

*INTERGOVERNMENTAL EQUALIZATION TRANSFERS WITH NATIONAL STANDARDS*

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## Introduction

Standards can play a role in shaping equalization transfers, as illustrated by Boadway (2014, forthcoming). This role derives primarily from the intent of the central government to implement inter-jurisdictional equity. The principle generally accepted says that residence of citizens should not impact on their access to public services and to the price they pay for them. The practice shows a limited use and many difficulties.

The insertion of standards into equalization transfers can also be explained with other normative arguments, such as merit goods, the promotion of positive externalities and the reduction of negative externalities. In all those cases, however, conditional grants are the proper vehicle to use. On the positive side, *i.e.* looking at actual behavior of stakeholders, we have to mention the intent of central government bureaucracies to continue to keep control of policies also in a framework of decentralization.

There are alternative ways for introducing standards.

The main instruments are conditional grants. These transfers are very frequently used as a vehicle for inducing subnational government to comply with national standards in their spending programs.<sup>1</sup> With conditional grants the link between compliance and disbursement may be closely observed, increasing the chances of making standards effective, since in principle the grants could not be paid –or more reasonably can be reduced - if beneficiary governments do not comply. In the practice, one should not overestimate the effectiveness of conditional transfers, because cutting transfers to non-complying governments could lead to an even lower degree of compliance, particularly for the poorest beneficiaries.

Another approach is through legislation. With concurrent legislation the national parliament can insert standards into the framework legislation referred to various sectors (as it frequently happens in education and health). In a system of separate legislation powers the legislation solution does not work as easily, because the national parliament has no competency to intervene in areas reserved to subnational parliament, although it could use its power related to basic principles.

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<sup>1</sup> A survey of the use of intergovernmental transfers for this purpose in classical federations is provided by Institute of Intergovernmental Relations (1991) and by Watts (1999)

A third approach is the judicial. The courts are empowered to determine whether subnational programs violate national standards that are either in the constitution or have been enacted by federal legislation. This approach is rightly considered the last resort approach, as any judicial solution. It implies previous conflict and it is quite lengthy to operate.

A fourth approach is through cooperative agreements among national and subnational governments. This is typical of federal/decentralized systems with an extensive tradition on intergovernmental cooperation, such as the German one. The unanimity required for such agreements may, however, be difficult to achieve, especially when we consider that national equity standards would likely involve some redistribution among subnational jurisdictions. Hence it is quite likely that the agreed upon standards will turn to be minimum standards.

With equalization grants the insertion of standards has, or should have, a different goal, serving primarily to determine the allocations to individual governments and to enable them, through adequate finance, to provide the services with the characteristics required with the standards. With equalization standards making disbursement conditional on, or somewhat related to, implementation of standards is much more difficult, if not almost a contradiction in terms. Equalization transfers are by nature general, meaning that they cover all the responsibilities. They are paid by the Ministry of Finance, whose duties would be overextended if it had to check the compliance of standards by beneficiary governments. Penalties would also very difficult to establish, given the universal coverage of equalization grants.

Moreover, standards can be introduced for reasons that do not refer to equity considerations, but simply to merit goods arguments, or to bureaucratic preferences. Governments may be tempted to make excessive use of them, leading even to a negative impact on the welfare of individuals, as I explain later, which is a contradiction with this equity purpose of the transfers.

This paper provides an exploration of the issues deriving from the insertion of national standards in intergovernmental equalization grants. It starts with a short section on the illustration of the concept of inter-jurisdictional equity and its relation with interpersonal equity.

The second section is devoted to the pros and cons in the adoption of standards in general and in intergovernmental equalization transfers systems, in particular.

The third section is devoted to the illustration of the Italian equalization transfer system that is in the making with huge delays and difficulties. The system should be built on a very extensive use of standards referred to level of provision of services, but its implementation has been delayed for years and still is. The section includes also very short comparison with the Australian and the Canadian equalization grants where national standards are practically absent, and used only in conditional grants.

### 1. Inter-jurisdictional and interpersonal equity

Inter-jurisdictional equity is a powerful rationale for inserting standards in equalization transfers. A general formulation of the principle normally attributed to the central government says that persons in comparable circumstances should have access to comparable public services in all localities. In other words, in an intergovernmental framework equity implies that residence should not create differences between citizens in their access to public services. There are, however, different interpretations of this principle.

The strictest interpretation would mean that citizens in similar conditions should have access, wherever they reside, to exactly the same quantity/quality mix of services and pay the same amount of taxes.

$$\frac{\sum_1^t E_{c,d,e,f,..j}}{R_{j,wy}} = k \text{ for each local jurisdiction} \quad (1)$$

where:

- $E$  is the expenditure for service  $t$ ;
- $c, d, e, f, \dots$ , is a set of characteristics determining the quality & quantity of the service  $t$ ; standards impacting on expenditure are referred to these characteristics and may also coincide with them;
- $w$  and  $y$  are the standards applied to the taxes and/or levies asked to finance the service. Quite obviously the standards apply only when subnational governments have tax autonomy. One example would be exemptions from public transportation fees, or from payment for health services for the elderly poor.
- $j$  is the beneficiary group.
- $k$  is the equity parameter, requiring some discussion.

The definition and discussion of parameter  $k$  allows an illustration of the difference between inter-jurisdictional equity and interpersonal equity.

Inter-jurisdictional equity is ensured by the equality of parameters  $k$  – one for each group of individuals – across all jurisdictions. This will lead to that individuals in comparable conditions, for example elderly people living alone, will be subject to the same proportional difference between what they receive in terms of health care and what they pay for it.

The higher the value of parameters  $c, d, e, f$  the stronger is their upwards impact on the expenditure, increasing the gap with revenue. On the other hand, standards operating on the revenue side will likely exert a downward pressure on collections. This opens the way to an increase in the total amount of transfers, because it does not make sense to impose standards without enabling subnational governments to implement them. In other words, standards expand the vertical imbalance of intergovernmental relations. This argument is frequently illustrated in the literature in a reverse way: the vertical fiscal imbalance is a necessary condition for making operational national standards imposed on subnational governments. The average national value of  $k$  across all groups of individuals and all subnational governments becomes then a measure of the existing vertical fiscal imbalance.

Differences in value of  $k$  between groups of individuals describe the intensity and direction of interpersonal redistribution and then the search for interpersonal equity by the national government in the operation of subnational governments.  $k$  in general will be  $> 1$  and high for the poor groups of the population; it will be  $< 1$  for the wealthiest groups of the population. Through the introduction of standards the central government can act also on the interpersonal redistribution of incomes operated at the subnational level, but it has to be ready to finance it. Poor regions, for example, have a large number of poor individual necessitating public services; they have a small number of rich individuals with capacity to finance the expenditure.

Full homogeneity of service provision requires the inclusion of very detailed standards determining every relevant characteristic of quality and quantity that would make the operation of a decentralized system of government analogous to that of a centralized system. There would then be no more rationale for the existence of a decentralized system of government. As a matter of fact, even a fully centralized system is hardly able to provide complete homogeneity of service provision across the whole country.

The more decentralized becomes the system; the smaller is the number of standards and the intensity of their constraints on the choices and the behavior of subnational

governments. In federal and/or highly decentralized systems, such as the Australian and the Canadian ones, standards refer to the overall size of subnational revenue of expenditure that is taken as a point of reference for equalization and are used as enabling instruments, meaning that they contribute to the determination of individual allocations without the imposition of constraints.

## **2. Pros and cons of standards**

Safeguarding inter-jurisdictional equity becomes an urgent task when countries decentralize, given the spatial disparities of income and wealth conditions among subnational jurisdictions. The welfare of both poor and rich citizens would be impacted without the financial support from the central government. Hence, standards become more popular when countries decentralize their system.

A more specific rationale for introducing standards and uniformity among levels of government is the merit goods argument applied to intergovernmental relations. For example, there are pressures in many countries, where education is decentralized, to introduce national standards to improve the ranking of students in international comparisons. Some policies may have a merit for the level of government that imposes them (whether benevolent, or not), but not necessarily for the other levels of government. Standards are thus a tool for ensuring that those policies will be implemented to the central government desired extent.

A further rationale, based on efficiency arguments, refers to externalities. By setting standards, the central government may seek to encourage activities that produce positive externalities and (by setting caps) discourage those that produce negative externalities, through a command-and-control approach such as is often applied to consumers or firms<sup>2</sup>. Standards may be particularly relevant when the provision of public services is influenced by the so-called threshold technology (Hirshleifer, 1983), meaning that all sub-national governments need to reach a given common level of service provision to make that service effective. The literature stresses that conditional grants are the most appropriate instrument for the correction of externalities.

The introduction of standards on expenditure does not lead always and necessarily to increases in welfare. This is because standards result -unless preferences are the same for every citizen, in which case uniformity would anyhow arise locally, without need for a centrally-imposed standards- in a level of service provision that will inevitably be too high for some citizens and too low for others, to the detriment of welfare. A simple way of illustrating the problem is to make reference to opportunity costs of standards.

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<sup>2</sup> For a discussion of the political economy implications of this approach see Crémer and Palfrey, (2006).

Implementation of high environmental standards has a cost, implying that resources have to be moved to the environment to the detriment of other uses, such as for education. The fact that the cost of standards is paid by the central government does not avoid a loss of welfare. Some, even poor, individuals would have a higher welfare, if the central government support were paid for education instead of the environment. Clearly, these losses appear in the case where standards are complied with by beneficiary governments.

Moreover, welfare losses are not symmetric. Citizens who would prefer more than what the national standard provides can in most cases meet their needs by turning to the market, or other providers, such as consumer associations and clubs. But this adjustment is generally not feasible for those who would prefer less, since there is no way to individually reduce the level of publicly provided services. Centralization through standards may also impose costs on individuals with high preferences: this happens when alternatives to public provision of the service are less efficient.

The widespread and continued existence of standards, notwithstanding the above drawbacks, invites closer scrutiny of the political economy problems involved. There is a growing although still scattered literature. It includes Crémer and Palfrey (2000, 2002, 2006), who examine the effects of standards in a very general framework, wherein voters differ in their preferences on a single-issue dimension. The focus of these authors is on the working of a multi-level voting process. While these contributions provide many useful insights about the welfare effects of standards, at this level of generality the redistributive problems often raised by the financing of policies involving standards cannot be studied. The financing side is instead addressed by Epple and Romano (1996), who study national standards that citizens can supplement through private purchases on the market. They consider agents with differing incomes, and work out the implications for the functioning of a median voter model. The interplay between equity and efficiency problems, which naturally arises when both public supply of goods and financing through redistributive taxation are considered, is tackled by Brosio *et al.*, (2002). These authors show that conflicts deriving from the efficiency losses associated with centralized decisions, which mainly negatively affect the poor, may be appeased through implicit forms of income transfers (in the specific case of Italy, tolerance of more widespread tax evasion in the poorest areas). Brosio *et al.* assume that jurisdictions differ in income, but do not allow for the possibility of supplementary local provision of goods or private purchases on the market.

Brosio, Marchese and Zanola (2013) build on the above contributions with a model for determining the level of public provision of a good in a national and then in a multi-level

median voter framework, and discuss its welfare implications. Taxation is redistributive and preferences for the publicly provided good are determined by voters' incomes.

They show that, even when preferences depend only on income, inefficiencies and strategic behavior can arise in a two-tier system that imposes national standards. Yet the welfare effects of abolishing standards and resorting to decentralization are also dependent on the changes to the financing system likely to ensue from decentralization. The goal of avoiding an outburst of distributional conflict is thus a likely explanation for the continued existence of central standards, and the difficulties of implementing welfare-enhancing reforms.

Coming to the financial implications the use of standards creates a number of problems, whose importance and intensity are related to the number and intensity of standards. A first problem, already mentioned, is that standards create possible gaps between, on the one hand, expenditure needs that they contribute to determine and the expectations of subnational governments and, on the other hand, the capacity of the central government to provide all the financing required. As a matter of fact, standards are likely to set up an upward tendency on subnational expenditure and financing, since they introduce incentives to redistributive games. Jurisdictions with a high percentage of elderly population could push for higher standards targeted to expand the provision of services to the elderly, whose financing will favor them comparatively with jurisdictions with a younger population.

Standards lead also to the endogenous, meaning, made inside the public bureaucracy, determination of the subnational expenditure and of the amount of financial resources needed to finance the expenditure. This amounts basically to state that standards are an antidote to decentralization.

On the implementation ground, the use of standards in equalization grants makes the formula for their allocation more complex and hence increases the need of information.

A complex rule may also cause moral-hazard problems especially in the long-run. Schuknecht (2004) argues that a complex rule may lead to a soft-budget constraint undermining “[...] monitoring and enforcement via conflicts over technicalities, discretion in the implementation, high transaction costs in terms of administration, abuse of the lack of clarity by politicians, surveillance fatigue and confusion in rather than supportive monitoring by financial markets and the public”. A complex rule requires frequent adjustments and creates perverse incentives delaying the provision of information by subnational governments. Saiegh and Tommasi (1999) show that in the case of Argentina, the transfer system rewards inefficiency by penalizing provinces that produce better data on costs and technologies of providing public services.

In general as argued by Arachi and Zanardi 2013 “the design of the expenditure need equalization faces trade-off between accuracy on one side and ex ante implementability and ex-post enforceability on the other side. Accuracy can only be achieved using complex rules which are difficult to implement and hard to monitor”.

### 3. Standards based equalization transfers in Italy

#### 3.1. Legal framework

The new equalization system mandated by the Constitution of 2001 makes, possibly, the most extensive use of standards that is conceivable. Standards will refer to the characteristics of the services to be provided, to the cost of their provision and to the taxes used for the financing.

Article 117 of the Constitution assigns to the exclusive competence of the central government the definition of “essential levels of service provision” for a set of basic services that are considered “necessary to guarantee equality of basic individual and social entitlements across the whole nation”.<sup>3</sup> These services include health, education and social protection, plus a still undefined set of services provided by local governments (Municipalities and Provinces). According to prevailing estimates, these services will account for at least 70% of subnational expenditure.

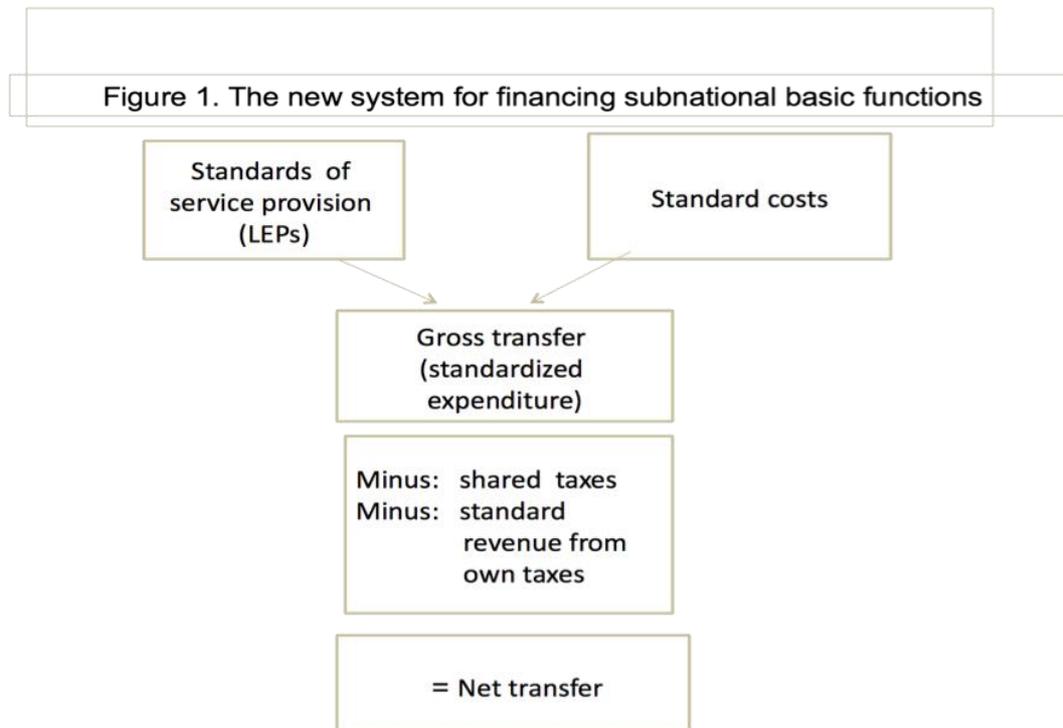
The framework law 42 of 2009 for subnational government financing- also referred to as the “Fiscal Federalism Law” - defines the main characteristics of the system by which these basic functions will be funded. The system will be based on the following steps.

- a. Definition for each local function of the essential level of service provision (ELSP, or LEP in Italian). According to the prevalent interpretation ELSPs are more than standards ensuring minimum levels, otherwise the constitution would have termed them *minimum* levels of service. They have also to be standards ensuring *sustainable* levels of service provision, compatible with keeping financial equilibrium.
- b. Estimating for each subnational unit and for each service the standard cost corresponding to the essential level.
- c. Summing the cost for all the concerned services.

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<sup>3</sup> Article 117 is difficult to understand and even more to translate into English. The official translation of the Constitution provided by the Italian Parliament reads as follows: “determination of the basic level of benefits relating to civil and social entitlements to be guaranteed throughout the national territory”.

- d. Calculating the revenue deriving from levying, at a standardized rate, the own taxes notionally assigned to fund these functions<sup>4</sup>, the revenue from the surcharge of the Personal Income Tax, and the revenue from a still to be determined share of the Value Added Tax and other shared taxes notionally pre-assigned to these services.
- e. Determining the net transfer through the difference between d. and c.



### 3.1. Prospective issues

I skip here the issue of standard costs that will take us to a completely different ground, fraught with a number of analytical and empirical issues and will focus on standards on expenditure. The new system looked from the beginning extremely complex, raising serious doubts on the possibility of its implementation, because of the analytical, technical difficulties -and likely game-playing – of defining essential levels and the standard costs associated to them.

Determining viable and meaningful ELSPs requires a very cumbersome and time-consuming procedure, which is carried on under continuous pressures by Regions,

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<sup>4</sup> Since the constitution and the Law 42 mandate the introduction for the other (non basic) functions of equalization grants based on fiscal capacity, it becomes necessary for avoiding double counting to assign to each set of functions the revenue sources meant to finance them.

Provinces and Municipalities. As a matter of fact the procedure set up by the Framework Law allows a wide scope for lobbying and political bargaining<sup>5</sup>.

Coming briefly to the substance of ELSPs, a number of issues come to the front immediately. ELSPs must be more than minimum levels; otherwise the Constitution would have termed them *minimum* levels of service. They have also to be *sustainable* levels of service provision, compatible with keeping the equilibrium of the public sector finances.

There is little experience in Italy on these issues. There has been some practice with a similar concept: Essential Levels of Assistance (LEAs) for health services. LEAs are simply a list of services that any Region must supply to citizens. LEAs do not imply either quantitative, or qualitative targets (such as maximum length of queues). There is also no correspondence between LEAs and their financing. The present block grant for health care services is on a per capita basis and takes into account the structure by age of the population and makes some adjustment for inter-regional patient mobility.

It was easy from the beginning to predict (Brosio, 2010) that ELSPs would have been defined in a very bureaucratic input-based way, with scarce consideration to quality issues. This will accommodate the demand of funds by the Regions and Municipalities without promoting effective convergence among levels of service delivery among them.

### 3.3. Actual implementation

As a matter of fact it does not come out as a surprise that thirteen years after the constitutional review of 2001 and 5 years after the framework Law 42 of 2009, the new system has still to be implemented [see Longobardi and Zanardi, (2013); SOSE, (2014)]. Very little progress has been made despite considerable effort spent on research and simulation of proposals. Basically no proposals have been formulated for the determination of essential levels of service provision for the Regions and of standard costs. Redistributive conflicts among the Regions are also behind the delays. Applying standard costs will reduce, with reference to the system presently in existence, the level of transfers to the less efficient Regions that, as a consequence, are asking for a long transition period.

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<sup>5</sup> Both ELSPs (LEPs) and standard costs are determined by a government decree<sup>5</sup> with the support of a Technical Committee (Commissione Tecnica Paritetica) where representatives of the central government and of the regional and local authorities seat in equal numbers. The decisions are then subject to control by a bi-cameral parliamentary committee.

It has also to be considered, on the other hand, that the definition of standards is difficult and fraught with a number of risks, particularly in a period of time, such as the present one, when subnational governments are asked to make their contribution to the fiscal retrenchment deriving from the engagements taken with the EU Stability Pact. High standards would imply that subnational governments take commitments *vis a' vis* their citizens that they could not sustain financially, especially if the central government would have to reduce its support. On the other the central government would have to increase the amount of transfers, a move that would completely reverse the present effort to reduce them.

Some more progress has been made on the establishment of the new equalization transfer for the (8000 and more) municipalities. But progress has been made at the cost of practically eliminating any reference to the notion of standards on levels of service provision. As a matter of fact, if what emerges from the preparatory work will be implemented, the individual allocations will be determined according to a very basic notion of standardized expenditure needs. This notion of standardized needs is calculated using a simple regression analysis on the determinants of local expenditure referred to a number of policy areas and including the typical indicators of cost and of demand, such as output, population, and its age structure. Standardized expenditure will then be confronted with standardized costs determined using a cost function based on cost of input and inputs. All this is reasonable and is in accordance with what is done in most countries (see Kim; Lotz; Mau and Yŏn'guwŏn.2010). It does not make reference, however, to even a minimal notion of standards of service provision.

#### *3.4. Trade-off between local autonomy, efficiency and compliance*

The new system of equalization transfers is also raising a trade-off problem between regional/local autonomy, on the one hand, and efficiency and compliance with essential levels, on the other. Assuming that the level of efficiency is the same everywhere and that each Region/Municipality is providing a level of service that corresponds precisely to the legally mandated essential level, then each Region/Municipality would spend exactly the total amount of the transfer it receives and there would be no problem. But this will be a very rare occurrence. Regions/Municipalities are less likely to be over performing, or/and much more likely under performing in terms of efficiency and/or compliance with essential levels of service provision, as is the tradition. Figure 2 illustrates the four possible combinations.

**Figure 2. Combinations of efficiency and service delivery levels**

<i>Average efficiency</i>	<b>4. Efficient, but not compliant with levels</b>	<b>1. Efficient and compliant</b>
	<b>3. Non efficient and non compliant with levels</b>	<b>2. Non efficient, but compliant</b>
	<i>Essential levels</i>	

Case 1 has no problems. An efficient and compliant Region/Municipality could even spend less than the grant and redirect the savings to other functions. Case 2 is a problem for the concerned Region/Municipality, since it has to spend more than the grant. Problems arise with case 4: efficient Regions/Municipalities that provide less than essential levels and, especially, with case 3 – likely to be the most common occurrence – with Regions/Municipalities that are non efficient and non compliant with levels.

The alternative in both 3 and 4 cases is between: a) to accept regional autonomy and to leave voters (and other political mechanisms) to solve the issue, and b) to intervene with controls and penalties. There is a propensity among scholars and central government officials in Italy to opt for the second option, but its implementation will be hard, because curtailment of grants can increase efficiency, but at the same time it would make Regions even less compliant with levels. Implementation would even be harder in political economy terms, considering the large number of non-efficient and non-compliant Regions that will pressure simply for increase in financing.

**4. Standards and equalization transfers in federations and highly decentralized systems**

These systems consider that the inter-jurisdictional equity goal of equalization grants – conditional grants have a totally different story - is reached when subnational governments have enough revenues to ensure that persons in comparable circumstances can have access to comparable public services in all localities.<sup>6</sup>

<sup>6</sup> For Canada this goal is written explicitly in Subsection 36(2) of the Constitution Act of 1982: “Parliament and the government of Canada are committed to the principle of making

This less demanding interpretation of intergovernmental equity does not impose on subnational governments, and does not make reference to, standards referred to the quality/mix of services. Rather, the concept of standards is used for determining the total amount of the transfers. In turn, this amount is largely determined by the fiscal strategy of subnational recipient governments (which can be a problem).

For example, in Australia the existing average per capita expenditure of the States in the various sectors is taken as the standard meaning the adequate level of expenditure, to which various parameters (“relativities”) are applied to determine the standardized expenditure aimed at ensuring that each State *would have the fiscal capacity to provide services and the associated infrastructure at the same standard.*

Using symbols of equation (1) the Australian system can be described as follows:

$$\frac{\sum_1^t SE_j}{SR_j} = k \text{ for each local jurisdiction } (2)$$

where:

- SE is standardized expenditure *i.e.* the amount that is needed to provide the same quality and quantity mix for each service assuming a national average rate of efficiency;
- SR is standardized revenue *i.e.* the revenue that can be collected by applying to the potential (not the assessed) tax base the average national tax rate.

In Canada, where the equalization transfers to Provinces are targeted to cover the differences in fiscal capacity, the federal government takes the level of revenue of a

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equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.”

In Australia, the inter-jurisdictional equity principle is not referred to in the Constitution, defined in legislation or described in any agreement between governments. Rather, the definition has evolved over time, largely through - the Commonwealth Grants Commission (CGC). The current CGC definition of the goal of equalization transfers is defined as follows: *State governments should receive funding from the pool of goods and services tax revenue such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency.* (Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities*, 2010 Review, Vol 1, page 34).

group of Provinces as the standard with reference to which equalization transfers for other, less rich, Provinces are calculated.

Clearly, taking actual average the State expenditure, in Australia, or the revenue of the richest Provinces, in Canada, as the standard with reference to which the transfer is determined is not a necessary ingredient of equalization systems and can create “moral hazards” problems. For example, in Australia the States as a whole have an incentive to expand expenditure, since it will lead to an increase in transfers. What is more important to remark is that both systems leave to the subnational beneficiary governments the faculty to determine the way –inputs and outputs - the grant is spent.

Conditional grants are the vehicle for standards in Canada. Use of standards through the spending power has varied. In Canada, as in other federations, Provinces have resisted the excessive influence of federal government on their decisions on how much and how to provide. Standards have become recently “softer” and referred mainly to the basic right of access to service as can be observed in Table 1.

**Table 1. National standards applied to conditional grants to Provinces in Canada**

	Early Seventies	Now
Health	<ul style="list-style-type: none"> <li>- comprehensive coverage (all medically necessary services)</li> <li>- universality (uniform terms and conditions)</li> <li>- Medicare required coverage of only 95% of residents</li> <li>- access                             <ul style="list-style-type: none"> <li>- no standard (hospitals), authorized charges to user permitted</li> <li>- reasonable access (Medicare), limited user charges permitted</li> </ul> </li> <li>- residency requirements                             <ul style="list-style-type: none"> <li>- none permitted (hospital)</li> <li>- up to three months permitted (Medicare)</li> </ul> </li> <li>- service standards                             <ul style="list-style-type: none"> <li>- hospitals: "adequate," with provincial licensing/ monitoring</li> <li>- Medicare: no service standards</li> </ul> </li> <li>- public administration                             <ul style="list-style-type: none"> <li>- detailed requirements (hospital)</li> <li>- general principle (Medicare)(2)</li> <li>- no federal recognition requirement</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- comprehensive coverage (all medically necessary services)</li> <li>- universality (uniform terms and conditions)</li> <li>- access                             <ul style="list-style-type: none"> <li>- reasonable access, no user charges</li> </ul> </li> <li>- residency requirements                             <ul style="list-style-type: none"> <li>- up to three months permitted</li> </ul> </li> <li>-- no service standards</li> <li>- public administration                             <ul style="list-style-type: none"> <li>- general principle</li> </ul> </li> <li>- federal contribution to be recognized in publication</li> </ul>
Social Assistance	<ul style="list-style-type: none"> <li>- benefit levels: no standards</li> <li>- residency requirements: prohibited</li> <li>- appeals procedure (in law): required(3)</li> </ul>	<ul style="list-style-type: none"> <li>- benefit levels: no standards</li> <li>- residency requirements: prohibited</li> <li>- appeals procedure: not required</li> </ul>
Post-Secondary Education	<ul style="list-style-type: none"> <li>- no standards</li> </ul>	<ul style="list-style-type: none"> <li>- no standards</li> </ul>
Equalization	<ul style="list-style-type: none"> <li>- no standards</li> </ul>	<ul style="list-style-type: none"> <li>- no standards</li> </ul>

Source: taken from Stillborn (1997).

## **Conclusions**

This paper has made an initial exploration of the role of national standards in equalization transfers. Their main role should be the implementation of the principle of inter-jurisdictional equity chosen by the central government. Centralized systems tend to impose strict standards impacting potentially on the provision/production process of subnational government; with the intent of inducing them to replicate what should in principle be the behavior of the central government.

Leaving aside the issue of the rationale of having decentralized governments forced to replicate the behavior of the central government, heavy imposition of standards leads to huge information requirements, difficulties in the definition of standards and game-playing among subnational government units and between them and the central government.

The experience of Italy that has tried, but not succeeded in more than ten years, to introduce standards on the provision/production of basic services, brings evidence-inducing skepticism on the possibility and usefulness of introducing these standards.

Much less constraining standards such as those used in Australia and Canada, helping mostly to determine the total amount of equalization standards, serve possibly better the implementation of the inter-jurisdictional equity principle of the central government and are more consistent with the role assigned to decentralization of government.

Conditional grants are the most frequent vehicle for the introduction of standards. The paper has devoted scant attention to them. However, the restraint on the use of standards which derives from the analysis done in the paper with reference to general equalization transfers applies also to a large extent to conditional grants.

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**Table 2. Instruments for introduction and implementation of national standards in federations.**

	Canada	United States	Switzerland	Australia	Germany
Principal Instruments	conditional grants Charter of Rights interprovincial agreements	federal categorical grants congressional preemption of concurrent powers uniform state laws Bill of Rights	transfer of constitutional authority conditional grants "Concordat" (voluntary agreement between cantons)	specific purpose grants (s.96) interstate agreements	extensive concurrency "framework provisions" "joint tasks" conditional grants interl�ander "treaties" Basic rights
Enforcement Bodies	Parliament Courts	Congress Courts	Federal Assembly Federal Social Insurance Bureau initiative and referenda	Parliament High Court	Bundesrat Social Courts Federal Constitutional Court
Enforcement Measures	financial penalties legislation/regulation	financial penalties legislation/regulation threat of preemption	financial penalties legislation/regulation	financial penalties legislation/regulation	legislation/regulation
Processes	executive federalism interprovincial relations	state lobby of Congress interstate relations	cantonal lobby of the Federal Assembly intercantonal relations referenda, initiative	executive federalism federal unilateralism	executive federalism Bundesrat interl�ander relations
Subject Matters (examples)	Medicare income support environmental protection revenue equalization civil rights	Supplemental Security Income (SSI) civil rights drinking age environmental protection nuclear energy uniform state laws (e.g. child custody, commercial law)	social insurance, including -old-age insurance -disability insurance -unemployment insurance -accident insurance -family allowances revenue equalization	environmental protection interstate transportation unemployment insurance revenue equalization	social insurance hospitalization fees living conditions (Art. 72) education environmental protection "new media" (cable and satellite television) political rights and duties (Art. 33) revenue equalization

Source: taken from: Institute of Intergovernmental Relations of Ontario, *Approaches to National Standards in Federal Systems*. 1991