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## Book Review

[Book Review of] Fiscal federalism : quantitative studies, Harvey S. Rosen (ed.), Chicago, Univ. of Chicago Press, 1988

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Frage zu stellen schien, hat sie im Frühjahr 1924 konsequent einschneidende Kreditrestriktionen durchgeführt.

Wenig überzeugend ist zudem Horsmans Bemühen, die Anti-Inflationsmaßnahmen von 1923 mit einer hartnäckigen Stabilisierungskrise in Verbindung zu bringen. Folgt man Holtfrerich<sup>3</sup>, dann sehen die Fakten so aus, daß die Arbeitslosenquote (bei den Gewerkschaftsmitgliedern) zwischen Oktober und Dezember 1923 auf 28,2% anstieg, dann bis Mai 1924 auf 7,5% fiel und schließlich nach einem vorübergehenden Wiederanstieg auf 12,4% im Mai und Juni 1925 mit 3,3% einen Tiefstand erreichte, der sich ohne weiteres als Vollbeschäftigung interpretieren läßt. Daß es ein knappes halbes Jahr später erneut relativ hohe Arbeitslosenquoten gegeben hat, ist nicht zu bestreiten. Aber der Versuch, die Entwicklung ab November/Dezember 1925 primär der Stabilisierung der Mark anzulasten, ist ein recht kühnes Unterfangen, zu dessen Begründung es sicher nicht ausreicht, sich auf die beiden Schlagworte „cash flow crisis“ und „belated adjustment of production to a pattern of demand more sustainable in non-inflationary times“ (S. 18) zu berufen.

Einwände ähnlicher Art lassen sich auch gegenüber der Darbietung der Fakten und deren Interpretation in den anderen Kapiteln des Buchs vorbringen. Wer sich also umfassender informieren will, wird daher die von Horsman benutzten Quellen wohl oder übel noch einmal selbst in die Hand nehmen müssen.

Manfred Neldner

**Rosen, Harvey S. (Ed.),** *Fiscal Federalism: Quantitative Studies*. Chicago 1988. The University of Chicago Press. IX, 262 pp.

The volume contains seven articles and an equal number of comments that were presented at a conference in April 1987. The conference was part of an NBER project on state and local government finance. All the contributors are U.S. residents, and all the contributions are concerned with the U.S. federal system. The book is worth reading, however, also for those who are not interested in the specific properties of the U.S. system since it demonstrates how to derive testable hypotheses from the theory of fiscal federalism.

The first paper, by *Wallis* and *Oates*, examines the development of state and local government shares in revenues and expenditures. Six different hypotheses on the optimal degree of centralisation are developed. Subsequently, it is analysed whether the actual patterns fit in with these hypotheses. The authors conclude that centralisation should be and actually is directly related to per-capita income and inversely related to both population size and urbanisation. For the future, they expect the process of centralisation not to continue.

The starting point of *Inman* is the observation of an increasing share of federal grant in state and local expenditures. The possible determinants of this development are explored and it is concluded that most of these transfers were not intended to correct market failures and compensate externalities but to serve the political goals of the central government, especially of congressional representatives.

*Zax* analyses the impact of different numbers and types of jurisdictions on county expenditures and debt. According to his results, an increase in the number of jurisdictions within counties raises total expenditures and debt, thus indicating significant

<sup>3</sup> Vgl. Holtfrerich, Carl-Ludwig, „Past Experience with Monetary Reform. Germany and Other European Countries in the 1920s“. In: Williamson (Ed.), *Inflation and Indexation*. Washington 1985, S. 123–137, hier S. 136, Tabelle 6.4.

economies of scale in the provision of local public goods. A small number of jurisdictions and a corresponding high degree of "market power" of bureaucrats, on the other hand, gives rise to budget-maximising and an over-supply of public goods. The results are derived, however, from rather ad hoc regressions that come close to measuring without theory.

Three papers (*Holtz-Eakin and Rosen; Lindsay; Zodrow*) are addressed to the consequences of deductability of state and local taxes in federal income taxes. The priority of this topic at the conference was probably stimulated by the plans of the Reagan administration of removing deductability in order to improve the efficiency of total government expenditures. Holtz-Eakin/Rosen and Lindsay agree that such an approach would significantly reduce the level of local government expenditures, whereas Zodrow presents a general equilibrium estimate of the impact on federal and local tax revenues.

The final paper of *Hulten and Schwab* is concerned with measuring the contribution of government to GNP. Since the systems of national accounts do not cover income generated by the fixed capital of government, it is argued, conventional estimates of the value of government services are incomplete.

All in all, the NBER conference has demonstrated that the economic analysis of fiscal federalism is still in its infancy. The theoretical basis is much broader than in the days of Tibout, but there are very few bridges to empirical application. In part, these deficiencies are inherent in every analysis in the realm of public choice. To some extent they may also be ascribed to the limited attention that has been paid to fiscal federalism in past years. The situation may change, however, when the ongoing process of European integration will raise several new questions about the optimal division of responsibilities between different levels of government. Future studies on European integration will probably benefit from the trials and errors presented in this volume.

Henning Klodt

**Taylor, Lance J.**, *Varieties of Stabilization Experience. Towards Sensible Macroeconomics in the Third World.* Oxford 1988. Clarendon Press. VI, 180 pp.

Lance Taylor, who has become well known in development economics (among other things) for his two macroeconomic textbooks and as the long-standing editor of the 'Journal of Development Economics', synthesizes in this present publication the results of eighteen recent studies undertaken by the World Institute for Development Economics Research (WIDER) of the United Nations University. These country studies aim at investigating the experience of the respective countries with stabilization programmes. It is fair to state that all the authors – including Lance Taylor – do not a priori share the "orthodox" view of stabilization approaches put forward by the IMF (but not necessarily by the World Bank in recent years). By contrast, the contributions to the WIDER research work approach the problem of stabilization from "new-structuralist" macroeconomic theory for third world countries: different economies with different relationships and varying links of causality in their economic systems require different approaches to stabilization.

Taylor has organized the book into 5 chapters. Chapter 1 serves to guide the reader to the subject: "stabilization packages share many elements in common. . . But they give the most diverse results. The task at hand is to explain why. . ." (p. 1). Also, he points to the fact that the "new-structuralist" approach should not be confounded with the "old-structuralist" school of development economics created in the sixties. Among