

Sub-national political regimes and asymmetric fiscal decentralization

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Abstract This paper develops a model to explain how sub-national political regimes affect the variation in retention rates in a country in which a region and a central government bilaterally bargain over the distribution of tax revenue given a particular tax rate (and thus fiscal decentralization is asymmetric). This study examines cases in which both sub-national and national governments have the same political regime (democracies and non-democracies) and situations in which the central and regional political regimes differ. This article shows that in the latter case, regions receive a smaller share of tax revenue for a broad set of parameters of the model (as opposed to the case of a pure non-democracy); in the case of identical political regimes, the comparative fiscal decentralization is determined by the productivity-enhancing effect of regional public goods.

Keywords Fiscal decentralization · Retention rates · Sub-national political regimes

JEL Classification D73 · H11 · H77

1 Introduction

The literature on endogenous decentralization, which aims to provide positive explanations for factors driving the degree of political and fiscal decentralization in various institutional systems, has expanded rapidly in the last decade (Bolton and Roland 1997; Ellingsen 1998; Alesina and Spolaore 2003; Goyal and Staal 2004; Lockwood 2006). However, most of the studies in this field are concerned with the

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