

Financial Scrutiny Unit Briefing

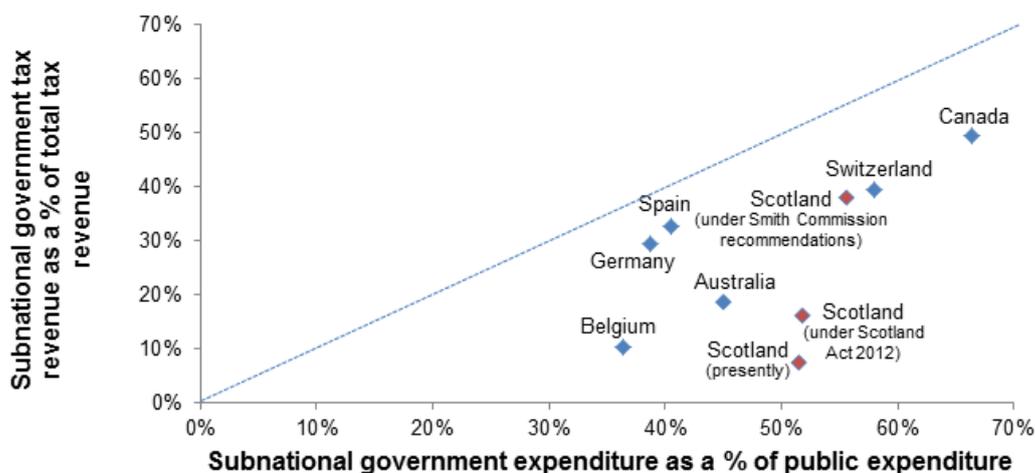
Fiscal devolution – some comparative examples

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This briefing provides an overview of fiscal devolution in the following countries: Belgium, Australia, Germany, Spain, Switzerland and Canada. Information is provided on devolved tax powers, sub-central borrowing powers and fiscal transfer arrangements.



SPICe would like to thank representatives from the countries covered for verifying the accuracy of the content.



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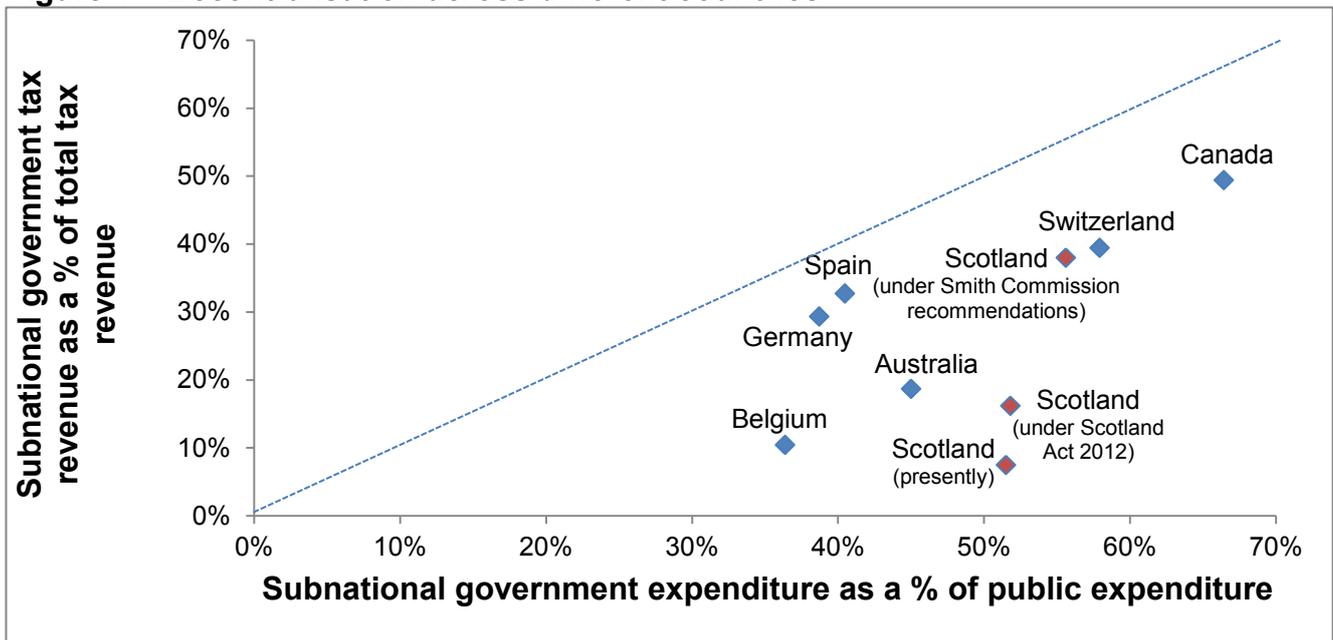
INTRODUCTION

Following on from the referendum on independence, there is a willingness from all five of Scotland’s political parties to strengthen the powers of the Scottish Parliament within the UK. As part of this process, it is useful to look at the nature of devolution in other countries. This briefing provides information on the devolution of fiscal powers in the following federations and quasi-federations: Belgium, Australia, Germany, Spain, Switzerland and Canada.

These countries and their systems are extremely varied and they were selected as they provide an insight into a broad range of devolution arrangements. They show a number of different ways of dividing powers vertically between the central and sub-central governments. They also show different methods of fiscal equalisation – the redistribution of resources to address differences in revenue raising or fiscal capacity across sub-central governments. For example, there may be horizontal equalisation, where fiscal resources are transferred between units at the same level of government, or vertical equalisation, where fiscal resources are transferred from the central government to the sub-central government (OECD 2008).

Figure 1 highlights the different scale of decentralisation across the countries selected, compared to Scotland under different scenarios. Decentralisation tends to be highest in federal states such as Canada and Switzerland, or those with a highly decentralised system of public services such as Spain. Belgium and Australia are examples of jurisdictions where sub-central governments have relatively lower levels of fiscal autonomy.

Figure 1 – Decentralisation across different countries



Note - Includes revenues from state and local jurisdictions. Some countries (such as Canada and Spain) have differing levels of decentralisation to sub-central governments and this is not reflected in this chart.

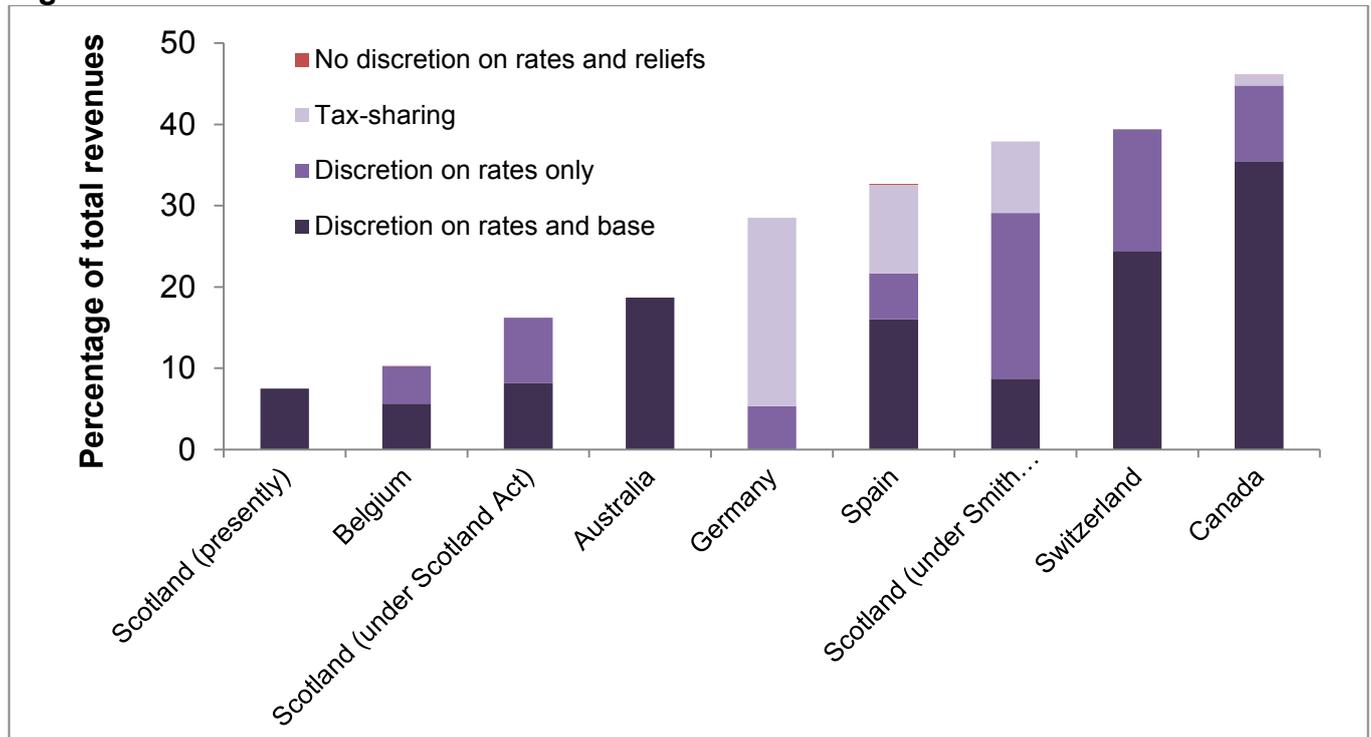
Source: OECD (2014), OECD (2013) for Australia and SPICE calculations for Scotland

Even when a tax is devolved, there are varying levels of control that a sub-central government may have over the tax. Broadly speaking, this ranges from the full power to introduce taxes and the power to set tax rates and bases, to tax sharing arrangements where multiple levels of government can set tax rates or the central government assigns a proportion of tax revenues to the sub-central government.

Figure 2, overleaf, shows the varying levels of control that sub-central governments have over devolved taxes across the countries selected. Some countries with higher levels of decentralised taxes have relatively little control over these taxes. For example, Germany has

relatively high sub-central tax revenues, but these are largely in the form of assigned revenues. On the other hand, in some countries the level of decentralised taxes is low, but sub-central governments have greater control over these taxes. For example, in Australia the states and territories have full discretion on the rates and bases of sub-central taxes.

Figure 2 – Level of decentralised tax control across different countries



Note - Includes revenues from state and local jurisdictions. Some countries (such as Canada and Spain) have differing levels of decentralisation to sub-central governments and this is not reflected in this chart.

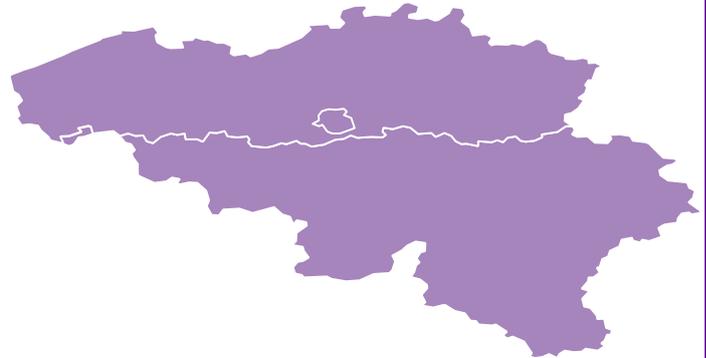
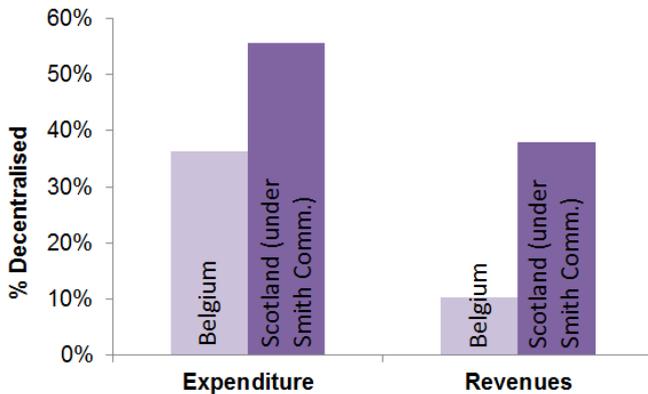
Source: OECD (2014) and SPICe calculations for Scotland

This briefing does not provide details on the merits and challenges associated with each country's arrangements. No single devolution arrangement is superior to all the others under all circumstances. The best arrangement will depend on the value and interpretation assigned to different principles (Anderson 2010).

BELGIUM

Overview

Belgium is a federal state where most revenues still accrue to the federal government. Regions have limited tax autonomy and depend on federal grants and revenue transfers for the bulk of their funding. However, there is a trend towards increasing decentralisation.



Layers of devolution

The Belgium federation is made up of three regions (the Flemish region, the Walloon region and the Brussels-Capital region), three communities (the Flemish Community, the French Community and the German-speaking Community), ten provinces and 589 municipalities.

Devolved tax powers

Federal government

The federal government sets and collects most of the major taxes. Revenues from two main taxes are transferred to sub-central governments: income tax (to the regions) and VAT (to the communities).

Regions

Regions can levy certain determined regional taxes. They set bases and rates for estate, inheritance and gift taxes, registration fees on property transfers, mortgage registration fees, tax on gambling and betting, taxes on the opening of drinking establishments, tax on automatic amusement devices, radio and TV license fees, road fund tax on vehicles, vehicle registration fees and Eurovignette. The regions also recently gained autonomy in relation to tax credits for owner-occupied housing incentives, service vouchers, work aimed at energy saving and other housing-related tax credits as a consequence of the Sixth Reform of the State.

Income tax revenues transferred to the regions are currently the main source of revenues. Revenues are assigned to the region of residence (the fact that they are not assigned to the region of work particularly impacts Brussels' revenue level, however it receives a transfer from the federal government which is meant to cover the additional costs which arise from carrying out its function as an international city and partially compensates this). Through the Sixth

Reform of the State, the regions were also recently transferred enlarged tax powers. This is delivered by an additional regional tax on income tax applicable from 2015 and will replace a large part of the income tax revenues transferred to regions. Note that regions are not allowed to implement tax measures that are unfair for the other regions or to change the progressive nature of income tax.

Communities

VAT revenues are shared with the communities and are the main source of revenues. The part of the VAT, which is transferred to the communities, is partly allocated according to the share of the population below the age of 18 and partly to the share of pupils. Income tax revenues are also transferred to the communities, with the allocation depending on their share of the total federal income tax.

Municipalities

Municipalities can levy a local property tax.

Sub-central borrowing powers

The regions and communities can borrow on the private market without approval from the Federal Minister of Finance. However, the Federal Minister of Finance must approve public borrowing.

The High Council of Finance (fiscal council) can recommend that the Federal Minister of Finance restrains the borrowing capacity of an individual government where there is severe budgetary slippage or if it feels that the economic and monetary union of the country is in jeopardy.

Fiscal transfer arrangements

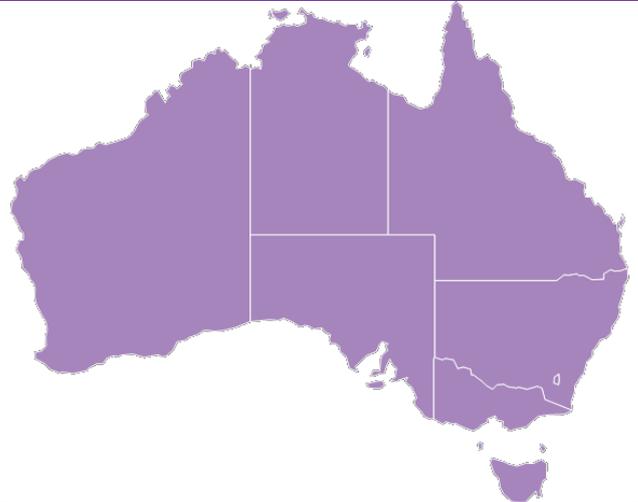
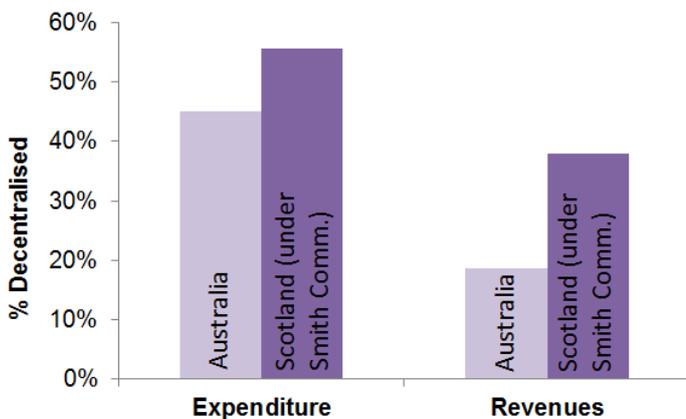
Regions with personal income tax yield per capita that are below the national average receive an equalisation transfer (the National Solidarity Mechanism) from the federal government, with its size proportional to the percentage point gap in per capita personal income tax yield. This aims to reduce the revenue gap between the regions and narrow the differences in public service provision. As a consequence of the recent Sixth Reform of the State, the equalisation transfer will be limited to 80% in 2015, instead of 100%.

The fiscal equalisation system may provide disincentives to the poorer regions to develop their growth potential as an increase in their tax base reduces the transfers from the federal government, thus levying an implicit tax on economic efforts of the region (Leibfritz 2009).

AUSTRALIA

Overview

Australia is a federal country where the Commonwealth (central government) has responsibility for the main taxes, but states and territories have responsibility for almost half of government spending. Federal transfers are still an important method of funding the states and territories.



Layers of devolution

The Australian Federation comprises six states and two internal self-governing territories. There are also some 565 local authorities.

Devolved tax powers

Commonwealth

The Commonwealth is the only level of government that raises revenues from income tax, corporation tax, excise duties and levies and taxes on international trade.

State and territorial governments

The state and territorial governments are free to set tax rates and receive revenues from land taxes, financial and capital transaction taxes, taxes on gambling, taxes on insurance, taxes on activities and the use of goods (such as motor vehicle tax) and mining royalties (except for offshore oil and gas). They also have responsibility for collecting most payroll tax (the Commonwealth receives around 3% of total payroll tax collected through the superannuation guarantee charge).

Local authorities

Local authorities receive revenues from municipal rates and user charges (with the latter growing in importance of late).

Sub-central borrowing powers

State governments have no borrowing ceiling. The Australian Loan Council has an oversight and monitoring role but arrangements emphasise transparency rather than limits and operate on a voluntary basis. Most states have modest borrowings, which are undertaken through Treasury Corporations (their own borrowing agencies) using a range of debt instruments issued directly in financial markets (including foreign borrowings).

Fiscal transfer arrangements

Overview

States and territories raise just over half their spending in revenues (58 per cent from state own-sources on average over the past decade), with Commonwealth transfers providing the remaining funding. Horizontal fiscal equalisation is undertaken through the distribution of Goods and Services Tax (GST) revenues as untied grants. It aims to equalise the capacity of all states and territories to raise revenues and provide services to a national-average standard. In addition, there are fiscal transfers provided to the states and territories which have to be spent on a particular sector or program as agreed with the Commonwealth.

The distribution of GST revenues as untied grants

All revenue collected under the Australian GST is distributed to states and territories as untied grants based on the principle of horizontal fiscal equalisation. It is intended that each state and territory should receive transfers so that if each state used their revenue bases to the same degree and operated at the same efficiency, they could provide public services at the same standard. The Commonwealth Grants Commission (an independent body which makes recommendations on the distribution of VAT revenues among states and territories) plays a central role in the equalisation process. It undertakes a comprehensive assessment of state and territory revenue raising capacities and expenditure needs. Factors that are taken into account include; population size, age, structure, income, geography, presence of indigenous peoples and the capacity of various tax bases. It is this assessment of both expenditure needs and revenue raising capacity that makes the Australian approach to fiscal equalisation unique internationally (Fraser Institute 2013). Around a third of equalisation transfers arise from differences in assessed revenue capacities and the remaining two-thirds arise from differences in expenditure needs. The process is dynamic and periodic reviews of methods and annual updates are designed to keep the relativities up to date over time.

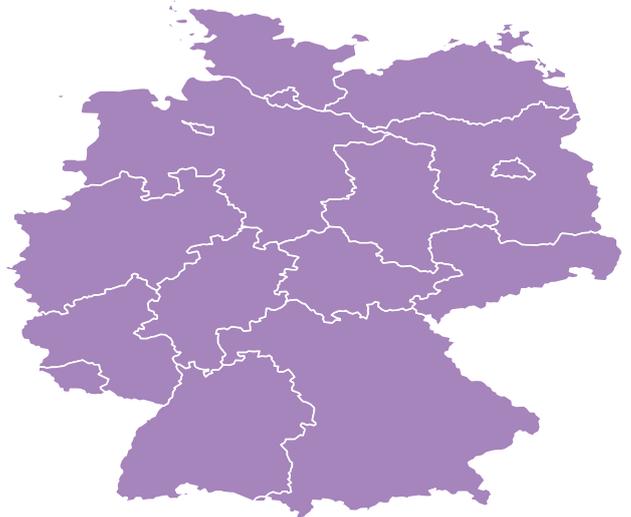
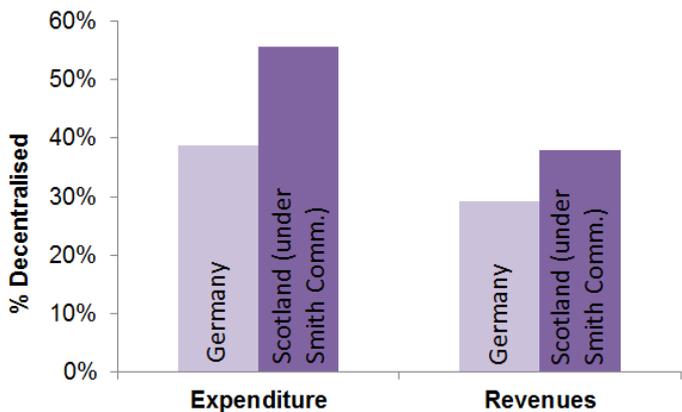
Conditional fiscal transfers

The Commonwealth also makes a number of transfers to the states that are intended to support the implementation of particular national priorities. These include national “specific purpose payments”, national partnership payments and health and school funding. These make up around half of Commonwealth funding to the states and territories. The majority of this funding is accompanied by conditions (although these vary for each type of transfer) to ensure that national objectives are achieved. The distribution of these payments is determined by the specific nature of intergovernmental negotiations in each case. The Commonwealth Grants Commission takes the share of these payments that each state and territory receives into account when assessing their expenditure needs for untied grants.

GERMANY

Overview

Germany is a federal republic. The fiscal powers of each sphere of government follow the constitutionally assigned competencies. Decentralisation focuses on tax assignment rather than the devolution of major tax powers and there is tax-base and tax-rate uniformity across the Länder. Länder also rely on grants and borrowing. There is a process of fiscal equalisation to ensure uniformity of living conditions.



Layers of devolution

There are three layers of government – federal (Bund), states (there are 16 Länder) and local municipalities (Gemeinden).

Devolved tax powers

Federal government

The federal government has exclusive jurisdiction over tariffs, indirect taxes (including mineral oil tax, tobacco tax, spirits tax, sparkling wine tax, intermediate good tax, coffee tax and electricity tax) capital transaction taxes, insurance taxes and surcharges on income taxes.

Länder

The Länder have exclusive rights to obtain revenues from the wealth tax (which has not been levied since 1996), the inheritance and gifts tax, motor vehicle tax, transaction taxes not in the power of the federal government (including real estate purchase tax, betting and lottery tax and the beer tax) and fire protection tax. However, the bases and rates of these taxes are set jointly by the federal government and the lander. There must be no difference in taxation across the Länder with the exception of real estate purchase tax, for which the Länder have tax rate autonomy.

Income tax, interest rebate, corporation tax and VAT are joint taxes, with revenue shared between the federal government, the lander, and, to a lesser extent, the local jurisdictions.

Income tax law is federal, but requires the consent of the Länder . The individual Länder receive their shares of income tax and corporation tax revenues according to the place of residence of the individual taxpayer/location of the firm. 75 percent of the VAT revenues due to the Länder are allocated on a per capita basis (a basis which distributes in favour of economically weaker Länder).

Local government

Local jurisdictions have the power to set the tax rates in relation to local business and real estate taxes.

Sub-central borrowing powers

The Länder use borrowing to finance shortfalls in revenue. There are no credible federal restrictions on state borrowing. However, the Länder have their own constitutional and statutory provisions that restrict them from borrowing more than the outlays for investment purposes projected in the budget. This restriction is not enforced by the federal government and there are several provisions which can soften it. For example, borrowing can exceed investment spending if the federal government declares a disturbance of macroeconomic equilibrium. Public debt of most Länder has increased substantially over time. In some lander the burden of debt has become so high that they have received federal government bailouts. One of the reasons for the existence of excessive borrowing by the lander is the lack of revenue autonomy (Feld and Von Hagen 2008).

The Länder control the restriction of local borrowing to their cash flow, although local jurisdictions have a wide range of borrowing possibilities.

Fiscal transfer arrangements

Overview

There is a strong emphasis on equality of living conditions and public services in Germany which has brought about the cooperative model of fiscal federalism. Fiscal equalisation adjustments serve to support fiscally weaker Länder and are a central part of Germany's sub-central financing arrangements.

Four-step process of fiscal equalisation

There are four main stages to fiscal equalisation across Germany: tax revenue assignment, VAT revenue sharing with the poorest Länder, fiscal transfers from the richer to the poorer Länder and a federal adjustment for the poorest Länder.

First, tax revenue from different sources is assigned to the Länder. Secondly, 25% of Länder VAT revenues is used explicitly as an equalisation tool. A measure of fiscal capacity for each Land is made, which incorporates yields from personal income tax, corporation tax and the few taxes levied at Länder level (none of any great significance). Any Länder measured at less than 97 percent of the average receive payments to bring them closer to the average.

The third stage is unique, consisting of direct, horizontal redistribution from richer to poorer Länder. Where other federal systems provide for horizontal equalisation, redistribution is carried out by the federal level. To do this, a notional assessment of the fiscal capacity of each Länder is made that takes account of the use of city services from individuals from neighbouring Länder for the three major city regions (Berlin, Bremen and Hamburg). Those notional fiscal capacities are then compared and those that are above the national per capita average are

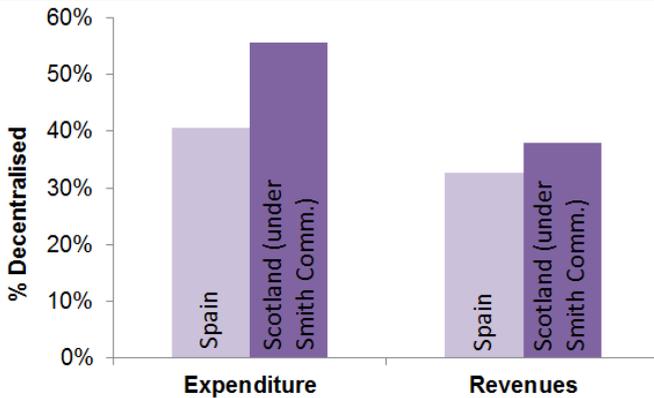
obliged to make equalisation payment.

The final process of horizontal fiscal equalisation is made directly at the Federal level where if after the above processes, Länder still have a fiscal capacity of less than 99.5 per cent of the national average, 77.5 per cent of this is compensated through 'federal supplementary allocations'. In addition to these supplementary allocations, specific allocations are made to reflect certain needs of Länder.

SPAIN

Overview

In Spain, devolution is asymmetric, reflecting a history of regional and cultural diversity and the political environment. A key asymmetry is between the Common Regime and the Foral Regime Autonomous Communities. The Foral Regime applies to the Basque country and Navarra and is characterised by almost complete revenue autonomy and considerable devolution of spending responsibilities.



Note - differing levels of decentralisation to the Common and Foral Regime in Spain is not reflected in this chart.

Layers of devolution

Spain has 17 Autonomous Communities (ACs) and 2 Autonomous Cities. It also has 50 provinces and just over 8,000 municipalities at the local level.

Devolved tax powers

Common Regime AC

Common Regime ACs have powers to vary wealth tax, inheritance and gift tax, tax on capital transfers, gambling tax, vehicle excise and hydrocarbons retail sales tax. They may also create certain taxes at their own discretion. The Common Regime ACs also receive revenues in relation to 33% of personal income tax base (and may increase or reduce the rates, as long as it remains progressive and with the same number of tax bands, as well as establish their own tax credits). They are also assigned 35% of VAT revenues, 40% of excise taxes on tobacco, alcohol and petrol and 100% of revenues from tax on electricity and certain means of transport. Regional governments may also introduce their own regional taxes and surcharges, although there are strict bounds on the types of taxes that can be introduced.

Foral Regime ACs

Foral Regime ACs have responsibility for all taxes except import duties, payroll taxes, VAT and excise duties (the latter two are collected and administered by the Foral AC's, but the rate and base is defined by the central government due to EU rules). Laws stipulate that regions should maintain an overall tax burden equivalent to that in the rest of Spain. This limits tax competition and makes it difficult for ACs to introduce new taxes. In practice the tax burden is lower in these regions because of various allowances and tax credits.

Municipalities

Five taxes are assigned to local municipalities: property tax, local business tax, vehicle tax, tax on increased property values in urban areas and tax on construction, facilities and infrastructure (the latter two are optional taxes). Municipal governments set rates, allowances and tax credits for local taxes. Another important source of revenue for them is user fees.

Sub-central borrowing powers

Under Spain's Budgetary Stability Law, the maximum combined public-sector deficit is 1.5% of GDP, with regional governments being allowed to accumulate up to 1% and local governments 0.1%. Any regional government that fails to fulfil its deficit objective must present a financial recovery plan for the next three years and must get the central government's authorisation for any new debt as long as the non-performance persists. Note that in recent years the Spanish Ministry of Finance launched extraordinary liquidity measures which provide loans to the ACs and municipalities in exchange for compliance with strict fiscal conditions to help achieve fiscal consolidation.

Fiscal transfer arrangements

Fiscal transfer arrangements for the Common Regime ACs are also different to those for the Foral Regime ACs.

Common Regime ACs

Own taxes and assigned revenues provide with Common Regime ACs with over 50% of their overall spending budget. The regional governments also receive general unconditional equalisation grants and conditional grants.

The main fiscal transfer occurs through the general unconditional equalisation grants. These are provided from the central Sufficiency Fund, built up from devolved tax revenues and equalisation transfers. Transfers are based on an assessment of the fiscal gap between the expenditure needs and the fiscal capacity of the regions. Those regions whose expenditure needs are less than fiscal capacity must make a negative transfer and remit money to the central government. There is also a "hold harmless provision" which means that no regional government can be assigned lower revenues than it had received in the previous period.

In addition to the equalisation grants, Common Regime ACs receive conditional grants that are intended to foster regional development.

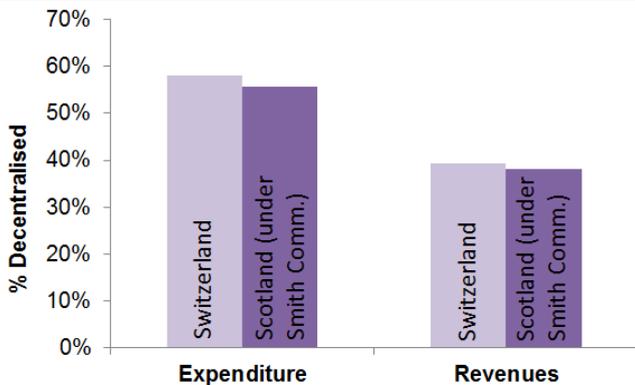
Foral Regime ACs

As the Foral Regime ACs almost have full fiscal autonomy, they do not need any transfers from central government. In fact, the Foral Regime ACs each make a contribution to the Spanish central government for the general expenses that they incur on their behalf (e.g., for services such as defence). The amount of the negative transfer is based on a fairly complex formula that takes into account income relative to the national economy. The calculation methodology is reviewed every five years.

SWITZERLAND

Overview

Federalism is only one of two constitutional foundations of Swiss government; the other is the strong tradition of direct democracy, exercised through referendums at the federal, cantonal and municipal layers. Cantons have wide-ranging fiscal autonomy and there is strong tax competition. A fiscal equalisation system ensures the coherence of the country.



Layers of devolution

Switzerland is made up of 26 cantons. The cantons are divided into 2,760 municipalities.

Devolved tax powers

Federal government

The federal government relies largely on indirect taxes (mainly VAT, but also excise taxes, import duties, gambling house taxes) although revenues are also derived from capital transfer tax and user fees. There is a highly progressive federal income tax, a corporate tax and the federal government also levies a tax on income from interest.

Cantons

The cantons have the basic power to tax income, wealth and capital. Tax rates vary significantly between the cantons. For example, corporation tax rates at the sub-national level vary from 6% to 19% (these are on top of the federal government rate of 8.5%).

Municipalities

The municipalities can levy a surcharge on canton taxes.

Sub-central borrowing powers

Cantons

Every canton is responsible for its own fiscal discipline. The main rationale for public debt is capital investment. Cantons can borrow from the public by issuing bonds in Switzerland or from commercial (Swiss or foreign) banks. Canton real debt increased significantly during the 1990's and early 2000's; although it varies from canton to canton (some cantons have zero debt). Their

varying indebtedness is reflected in their different ratings in the capital market. Nearly all cantons have it in their constitutions and budget laws that the principle of a balanced budget has to be observed and accumulated debt has to be cut down. Recently, almost all cantons have also introduced fiscal rules. There are no explicit bankruptcy rules or laws which provide for a canton going bankrupt.

Fiscal transfer arrangements

Overview

The fiscal equalisation system consists of three building blocks: resource equalisation, compensation for additional costs and transitional funding to compensate cantons from recent reforms to the system.

Three building blocks of fiscal equalisation

The objective of resource equalisation is to provide at least 85% of the average financial means for all cantons (calculated on the basis of capacity and need). The resource potential of each canton is determined by the tax base (taxable personal income, taxable corporate income and the taxable assets of private households). Transfers to “poor” cantons are sourced from both the federal government (60%) and the “rich” cantons (40%).

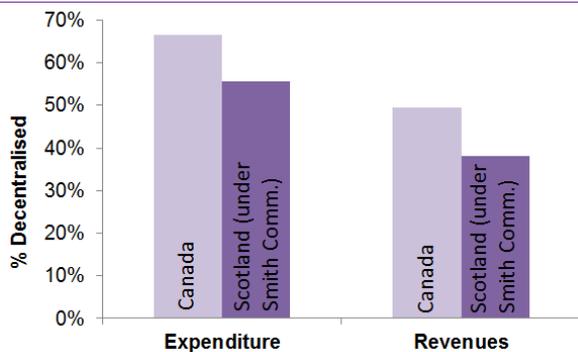
The purpose of cost compensation is to provide for the higher costs associated with geographic (urban or mountainous) and socio-demographic challenges.

The transitional funding aims compensate for losses due to the implementation of changes in the fiscal equalisation system in 2008. This funding is limited for 28 years and will reduce by 5% annually from 2016. It is also financed by both the federal government and the “rich” cantons.

CANADA

Overview

Canada has a federal system where provinces are responsible for the provision of many important public services, are responsible for raising a high proportion of their own revenues and share unrestricted access to all the major tax sources. In tandem with fiscal devolution, Canada operates a system of equalisation payments so that provinces can provide reasonably comparable levels of public services at reasonably comparable levels of taxation. Boadway argues that “The Canadian federal system represents the textbook best-practice system of fiscal federalism” (Boadway in Shah (ed) 2010).



Note - differing fiscal arrangements across the Provinces are not reflected in this chart.



Layers of devolution

Canada comprises ten provinces and three territories. There are also municipal governments as well as metropolitan and regional governments.

Devolved tax powers

Federal government

The federal government obtains most of its revenues from three large tax sources; income tax, payroll tax and sales tax. It obtains lesser revenues from excise taxes, trade duties, lotteries and user fees.

Provinces

Provinces are supposedly restricted to “direct taxes” to raise revenue, although the definition has been interpreted by the courts very liberally and includes sales taxes levied on consumption. The provinces receive most revenues from the same three large tax sources as the federal government. Recent reforms give them greater flexibility to tailor income tax rates and rebates. Provinces also have the authority to levy corporation tax, capital taxes and tax on inheritance (but these have disappeared, in part due to interprovincial tax competition). They also obtain revenues from excise taxes, gambling, user fees and other lesser sources. The provinces also own the natural resources within their borders and can manage and tax them as they see fit.

There are tax harmonisation agreements covering some of the taxes shared by the federal and provincial governments. These provide common templates which can apply in all provinces that choose to participate, as well as the central collection and allocation of revenues. For income

tax and corporation tax, the provinces participating in the system must adhere to the federal tax base, but have discretion over rates (including, for income tax, the size of each tax band and the use of tax credits). All provinces except Quebec participate in the income tax harmonisation system and all provinces except Alberta and Quebec participate in the corporation tax harmonisation system. Two arrangements exist in relation to the harmonisation of sales taxes; a federal sales tax harmonisation agreement with New Brunswick, Nova Scotia, Ontario, Prince Edward Island and Newfoundland and Labrador and an agreement between the federal government and Quebec (the same harmonization agreement as the other provinces). Other provinces administer their own retail sales taxes.

Municipal governments

Municipal governments are funded through property taxes and user charges (with the latter of increasing importance) and can set these as they see fit. Property tax bases are harmonised within all provinces, with municipalities able to apply their own rates. Where metropolitan or regional governments exist, they may also be able to set their own property tax rate alongside the municipal governments.

Sub-central borrowing powers

Provinces control their own budgets and can borrow and lend. They are free to determine their own capital expenditures and to finance them as they choose. Fiscal discipline applies through a combination of political accountability and capital market discipline. Some provinces have enacted legislation that restricts the use of deficit financing, although this is self-imposed.

Municipal governments are entities of provincial governments, and their powers flow from provincial legislation. They face some borrowing restrictions, with borrowing typically restricted to approved capital purchases.

Fiscal transfer arrangements

Equalization is formally part of the Canadian constitution. There are federal transfers to the provinces to ensure that provinces have adequate fiscal capacity to deliver important public services and to achieve reasonably comparable levels of public service in relation to health, welfare and education. The two main forms of transfers are unconditional equalization transfers and equal per capita bloc transfers to support provincial social programs.

For the unconditional equalization transfers, each province's per capita entitlement is determined by measuring the provinces' ability to raise revenues (fiscal capacity). The entitlement is equal to the amount by which its fiscal capacity is below the average fiscal capacity of all provinces, known as the "10 province standard". Payments are then made to the less prosperous provinces. Provinces get the greater of the amount they would receive by fully excluding natural resource revenues, or by excluding 50 per cent of natural resource revenues (Department of Finance Canada 2014). Ownership of natural resources leads to significant fiscal disparities between provinces, particularly when there are high oil and gas prices. This has increased the cost and volatility of the equalization program, and the federal government responded by fixing the total transfer fund and its rate of growth over time.

The system of social transfers has two components; the Canada Health Transfer (CHT) and the Canada Social Transfer (CST). It is an equal per capita transfer system. The CHT is conditional on respecting the principles of the Canada Health Act, but there are not any such standards for welfare and education under the CST. There are various smaller transfers from the federal

government to the provinces for specific purposes.

Individual fiscal transfer arrangements are available to the provinces if they wish, but only Quebec chooses to adopt them. Quebec chose to opt out of certain federal-provincial transfers in return for differential tax room.

The fiscal transfer arrangements between the federal government and the provinces differs considerably from that between the federal government and the territories. Instead of being based on revenue-raising capacity, they are based on expenditure requirements. Levels of transfers tend to be significantly higher reflecting the greater cost of delivering public services in these areas.

Note that the federal government uses its spending power to influence provincial government program design by putting conditions on federal-provincial transfers. Naturally, this gives rise to conflicts and situations of disharmony between the federal government and the provinces. The conflict can be minimised by the federal government attaching only broad, general conditions to its grants, which in recent years has been the case (Boadway in Shah (ed) 2010).

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