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**Session 9) Plenary: Theme Reports**

**RAPPORTEUR'S REPORT ON THE  
ECONOMIC AND FISCAL FEDERALISM THEME**

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We have had two days of intensive discussion of this theme, encompassing a plenary session and six roundtables on such diverse topics as the advantages and disadvantages of the federal model with respect to economic policy-making, the distribution and sharing of taxation and financial resources, the redistribution of such resources, globalization, regional economic development, and how the private sector views multi-level governmental structures. Summarizing these discussions is not easy for two reasons. First, it was not always easy to discern among the many country-specific and sometimes very detailed points raised by different discussants the linkages, important issues, and questions on which we should focus as we look to the future of economic and fiscal federalism. Secondly, this task was made even more difficult by the concurrency of some sessions and my inability to be in two places at once. I am thus even more reliant than usual on the kindness of others, particularly the session leaders and the excellent volunteer note-takers, for my perceptions of what went on in many of the sessions.

Despite these obstacles, on the whole the exercise of pulling together this report has been a pleasurable one in part because I, like most of us, have learned many new things over the course of this conference. Unfortunately, limitations of time and space require this review to be very selective and preclude summarizing some of the more technical material that came up in some of the session discussions -- material that in any case may not be of wide interest to the audience as a whole. Indeed, attempting to summarize our discussion of economic and fiscal federalism brings two general comments to mind:

First, federalism is often characterized as a way in which unity can be reconciled with diversity. Our discussions were certainly diverse. But were there also some unifying themes?

Second, we all know that the world is a very complex place. Certainly, federal

countries seem to be complex since it sometimes seemed in our discussions as though the only way we could consider anything properly was if we considered everything -- which is, of course, never possible.

The question, then, is what can be said in a relatively simple way to pull together the diverse and complex issues discussed in the various roundtables on this topic? I shall organize my remarks under five general headings. The first four headings group several issues that came up recurrently in various ways in the different forums. Under the last heading, I shall pull together a few matters that were in some instances touched upon in our discussion but that appear to deserve more attention than they received.

## **Globalization**

The ever popular topic of globalization of course came up frequently and in many ways in the roundtable discussions. "Globalization" is a term so vague and general that it makes "federalism" seem a simple and clear concept -- except, it seems, when we discuss globalization and federalism together. In the eyes of at least some discussants, elements of what might perhaps be called the "post-federal" state seemed to be vaguely discernible as emerging from the mists of time as international, regional, national, and subnational organizational structures continue to bend, shift, adapt, and, perhaps, break under the pressure of global market forces -- whether those forces take the form of multinational investment, cross-border flows of goods or labour, or the application of regional and international policy norms to particular domestic policies.

Two aspects of the interaction between globalization and federalism received particular attention in this discussion. The first -- and, it appeared, the most prominent concern in the minds of many participants -- was the impact of globalization on equity. Equity in these discussions sometimes referred what may perhaps be called global equity -- the division of resources between the richer parts of the world (the North) and the poorer parts (the South). It sometimes referred to interpersonal equity within particular countries -- the rich vs. the poor at a more micro level. And it sometimes referred to interregional equity, or the impact of globalization on the relative development of different regions of a country. Only the last of these has much connection with federalism, as such.

The second point that emerged clearly from our discussion of globalization is that there were often marked differences between the views expressed by discussants from rich and poor countries. Those from the developing world for the most part expressed considerable concern about the possibly adverse effects of globalization on both the growth prospects of their countries -- their share of the world pie -- and its effects on equity within their countries. Such worries were of course not confined solely to speakers from developing countries. In particular, some discussants from the more developed countries expressed concern about the possible accentuation of regional imbalances as a result of globalization.

Nonetheless, there did seem to be, not surprisingly, a very real difference in how the two parts of the world saw matters with those from countries that, so to speak, are doing the "globalizing" being decidedly less concerned than those who saw themselves as essentially passive recipients of trends and policies initiated elsewhere.

## **The Private Sector**

A similar split in views was also manifest with respect to the role of the private sector. As mentioned earlier, one of our roundtables focused specifically on the subject of how the private sector viewed multi-level governments. Most of the discussion that took place in this session, however, suggested that the real subject was how those concerned with democracy, equity, and effective government viewed the private sector. The answer in much of the world, at least as represented here, appeared to be -- with great suspicion.

In the course of his fascinating talk at one of the conference's plenary sessions, Wole Soyinka told us the story of a journey he took with some friends in a station wagon through Nigeria at a critical moment in the history of his country. As the journey proceeded, he said, and they got out of the wagon and talked to the people they met, he came gradually to realize that his view of the world and of what was happening in Nigeria needed to be altered to match what was really going on out there and how the people as a whole saw things. It is not, I think, necessary to accept all the rhetoric of today's business press to conclude that much of our discussion of the private sector suggested that at least some of us still seem to be in that station wagon.

This point was underlined in our discussion of regional development policy, in which mention of the critical role of the private sector was notable mainly for its absence. Indeed, had I closed my eyes, I felt at some moments in this discussion that I was back in the early 1960s when I, like so many others at the time, was busily writing and talking about growth poles, tax-subsidy policies for regional development, and all the rest of the then fashionable interventionist industrial strategy. Times have since changed, but little of our discussion reflected this fact. Indeed, on the whole, our discussion of the private sector suggested that business seems to be much less worried about government -- whether there is one government or many -- than those concerned with government seem to be worried about business.

## **Competitiveness**

Much of the discussion dealing with the two issues mentioned so far had little, if anything, to do with federalism or federal states as such. Fortunately, a third general issue that came up frequently in our discussion was much more centrally

related to the topic of this Forum -- competitiveness and more specifically competition between governments. Sometimes such competition was seen as good, producing flexible adaptation, innovation, and quicker response to global pressures -- a race to the top, as it were. More often, however, competition seemed to be viewed negatively. Competitive giveaways of tax concessions to business, for example, were said by some discussants to lead to the infamous race to the bottom (in terms of public service provision). Similarly, vertical competition between levels of government for tax revenues was condemned for producing complex and costly tax "jungles."

To some, the solution to such perceived ill effects of competition seemed obvious -- more harmonization. Most who used this term appeared to consider it synonymous with uniformity, apparently imposed from above. How such a solution fits with the sort of "negotiated government" one usually associates with federal states was far from clear, however. Indeed, to put on my hat as a simple economist for a moment, replacing competition, even the flawed and imperfect competition of the real world, by what is in effect a monopoly does not seem like an obviously beneficial move.

## **Transparency**

A final point that came up repeatedly in our discussions in one guise or another related to the importance, and difficulty, of transparency in governments. Governments must, it was argued, know what they are doing. They must also in a federal system know what other governments are doing. And of course citizens must know what all these governments are all doing if a federal system is to function effectively. Clarity, predictability, accountability, hard budget constraints, and the many similar "trade words" that emerge so easily from the mouths of fiscal economists are of course important in any effective system of governance. But there seemed to be a clear consensus that these important but often elusive characteristics are particularly important in federal systems.

## **Roads Not Taken**

This brief discussion of a few of the major topics discussed in this section of the Forum is obviously highly selective. Nonetheless, I would like to conclude this summary by noting a few of the key issues that, rather surprisingly, were not much -- or in some cases, at all -- discussed in our sessions, although of course they may well have been dealt with thoroughly elsewhere in the Forum.

Four such issues come to mind. First, and in some ways perhaps most surprising, we did not really explore the issue of symmetrical vs. asymmetrical economic and fiscal policies within a federal state -- what is sometimes called in the context of the European Union "variable geometry". Although obviously implicit in some of

our discussion of policies of regional equalization, the economic and fiscal aspects of asymmetry clearly need much more explicit treatment. Indeed, it is perhaps not unreasonable to expect that the further development of economic and fiscal federalism in this changing world may provide much education, and perhaps even entertainment, for all students of geometry -- including non-Euclidean geometry.

A second subject that was not very well explored relates to the complex and difficult fiscal issues raised by the existence in most countries of at least two levels of subnational government. This omission was particularly surprising in view of the very different situations prevailing in countries like Canada, in which local governments are entirely the creatures of the provinces, and Brazil, in which both levels of subnational government have clear constitutional status. Canada, it might be said, consists of ten unitary states (the provinces) within a very federal state, while Brazil consists in a sense of two levels of federal units coexisting within a single state. When major cities are much larger and economically important than many states or provinces, such differences surely call for more attention than they received, at least in our discussions.

A third, more technical issue that might usefully have also been more discussed relates to the argument sometimes made in support of federal systems as, in effect, risk-pooling or risk-sharing arrangements. This line of thinking would seem particularly relevant with respect to the potential impact of globalization on economically non-homogeneous regions. Depending upon the nature of the regions in question, very different effects, and implications for economic and fiscal arrangements, might be expected, which is one reason why it was surprising, as noted above, that most of our discussion of globalization would have applied equally well to a unitary state.

Finally, a federal system almost invariably involves balancing -- or rebalancing, or perhaps better, juggling -- such potentially conflicting policy objectives (to which different participants may attach different weights) as autonomy, equity, efficiency, and effective government. Critical to this juggling act in most countries is the existence of at least a modicum of trust among the various players. Many discussants in our sessions mentioned the "rules of the game." But games can only be played if the players all agree on the rules and, for the most part, comply with them. To do so, they must expect that others will act similarly. Such trust cannot simply be assumed. It must be earned, created, invested in, and developed over time. So long as intergovernmental relations in any country are seen as strictly a zero-sum game -- if I gain, you lose, and vice versa -- the prospects for effective federalism, or indeed effective governance, are low. A critical aspect of economic and fiscal policies in a federal setting is therefore how they contribute to, or detract from, the social capital of trust. Unfortunately, we did not, in our discussion, explore the various fiscal and other mechanisms discussed from this dynamic perspective.

## **Conclusion**

In federations, as in life, we always have to start where we are. That is where we are, and we cannot start anywhere else. It is no use to wish that things were different. Our past thus always governs our future possibilities. But it need not, and should not, govern our future. We need ideals, norms, visions, and objectives to move us from where we are to where we want to be. But at some level we must also realize that we shall never get there. The reality of a federal system lies in the doing -- in the process of how we decide who "we" are, what "we" do, how "we" respond to changing circumstances, and how "we" share the blessings and blows of changing fortune. Such considerations of course take us well beyond the ambit of economic and fiscal federalism narrowly conceived, but then the same was true of our discussion of this theme at this Forum.

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