

Effective Federalism and Local Finance

Volume I: How federal and decentralized systems work and institutional underpinnings, pp. 562

Volume II: Federal and decentralized policy, governance, issues and challenges, pp. 709

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Fiscal federalism and decentralization have been studied and researched by academics and scientists all over the world since the beginning of the twentieth century. Accordingly, the literature on various perspectives of fiscal federalism has grown rapidly over the years. Although the well-known Oates classification (*traditional vs. modern theory*) of fiscal federalism literature according to its vertical structure, or in terms of evolution, provides a good insight into the genesis of fiscal federalism thinking, it does not help much in differentiating among the various aspects of fiscal federalism abundantly researched in recent literature. The modern theory of fiscal federalism turned out to be so extensive that Oates' vertical systematization proved to be insufficient. Despite the fact that most recent reviews rely on Oates's division of the literature, the need for a complementary systematization emerged rapidly.

Classification and systematization of such a huge literature body in order to facilitate access to relevant information for people studying or working in the field of fiscal federalism has become a real challenge. To resolve this, experts from various subfields edited works with selected contributing authors clarifying certain topics and providing solid fundamentals for further research. Ahmad and Brosio's "Effective federalism and local finance" is certainly one of the greatest examples. In contrast to Oates's vertical structure of fiscal federalism literature, Ahmad and Brosio present a more horizontal structure based on major logically organized research areas.

The title was published in 2011 by Edward Elgar Publishing in the International Library of Critical Writings in Economics Series – a thematic selection of the most important articles in economics. Each title within this series is edited by leading specialists who provide an introduction and comment on the publications included. Given the topic of this issue, their professional competences and years of experience in researching fiscal federalism have certainly helped Ahmad and Brosio to successfully fulfill their editing role.

Ehtisham Ahmad is a Senior Fellow at University of Bonn, and a Visiting Senior Fellow at the London School of Economics Asia Research Centre in the United Kingdom. He has held senior positions in the International Monetary Fund, collaborated on projects for the World Bank, Asian Development Bank, UN and was a special adviser to the Finance Minister of Saudi Arabia. Ahmad has researched and written extensively in the fields of fiscal federalism and the political economy of intergovernmental fiscal relations. Giorgio Brosio is a professor of public finance and local government at the University of Turin. He has held professorial positions at several universities in Italy, Switzerland and France. Brosio was also a visiting fellow at the University of York, at the Brookings Institution, Brown University, the Australian National University and the International Monetary Fund. His main research interests include fiscal federalism, local government, public economics and finance, and public choice. Both Ahmad and Brosio are prolific scholars who have made a significant mark on the development of fiscal

federalism literature. The fact that they edited this issue at the zenith of their careers makes the editors' pick of articles included in "Effective federalism and local finance" more credible and reliable.

The title is divided into two volumes. Volume I, *How federal and decentralized systems work and institutional underpinnings*, has 562 and Volume II, *Federal and decentralized policy, governance, issues and challenges*, 709 pages (1271 pages in total). The two together encompass 50 seminal articles on fiscal federalism dating from 1961 to 2009. Articles are systematically grouped into 9 thematically separated parts – the first three of them (Theoretical advances, Mobility and strategic behavior and Institutions) being incorporated in Volume I and the rest (Decentralized policies and governance, Financing and accountability, Taxation of natural resources, Governance considerations, Macro-fiscal management and political economy of subnational debt and Environment and natural disasters) in Volume II.

In other words, the first volume deals mostly with foundations of fiscal federalism and other, more general, issues. It begins with the theoretical framework for fiscal federalism laid down in Oates (2008), Olson (1969) and Oates (1981) discussing fiscal federalism theory and institutions, as well as the division of responsibilities among different levels of government. The absence of Tiebout (1956) in this part was partially compensated for by Oates (1981) which refers to the work of Tiebout, but Tiebout's seminal paper presented in its original form would definitely have fitted into this part and made it more complete. Seabright (1996), Lockwood (2009) and Salmon (1987) conclude the first part discussing accountability issues and political economy aspects of fiscal decentralization as well as competition and spatial interactions between governments. The rest of Volume I (parts II and III) deals with local governments' strategic behavior, population movements within countries, redistributive policies and institutions. The list of main contributors to these parts includes Keen (1998), Wildasin (2003), Dixit and Londregan (1998), Salmon (2002) and Gurgur and Shah (2002).

Policy-related questions and experiences are extensively represented in the second volume. Accordingly, the first two parts of Volume II consist of papers covering various aspects of the decentralized provision of public services and local government financing. Although these fields have always been present in the fiscal federalism literature, hyperproduction in these areas resulted in a vast literature of questionable quality. Therefore, the editors' selection of the most relevant papers (e.g. Ahmad, Brosio and Tanzi, 2008; Ambrosanio and Bordignon, 2006; Oates, 1999 and Musgrave, 1961) serves as a unique source of highly relevant literature, which is certainly of great assistance in dealing with the overload in recent fiscal federalism literature. The last four parts of this volume are particularly valuable. As opposed to the first two parts, the rest of the volume flourishes with themes not so much represented in the literature. Those include taxation of natural resources (Brosio, 2003), governance considerations (Ahmad, Albino-War and Singh,

2006), macro-fiscal management and political economy of subnational debt (Qian and Roland, 1998; Rodden and Wibbels, 2002), as well as environmental issues and natural disasters (Oates, 2002; Goodspeed and Haughwout, 2007).

Published as a book chapter, Brosio (2003) examines arguments for sharing the natural resources revenue among different levels of government. Ahmad, Albino-War and Singh (2006) focus on fiscal management at the local government level and conclude that “even with adequate monitoring of subnational spending, there has to be an emphasis on the effects of such spending, particularly the incurring of debt and other contingent liabilities, on overall macroeconomic aggregates”. Qian and Roland (1998) provide interesting insights into the soft budget constraint problem, while Rodden and Wibbels (2002) test various hypotheses concerning the influence of different factors on a federation’s capacity to control deficits and inflation, claiming that “increased decentralization of expenditures in federations is associated with lower deficits and inflation”. Oates (2002) deals with (de)centralization of environmental responsibilities, making a solid base for Goodspeed and Haughwout (2007) to conclude Volume II devoting particular attention to natural disasters and optimal insurance system.

Overall, the selection of the most important topics, well organized in clearly separated thematic sections, yet vividly connected and intertwined in the Introduction, makes the “Effective Federalism and Local Finance” a highly valuable piece in fiscal federalism literature. By creating the list of publications to be included in this title, Ahmad and Brosio did not favor the classical masterpieces but rather prioritised more recent articles systematically discussing current issues and concerns in fiscal federalism. Missing Tiebout (1956) in the first part of Volume I or Kornai’s articles on the soft budget constraint in the fifth part of Volume II additionally supports this argument. Although the shortlisted articles discuss both traditional and contemporary aspects of intergovernmental fiscal relations from the current perspective, they mostly rely on the classical literature of fiscal federalism. This makes Ahmad and Brosio’s book a remarkable reference source for students, researchers and lecturers. Fiscal federalism literature was in want of a book that systematically integrates the most important advances in this area and “Effective Federalism and Local Finance” has certainly met the need.

This opulent repository of fiscal federalism literature gathers in one place the most important publications evolving continuously in this field for almost half a century. All the publications are presented in their original form with their original numeration to facilitate referencing. However, the title is complemented with its own numeration which considerably simplifies moving through different publications. Reprinting all the articles in their original form significantly enriched the edition interfacing present and past analytical tools and writing styles. The pick of articles and diversification of topics make the title required reading for both beginners and professionals dealing with fiscal federalism issues. Students could use the book as an inexhaustible source of information on different aspects of fiscal

federalism, while more advanced users could benefit from refreshing their knowledge with both traditional and modern concepts emerging through the development of fiscal federalism theory. “Effective Federalism and Local Finance” is definitely an essential guide for anyone studying, researching or in any other way dealing with intergovernmental fiscal relations. It might also prove useful for practitioners and policymakers, enabling them to understand the consequences of fiscal interaction among different layers of government.

This is certainly not a book to read and set aside; rather, it is a fundamental piece of fiscal federalism literature to which the reader will often resort.

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