

Reflections from the Deputy Chief Financial Officer and Chief Economist of the Washington DC Government

There are four fundamental questions of fiscal federalism: Which type of government performs which spending functions? Which government raises which revenues? When one adds up the franc (dinar, zloty, euro...) amounts in answering the first two questions and finds an expenditure-revenue gap for some local, cantonal, provincial or municipal governments, how shall gap-closing intergovernmental transfers be designed and implemented? And fourth, what is the institutional setting within which the preceding questions are answered and implemented?

This note focuses on the third question the design of intergovernmental transfers, which was a subtheme at 2002 International Conference on Federalism of the dialogue and work sessions: Problems of Equalization in Federal Systems.

The capacity and willingness of governments to learn the topic of transfers is most important. For many federal systems, a well-designed system of intergovernmental transfers provides a vehicle for achieving a society's broader goals, which range from poverty reduction and the efficient delivery of public sector services to maintaining social cohesion and, for some countries, avoiding conflict. But if designed poorly, intergovernmental transfers worsen the fiscal position of local government and thus undermine or even undo the federal partnership.

To sort out the various policy and administrative options in answering the transfer question, there is a knowledge overlapping of (i) *own* country experience and (ii) sorting out the lessons of other countries (*learning from each other*). In the case of transfers, which was the major discussion point of the work session, the methodology of the Learning Spiral's eight stages provides a stylized framework for what, in practice, governments do if they are willing to institutionally and organizationally *learn*. For sure, the terminology will differ between the Learning Spiral and the practice of government. Thus, for example, the conceptualization through configuration stages of the Learning Spiral may be thought of as a *sequencing* of tasks. This is not to suggest that either the eight stages or sequencing occur in a smooth step-by-step manner.

There are many good books and conferences on the topic of intergovernmental transfers. But what makes the Learning Spiral important and different—as was demonstrated in its framing of the organization of the 2002 conference, which had a component of a large face-to-face convening activity in St. Gallen—was that it imposed the learning process on the content of the topic. In the case of the conference subtheme of fiscal equalization in the federal system, the content neatly mirrored the methodology of the triangulation step of the Learning Spiral. An equalization system can be qualified as (i) vertical when the policy is conducted by the central government and financed from the central budget; (ii) horizontal when the intervention is among governments, with the transfers being made from *high* to *low* fiscal

capacity governments; or (ii) a hybrid of the first two. The vertical approach was illustrated by Australia, the horizontal by Canada, and the hybrid by Switzerland. When the participants in the conference met face to face in St. Gallen, the case presenters were a head of state, a federal minister, and a director of a cantonal government. Learning method, content, and institutions converge—voilà!

To be clear, the conference and the interface among learning methodology, content, and institutional practice were not just about St. Gallen. Rather, it was learning-from-each-other series of activities that, as with the content illustration above, *mapped* the Learning Spiral to a systematic set of knowledge sharing events. That is, the 2002 conference entailed much more than a *one-off* event whereby one convenes practitioners and policy makers for a few days of discussion. Rather, it was a series of learning stages that began with a series of *premeeting* knowledge-sharing activities, most electronically, which were followed by a series of electronic post-St. Gallen meetings and the publication of the conference book *Federalism in a Changing World*.

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