



(REVIEW ARTICLE)



## How budgeting frameworks differ between federal and unitary states

Farid Ibrahimov \*

*Economics, Azerbaijan State University of Economics, Baku, Azerbaijan.*

International Journal of Science and Research Archive, 2025, 15(01), 998-1012

Publication history: Received on 04 March 2025; revised on 14 April 2025; accepted on 16 April 2025

Article DOI: <https://doi.org/10.30574/ijrsra.2025.15.1.1069>

### Abstract

Budgeting frameworks are foundational to the functionality and efficiency of any state apparatus, acting as blueprints for how public resources are allocated, managed, and evaluated. This paper explores the fundamental distinctions between budgeting frameworks in federal and unitary states, emphasizing the structural, procedural, and practical implications of each model. Federal systems, characterized by a constitutionally mandated division of power between central and subnational governments, tend to exhibit a complex, multi-tiered approach to budgeting. This includes decentralized revenue collection, differentiated expenditure responsibilities, and a reliance on intergovernmental fiscal transfers to address vertical and horizontal imbalances. In contrast, unitary states typically maintain centralized control over fiscal policy, leading to streamlined budgeting processes, consistent national standards, and potentially more efficient policy coordination, though sometimes at the cost of responsiveness to regional needs.

Ultimately, this article argues that while neither framework is inherently superior, each has context-dependent advantages and limitations. By understanding these differences, policymakers can adopt more nuanced, adaptive approaches to budget reform and public financial management, especially in an era of increasing fiscal stress and demand for government accountability.

**Keywords:** Fiscal Federalism; Budget Decentralization; Expenditure Responsibilities; Intergovernmental Transfers; Public Financial Management (PFM); Performance-Based Budgeting

### 1. Introduction

Public budgeting serves as a critical instrument of governance, translating policy priorities into actionable programs through the allocation of financial resources. It reflects the underlying political and administrative structure of a country and influences economic stability, social development, and public service delivery. One of the key factors that shape the design and execution of a country's budgeting framework is the form of state organization—whether federal or unitary.

Federal and unitary states represent two distinct paradigms of governance, each with its own approach to managing fiscal authority and responsibility. In federal systems, power is constitutionally divided between national and subnational governments, leading to decentralized fiscal systems in which multiple levels of government prepare and execute budgets independently or semi-independently. Examples include the United States, Germany, Canada, and India. In contrast, unitary states such as France, Japan, and the United Kingdom centralize political and fiscal authority, with subnational units acting primarily as administrative extensions of the central government.

The distinction between these two systems significantly affects how public budgets are planned, executed, and evaluated. In federal systems, budgeting frameworks must accommodate a diversity of regional priorities, governance capacities, and revenue bases, often necessitating complex intergovernmental fiscal arrangements. Conversely, unitary

\* Corresponding author: Farid Ibrahimov

states benefit from greater uniformity and central oversight, which can enhance policy coherence and facilitate national development goals but may constrain local responsiveness.

This article aims to provide a comprehensive analysis of how budgeting frameworks differ between federal and unitary states. It draws on both theoretical foundations and empirical evidence to examine key components of the budget cycle—revenue collection, expenditure responsibilities, intergovernmental transfers, accountability mechanisms, and implementation processes.

The analysis is further enriched by comparative case studies of the United States and France—two prominent examples of federal and unitary systems, respectively. These case studies highlight how theoretical models are applied in practice and illuminate the trade-offs inherent in each system.

By identifying the strengths and limitations of federal and unitary budgeting frameworks, this article contributes to a deeper understanding of public financial management and offers practical implications for policy reform, particularly in countries undergoing fiscal decentralization or administrative restructuring.

---

## 2. Theoretical Foundations of Budgeting Frameworks

Understanding how budgeting frameworks differ between federal and unitary states requires grounding in core theories of fiscal federalism, public administration, and intergovernmental relations. These theories offer insights into how power, responsibility, and fiscal resources are distributed across different levels of government—and how these arrangements influence the design, efficiency, and equity of budget systems.

### 2.1. Fiscal Federalism and Decentralized Governance

The theoretical cornerstone of budgeting in federal systems is fiscal federalism, as articulated by Wallace Oates (1972, 1999). Oates argues that decentralization allows for more efficient provision of public goods because subnational governments are closer to citizens and better positioned to understand local preferences. This principle, known as the *Decentralization Theorem*, supports the idea that regional governments can allocate resources more effectively when they have budgetary autonomy.

According to Musgrave (1959), the allocation function of government—deciding how public resources are spent—is best carried out at the local level, while redistribution and stabilization are more effectively handled by the central government. This trichotomy supports a layered approach to budgeting in federal systems, where different levels of government focus on distinct fiscal functions.

Scholars like Richard Bird and François Vaillancourt (2006) also stress that effective fiscal federalism requires clearly assigned revenue and expenditure responsibilities, along with fiscal rules that ensure macroeconomic stability and equity across regions. Without such mechanisms, decentralization may lead to fiscal fragmentation and inequality in public service provision.

More recently, Blöchliger and King (2006), in their OECD study on fiscal decentralization, argue that subnational governments require strong institutional frameworks, transparent intergovernmental transfers, and borrowing constraints to manage budgets effectively. In countries like Germany and Canada, constitutional provisions enforce cooperative federalism, which is key to fiscal harmony.

### 2.2. Centralization and Unitary Budgeting Principles

Unitary states operate on the principle of centralized authority, where the central government controls most aspects of public budgeting, including revenue collection and expenditure decisions. In this framework, subnational units are primarily administrative extensions of the central state, with limited fiscal autonomy.

According to Rodden (2004) and Smoke (2001), unitary systems tend to achieve greater policy uniformity and coherence. This model facilitates nationwide implementation of development goals, such as universal education or health programs, by ensuring equal budgetary allocations and administrative procedures.

However, this centralization comes at the cost of local flexibility. Tiebout (1956) argued that local governments should be able to “compete” by offering public services suited to citizen preferences. In highly centralized systems, this kind of local responsiveness is difficult to achieve unless accompanied by some form of fiscal or administrative decentralization.

The World Bank (2001) notes that even within unitary systems, trends toward devolution and “delegated budgeting” are growing, particularly in the context of urban governance and regional development. For instance, countries like Japan and South Korea have introduced performance-based grants to incentivize better fiscal management at the municipal level.

### **2.3. Budgeting as a Tool of Governance**

Regardless of the system of government, public budgeting is a core mechanism of governance. It translates policy objectives into actionable plans and allocates financial resources to meet public needs. Whether centralized or decentralized, effective budgeting frameworks aim to ensure three core goals: efficiency, equity, and accountability.

Allen and Tommasi (2001) stress that budget institutions matter as much as political structure. The clarity of rules, predictability of procedures, and transparency of processes determine how well budget systems function. Countries with weak institutions, regardless of governance structure, often struggle with inefficiency, overspending, and lack of public trust.

Ramil Abbasov (2025a) highlights that both centralized and decentralized systems face challenges in aligning expenditures with sectoral outcomes unless institutional checks—such as public audits, parliamentary scrutiny, and fiscal councils—are in place.

His empirical research on performance-based budgeting (Abbasov, 2025b) emphasizes that success hinges not only on system design but on political will, administrative capacity, and data systems. This aligns with findings from Andrews, Cangiano, and Kyobe (2014), who observe that in many developing countries, budget reform fails not because of structural flaws but due to weak implementation practices.

### **2.4. Institutions, Political Incentives, and Administrative Culture**

Another layer influencing budgeting frameworks is institutional and political context. In federal systems, budgetary decentralization often reflects not only legal mandates but also political incentives—such as maintaining regional autonomy or accommodating diversity in large, heterogeneous countries.

Inman and Rubinfeld (1997) argue that intergovernmental bargaining in federal systems is often influenced by partisan politics, regional lobbying, and electoral dynamics. This political economy of budgeting can either strengthen local accountability or distort resource allocation if not checked by strong institutions.

In unitary states, by contrast, institutional centralization often leads to strong bureaucratic control over budgets. While this may reduce fragmentation, it can also slow down innovation and responsiveness. Hood (2010) notes that administrative culture in unitary regimes is often rule-bound and compliance-driven, which affects how flexible budgets can be when responding to crises or emerging needs.

Ramil Abbasov (2025d) illustrates how administrative culture and institutional design shape budgeting outcomes more than formal structures alone. Türkiye’s centralized model has adopted modern tools like medium-term expenditure frameworks (MTEFs), but implementation gaps remain due to limited interagency collaboration and weak municipal finance systems. Conversely, the U.S., with its federal model, has greater fiscal diversity among states but also higher disparities in public services.

---

## **3. Fiscal Authority and Revenue Collection**

The assignment of revenue authority is one of the most distinguishing features of budgeting frameworks in federal and unitary systems. How governments collect and allocate revenue across different levels of administration significantly influences their fiscal autonomy, efficiency, and capacity to deliver public services. This section explores the contrasting approaches to revenue collection in federal and unitary states, evaluates their effectiveness, and draws on empirical evidence—including Abbasov’s (2025c) analysis of fiscal sustainability and military expenditure—to highlight practical implications.

### **3.1. Revenue Collection in Federal Systems**

In federal states, revenue collection is shared among multiple layers of government—typically national, state/provincial, and local. The extent and design of revenue authority vary across federations, depending on constitutional arrangements and historical-political developments.

According to Bird and Vaillancourt (2006), the dual taxation model is common in federations like the United States, Canada, and India. In this model, central and subnational governments have their own tax bases and tax instruments. For instance, U.S. states levy income and sales taxes independent of federal taxes, allowing them significant fiscal autonomy. This system enhances regional accountability and encourages innovative tax policies tailored to local preferences.

However, such autonomy comes with coordination challenges. Oates (2005) emphasizes the risks of tax competition, where subnational governments may lower tax rates to attract investment, potentially undermining the national tax base. Keen and Kotsogiannis (2002) add that horizontal fiscal imbalances often emerge when wealthier regions are able to generate more revenue than poorer ones, necessitating redistributive mechanisms like equalization transfers (addressed in Section 5).

Ramil Abbasov (2025a) highlights how revenue disparities among U.S. states affect their ability to invest in critical services such as education and infrastructure. His analysis reveals that states with narrow tax bases or fiscal constraints are more vulnerable to economic shocks and political pressure, leading to suboptimal budget allocations and underfunded programs.

### **3.2. Revenue Collection in Unitary States**

In contrast, unitary states typically centralize revenue collection. The central government collects most—if not all—major taxes and then redistributes funds to subnational governments through grants, revenue-sharing mechanisms, or budgetary transfers. This arrangement simplifies tax administration, promotes national equity, and allows for centralized planning of fiscal policy.

Rodden (2004) notes that centralized revenue collection helps ensure a more uniform application of tax laws and standards. This uniformity can be particularly beneficial in countries with less administrative capacity at the subnational level. For example, in France and the United Kingdom, the central government collects income tax, value-added tax (VAT), and corporate taxes, redistributing funds to local authorities based on formulas considering population size, regional development goals, and performance indicators.

The OECD (2018) reports that unitary systems often use formula-based block grants and sector-specific transfers to maintain consistency in service provision. While this reduces the risk of regional inequality, it may limit local governments' fiscal autonomy and innovation.

Abbasov (2025d) observes that Türkiye's centralized revenue collection system provides stability and predictability. However, it also creates challenges for municipalities attempting to respond to local needs or invest in tailored development initiatives, as they are largely dependent on centrally allocated funds.

### **3.3. Evaluating Trade-Offs**

Both revenue collection models come with inherent trade-offs:

- **Autonomy vs. Coordination:** Federal systems offer greater fiscal autonomy but require robust intergovernmental coordination mechanisms to manage overlap, prevent tax competition, and ensure equitable distribution. In contrast, unitary systems enable centralized coordination and uniformity but limit subnational policy discretion.
- **Equity vs. Responsiveness:** Centralized revenue systems are better positioned to promote equity across regions. However, decentralized systems can better tailor fiscal policy to local conditions, potentially improving responsiveness and citizen satisfaction.
- **Efficiency vs. Complexity:** Centralized systems reduce administrative complexity but may overlook local nuances. Decentralized models, while potentially more efficient in service delivery, require complex revenue-sharing arrangements and harmonization of tax policy.

### **3.4. Emerging Trends and Hybrid Approaches**

Many countries are experimenting with hybrid models, blending features of both systems. For example, Japan and South Korea (unitary states) have introduced local taxes and performance-linked grants to enhance local autonomy, while federal systems like Australia have developed cooperative fiscal institutions to manage intergovernmental transfers and harmonize tax bases.

Martinez-Vazquez and McNab (2006) suggest that success in any system depends less on structural design and more on clarity of roles, fiscal discipline, and transparency. Abbasov echoes this in his research, emphasizing that the effectiveness of revenue systems lies in institutional coherence, data availability, and a culture of fiscal responsibility at all levels of government.

---

## **4. Expenditure Responsibilities and Autonomy**

In any public budgeting framework, the allocation of expenditure responsibilities determines who delivers public services, manages public investments, and is held accountable for results. The distinction between federal and unitary states is particularly pronounced in this domain. While federal systems typically grant subnational governments significant discretion in public spending, unitary systems often concentrate expenditure authority at the central level. This section explores how these differences shape fiscal performance, policy responsiveness, and accountability—drawing on comparative case studies

### **4.1. Expenditure Assignment in Federal Systems**

In federal states, expenditure responsibilities are constitutionally or legally assigned to subnational governments. These responsibilities often include education, health services, social welfare programs, local infrastructure, environmental management, and in some cases, policing and justice. This decentralization of spending authority reflects the core principle of subsidiarity: that services should be delivered by the lowest level of government capable of doing so efficiently and effectively.

Oates (1999) argues that decentralized expenditure fosters allocative efficiency because subnational governments can better match service delivery to local preferences. Musgrave (1959) and Tiebout (1956) provide further theoretical support, asserting that competition among jurisdictions can incentivize better governance and innovation in public service provision.

In practice, countries like the United States, Canada, Germany, and India provide subnational units with substantial discretion in how they allocate resources across sectors. For instance:

- In the U.S., states determine educational curricula and funding formulas, run Medicaid programs with varying eligibility rules, and plan transportation infrastructure independently.
- In Germany, Länder are responsible for the administration of federal laws and the provision of public services, including education, policing, and cultural affairs.

However, challenges abound. Inman and Rubinfeld (1997) note that such autonomy can lead to disparities in service quality and outcomes, especially where fiscal capacity varies widely. Wealthier states can provide better services than poorer ones unless equalization mechanisms are in place.

Ramil Abbasov (2025a) highlights this issue using the U.S. case. He demonstrates that states with greater fiscal space tend to invest more in social programs and infrastructure, while states with budget deficits often cut critical services—leading to increased inequality and reduced intergenerational mobility.

### **4.2. Expenditure Responsibilities in Unitary States**

In unitary states, the central government generally retains primary control over expenditure planning and execution. While subnational governments may be delegated responsibilities for service delivery, their financial discretion is limited. Instead, they operate under national policy guidelines, often with centrally allocated budgets and strict reporting requirements.

Countries like France, Japan, Türkiye, and the United Kingdom follow this model. In France, while municipalities manage primary schools and local transport, the state sets educational standards and pays teachers. In the UK, although devolved governments in Scotland, Wales, and Northern Ireland manage health and education, their funding comes largely from the UK Treasury through the Barnett Formula.

Rodden (2004) argues that such centralization ensures national policy coherence, equitable service standards, and efficient fiscal consolidation. Smoke (2001) adds that central control is especially useful in developing countries or post-conflict states where administrative capacity is uneven or underdeveloped at the local level.

Ramil Abbasov's (2025b) comparative study of Türkiye and the United States reveals that while Türkiye's unitary structure allows for more consistent public investment across regions, it limits municipal governments' ability to address local needs. His findings show that municipal infrastructure projects often face delays due to bureaucratic approval processes and lack of discretionary funding—reducing the effectiveness of capital budgeting at the local level.

### 4.3. Sectoral Analysis of Expenditure Responsibilities

#### 4.3.1. Education

In federal systems, subnational governments typically fund and administer education. This decentralization leads to variation in teacher salaries, school infrastructure, and curricula. While this allows for responsiveness to local conditions, it may reinforce inequality between regions (Abbasov, 2025a).

In unitary states, education is often standardized, with central governments controlling curricula, teacher recruitment, and resource allocation. This approach ensures uniform quality but limits innovation.

#### 4.3.2. Healthcare

Federal countries like Canada and the U.S. allow provinces and states significant latitude in managing healthcare systems. Canada's provinces administer healthcare independently under the Canada Health Act. In contrast, unitary countries like Japan and France operate centralized, universal healthcare systems with uniform benefits and costs.

Abbasov (2025a) notes that decentralized healthcare systems may suffer from underfunding in rural areas or duplication of services, while centralized systems struggle with responsiveness and wait times.

#### 4.3.3. Infrastructure and Environmental Management

Infrastructure investment is often managed locally in federal states. This allows states and cities to plan context-specific projects but requires strong coordination mechanisms. In unitary systems, national infrastructure plans dictate the priorities, with local governments executing them under central supervision.

Ramil Abbasov's (2025c) analysis of military expenditure reveals that centralization of national defense spending can crowd out infrastructure investment in both federal and unitary systems if budgetary priorities are skewed toward security at the expense of development.

### 4.4. Autonomy and Accountability

The extent of subnational autonomy in managing expenditures depends on several factors:

- Legal mandates (constitutional or statutory),
- Discretion over budget lines,
- Ability to reallocate funds, and
- Institutional checks (audits, performance evaluation, civil society participation).

In federal systems, subnational units may exercise significant discretion, but their spending can be constrained by unfunded mandates from the central government—requirements to implement programs without corresponding funding. Abbasov (2025b) identifies this as a persistent issue in the U.S., particularly in education and Medicaid.

In unitary systems, while discretion is limited, performance-based budgeting and results-based transfers are emerging tools to enhance local accountability. Abbasov (2025d) argues that linking disbursements to outcomes—not just inputs—can improve service quality without compromising central oversight.

### 4.5. Reform Trends: Toward Functional Decentralization

Recent global trends show a shift toward functional or asymmetric decentralization, where expenditure responsibilities are decentralized without full revenue autonomy. This model is prevalent in middle-income countries and post-transition economies like Indonesia, Kazakhstan, and Türkiye.

Reforms include:

- Medium-Term Expenditure Frameworks (MTEFs), allowing local alignment with national goals,

- Performance-linked grants, rewarding efficient service delivery,
- Participatory budgeting, fostering civic involvement in expenditure decisions.

---

## 5. Expenditure Responsibilities and Autonomy

The allocation of expenditure responsibilities is a defining feature of budgeting frameworks and directly influences the quality, accessibility, and efficiency of public services. In both federal and unitary states, how governments assign spending duties to various levels—central, regional, and local—reflects broader principles of governance, economic policy, and political philosophy. This section examines the comparative structures of expenditure responsibility and explores the trade-offs between autonomy and control in delivering public goods.

### 5.1. Federal Systems: Diversity and Discretion

Federal systems allocate a significant portion of expenditure responsibilities to subnational units, consistent with the principle of subsidiarity, which asserts that decisions should be made at the lowest effective level of government. In countries like the United States, Germany, and India, state or provincial governments are responsible for key policy areas such as education, healthcare, transportation, and local infrastructure.

According to Shah (2007), assigning expenditure responsibilities to local governments enhances service delivery efficiency by aligning spending decisions with local preferences and needs. Ramil Abbasov (2025a) echoes this in his article on budget efficiency, where he notes that U.S. states that invest more heavily in education or health see corresponding improvements in human capital and public outcomes.

However, decentralization also introduces disparities. Wealthier regions can afford higher levels of service provision, while poorer regions struggle to meet minimum standards. Abbasov (2025e) highlights this challenge by examining how austerity in states like Mississippi contrasts with continued investment in states like California. Without equalizing mechanisms, such divergence can undermine equity and national development goals.

Another issue is vertical coordination. While subnational autonomy allows for tailored policies, it may lead to fragmentation and duplication. Inman and Rubinfeld (1997) argue that poor coordination between federal and state programs can create inefficiencies, especially in overlapping sectors like transportation and social welfare.

### 5.2. Unitary States: Uniformity and Central Planning

In unitary systems, the central government typically retains control over major expenditure decisions, even when service delivery is delegated to subnational units. Countries such as France, Japan, and Türkiye operate under frameworks where line ministries in the capital establish spending priorities, and local governments execute programs within those parameters.

This top-down approach facilitates national coherence and standardization. Rodden (2004) and the OECD (2018) find that centralized expenditure planning enables more uniform service quality across regions, reduces administrative costs, and enhances fiscal discipline.

Abbasov (2025c), analyzing Türkiye's expenditure practices, notes that while national programs—such as public health insurance and universal education—benefit from economies of scale and centralized oversight, the lack of local discretion reduces responsiveness to regional variations in demand. For instance, urban municipalities may require more investment in public transport infrastructure, while rural regions may prioritize agricultural extension services.

The limited autonomy of local governments in unitary states can also stifle innovation. As Smoke (2001) suggests, when local authorities are financially and administratively dependent on central ministries, they may lack the incentive or flexibility to pilot reforms, engage citizens, or adapt to emerging challenges.

---

## 6. Intergovernmental Transfers and Equalization

As fiscal authority and expenditure responsibilities are decentralized, fiscal imbalances often emerge—either vertically (between central and subnational governments) or horizontally (among subnational governments). Intergovernmental transfers are the principal instruments for correcting these imbalances, ensuring that all regions, regardless of their revenue-raising capacity, can provide a comparable level of public services.

### 6.1. Types and Objectives of Transfers

Transfers can be classified based on purpose and conditions:

- Unconditional (general-purpose) transfers provide broad fiscal support without specific usage requirements.
- Conditional (specific purpose) transfers are earmarked for designated sectors or programs, such as education, healthcare, or infrastructure.
- Equalization transfers aim to reduce disparities in fiscal capacity across jurisdictions.

Shah (2007) outlines the dual objectives of transfer systems: to support national standards of service provision and to promote regional equity. The design and implementation of these systems are critical to ensuring fairness, efficiency, and accountability.

### 6.2. Transfers in Federal States

Federal systems employ various intergovernmental transfers to address regional inequalities and support cooperative governance. For example:

- In Canada, the federal Equalization Program transfers funds to less prosperous provinces to ensure they can provide reasonably comparable public services at similar tax rates. The formula considers fiscal capacity per capita and includes adjustments for economic disparities.
- In the United States, federal grants—such as Medicaid matching funds or infrastructure block grants—supplement state revenues, especially for states with large low-income populations.

Ramil Abbasov (2025a) examines the effectiveness of such transfers in his comparative analysis of U.S. public finance. He finds that while transfers play a critical role in stabilizing budgets and enabling equal service provision, they are often influenced by political bargaining, leading to inconsistencies and inefficiencies.

Abbasov (2025b) also highlights that increased federal spending on defense often coincides with reductions in discretionary grants to states, revealing the vulnerability of intergovernmental transfers to shifting national priorities.

### 6.3. Transfers in Unitary States

Unitary states rely heavily on centrally managed transfers to fund local government activities. These transfers are typically formula-based, taking into account population size, development indicators, or cost differentials.

For instance:

- In France, the *Dotation Globale de Fonctionnement (DGF)* provides unconditional support to municipalities, while sector-specific transfers fund education, social services, and infrastructure.
- In Türkiye, the *Iller Bank* and the central budget distribute funds to local governments based on population and fiscal performance, though discretion remains limited.

Abbasov (2025c) notes that while these transfers provide stability and allow the central government to enforce national priorities, they often lack transparency and are susceptible to politicization. Furthermore, performance-based elements are weak or inconsistently applied, reducing incentives for local governments to improve efficiency.

### 6.4. Design Challenges and Best Practices

Effective transfer systems must navigate multiple tensions:

- Equity vs. Efficiency: Ensuring fairness while avoiding over-dependence and inefficiency.
- Conditionality vs. Autonomy: Guiding local priorities without overburdening administrative processes.
- Transparency vs. Flexibility: Providing predictable funding while allowing for adaptation to local needs.

Bahl and Linn (1992) argue that successful transfer systems must be rules-based, formula-driven, and predictable. Political discretion should be minimized to avoid clientelism. Abbasov (2025a) concurs, advocating for transparent criteria, performance-linked components, and institutionalized intergovernmental forums for negotiation and evaluation.

## **7. Budgeting Processes and Accountability**

The budgeting process is a core element of public financial management, encompassing the formulation, approval, execution, and oversight of government expenditures and revenues. Its design influences not only how resources are allocated but also the degree of transparency, responsiveness, and accountability in governance. In both federal and unitary systems, the budgeting process reflects the broader administrative structure and political institutions, while the mechanisms for accountability ensure that governments remain answerable to legislatures and the public.

This section examines the institutional differences in how budgets are prepared and implemented across federal and unitary systems, the challenges and trade-offs each structure faces, and how performance-based budgeting and auditing frameworks are used to enhance accountability.

### **7.1. Budget Formulation and Coordination in Federal States**

In federal states, the budget process is multi-layered and decentralized. The central (federal) government prepares a national budget, while each subnational government—states, provinces, or regions—formulates its own budget, reflecting localized revenue and expenditure priorities. These budgets are approved independently by respective legislatures.

Fisher (2010) notes that coordination between different levels of government is a major challenge in federal systems. National fiscal goals—such as inflation control or debt reduction—may not align with subnational priorities, leading to policy fragmentation. Inman and Rubinfeld (1997) argue that unless intergovernmental fiscal institutions are strong, vertical fiscal coordination can suffer, especially in federations with politically diverse regions.

Ramil Abbasov (2025a) highlights this issue in his analysis of the U.S. budgeting system, where independent budget cycles and political priorities among states lead to inconsistent fiscal outcomes across the federation. For example, states may adopt expansionary fiscal policies even as the federal government pursues austerity, undermining macroeconomic coherence.

Despite this complexity, federalism offers advantages in innovation and flexibility. States can pioneer budgeting reforms—such as performance budgeting, participatory budgeting, or digital transparency tools—which, if successful, may be adopted by the central government or other states. Abbasov (2025b), in his study on performance-based budgeting (PBB), documents how states like Oregon and Texas developed early PBB models, providing templates for national adaptation.

### **7.2. Budgeting in Unitary States: Centralization and Standardization**

In unitary states, the budget process is largely centralized. The Ministry of Finance or Planning prepares a comprehensive national budget, which includes detailed expenditure plans for line ministries and often prescribes allocations for subnational governments. The legislature debates and approves this budget before it is implemented by central and local agencies.

This centralized process promotes fiscal discipline and consistency. Allen and Tommasi (2001) argue that central control helps enforce spending ceilings, reduce off-budget expenditures, and maintain program continuity. It also simplifies coordination, especially in countries with limited institutional capacity at the subnational level.

Abbasov (2025c), in his comparative study of Türkiye, notes that while centralization improves compliance with national goals (such as infrastructure modernization or social protection), it can limit subnational innovation. Municipalities in Türkiye have little control over investment choices and often face delays due to bureaucratic procedures at the national level.

The central government's strong role also enables the use of Medium-Term Expenditure Frameworks (MTEFs), linking policy planning with multi-year budgeting. While these are increasingly used in both federal and unitary systems, implementation is generally more coherent in centralized systems.

### **7.3. Execution and Monitoring**

Budget execution involves the release of funds, procurement, payment, and service delivery. In federal systems, execution is decentralized and subject to diverse procurement laws, financial management systems, and local practices. This can lead to:

- Variation in efficiency: Some states may have strong procurement and cash management systems, while others struggle with delays and inefficiencies.
- Uneven monitoring: Oversight institutions, such as state audit offices, may differ in capacity and independence.

In contrast, unitary systems generally follow uniform execution rules, monitored by central agencies. While this enhances compliance, it may create bottlenecks, especially when local needs require rapid adaptation.

Abbasov (2025a) discusses the importance of fiscal performance audits and real-time reporting systems in both systems. He notes that while federations like the U.S. or Germany use decentralized monitoring, the integration of IT systems has helped bridge performance gaps. In Türkiye, on the other hand, centralized platforms like e-Budget and e-Procurement standardize financial control, though delays in data-sharing with local governments remain a challenge.

#### **7.4. Legislative Oversight and Citizen Accountability**

Accountability in budgeting is exercised through both formal institutions—parliaments, audit institutions, anti-corruption bodies—and informal mechanisms such as civil society and media scrutiny.

In federal systems, each government level is accountable to its own legislature and citizens. This dual accountability can empower local participation but also complicate cross-level responsibility. Rodden (2004) warns that voters may be uncertain about which level of government is responsible for service failures, a phenomenon known as the “blame game.”

In contrast, unitary states consolidate responsibility at the center, which can make accountability more straightforward but may reduce citizen engagement at the local level.

Abbasov (2025b) explores the rise of performance-based budgeting (PBB) as a tool for enhancing accountability. In both federal and unitary settings, PBB links expenditures to outcomes, encouraging transparency and improving budget credibility. He notes that U.S. states implementing PBB have seen improvements in spending efficiency and public trust. In Türkiye, however, PBB remains top-down, with weak incentives for municipal compliance and limited public awareness.

#### **7.5. Challenges and Reform Directions**

Across both systems, several common challenges persist:

- Delays in budget approval and release, often due to political stalemates or administrative bottlenecks;
- Off-budget spending and extra-budgetary funds, which obscure financial transparency;
- Limited results-based evaluation, reducing the linkage between resources and performance;
- Weak capacity at subnational levels, especially in developing and transition economies.

Reform efforts in recent years have focused on:

- Strengthening fiscal transparency through open budget portals and citizen scorecards;
- Promoting gender-responsive and green budgeting, integrating equity and sustainability;
- Building institutional capacity at subnational levels to manage complex budgeting tasks;
- Developing integrated financial management systems (IFMIS) for real-time monitoring.

Abbasov (2025c) emphasizes the need for institutionalizing participatory mechanisms, especially in unitary settings where local voice is often limited. He also advocates for the harmonization of performance indicators across government levels, to facilitate comparability and foster competition in service delivery.

---

### **8. Case Studies: United States and France**

To illustrate how budgeting frameworks operate in practice within federal and unitary states, this section presents two case studies: the United States and France. These countries exemplify contrasting governance models and offer rich insights into how fiscal authority, revenue collection, expenditure responsibility, and accountability mechanisms are shaped by institutional structures. Drawing on official data, comparative research explores how each system functions and identifies the practical implications of their respective budgeting frameworks.

## **8.1. The United States: Federalism, Fiscal Autonomy, and Disparity**

### *8.1.1. Fiscal Structure and Revenue Autonomy*

The United States operates under a classic federal system, with constitutionally defined powers shared between the federal government and 50 states. Each level of government has the authority to levy taxes and incur expenditures. States collect their own income, sales, and property taxes, and often have unique tax codes. Local governments (counties, municipalities, school districts) derive revenue from property taxes and intergovernmental transfers.

According to Fisher (2010) and Oates (2005), this autonomy allows for innovation and responsiveness, but also leads to considerable fiscal disparities across states. States like California and New York have diversified tax bases and robust service provision, while others—such as Mississippi or West Virginia—struggle with limited revenue capacity.

### *8.1.2. Budget Process and Accountability Mechanisms*

Each U.S. state formulates and approves its own budget, usually through biennial or annual cycles. While the federal government maintains fiscal policy through monetary control and transfer programs, states are largely independent in their financial management. Most states are constitutionally required to balance their budgets, reinforcing discipline.

Abbasov (2025b) analyzes U.S. state-level PBB practices. He finds that states like Oregon and Texas have implemented outcome-based budgeting frameworks that link resource allocation to measurable performance indicators. This has helped improve fiscal discipline and transparency, particularly in sectors like health, education, and public safety.

However, accountability remains fragmented. Citizens may struggle to identify which level of government is responsible for service failures. Rodden (2004) refers to this as the “fiscal illusion,” where blurred responsibilities dilute democratic accountability.

### *8.1.3. Intergovernmental Transfers and Challenges*

The U.S. federal government provides various grants to states and local governments, including categorical grants (e.g., Medicaid), block grants (e.g., Temporary Assistance for Needy Families), and capital funding for infrastructure. These transfers are politically influenced and vary annually based on congressional decisions.

Abbasov (2025c) cautions that these transfers are vulnerable to national political priorities. His study on military spending shows that increases in defense outlays often coincide with reductions in federal discretionary transfers, forcing states to adjust their budgets in ways that may affect public services.

## **8.2. France: Unitary Control, Formula-Based Transfers, and Equalization**

### *8.2.1. Centralized Revenue and Budgeting Authority*

France is a unitary republic with a long tradition of centralized governance. The national government collects most taxes—including income tax, VAT, and corporate taxes—and redistributes resources to subnational governments. Regional and municipal governments have limited taxing power and rely heavily on transfers from the state.

According to the OECD (2018), over 90% of total public revenue in France is collected at the national level. This concentration enables strong macro-fiscal control and ensures consistency in revenue mobilization.

In contrast to the U.S., subnational units in France act primarily as implementing agents. Their budgets are subject to oversight by prefects (representatives of the central government), and their spending autonomy is limited by national standards.

### *8.2.2. Budgeting Process and Institutional Discipline*

The French budget system is highly structured. The national government follows a Medium-Term Expenditure Framework (MTEF), and all public entities must align their budgets with national priorities outlined in the annual Finance Act (Loi de finances).

Municipal budgets are approved by local councils but must comply with strict debt and deficit ceilings imposed by the central government. Public financial audits are conducted by the Cour des Comptes, a constitutionally independent body that evaluates fiscal performance and compliance.

France has also adopted performance budgeting under the LOLF (Loi Organique relative aux Lois de Finances). Ministries must define objectives and performance indicators, with results reviewed by parliament. Abbasov (2025b) highlights this reform as a model for results-based budgeting in centralized systems, though he notes that enforcement at the municipal level remains uneven.

### 8.2.3. Transfers and Equalization Instruments

Subnational governments receive funding through several transfer mechanisms, including:

- Dotation Globale de Fonctionnement (DGF): A general-purpose grant based on population and fiscal need.
- Dotation d'équipement des territoires ruraux (DETR): Earmarked grants for rural infrastructure.
- Fonds de solidarité des communes de la région d'Île-de-France: A regional solidarity fund redistributing revenue among municipalities.

These transfers aim to equalize fiscal capacity and promote territorial cohesion. Unlike the U.S., the formulas are codified in law and reviewed periodically for equity. Abbasov (2025a) argues that this formula-driven model ensures predictability, although it may lack flexibility in responding to emerging local needs.

**Table 1** Comparative Insights

Dimension	United States (Federal)	France (Unitary)
Revenue Autonomy	High (state & local taxes)	Low (centralized collection)
Expenditure Autonomy	High (independent budgeting by states)	Limited (delegated implementation)
Budget Formulation	Decentralized; state-specific cycles	Centralized; national MTEF and Finance Act
Intergovernmental Transfers	Politically negotiated, often conditional	Formula-based, predictable, focused on equity
Performance-Based Budgeting	Initiated at subnational level; diverse adoption	Centralized under LOLF; institutionalized
Accountability Structure	Fragmented, dual-level	Consolidated, parliamentary oversight

## 9. Implications for Policy and Governance

The design of budgeting frameworks—whether embedded in federal or unitary governance systems—has profound implications for how public resources are mobilized, allocated, and scrutinized. As public administrations seek to enhance fiscal sustainability, equity, and responsiveness, understanding the strengths and weaknesses of different budgeting models becomes essential.

### 9.1. Trade-offs Between Centralization and Decentralization

The first and most fundamental policy implication relates to the trade-off between **centralized control and decentralized autonomy**:

- **Federal systems** offer flexibility, promote innovation at the subnational level, and enhance local responsiveness. However, they can also lead to fragmented fiscal policy, significant disparities in service delivery, and coordination challenges.
- **Unitary systems** foster coherence, reduce duplication, and allow for consistent national standards, yet they risk being overly rigid, potentially unresponsive to local needs, and prone to bureaucratic inertia.

According to Rodden (2004) and Faguet (2014), the optimal design lies not at either extreme but in balancing autonomy with accountability. This balance ensures that while local governments have the discretion to innovate, they are also monitored for performance and held fiscally responsible.

Ramil Abbasov (2025a) emphasizes this in his cross-national study, showing that the success of budgeting frameworks hinges less on their structural classification and more on the quality of fiscal institutions—including transparency, data systems, stakeholder engagement, and oversight mechanisms.

## 9.2. Institutional Capacity and Fiscal Performance

Both federal and unitary states must strengthen institutional capacity to make budgeting more results-oriented, transparent, and efficient. Martinez-Vazquez and McNab (2006) argue that decentralization contributes positively to governance only when local institutions have the capacity to absorb, manage, and evaluate resources effectively.

Abbasov (2025b), in his analysis of performance-based budgeting (PBB), identifies capacity gaps—especially in subnational entities—as a barrier to reform. He proposes phased capacity-building programs supported by technical assistance, digital infrastructure, and incentives for best practices. Countries like Türkiye, for example, can improve local government budgeting by integrating capacity-building into intergovernmental transfer frameworks.

## 9.3. Intergovernmental Fiscal Relations and Transfer Design

Intergovernmental transfers are essential for fiscal equity, particularly in countries where revenue-generating potential is unevenly distributed. The implications for policy design are twofold:

- Formula-based, transparent transfers—as seen in France and Canada—enhance predictability, reduce political bargaining, and improve fiscal planning.
- Performance-linked grants, advocated by Abbasov (2025a), encourage efficiency and innovation at the subnational level. His work recommends that transfers include weighted performance indicators in education, healthcare, and infrastructure delivery.

Effective transfer systems must also be counter-cyclical, meaning they should increase during economic downturns to stabilize local finances. The U.S. experience during the COVID-19 pandemic showed the critical role of federal aid in preventing state-level fiscal collapse.

## 9.4. Enhancing Transparency and Citizen Accountability

Budgeting systems must evolve toward greater openness and accountability. In both governance models, public trust hinges on citizens' ability to understand, influence, and evaluate budget decisions.

Key tools and approaches include:

- Open Budget Portals (e.g., Kenya, Brazil, South Korea),
- Participatory Budgeting Initiatives (e.g., Porto Alegre, Paris, New York),
- Citizen Scorecards and public expenditure tracking surveys.

Abbasov (2025b) suggests that participatory budgeting, while more prevalent in decentralized systems, can be institutionalized in unitary systems as well through structured forums, consultative councils, and civic tech platforms. Such innovations democratize budget decisions, promote inclusive development, and reduce the risk of corruption.

## 9.5. Budgeting for Sustainability and Equity

Modern budget frameworks must account not just for macroeconomic stability but also for long-term sustainability and intergenerational equity. This includes:

- Climate budgeting and green public financial management (PFM),
- Gender-responsive budgeting,
- Medium-Term Expenditure Frameworks (MTEFs) integrated with Sustainable Development Goals (SDGs).

Abbasov (2025a) calls for mainstreaming environmental and social metrics into national and subnational budgets. He argues that climate vulnerability and demographic shifts must shape resource allocation, particularly in countries exposed to environmental degradation or aging populations.

For unitary states like Türkiye and France, Abbasov recommends embedding sustainability indicators within the national budget circular. For federal systems, he advocates for shared frameworks that align state budgets with national and global priorities.

The COVID-19 pandemic, climate shocks, and geopolitical tensions underscore the need for adaptive and resilient budgeting systems. Flexibility in reallocating funds, establishing contingency reserves, and conducting rapid expenditure reviews is now indispensable.

Federal systems, with their decentralized design, allow for faster localized responses—but only where administrative autonomy is matched by fiscal space. In contrast, unitary systems may struggle to delegate funds quickly unless pre-approved contingency mechanisms exist.

---

## References

- [1] Abbasov, R. (2025a). "Government Budgeting and Expenditure: A Multifaceted Analysis of Economic Growth, Fiscal Sustainability, and Social Impact." *iBusiness*.
- [2] Abbasov, R. (2025b). "The Effectiveness of Performance-Based Budgeting in the Public Sector: An Empirical Analysis and Policy Implications." *iBusiness*.
- [3] Abbasov, R. (2025c). "The Impact of Military Spending on Government Budgets: A Comprehensive Analysis." *International Journal of Financial Management and Economics*.
- [4] Abbasov, R. (2025d). "Comparing Public Finance Management in Türkiye and the United States—A Comprehensive Analysis." *Journal of Financial Risk Management*.
- [5] Abbasov, R. (2025e). "The Influence of Budget Cuts on Public Services: An Analytical Review." *International Journal of Research in Finance and Management*.
- [6] Allen, R., & Tommasi, D. (2001). *Managing Public Expenditure: A Reference Book for Transition Countries*. OECD/SIGMA.
- [7] Andrews, M., Cangiano, M., & Kyobe, A. (2014). *Public Financial Management Reform in Post-Crisis Situations*. International Monetary Fund.
- [8] Bahl, R., & Linn, J. (1992). *Urban Public Finance in Developing Countries*. Oxford University Press.
- [9] Bird, R., & Smart, M. (2002). "Intergovernmental Fiscal Transfers: International Lessons for Developing Countries." *World Bank Policy Research Working Paper*.
- [10] Bird, R., & Vaillancourt, F. (2006). *Perspectives on Fiscal Federalism*. World Bank.
- [11] Blöchliger, H., & King, D. (2006). "Fiscal Autonomy of Sub-Central Governments." *OECD Network on Fiscal Relations*.
- [12] Courchene, T. J. (2005). "Confederation and the Constitution: The Logic of Federal Finance." *IRPP Working Paper*.
- [13] Faguet, J.-P. (2014). "Decentralization and Governance." *World Development*, 53: 2–13.
- [14] Fisher, R. C. (2010). *State and Local Public Finance* (3rd ed.). South-Western Cengage Learning.
- [15] Hood, C. (2010). *The Blame Game: Spin, Bureaucracy, and Self-Preservation in Government*. Princeton University Press.
- [16] Inman, R., & Rubinfeld, D. (1997). "Rethinking Federalism." *Journal of Economic Perspectives*, 11(4), 43–64.
- [17] Keen, M., & Kotsogiannis, C. (2002). "Does Federalism Lead to Excessively High Taxes?" *American Economic Review*, 92(1), 363–370.
- [18] Martinez-Vazquez, J., & McNab, R. (2006). "Fiscal Decentralization, Macrostability, and Growth." *World Bank Working Paper*.
- [19] Musgrave, R. A. (1959). *The Theory of Public Finance: A Study in Public Economy*. McGraw-Hill.
- [20] Oates, W. E. (1972). *Fiscal Federalism*. Harcourt Brace Jovanovich.
- [21] Oates, W. E. (1999). "An Essay on Fiscal Federalism." *Journal of Economic Literature*, 37(3), 1120–1149.
- [22] OECD (2018). *Fiscal Decentralisation and Local Finance in OECD Countries*. OECD Publishing.
- [23] Rodden, J. (2004). "Comparative Federalism and Decentralization: On Meaning and Measurement." *Comparative Politics*, 36(4), 481–500.
- [24] Shah, A. (2007). *A Practitioner's Guide to Intergovernmental Fiscal Transfers*. World Bank.

- [25] Shah, A., & Shah, S. (2006). "The New Vision of Local Governance and the Evolving Roles of Local Governments." In *Local Governance in Developing Countries*, ed. Anwar Shah. World Bank.
- [26] Smoke, P. (2001). "Fiscal Decentralization in Developing Countries: A Review of Current Concepts and Practice." *UNRISD*.
- [27] Tiebout, C. (1956). "A Pure Theory of Local Expenditures." *Journal of Political Economy*, 64(5), 416–424.