Discussion of "Fiscal Transfers to Local Governments and the Distribution of Economic Activity"

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Summary

- Research Question: What is the impact of fiscal equalization on local policy and economic activity (revenue, spending, jobs)?

- Context: Finland 2015-2019
  - Intergovernmental transfers from central gov't to municipalities
  - Reform in 2015: New grant formula → reallocation across municipalities

- Identification strategy: Difference-in-differences
  - Compare \`winners' vs. \`losers', before and after reform

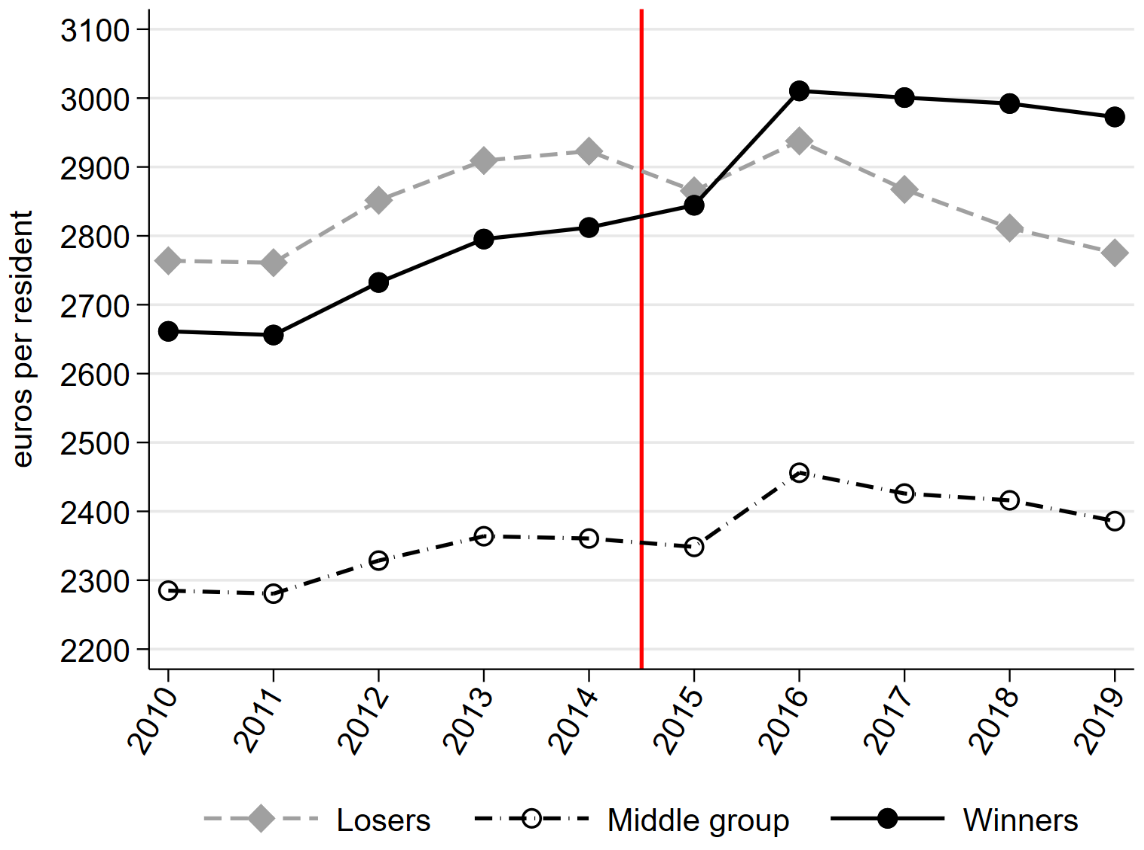
2015 Reform (Empirical Strategy)

- Revenue-neutral formula overhaul
  - Idea: Fix population characteristics and calculate Δ in grants due to formula change

- Grants depend on various elements of the municipal population
  - Higher weight on "tax base equalization"
  - Shifts in cost weights (morbidity index up, age structure down)
  - New weight on "workplace self-sufficiency"

- Winners: +≥€50/resident; Losers - ≥€50/resident

Effects of Reform on Grants per Resident

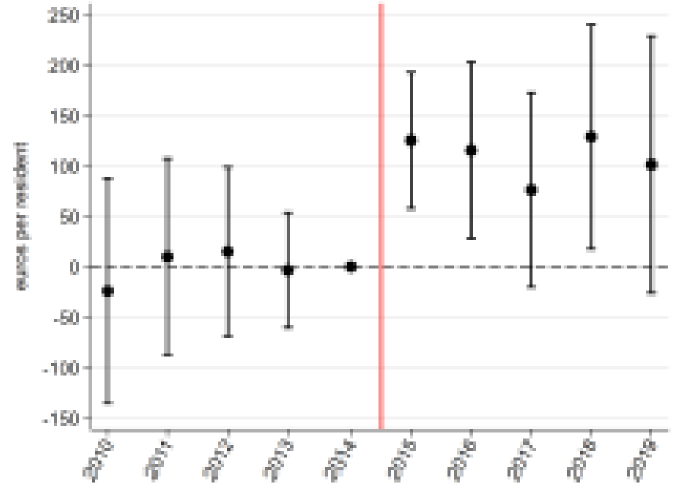


- Ideally: compare
    - winners vs. middle and
    - losers vs. middle
- Reality: non-parallel trends between middle and other groups

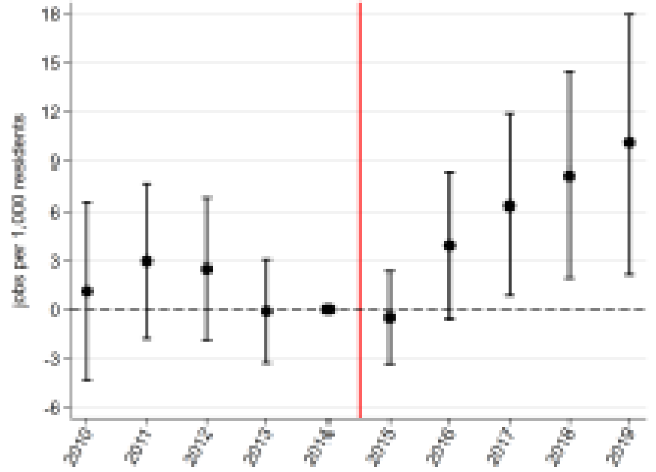
Main Findings

- Higher grants →
  - Lower municipal taxes and fees (1/3)
  - Increase public spending (1/3)
  - Reduce long-term borrowing (1/3)

  - Increase private sector jobs
  - Small/imprecise impact on employment overall
  - Small/imprecise impact on migration
  - Reduce out-commuting



(c) Total operational spending per resident



(a) Total number of jobs per 1,000 residents

Relation to Existing Literature

- This paper bridges two largely separate literatures:
  - Fiscal federalism
  - Place-based redistribution
- Why the separation?
  - Perhaps geographical: U.S. does not do (explicit) fiscal equalization via intergovernmental grants, but common in the rest of the world
  - Possibly disciplinary traditions: Public vs. Urban/Labor?
- Also connects to a literature on fiscal multipliers

Fiscal Equalization

- Why have unconditional grants from central gov't to sub-national gov'ts based on "fiscal need"?

- Rationale: Equity-based (rather than efficiency-based)
  - "…may provide the glue necessary to hold the federation together…" – Oates (1999)

- Empirical literature focuses on "flypaper" effects; spending on public goods

Place-Based Redistribution

- Rationale:
  - Traditionally: equity-based
  - Possibly efficiency arguments e.g.,
    - Agglomeration economics (productivity spillovers)

- Place-based redistribution is typically more specific than "unconditional" block grants, e.g., tax credits to employers etc.

- Empirical literature focuses on job creation, wages, mobility

Connecting the Findings

- This paper considers both strands of the literature and considers
  - (Fiscal federalism) Revenues and spending
  - (Placed-based redistribution) Jobs and mobility
- Suggestion: Draw a closer link between these
  - What was the nature of the spending increase?
  - Were there tax cuts for businesses?
  - Or do tax cuts → increase demand → increase jobs?

External Validity and Policy Implications

- Estimates imply that equalization can have effects on local economic activity, and with minimal distortions (migration)
  - However, mostly shifting work patterns

- Mechanisms: Important for understanding whether effects extrapolate to different types of place-based policies

- Generalizability: Finland = decentralized

Other Empirical Questions

- Explore winners vs. “no change” group and losers vs. “no change” group
  - Possibly find a “no change” group with similar characteristics
- Heterogeneous effects by municipality characteristics
- Longer-term outcomes: Do the job effects persist or do migration patterns change?

Conclusion

- Very comprehensive evaluation of the effects of an intergovernmental grant

- Convincing identification strategy that relies on a reform

- Bridges several literatures