 Natural Resources Ownership and Management in a Federal System	207
6 Local Governance in Theory	242
7 Local Governance in Practice	266
PART TWO: REVENUE SHARING AND FISCAL TRANSFERS	291
8 Revenue Sharing	293
9 The Principles of Intergovernmental Transfers	306
10 The Practice of Intergovernmental Transfers	351
PART THREE: FINANCE AND PROVISION OF PUBLIC SERVICES	393
11 Finance and Provision of Health and Education	395
12 Finance and Provision of Infrastructure	418
13 Poverty Alleviation in Federations	445
PART FOUR: CHALLENGES AND RESPONSES	461
14 Fiscal Federalism and Macroeconomic Governance	464
15 Interregional Competition and Policies for Regional Cohesion and Convergence	498

Cambridge University Press
978-0-521-51821-5 - Fiscal Federalism: Principles and Practices of Multiorder Governance
Robin Boadway and Anwar Shah
Frontmatter
[More information](#)

vi	<i>Contents</i>	
16	Decentralized Governance and Corruption	517
17	Adapting to a Changing World	538
	<i>References</i>	557
	<i>Index</i>	585

Cambridge University Press

978-0-521-51821-5 - Fiscal Federalism: Principles and Practices of Multiorder Governance

Robin Boadway and Anwar Shah

Frontmatter

[More information](#)

Preface

Globalization, the information revolution, and regional and ethnic conflicts have made it imperative for a large and growing number of countries around the globe to reexamine the roles of various orders of government to secure peace, order, and good government and to reposition their roles in improving social and economic outcomes and retaining relevance in the lives of their citizens. This reexamination has resulted in a silent revolution sweeping the globe, which is slowly but gradually bringing about rearrangements that embody diverse features of supranationalization, confederalization, centralization, provincialization, and localization. The vision of a governance structure that is slowly taking hold through this silent revolution indicates either a gradual shift from unitary constitutional structures to federal or confederal governance for a large majority of people or a strengthening of local governance under a unitary form of government. (In 2007 there were twenty-eight federal or quasi-federal and twenty decentralized unitary countries with a combined total of about two-thirds of the world's population.) This new vision of governance has also led to a resurgence of interest in fiscal federalism principles and practices as federal systems are seen to provide safeguards against the threat of centralized exploitation as well as decentralized opportunistic behavior while bringing decision making closer to the people. This book responds to this felt need by providing a synthesis of the literature on the theory and practice of multicentered, decentralized economic governance. The fiscal federalism principles and practices presented in this book may be of interest not just in federal countries but may also have important policy import for unitary countries interested in creating governments that work and serve their people.

This book is intended to encapsulate for a general reader the vast and diverse literature on the design and practice of fiscal constitutions – that is,

Cambridge University Press

978-0-521-51821-5 - Fiscal Federalism: Principles and Practices of Multiorder Governance

Robin Boadway and Anwar Shah

Frontmatter

[More information](#)

viii

Preface

how revenue raising, spending, and regulatory functions are allocated among various orders of governments and how revenue-sharing mechanisms and intergovernmental transfers are structured to ensure responsive, responsible, fair, and accountable decentralized governance. The motivation for the book has its origin in numerous requests for advice on the reform of fiscal systems sought from the authors over the past three decades by governments in both industrial and developing countries. Surprisingly, during these engagements almost all clients showed interest in seeking conceptual guidance and information on better practices on a broad set of similar questions. While the challenges these countries faced were somewhat similar, the solutions they discovered were often unique and local. Hence, it was felt that a book that documents these principles and practices not only would serve as a useful aid to future reform efforts but could also be of interest to the academic community in preserving such knowledge and advancing it to students and citizens at large.

The book represents more than two decades of work by the authors and their close professional associates. In particular, the authors would like to thank Sandra Roberts for her seminal contributions in updating the knowledge on fiscal federalism practices. The authors are also grateful to Scott Parris, Senior Editor at Cambridge University Press, for his encouragement for the completion of this book and to several anonymous readers for their thoughtful and incisive comments in helping improve the quality of this work. The authors are also grateful to Springer publishers for permission to reprint materials previously published in *International Tax and Public Finance* and to the World Bank for allowing us to liberally draw on works by the authors published by the World Bank.

Finally, our debt to our families for their unfailing support for this project is greater than we can express and hence, of necessity, is left un verbalized.

Robin Boadway

Anwar Shah

June 2008