The Fiscal Autonomy of Sub-Central Governments: An Update

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Hansjörg Blöchliger and Josette Rabesona[1]

1. Introduction

1.   This paper describes the progress that has been made since 2006 in establishing statistical databases on tax autonomy and intergovernmental grants, aiming to better understand sub-central finance and intergovernmental fiscal relations. The paper is divided into two parts: a first part on taxing power of sub-central governments, and a second part on intergovernmental grants. Some of the work presented here is an update of earlier activities carried out in 1999 and again in 2005. By now the Fiscal Network has time series for both tax autonomy and intergovernmental grants indicators. Most data were obtained through a questionnaire sent to OECD member countries in spring 2008, and data were again revised after the Fiscal Network meeting in December 2008.

2. Taxing power of sub-central governments

2.1. A taxonomy of tax autonomy

2.   The term "tax autonomy" captures various aspects of the freedom sub-central governments (SCGs) have over their own taxes. It encompasses features such as sub-central government's right to introduce or to abolish a tax, to set tax rates, to define the tax base, or to grant tax allowances or reliefs to individuals and firms. In a number of countries taxes are not assigned to one specific government level but shared between the central and sub-central governments[2]. Such tax sharing arrangements deny a single SCG any control on tax rates and bases, but collectively SCGs may negotiate the sharing formula with central government. The wealth of explicit and implicit institutional arrangements has to be encompassed by a set of indicators that are simultaneously appropriate (they capture the relevant aspects of tax autonomy), accurate (they measure those aspects correctly) and reliable (the indicator set remains stable over time). The first indicator sets on tax autonomy were published for 1995 and 2002, and the exercise was repeated and extended for 2005.

3.   The framework consists of five main categories of autonomy (table 1). Categories are ranked in decreasing order from highest to lowest taxing power. Category "a" represents full power over tax rates and bases, "b" power over tax rates (essentially representing the "piggy-packing" type of tax), "c" power over the tax base, "d" tax sharing arrangements, and "e" no power on rates and bases at all. Category "f" represents non-allocable taxes. In order to better capture the more refined institutional details the five categories were further divided into subcategories: two for the "a" and "b" categories, and three for the "c" category. Special attention was paid to tax sharing arrangements, where the four "d" subcategories are thought to represent the various rules and institutions for governments to determine and change their own share. Altogether 13 categories were established to capture the various tax autonomy arrangements in OECD countries. Since category "f" or "non allocable" was hardly used, the taxing power universe seems

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[2]   The term "government" encompasses institutions such as parliaments, councils, ministries, cabinets etc.

to be well reflected in this taxonomy. The indicators do not take account of which level of government actually collects the tax, as this is not relevant to the concept of tax autonomy.

Table 1.   Taxonomy of taxing power

a.1	The recipient SCG sets the tax rate and any tax reliefs without needing to consult a higher level government.
a.2	The recipient SCG sets the rate and any reliefs after consulting a higher level government.
b.1	The recipient SCG sets the tax rate, and a higher level government does not set upper or lower limits on the rate chosen.
b.2	The recipient SCG sets the tax rate, and a higher level government does sets upper and/or lower limits on the rate chosen.
c.1	The recipient SCG sets tax reliefs – but it sets tax allowances only.
c.2	The recipient SCG sets tax reliefs – but it sets tax credits only.
c.3	The recipient SCG sets tax reliefs – and it sets both tax allowances and tax credits.
d.1	There is a tax-sharing arrangement in which the SCGs determine the revenue split.
d.2	There is a tax-sharing arrangement in which the revenue split can be changed only with the consent of SCGs.
d.3	There is a tax-sharing arrangement in which the revenue split is determined in legislation, and where it may be changed unilaterally by a higher level government, but less frequently than once a year.
d.4	There is a tax-sharing arrangement in which the revenue split is determined annually by a higher level government.
e	Other cases in which the central government sets the rate and base of the SCG tax.
f	None of the above categories a, b, c, d or e applies.

Note: This is the classification used in the data collection exercise but there may be a need for clarification in the future. For example, the sub-division of the "c" category cannot be applied to sales taxes (including VAT) where the concepts of allowances and credits (in the sense that they are used in income taxes) do not exist. Also, it may be more appropriate to qualify the definition of the "d.3" category to say that the change is normally less frequent than once a year, as specific legal restrictions on frequency may not exist.

Source: OECD (1999)

2.2. Taxing power in 2005

4.   Table 2 reports taxing powers of SCGs in 2005. The first two columns report the traditional measure of sub-central tax revenue as a percentage of GDP and of total tax revenues. The remaining columns report the proportion of the revenues of state/regional (where applicable) and local governments that fall into each of the autonomy categories. The stylized facts on taxing power of state and local governments can be summarized as follows[3]:

- First, although tax autonomy varies widely across countries, most sub-central governments have considerable discretion over their own taxes. On average, the tax revenue share with full or partial discretion (categories a, b and c) amounts to more than 50 percent for state and almost 70 percent for local government. In many countries, permitted maximum tax rates (not shown in the table) are often double the minimum rate.

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[3] .   Since for some categories no or very small numbers were reported, some categories were merged and their number reduced from 13 to 10.

Table 2.   Taxing power of sub-central governments, 2005
As share of sub-central tax revenue

	Sub-central tax revenue		As share of sub-central tax revenues										
	As % of GDP	As % of total tax revenue	Discretion on rates and reliefs	Discretion on rates		Discretion on reliefs	Tax sharing arrangements				Rates and reliefs set by CG	Other	Total
				Full	Restricted		Revenue split set by SCG	Revenue split set with SCG consent	Revenue split set by CG, pluriannual	Revenue split set by CG, annual			
			(a)	(b1)	(b2)	(c)	(d1)	(d2)	(d3)	(d4)	(e)	(f)	
Australia	**9.5**	**30.8**											
States	8.6	27.9	53.2	-	-		-	-	-	46.8	-	-	100.0
Local	0.9	2.9	100.0	-	-		-	-	-		-	-	100.0
Austria	**8.1**	**18.5**											
Länder	3.9	8.9	7.2	-	-		-	-	81.4	-	8.4	3.0	100.0
Local	4.2	9.6	2.6	-	5.5		-	-	65.3	-	20.7	5.9	100.0
Belgium	**13.0**	**29.0**											
States	10.7	24.0	20.7	-	23.5		-	52.8	-	-	0.1	2.9	100.0
Local	2.2	5.0	8.4	-	85.7		-	-	-	-	5.8		100.0
Canada[1]	**15.2**	**44.0**											
Provinces	12.3	35.5	98.4				-	1.6	-	-			100.0
Local	2.9	8.5	1.8	95.6			-	-	-	-	1.6	1.1	100.0
Czech Republic	**5.7**	**15.1**											
Local	5.7	15.1	4.4	-	3.0		-	-	90.4	-	2.3	-	100.0
Denmark	**17.1**	**35.6**											
Local	17.1	35.6	-	85.8	4.8		-	-	3.3	-	6.1	0.0	100.0
Finland	**9.1**	**20.7**											
Local	9.1	20.7	-	86.7	5.1		-	-	-	8.1	0.2	0.1	100.0
France	**5.1**	**11.5**											
Local	5.1	11.5	67.5	-	8.3	10.2	-	-	-	7.7	4.5	1.9	100.0
Germany	**10.1**	**29.2**											
Länder	7.5	21.4	-	2.9	-		-	81.4	-	-	9.4	6.3	100.0
Local	2.7	7.8	-	16.9	42.8		-	39.4	-	-		0.9	100.0
Greece	**0.3**	**0.8**											
Local	0.3	0.8	-	-	53.9		-	-	-	-	46.1	-	100.0
Hungary	**2.3**	**6.3**											
Local	2.3	6.3	-	-	87.0		-	-	-	12.7	-	0.3	100.0
Iceland[1]	**8.7**	**24.7**											
Local	8.7	24.7	-	-	95.9		-	-	-	-	-	4.1	100.0
Ireland	**0.7**	**2.1**											
Local	0.7	2.1	-	-	-		-	-	-	-	-	100.0	100.0
Italy	**6.8**	**13.5**											
Regions	4.6	11.3	-	-	58.7		-	25.2	16.1	-	-	-	100.0
Local	2.2	2.2	20.4	-	53.3		-	-	19.9	-	6.5	-	100.0
Japan	**6.9**	**25.2**											
Local	6.9	25.2	0.2	50.8	33.2		-	-	-	-	15.8	-	100.0
Korea	**4.6**	**18.9**											
Local	4.6	18.9	-	-	75.7		-	-	-	-	22.5	1.8	100.0
Luxembourg	**1.7**	**4.5**											
Local	1.7	4.5	98.5	-	0.2		-	-	-	-	1.1	0.2	100.0
Mexico	**3.3**	**16.6**											
States	3.1	15.6	13.8	-	-		-	-	86.2	-	-	-	100.0
Local	0.2	1.1	22.8	-	-		-	-	77.2	-	-	-	100.0
Netherlands	**1.5**	**3.9**											
Local	1.5	3.9	-	73.6	26.4		-	-	-	-	-	-	100.0
New Zealand	**2.0**	**5.3**											
Local	2.0	5.3											
Norway	**5.8**	**13.4**											
Local	5.8	13.4	-	98.0	-		-	-	-	-	-	2.0	100.0
Poland[1]	**6.5**	**18.0**											
Local	6.5	18.0	-	-	22.3		-	-	70.0	-	0.3	7.4	100.0
Portugal	**2.1**	**6.0**											
Local	2.1	6.0	-	-	47.6		-	-	30.0	-	22.4	-	100.0
Slovak Republic	**3.6**	**11.2**											
Local	3.6	11.2											
Spain	**11.0**	**30.5**											
Regions	7.9	21.8	60.1	-	-		-	38.1	-	-		1.8	100.0
Local	3.1	8.7	22.6	-	49.5		-	17.4	-	-	5.3	5.2	100.0
Sweden	**15.9**	**32.2**											
Local	15.9	32.2	-	100.0	-		-	-	-	-	-	-	100.0
Switzerland	**11.9**	**40.8**											
States	7.3	25.1	100.0	-	-		-	-	-	-	-	-	100.0
Local	4.6	15.6	3.0	-	97.0		-	-	-	-	-	-	100.0
Turkey	**1.9**	**7.6**											
Local	1.9	7.6	-	-	-		-	-	90.4	-	9.6	-	100.0
United Kingdom	**1.7**	**4.8**											
Local	1.7	4.8	-	-	100.0		-	-	-	-	-	-	100.0
United States	**9.4**	**34.4**											
States	5.5	20.2	100.0	-	-		-	-	-	-	-	-	100.0
Local[2]	3.9	14.1	-	-	-		-	-	-	-	-	100	100.0
Unweighted average													
States[3]	7.1	21.2	45.3	0.3	8.2	-	-	19.9	18.4	4.7	1.8	1.4	100.0
Local	4.5	11.9	13.9	21.7	30.3	0.4	-	2.8	15.9	1.0	5.9	8.1	100.0

1) 2002 figures.
2) Local governments in the United States show a wide variety of taxing powers but it is not possible to identify the share of each.
3) Including Italy and Spain (regional data).

Source: National source and OECD, Revenue Statistics 1965-2007, 2008 Edition.

- Second, state and regional governments have less discretion over their tax revenue (measured by the combined share of categories a, b and c) than local governments, since their tax revenue is often embedded in tax sharing arrangements. On the other hand, the state level has a higher share of its revenue in the most autonomous taxes (category a), while local governments are often allowed to levy a supplement on selected regional or central taxes only (category b).

- Third, the c category (representing control over the tax base but not the tax rate) plays a very small role in OECD countries. This probably points to a policy of gradually banning tax reliefs and abatements as a tool for local and regional economic development, particularly in the European Union.

5.   In some countries, SCG have the right to vary tax rates but actually set the same rate across the country (e.g. in Norway, Korea or Japan). Such "unused taxing power" invites a deeper look into fiscal institutions and the incentives they generate for setting different tax rates across jurisdictions.

6.   Tax sharing agreements account for a large part of sub-central tax revenue in many federal/regional countries and unitary countries such as the Czech Republic, Poland and Turkey. Tax sharing is often considered as providing a balance between granting local/regional fiscal autonomy and keeping the overall fiscal framework stable. In such an arrangement a single SCG cannot set tax rates and bases, but SCGs together may have the power to negotiate their common share. This power varies considerably across countries, from arrangements where sub-central governments are in full control over their share, to arrangements where the share is unilaterally set and modified by the central government. Often the distribution formula is enshrined in the constitution and can only be changed with the consent of all or a majority of sub-central governments. In other countries amendments to the sharing formula are easier to obtain, either with or without prior negotiation involving sub-central governments. In some cases the institutional set up makes it difficult to decide whether an arrangement is tax sharing or intergovernmental transfer; this issue will be dealt with in the next section.

2.3. Evolution of taxing power 1995-2005

7.   While the average share of SCG tax revenue increased slightly from 1995 to 2005 (table 3), the patterns of taxing power changes was more complex. On average, tax revenue share rose by 3.7 percentage points for the state level and by 0.1 percentage points for local governments, although very few countries are responsible for this average increase. The SCG tax share rose by more than 10 percent points in Poland and Spain, while it declined by more than 5 percent points in Norway and Turkey. With respect to tax autonomy, the most notable evolution is the increase in the "a" category at the state level, the move towards more restrictive "b" category taxes at both SCG levels, and a reduction of SCG power to determine their share in "d" category tax sharing arrangements. Tax sharing agreements lost significance in countries such as Austria, Belgium and Germany, mostly in favour of taxes with more autonomy.

Table 3.   Evolution of tax autonomy of sub-central governments
Change in 1995-2005

	Sub-central tax revenue		Discretion on rates and reliefs	Discretion on rates		Discretion on reliefs	Tax sharing arrangements				Rates and reliefs set by CG	Other
	As % of GDP	As % of total tax revenue		Full	Restricted		Revenue split set by SCG	Revenue split set with SCG consent	Revenue split set by CG, pluriannual	Revenue split set by CG, annual		
			(a)	(b1)	(b2)	(c)	(d1)	(d2)	(d3)	(d4)	(e)	(f)
Australia[1]	**-0.1**	**-0.6**										
States	-0.1	-0.5	-0.6	-	-	-	-	-46.2	-	46.8	-	-
Local	0.0	-0.1	-	-	-	-	-	-	-		-	-
Austria	**-0.1**	**-1.4**										
States	-0.1	-0.7	5.2	-	-		-	-98.0	81.4	-	8.4	3.0
Local	-0.1	-0.7	-6.0	-	-5.4		-	-80.5	65.3	-	20.7	5.9
Belgium	**1.0**	**1.5**										
States	0.9	1.4	16.7	-47.5	23.5		-	4.3	-	-	0.1	2.9
Local	0.1	0.1	-4.1	-84.0	85.7		-	-	-2.5	-1.0	5.8	-
Canada	**-1.5**	**-2.8**										
Provinces	-0.8	-1.5										
Local	-0.6	-1.3										
Czech Republic	**1.1**	**0.4**										
Local	1.1	0.4	2.4	-5.0	3.0	-3.0	-	-	0.4		2.3	-
Denmark	**1.5**	**3.8**										
Local	1.5	3.8	-	-8.7	4.8	-	-	-	1.3	-	2.6	0.0
Finland	**-1.1**	**-1.5**										
Local	-1.1	-1.5	-	-2.3	5.1	-	-	-	-11.0	8.1	0.2	0.1
France[1]	**0.7**	**1.5**										
Local	0.7	1.5	-4.6	-	-0.3	1.1	-	-	-	7.7	0.8	-4.7
Germany	**-0.6**	**0.2**										
States	-0.6	-0.2	-	2.9	-	-	-	-18.6	-	-	9.4	6.3
Local	0.0	0.4	-1.0	-35.1	42.8	-	-	-7.6	-	-		0.9
Greece[1]	**0.0**	**0.1**										
Local	0.0	0.1	-	-	-10.0	-	-36.1	-	-	-	46.1	-
Hungary	**1.3**	**3.7**										
Local	1.3	3.7	-	-30.0	87.0	-	-	-	-	-57.3		0.3
Iceland	**2.2**	**3.9**										
Local	2.2	3.9	-8.0	-92.0	95.9	-	-	-	-	-		4.1
Ireland	**-0.1**	**-0.2**										
Local	-0.1	-0.2	-	-	-		-	-	-		-	-
Italy[1]	**0.0**	**-3.0**										
Regions	0.0	0.0	-	-	-0.1	-	-	1.5	-1.4		-	-
Local	0.0	-3.0	-6.7	-	2.8	-	-	-	6.8		-2.9	-
Japan	**6.9**	**0.0**										
Local	6.9	0.0	0.2	-37.7	33.2	-	-	-	-		4.3	-
Korea	**4.6**	**-0.9**										
Local	4.6	-0.9										
Luxembourg	**-0.7**	**-1.9**										
Local	-0.7	-1.9										
Mexico	**0.1**	**-2.7**										
States	0.6	0.6	-0.6	-	-		-	-	0.6		-	-
Local	-0.5	-3.3	-3.3	-	-		-	-	3.3		-	-
Netherlands	**0.4**	**1.2**										
Local	0.4	1.2	-	-26.4	26.4	-	-	-	-		-	-
New Zealand	**0.0**	**0.0**										
Local	0.0	0.0										
Norway	**-2.2**	**-6.3**										
Local	-2.2	-6.3	-	95.5	-	-	-	-	-0.5		-97.0	2.0
Poland	**3.8**	**10.6**										
Local	3.8	10.6										
Portugal	**0.4**	**0.8**										
Local	0.4	0.8	-	-43.8	47.6	-	-	-	7.3		-11.1	-
Slovak Republic												
Local												
Spain	**6.8**	**17.2**										
Regions	6.3	17.0	45.8	-0.6	-		-	28.2	-		-	-73.5
Local	0.4	0.2	-6.0	-54.2	49.5		-	2.1	-		5.3	3.3
Sweden	**1.2**	**1.2**										
Local	1.2	1.2	-2.0	2		-	-	-	-		-	-
Switzerland	**0.4**	**-0.9**										
States	0.6	0.9	11.0	-	-		-	-6.0	-5.0		-	-
Local	-0.3	-1.8	3.0	-97.0	97.0		-	-	-3.0		-	-
Turkey	**1.8**	**-5.2**										
Local	1.8	-5.2										
United Kingdom	**0.4**	**1.0**										
Local	0.4	1.0	-	-100.0	100.0	-	-	-	-		-	-
United States	**9.4**	**1.3**										
States	5.5	0.4										
Local	3.9	0.9										
Unweighted average												
States	1.2	1.7	9.7	-5.7	2.9	-	-	-16.8	9.4	5.8	2.2	-7.7
Local	0.9	0.1	-1.7	-24.7	30.2	-0.1	-1.6	-4.1	3.2	-2.0	-1.0	0.6

1) 2005-2002
2) 2004-1995.

Source: National source and OECD, Tax Policy Studies No 1 (OECD, 1999) and Revenue Statistics 1965-2007, 2008 Edition.

Table 4. Tax autonomy of sub-central governments by type of tax

a) State/regional level, percent of tax revenue of that level

	Discretion on rates and reliefs		Discretion on rates		Discretion on reliefs	Tax sharing arrangements				Rates and reliefs set by CG	Other	Total
			Full	Restricted		Revenue split set by SCG	Revenue split set with SCG consent	Revenue split set by CG, pluriannual	Revenue split set by CG, annual			
	a.1	a.2	b.1	b.2	c	d.1	d.2	d.3	d.4	e	f	
1000 Taxes on income, profits and capital gains	21.4	-	-	3.7	-	-	8.7	4.4	-	0.9	0.3	39.3
1100 Of individuals	17.8	-	-	2.6	-	-	8.4	3.3	-		0.3	35.8
1200 Corporate	3.6	-	-	1.1	-	-	0.3	0.8	-	0.8	-	6.5
1300 Unallocable between 1100 and 1200	0.0	-	-	-	-	-	-	0.2	-	0.1	0.0	0.4
2000 Social security contributions	0.5	-	-	-	-	-	-	-	-	0.0	-	0.5
2100 Employees	0.5	-	-	-	-	-	-	-	-	-	-	0.5
2200 Employers	-	-	-	-	-	-	-	-	-	0.0	-	0.0
2300 Self-employed or non-employed	-	-	-	-	-	-	-	-	-	-	-	-
2400 Unallocable between 2100, 2200 and 2300	-	-	-	-	-	-	-	-	-	-	-	-
3000 Taxes on payroll and workforce	2.4	-	-	-	-	-	-	-	-	-	-	2.4
4000 Taxes on property	9.5	-	-	0.3	-	-	-	0.0	-	0.3	-	10.2
4100 Recurrent taxes on immovable property	1.2	-	-	-	-	-	-	-	-	-	-	1.2
4200 Recurrent taxes on net wealth	1.6	-	-	-	-	-	-	-	-	0.0	-	1.6
4300 Estate, inheritance and gift taxes	1.3	-	-	-	-	-	-	0.0	-	0.3	-	1.6
4400 Taxes on financial and capital transactions	5.3	-	-	0.3	-	-	-	0.0	-	-	-	5.6
4500 Non-recurrent taxes	0.1	-	-	-	-	-	-	-	-	-	-	0.1
4600 Other recurrent taxes on property	-	-	-	-	-	-	-	-	-	-	-	-
5000 Taxes on goods and services	15.0	-	-	1.2	-	-	13.5	5.1	5.2	0.8	0.0	40.7
5100 Taxes on production, sale, transfer, etc	11.2	-	-	0.5	-	-	13.5	4.8	5.2	0.2	0.0	35.4
5200 Taxes on use of goods and perform activities	3.8	-	-	0.7	-	-	-	0.3	-	0.6	-	5.3
5300 Unallocable between 5100 and 5200	-	-	-	-	-	-	-	-	-	-	-	-
6000 Other taxes	0.0	-	-	4.2	-	-	-	1.4	-	-	1.2	6.9
6100 Paid solely by business	-	-	-	-	-	-	-	-	-	-	-	-
6200 Other	-	-	-	-	-	-	-	-	-	-	0.2	0.2
Total	**48.8**	**-**	**-**	**9.4**	**-**	**-**	**22.1**	**10.8**	**5.2**	**2.0**	**1.6**	**100.0**

1) Including Italy and Spain (regional data).

For Canada data refer to the year 2002.

Source: National sources and OECD, Revenue Statistics 1965-2007, 2008 Edition.

b) Local level, percent of tax revenue of that level

	Discretion on rates and reliefs		Discretion on rates		Discretion on reliefs	Tax sharing arrangements				Rates and reliefs set by CG	Other	Total
						Revenue split set by SCG	Revenue split set with SCG consent	Revenue split set by CG, pluriannual	Revenue split set by CG, annual			
			Full	Restricted								
	a.1	a.2	b.1	b.2	c	d.1	d.2	d.3	d.4	e	f	
1000 Taxes on income, profits and capital gains	3.8	-	10.6	15.5	-	-	1.2	7.4	0.3	0.2	0.4	39.4
1100 Of individuals	0.5	-	10.6	12.6	-	-	1.2	5.7	-	0.1	0.2	31.0
1200 Corporate	3.3	-	-	2.9	-	-	-	1.6	0.3	0.0	0.2	8.3
1300 Unallocable between 1100 and 1200	0.0	-	-	-	-	-	-	0.1	-	-	-	0.1
2000 Social security contributions	-	-	-	0.0	-	-	-	-	-	0.0	0.1	0.2
2100 Employees	-	-	-	0.0	-	-	-	-	-	0.0	0.1	0.1
2200 Employers	-	-	-	-	-	-	-	-	-	0.0	0.0	0.0
2300 Self-employed or non-employed	-	-	-	-	-	-	-	-	-	-	-	-
2400 Unallocable between 2100, 2200 and 2300	-	-	-	-	-	-	-	-	-	-	-	-
3000 Taxes on payroll and workforce	0.0	-	-	0.3	-	-	-	-	-	0.8	-	1.0
4000 Taxes on property	8.7	0.0	6.8	14.0	0.4	-	-	0.3	0.5	2.0	6.1	38.8
4100 Recurrent taxes on immovable property	5.3	0.0	6.6	11.5	-	-	-	0.0	-	0.7	6.1	30.2
4200 Recurrent taxes on net wealth	0.0	-	-	0.7	-	-	-	-	-	0.5	-	1.2
4300 Estate, inheritance and gift taxes	0.0	-	-	0.0	-	-	-	0.0	0.1	0.0	0.0	0.1
4400 Taxes on financial and capital transactions	0.1	-	0.0	1.4	0.4	-	-	0.3	-	0.8	-	3.0
4500 Non-recurrent taxes	0.0	-	0.2	0.2	-	-	-	-	0.4	-	-	1.2
4600 Other recurrent taxes on property	-	-	-	-	-	-	-	-	-	-	-	-
5000 Taxes on goods and services	1.5	0.0	0.6	5.5	0.0	-	0.8	5.1	-	3.0	0.9	17.7
5100 Taxes on production, sale, transfer, etc	1.1	-	0.1	2.8	0.0	-	0.8	4.9	-	2.8	0.6	13.3
5200 Taxes on use of goods and perform activities	0.4	0.0	0.6	2.7	-	-	-	0.2	-	0.2	0.3	4.3
5300 Unallocable between 5100 and 5200	-	-	-	-	-	-	-	0.0	-	-	0.0	0.0
6000 Other taxes	1.3	0.0	0.1	0.4	-	-	-	0.2	-	0.1	0.7	3.0
6100 Paid solely by business	0.9	-	0.1	-	-	-	-	0.0	-	0.1	0.1	1.3
6200 Other	0.0	0.0	-	0.4	-	-	-	0.2	-	0.1	0.0	0.7
Total	**15.3**	**0.0**	**18.2**	**35.6**	**0.4**	**-**	**2.0**	**13.1**	**1.0**	**6.0**	**8.3**	**100.0**

Excluding New Zealand and Slovak Republic.

2002 figures for Canada,Iceland and Poland, data refer to the years 2002 and 2004 for Portugal.

Source: National sources and OECD, Revenue Statistics 1965-2007, 2008 Edition.

8.   The forces shaping the evolution of SCG tax revenue and tax autonomy are political, fiscal and economic in nature. As far as tax autonomy is concerned, the most important are policy reforms such as a reassignment of taxes to another government level, the expansion of local control over their own existing taxes or a swap between local/regional taxes and intergovernmental grants. Constitutional and legislative amendments largely account for the rapid change in countries such as Belgium or Spain involved in a secular decentralization process.

9.   As far as the tax revenue is concerned, fiscal reasons such as a relative change in tax rates or bases can be an important factor, *e.g.* if one government level changes its tax rate or base while another government level does not. In many countries rates and base of local property taxes remain unchanged over long periods of time, while the bases of central government income taxes or goods and services taxes are regularly updated. Also, different taxes react differently to the business cycle or to structural change, and this may affect tax revenue of different government levels. For example, a local profits tax would react more swiftly to an economic downturn than a central government personal income tax.

2.4. Tax autonomy across tax category

10.   The data on tax autonomy by tax type reveals that autonomy varies according to tax type, in both levels of SCG (table 4). Property taxes are usually assigned more discretion than other taxes, with almost all tax revenue in category a and b. Around a quarter of income tax revenue is embedded in tax sharing systems, which restrict a single SCG's control over this tax. Taxes on goods and services are even more embedded in tax sharing arrangements than income taxes, and so provide a relatively small part of the tax revenues under the full control of SCGs.

11.   A comparison of the two panels of table 4 reveals the differences between state/regional governments on the one hand and local governments on the other. The two levels of government receive approximately equal revenue shares from income tax but with different levels of autonomy: state/regional governments have more discretion over both rates and reliefs while local governments have more discretion over rates. Both are subject to approximately the same level of tax sharing. Taxes on property are much more important a revenue source for local governments than for state/regional governments but they are less likely to have complete discretion over rates and reliefs. Finally, state/regional governments are more reliant on taxes on goods and services (mainly sales taxes) than are local governments.

2.5. Tax sharing arrangements

12.   Tax sharing is an arrangement where tax revenue is divided vertically between the central and sub-central governments as well as horizontally across sub-central governments. In a tax sharing arrangement, the individual SCG has no power to set tax rates or bases; however SCGs may collectively negotiate a change to the sharing formula or to the tax rates. Often tax sharing arrangements contain an element of horizontal fiscal equalization. Tax sharing has become a means to provide fiscal resources to sub-central governments while maintaining central control over fiscal aggregates. Tax sharing typically involves less autonomy on the part of sub-central governments than autonomous taxes, and it may also change SCGs' fiscal behaviour and fiscal outcomes. For both statistical and analytical reasons, a careful distinction between both forms of sub-central tax revenue allocation is therefore necessary.

13.   Tax sharing arrangements can be analyzed on various grounds: the type of tax that is shared, the legal procedures involved in changing the formula, and the frequency of an adjustment to the formula (table 5). One could also analyse whether the sharing formula contributes to an equalizing objective; this will be done in detail in section 4.

Table 5.   Tax sharing arrangements

Country	Tax type shared	Procedure for formula changes	Frequency of formula changes	Horizontal equalization objective
Australia	VAT	Parliament, States need to approve	Every four years	yes
Austria	PIT, CIT, property tax, VAT	Parliament, Law on Fiscal Equalisation	Every four years	yes
Belgium	PIT	Special Financing Law		no
Czech Republic	PIT, CIT, VAT	Government, Law of Tax Assignment	Irregularly	yes
Denmark	PIT, CIT	Government, Law on Tax Sharing	Very rarely	no
Finland	CIT	Government, Law on Tax Sharing		no
Germany	PIT, CIT, VAT	Parliament (Bundestag and Bundesrat)	13 changes since 1970	yes
Hungary	Property taxes	Act on Local Tax	None since 2002	yes
Italy	PIT, VAT, excise duties	Financial Law		no
Mexico	PIT, CIT, VAT, specific product and service taxes	Central government, Law on Tax Sharing (Fiscal Coordination)	Very rarely	no
Portugal	PIT, CIT, VAT, excise duties, stamp duties	Parliament (Regional and Local Financial Laws)	Rarely, new formula since 2007	no
Spain	VAT, excise duties	Parliament	Rarely	no
Switzerland	PIT	Parliament, Tax Law	New formula since 2007	no
Turkey	Most taxes	Parliament, Law on local tax revenue shares	Rarely	yes

Note: PIT=Personal Income Tax, CIT=Corporate Income Tax, VAT=Value Added Tax

Source: National Sources

14.   Most tax sharing arrangements cover major taxes such as personal income taxes, corporate income taxes or value added taxes. Their high yield makes them attractive for SCGs, and the pooling tackles potential drawbacks of local taxation, such as mobility of the tax base. The procedure for changing the sharing formula is mostly laid down in laws on tax sharing, fiscal equalization or the like. For the countries under scrutiny, decisions on the tax sharing arrangements seem to be taken at the parliamentary level; in some countries the share is defined in the constitution and adjustments require a qualified majority in parliament. Consultation of SCGs is quite frequent, but their explicit consent for adjustments is needed in some federal countries only. The frequency and regularity of formula adjustment varies across countries, from irregular to never, but it appears that tax sharing arrangements are a comparatively stable item in national fiscal policy. Finally, some countries redistribute tax revenue from affluent to poorer jurisdictions; hence those countries combine tax sharing and fiscal equalization in one single arrangement.

3. Intergovernmental grants

15.   Intergovernmental transfers (or grants) provide sub-central governments with additional financial resources, thus filling the gap between own tax revenue and expenditure needs. The main objectives for intergovernmental grants can be roughly divided into subsidization of SCG services and the equalisation of

fiscal disparities; often these reasons overlap. A flowering garden of intergovernmental grants has evolved, with grants having different purposes and different effects on sub-central governments' behaviour. Rules and conditions attached to intergovernmental grants vary widely, ranging from transfers that grant full autonomy and come close to tax sharing, to grants where central government retains tight control. The following paragraphs give an overview on grants from a donors' perspective, a classification of the various strings attached to grants, and the policy areas for which grants are used.

3.1. Donors and recipients of grants

16.   Table 6 shows a simplified version of the National Accounts donor/recipient matrix of intergovernmental grants, with five donor levels (central, state, local, international and social security) and – depending on the country type – one or two recipient levels (local, or state and local)[4]. The category "international" displays funds directly allocated to SCGs in some countries. On average, grants account for around 25 percent of total government tax revenue; with Korea having the largest grant system and Iceland the smallest in relative terms. With 86 percent for the state level and 67 percent for the local level central government provides the overwhelming part of grants, although in most federal countries (Belgium, Canada, Germany, and Switzerland) states are the main source for local governments. Around 2 percent of all grants flow across states/regions and 5 percent across local governments. However, such horizontal arrangements are not always recorded properly and may be underestimated.

17.   In the period 2000 to 2006, the average ratio of grants to total tax revenue remained almost stable (table 7) but two thirds of countries experienced an above-average growth of transfers. In a majority of countries, transfer growth was higher than total government expenditure growth (not shown in table 8). Grants from the central government, by far the most significant donor, rose by almost 3 percent points, while grants from Social Security declined by 4 percent points, with grants from other sources showing almost no trend. The international level emerges as a source for regional government finance, reflecting development assistance from the European Union to the regions. While some transfer growth reflects institutional reforms such as responsibility reassignment or a swap between tax revenue and grants, some transfer growth could be the result of creeping demand increases from sub-central governments and hint at growing pressure on the central budget (de Mello, 2007).

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[4]   The statistics provided here and those provided in Working Paper 7 (Taxes versus grants: the revenue sources of sub-central governments) may not exactly correspond since both sources and country samples are different.

Table 6.   Grants by donor and recipient sub-sector, 2006
As percent of total grant revenue

	As % of GDP	As % total tax revenue	Central level	State level	Local level	International	Social Security	Total
Australia	**2.9**	**9.6**						
States	2.7	8.9	100.0	-	-	-	-	100.0
Local	0.2	0.6	100.0	-	-	-	-	100.0
Austria	**7.2**	**17.2**						
Länder	5.4	12.9	60.9	14.1	4.5	0.2	20.2	100.0
Local	1.8	4.3	48.0	11.7	19.3	0.2	20.8	100.0
Belgium	**7.5**	**16.8**						
States	4.4	10.0	98.1	-	0.9	0.8	0.2	100.0
Local	3.0	6.8	20.7	78.9	-	-	0.4	100.0
Canada								
Provinces								
Local								
Czech Republic	**4.0**	**10.9**						
Local	4.0	10.9	98.6	-	-	1.4	-	100.0
Denmark								
Local								
Finland	**5.5**	**12.7**						
Local	5.5	12.7	99.7	-	-	0.3	0.0	100.0
France	**4.0**							
Local	4.0	8.5	100.0	-	-	-	-	100.0
Germany	**4.5**	**12.6**						
Länder	2.0	5.6	78.2	-	14.4	7.4	-	100.0
Local	2.5	7.0	1.5	98.4	-	-	0.1	100.0
Greece	**1.7**	**5.5**						
Local	1.7	5.5	100.0	-	-	-	-	100.0
Hungary	**6.4**	**17.1**						
Local	6.4	17.1	69.2	-	3.6	1.6	25.6	100.0
Iceland								
Local								
Ireland	**4.3**	**13.4**						
Local	4.3	13.4	100.0	-	-	-	-	100.0
Italy	**7.8**	**18.5**						
Regions	5.4	12.8	95.9	-	-	4.1	-	100.0
Local	2.4	5.7	50.6	49.4	-	-	-	100.0
Japan	**2.5**	**8.8**						
Local	2.5	8.8	82.7	-	17.3	-	-	100.0
Korea	**9.2**	**34.4**						
Local	9.2	34.4	84.4	-	15.6	-	-	100.0
Luxembourg	**2.3**	**6.5**						
Local	2.3	6.5	100.0	-	-	-	-	100.0
Mexico	**9.3**	**45.4**						
States	7.9	38.6	100.0	-	-	-	-	100.0
Local	1.4	6.8	52.7	47.3	-	-	-	100.0
Netherlands	**5.3**	**13.4**						
Local	5.3	13.4						
New Zealand								
Local								
Norway	**4.7**	10.6						
Local	4.7	10.6	100	-	-	-	-	100.0
Poland								
Local								
Portugal	**3.2**	**8.9**						
Local	3.2	8.9	69.3	-	19.7	10.7	0.3	100.0
Slovak Republic								
Local								
Spain	**8.0**	**21.5**						
Regions	5.8	15.7	73.3	-	15.4	6.1	5.3	100.0
Local	2.2	5.8	63.7	33.6	-	0.9	1.8	100.0
Sweden	**5.2**	**10.6**						
Local	5.2	10.6	99.7	-	-	0.3	-	100.0
Switzerland (2005)	**6.7**	**22.8**						
States	4.6	15.9	73.9	5.6	20.5	-	-	100.0
Local	2.0	6.9	0.1	79.4	20.5	-	-	100.0
Turkey	**0.5**	**2.0**						
Local	0.5	2.0	100.0	-	-	-	-	100.0
United Kingdom	**8.8**	**23.6**						
Local	8.8	23.6	100.0	-	-	-	-	100.0
United States	**6.1**	**21.9**						
States	2.7	9.6	94.3	-	5.7	-	-	100.0
Local	3.5	12.4	5.8	94.2	-	-	-	100.0
Unweighted average								
States	4.6	14.4	86.1	2.2	6.8	2.1	2.9	100.0
Local	3.6	10.1	71.6	21.4	4.2	0.7	2.1	100.0

Source: National sources and OECD National Accounts (2007)

Table 7. Evolution of grants by donor and recipient sub-sector

Percent point changes, 2000 to 2006

	As % of GDP	As % total tax revenue	Central level	State level	Local level	International	Social Security
Australia	**-0.8**	**-2.3**					
States	-0.5	-1.6	-	-	-	-	-
Local	-0.2	-0.7	50.2	-50.2	-	-	-
Austria	**0.0**	**0.4**					
Länder	0.0	0.3	-0.2	0.4	0.0	-0.4	0.1
Local	0.0	0.1	-4.8	-0.6	6.3	0.0	-0.9
Belgium	**0.4**	**1.0**					
States	0.1	0.4	-0.3	-	-0.2	0.2	0.2
Local	0.3	0.7	4.1	-3.9	-	-	-0.2
Canada							
Provinces							
Local							
Czech Republic	**2.0**	**5.3**					
Local	2.0	5.3	-1.4	-	-	1.4	-
Denmark							
Local							
Finland	**1.7**	**4.5**					
Local	1.7	4.5	0.4	-	-	-0.4	0.0
France	**0.7**	**-7.3**					
Local	0.7	1.3	-	-	-	-	-
Germany	**-0.3**	**-0.3**					
Länder	-0.2	-0.3	-1.4	-	0.2	1.3	-
Local	-0.1	0.0	0.4	-0.2	-	-	-0.2
Greece	**0.3**	**1.3**					
Local	0.3	1.3	-	-	-	-	-
Hungary	**0.6**	**2.1**					
Local	0.6	2.1	3.1	-	-0.3	1.6	-4.4
Iceland							
Local							
Ireland	**0.4**	**1.2**					
Local	0.4	1.2	-	-	-	-	-
Italy	**7.8**	**18.5**					
Regions	5.4	12.8					
Local	2.4	5.7					
Japan	**-0.9**	**-3.5**					
Local	-0.9	-3.5	-3.1	-	3.1	-	-
Korea	**1.6**	**2.3**					
Local	1.6	2.3	2.3	-	-2.3	-	-
Luxembourg	**0.1**	**0.7**					
Local	0.1	0.7	-	-	-	-	-
Mexico	**0.7**	**-1.1**					
States	0.6	-1.1	-	-	-	-	-
Local	0.1	0.0	0.4	-0.4	-	-	-
Netherlands	**-1.2**	**-2.9**					
Local	-1.2	-2.9	-	-	-	-	-
New Zealand							
Local							
Norway							
Local							
Poland							
Local							
Portugal	**0.2**	**0.3**					
Local	0.2	0.3	0.0	-	0.7	-0.6	-0.1
Slovak Republic							
Local							
Spain	**-2.1**	**-7.6**					
Regions	-2.2	-7.2	22.4	-	7.6	1.5	-31.5
Local	0.0	-0.3	-2.3	8.8	-	-2.7	-3.8
Sweden	**0.3**	**1.1**					
Local	0.3	1.1	0.1	-	-	-0.1	-
Switzerland	**0.1**	**-1.5**					
States	0.1	-1.1	0.6	1.9	-2.5	-	-
Local	0.0	-0.5	-0.1	-1.1	1.2	-	-
Turkey	**0.4**	**1.7**					
Local	0.4	1.7	-	-	-	-	-
United Kingdom	**1.4**	**3.8**					
Local	1.4	3.8	-	-	-	-	-
United States	**0.2**	**2.0**					
States	0.2	1.3	0.1	-	-0.1	-	-
Local	0.0	0.7	-0.1	0.1	-	-	-
Unweighted average							
States	0.4	0.4	2.6	0.3	0.6	0.3	-3.9
Local	0.4	1.1	2.2	-2.2	0.4	0.0	-0.4

Source: National sources and OECD National Accounts (2007)

3.2. Taxonomy of grants

18.   The design of grants should be captured with a taxonomy that reflects their variety. The main dividing line separates earmarked from non-earmarked grants; a distinction crucial for assessing sub-central fiscal autonomy. Both types of grants can be divided further into mandatory and discretionary transfers, reflecting the legal background that governs their allocation. Earmarked grants may be further subdivided into matching and non-matching grants, *i.e.* whether the transfer is linked to SCG own expenditure or not, a distinction important for sub-central incentives to spend. A final subdivision is between grants for capital expenditure and grants for current expenditure. On the non-earmarked side grants may be further subdivided into block and general purpose grants, where the latter provide more freedom of use; since both forms are unconditional, the distinction often collapses[5]. The taxonomy is consistent with the one established by the Council of Europe.

19.   With each category accounting for around 50 percent, earmarked and non-earmarked grants account for around the same share of intergovernmental grants (table 8). It is slightly surprising to see that earmarked grants, and hence central control, are more important for state and regional governments than for local governments. Almost 30 percent of earmarked grants are matching, *i.e.* linked to SCG own expenditure. Through lowering the price of sub-central public services matching grants are thought to foster SCG spending, but by doing this may put some pressure on both central and sub-central budgets. More than three quarters of all earmarked grants are mandatory, giving SCG more revenue security but leaving less scope for central governments to adjust expenditures rapidly to overall fiscal conditions. Only less than one quarter of earmarked transfers can be – at least from a legal, if not political, point of view - adjusted within short notice. Whether discretionary transfers fluctuate more than mandatory grants remains to be analyzed once data for a longer time period are available.

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5   Details on how block grants are distinguished from general purpose grants can be found in Bergvall, Charbit, Merk and Kraan (2006).

Table 8.   Grant revenue by type of grant, 2006
As percentage of total grant revenue

	Earmarked								Non earmarked			
	Mandatory				Discretionary				Mandatory		Discretionary	
	Matching		Non-Matching		Matching		Non-Matching		General purpose	Block grants		Total
	Current	Capital	Current	Capital	Current	Capital	Current	Capital				
Australia												
State	-	-	-	-	47.5	9.2	32.4	4.9	5.9		-	100.0
Local	-	-	-	-	15.6	-	2.8	0.0	81.6		-	100.0
Austria												
State	48.4	2.4	12.1	17.3	0.9	-	0.3	-	10.9	0.2	7.5	100.0
Local	36.5	3.3	11.5	28.7	1.8	-	0.2	-	18.0	0.1	0.0	100.0
Belgium												
State	1.0	0.3	-	-	-	0.0	-	-	97.1	1.6	-	100.0
Local	45.0	5.0	-	-	-	-	-	-	49.9	-	-	100.0
Canada												
State												
Local												
Czech Republic												
Local	12.4	-	-	-	-	-	72.3	15.3	-	-	-	100.0
Denmark												
Local												
Finland												
Local	5.8	-	-	-	-	-	1.9	1.7	14.2	75.8	0.6	100.0
France												
Local	6.8	-	0.1	-	-	2.0	1.7	1.8	80.9	6.7	-	100.0
Germany												
State												
Local												
Greece												
Local	40.9	36.1	-	-	-	-	-	-	23.0	-	-	100.0
Hungary												
Local	36.2	10.5	-	-	-	-	5.3	10.6	36.2	-	1.1	100.0
Iceland												
Local												
Ireland												
Local	-	-	-	-	-	-	14.8	73.5	11.7	-	-	100.0
Italy												
State	-	4.5	-	5.1	-	-	14.7	5.6	70.2	-	-	100.0
Local	-	-	-	-	-	-	30.5	31.5	38.0	-	-	100.0
Japan												
Local												
Korea												
Local	-	-	-	-	12.7	14.7	-	-	72.6	-	-	100.0
Luxembourg												
Local	86.3	13.6	-	-	-	-	-	-	-	-	-	100.0
Mexico												
State	-	-	49.0	-	-	-	5.7	-	45.4	-	-	100.0
Local	-	-	42.3	-	-	-	-	-	57.7	-	-	100.0
Netherlands												
Local	48.4	-	-	-	-	-	-	-	51.6	-	-	100.0
New Zealand												
Local												
Norway												
Local	9.6	0.0	0.0	0.0	0.0	0.0	33.5	0.0	0.0	56.9	0.0	100.0
Poland												
Local												
Portugal												
Local	-	-	-	-	-	-	16.1	-	83.9	-	-	100.0
Slovak Republic												
Local												
Spain												
State	0.3	0.4	8.5	4.4	1.3	0.8	1.1	0.9	82.4	-	-	100.0
Local	17.1	17.8	2.1	-	-	-	-	-	62.9	-	-	100.0
Sweden												
Local												
Switzerland												
State	74.3	-	-	-	-	-	-	-	25.7	-	-	100.0
Local												
Turkey												
Local	-	-	-	-	-	-	-	57.0	-	-	43.0	100.0
United Kingdom												
Local												
United States												
State												
Local												
Unweighted average												
State[1]	17.7	1.1	9.9	3.8	7.1	1.4	7.7	1.6	48.2	0.2	1.1	100.0
Local	19.2	4.8	3.1	1.6	1.7	0.9	9.9	10.6	37.9	7.7	2.5	100.0

Source: national sources

Table 9.   Evolution of grant revenue by type of grant

Change in 2000-2006, percentage points

	Earmarked								Non earmarked		
	Mandatory				Discretionary				Mandatory		Discretionary
	Matching		Non-Matching		Matching		Non-Matching		General purpose	Block grants	
	Current	Capital	Current	Capital	Current	Capital	Current	Capital			
Australia											
State	-	-	-	-	5.9	4.6	5.4	-1.2	-14.6	-	-
Local	-	-	-	-	8.6	-0.1	2.7	-0.4	-10.8	-	-
Austria											
State	-6.3	-0.2	9.2	-2.2	0.4	-	0.1	-	-0.8	0.0	-0.1
Local	-2.2	-5.6	6.5	-6.3	0.5	-	0.0	-	7.1	0.0	0.0
Belgium											
State	-0.7	-0.1	-	-	-0.1	0.0	-	-	1.1	-0.3	-
Local											
Canada											
State											
Local											
Czech Republic											
Local	-16.7	-	-	-	-	-	31.9	-15.2	-	-	-
Denmark											
Local											
Finland											
Local	-3.9	-	-	-	-	-	0.2	-1.5	14.2	-8.2	-0.8
France											
Local	-0.9	-	0.0	-	-	-0.5	-0.9	-0.7	5.9	-2.9	-
Germany											
State											
Local											
Greece											
Local	7.7	-7.7	-	-	-	-	-	-	0.0	-	-
Hungary											
Local	-4.3	1.4	-	-	-	-	0.2	5.6	0.3	-	-3.2
Iceland											
Local											
Ireland											
Local	-	-	-	-	-	-	-1.2	2.8	-1.6	-	-
Italy											
State											
Local											
Japan											
Local											
Korea											
Local	-	-9.3	-	-	1.5	2.6	-	-	5.1	-	-
Luxembourg											
Local	-4.0	3.9	-	-	-	-	-	-	-	-	-
Mexico											
State	-	-	-1.0	-	-	-	-0.1	-	1.1	-	-
Local	-	-	0.3	-	-	-	-	-	-0.3	-	-
Netherlands											
Local	-5.0	-	-	-	-	-	-	-	5.0	-	-
New Zealand											
Local											
Norway											
Local											
Poland											
Local											
Portugal											
Local	-	-	-	-	-	-	-0.4	-	0.4	-	-
Slovak Republic											
Local											
Spain											
State	0.0	0.3	-32.1	0.2	0.4	0.2	1.0	0.8	29.2	-	-
Local	0.8	4.1	-0.4	-	-	-	-	-	-4.4	-	-
Sweden											
Local											
Switzerland											
State	-4.0	-	-	-	-	-	-	-	4.0	-	-
Local											
Turkey											
Local	-	-	-	-	-	-	-	-8.0	-	-	8.0
United Kingdom											
Local											
United States											
State											
Local											
Unweighted average											
State[1]	-1.8	0.0	-4.0	-0.3	1.1	0.8	1.1	-0.1	3.3	-0.1	0.0
Local	-1.9	-0.9	0.4	-0.4	0.7	0.1	2.2	-1.1	1.4	-0.7	0.3

1). Including Italy and Spain (Regional countries).

Source: National Sources

20.   Grant design has little evolved between 2000 and 2006 (table 9). Non-earmarked grants increased by more than 3 percent points, with an equivalent decline in earmarked grants, pointing at more fiscal leeway for SCG, whereby the local level has benefited more than the state and regional level[6]. The strongest decline was in the category of the earmarked non-matching grants, while the various types of matching grants tended to increase. This evolution could mean that matching grants indeed exert some pressure on central – and also sub-central – budgets since SCGs may have an incentive to increase their own spending in order to obtain more grants. Again structural change varies widely across countries, pointing at some path-dependency of the intergovernmental transfer system.

3.3. Grants by government function

21.   Grants are used for different policy areas or government functions (table 10). The National Accounts divide government activities into ten functions in the so-called Classification of Functions of Government (COFOG), and this division is also applied to intergovernmental grants. Data are available only for earmarked grants because unconditional grants are not tied to specific government functions. While National Accounts data are available for eight countries, the questionnaire asked all countries to provide data with the same precision as provided by the National Accounts. In the end the data of eleven countries could be used to assess and compare the functional structure of intergovernmental grants.

22.   Education accounts for the largest category, pointing at the weight of local and regional governments in providing primary and secondary education, with central government retaining considerable control over funding and regulation. "General public services" is the second largest, rather unspecific share of intergovernmental transfers. "Economic affairs" is the third largest category, largely reflecting the weight of shared responsibilities in local and regional development policy. Again the grant structure varies widely, reflecting the different responsibility assignments and funding arrangements in countries. In general, except for "defence" and "public order and safety", some degree of responsibility sharing and overlapping characterizes most government functions. However, the low number of country responses does not yet allow for stringent conclusions.

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[66]   However, earmarked grants are still widely used in many countries as shown in a report by the Council of Europe (Council of Europe, 2008).

Table 10. : Grants by government function, 2006
In percent of total earmarked grants

	Defence	Economic affaires	Education	Environment protection	General public services	Health	Housing and community amenities	Public order and safety	Recreation, culture, religion	Social protection	Total
Australia	-	14.9	36.5	-	-	37.1	3.6	0.2	0.0	7.8	100.0
Austria											
Belgium	-	-	55.6	-	-	3.9	22.2	-	-	18.3	100.0
Canada											
Czech Republic											
Denmark											
France	0.2	5.9	2.8	1.0	79.0	0.2	4.4	1.3	4.6	0.5	100.0
Germany											
Greece	-	22.4	-	6.3	43.1	-	6.1	-	7.9	14.2	100.0
Hungary	0.1	3.8	7.5	7.3	18.8	4.4	32.6	-	5.7	19.7	100.0
Iceland											
Ireland	-	45.5	4.8	0.4	0.0	-	48.7	0.5	-	0.0	100.0
Italy	-	46.9	8.1	2.8	12.4	27.0	2.9	-	-	-	100.0
Japan											
Korea											
Luxembourg	-	2.2	7.0	0.5	72.8	-	6.0	0.5	6.3	4.8	100.0
Mexico	-	-	63.8	1.8	5.7	10.3	-	8.7	-	9.6	100.0
Netherlands	-	0.6	12.7	10.1	3.4	-	6.0	0.1	9.3	57.7	100.0
New Zealand											
Norway	0.0	4.6	1.8	0.0	22.9	17.6	0.0	0.1	0.1	53.0	100.0
Poland											
Portugal											
Slovak Republic											
Spain	-	28.9	16.3	-	23.9	5.2	3.9	7.9	0.5	13.2	100.0
Sweden											
Switzerland	0.4	51.3	13.1	2.7	-	0.0	-	1.0	0.2	31.3	100.0
Turkey											
United Kingdom											
United States[1]	0.8	3.6	10.4	1.1	11.0	48.9	11.7	1.1	-	6.5	95.1
Unweighted average	0.1	16.5	17.2	2.4	20.9	11.0	10.6	1.5	2.5	16.9	99.6

1) Not including the heading "Other grants" that could be classified in one of the above categories.

Source: National sources

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