

# Tax devolution - a help or hindrance to the UK's cities, regions and nations?

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# What does the evidence say?

- Theory doesn't provide clear guidance on the benefits / costs of fiscal decentralisation
- But fiscal devolution isn't new: there has been a **global trend to devolution since the 1970s**
- Empirical work was initially quite negative about the impact

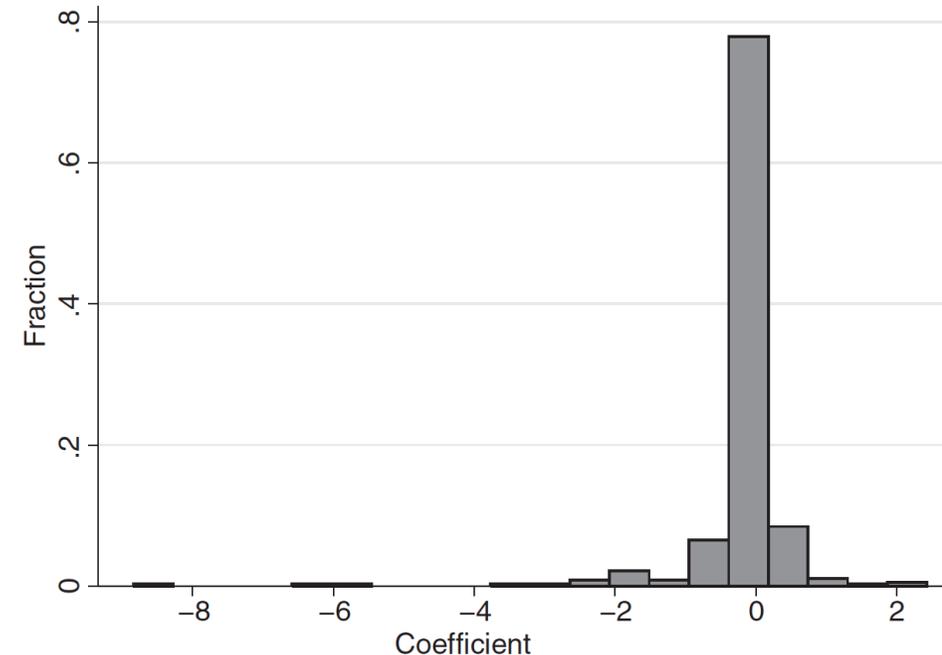
## Potential impacts of fiscal decentralisation

Good	Bad
Incentives to grow economy + tax base	Corruption
Clearer responsibilities / accountabilities	Zero-sum competition
Local preferences	Matthews effect
Growth potential' of lagging regions	Reduced transfers mean 'innocents' suffer
	Weaker capacity

# Does devolution increase growth?

- There is **a lot** of empirical evidence on this point - but results aren't clear (see figure)
- The answer: **we don't know**, it seems likely that it is beneficial in some circumstances but not in others

**Meta-analysis of coefficients:  
Impact of decentralisation on growth**  
From Baskaran et al., (2016)



*Notes:* This figure presents the distribution of the coefficient estimates for the decentralization measure. We drop very large and very small estimates (above an absolute value of 10) for presentational purposes. For further details, see the main text.

# Does devolution reduce disparities?

- Regional inequalities tend to be increasing *within* countries
- The evidence: **fiscal devolution raises growth in lagging regions** - help them grow (rather than hindering growth in top performers)
- Most important effect: if responsible for finance, more likely to spend wisely

But big caveat: only happens with high quality of government

## Impact of regional disparities on growth at different government quality levels

From Kyriacou et al., (2013)

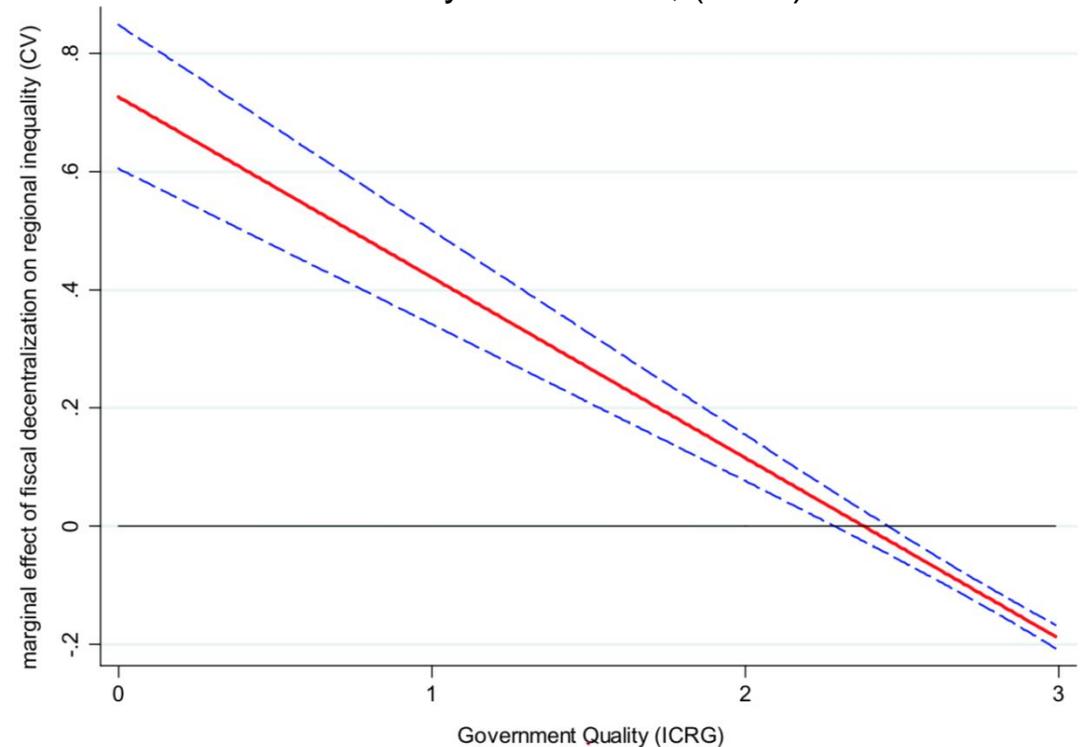


Fig. 1. Marginal effect of fiscal decentralization on regional disparities in the presence of government quality

# A help or a hindrance?

- **What's the worst that can happen?** If it make us all feel better, I don't think it can do much harm
- There two conditions to successful fiscal decentralisation:
  - **Capacity** - the quality of government matters. Local government often hollowed out, focused increasingly in statutory duties, and with less strategic capacity.
  - **Strong public support** - to hold politicians to account, and to engage with tax changes (see Regional Assemblies...)
- But it isn't a **panacea**: austerity, industrial strategy, etc all important