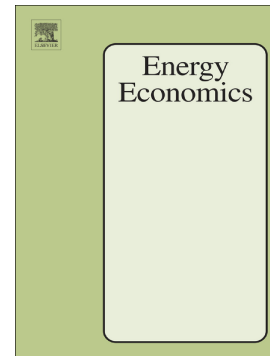


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DECENTRALIZATION AND FUEL SUBSIDIES

*by*Massimiliano Ferraresi,[†] Christos Kotsogiannis^a and Leonzio Rizzo^{b,c}

Abstract: This paper explores the role of decentralization in explaining variation in fuel subsidies across countries. Using panel data over the period 1998-2008 and for 108 countries, it emerges that the effect of ‘decentralization’ (taken to be an increase in the number of government levels) broadly decreases both diesel and gasoline subsidies, with this effect being more pronounced when the level of political accountability is low. For developing countries, for which political accountability is low, decentralization decreases gasoline and diesel subsidies by at least 6.98% and 12.99%, respectively. For developed countries, for which political accountability is high, decentralization does not have any impact on both gasoline and diesel. What this evidence points to is that in developing economies, where voters are poorly informed and accountability is low, decentralization appears to be associated with lower fuel subsidies.

Keywords: Fuel-price subsidies; multi-leveled governance; federalism; decentralization; share responsibility

JEL classification: O23; H77; D72

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