

Redistributive efficiency of fiscal policy: The role of decentralization

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Abstract:

In this paper we empirically analyse the redistributive efficiency of fiscal policy considering both its main cash redistributive instruments and its degree of decentralization for a sample of 35 developed and developing countries over the 2000- 2016 period. To do this, a two-stage procedure is followed. First, we estimate the redistributive efficiency of cash transfers and direct taxes at central and subnational level by employing a bootstrap Data Envelopment Analysis (DEA) method. We obtain evidence that redistributive efficiency varies across countries and -on average- has diminished over the analysed period, in particular after the Great Recession (2007-08). Second, a bootstrap truncated regression analysis is used to identify the contextual factors that might explain redistribution efficiency variation across countries and time. Our results show that redistributive efficiency is directly associated with having low political decentralization. And only in case of countries that enjoy a high level of government quality, politically decentralised systems are more redistributive efficient.

Keywords: Redistributive efficiency, fiscal policy, decentralization, DEA, truncated regression analysis.

JEL Codes: C14, C34, H30.