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Kunnskap for en bedre verden

Fiscal federalism Comment

Nordic Tax Research Council

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Nordic model

- Administrative fiscal federalism, how to organize the welfare state
- Decentralized welfare services with strong requirement of equality (schools, primary care..)
- Personal income taxes shared across levels of government
- Tax equalization and needs equalization
- Local democracy, block funding, accountability

Alternative model

- Is the nordic model threatened?
- Increased tax payer mobility, vertical fiscal imbalance with grant dependence, low quality services
- Give up local income taxes, centralize welfare services (schools, care for elderly, primary health care), equalization less important
- Loc govs responsible for local public goods financed by property tax, charges and natural resources

Reform of the nordic model

- Strengthen local tax financing, reduce grant dependence
- Search for better tax bases, avoid instable, distributive, firm based, more property tax (incentives), immobile tax bases, charges
- Block grants with objective criteria, not selective grants, have local accountability
- Larger loc govts (consolidate) to have competence and capacity to provide quality welfare services

The broader challenges

- Income growth, city growth (Duranton and Puga, Econometrica, 2024) – how you organize cities, what responsibilities and taxes, city regulations
- Loc gov delivery – quality and efficiency of schools, health care (interplay loc gov – hospitals)
- Loc gov democracy, accountability, discipline – state sectoral dominance and unclear responsibilities, common pool problem, rent seeking

Swedish productivity commission

- Learning, establish 'ett kommunal- og regionalekonomisk råd' for at sprida kunnskap
- Selective grants (riktade statsbidrag) to stimulate incentives for social allocation
- More local governments to have more competition