



Document de treball 2000/2:

**The role of intergovernmental finance in achieving diversity
and cohesion: the case of Spain**

Antoni Castells

Institut d'Economia de Barcelona
Edifici Florensa
Adolf Florensa, s/n
08028 Barcelona
Tel.: 93 403 46 46
Fax: 93 402 18 13
E-mail: ieb@pcb.ub.es
<http://www.pcb.ub.es/ieb>

THE ROLE OF INTERGOVERNMENTAL FINANCE IN ACHIEVING DIVERSITY AND COHESION: THE CASE OF SPAIN^a

Castells, A.^b

Universitat de Barcelona

ABSTRACT: The democratic Constitution of 1978 set up a decentralised state in Spain. Since then, the Autonomous Communities (intermediate level of government) have strongly increased their role and currently represent around 25-30% of total public expenditure. Thus, financing autonomous government has become a crucial issue with important financial and political consequences. The present system is mostly based on grants coming from central government, while tax revenue are weak and so it is fiscal responsibility. The financing system can play an important, albeit complementary, role in ensuring cohesion within a decentralised state. On the one hand, achieving a certain level of equalisation in providing public services all over the territory. On the other, permitting that all regions can obtain an appropriate level of self-government. However, it is important to stress that territorial cohesion requires, as previous conditions, a political consensus and the acceptance of a common project among the different regions. Financial problems can become political problems, but rarely political problems can exclusively be solved through financial measures. Hence, we should not demand to the intergovernmental finances what they cannot do.

Keywords: fiscal federalism, regional redistribution

JEL Classification Numbers: H7, H77

^a Comments are welcome. The opinions expressed in the paper do not necessarily reflect the IEB's opinions.

^b This work has benefited from the research grant (SEC-96-0848) of the Interministerial Commission of Science and Technology. It was firstly presented at the conference about “The Role of Intergovernmental Fiscal Relations in Shaping Effective States within Fragmented Societies”,

sponsored by the World Bank and the Institute of Federalism of Fribourg, and held in Fribourg in 10-12 February 2000. I would like to thank the comments made by the editor and an anonymous referee. As usual, they are not responsible for the limitations of this work.

1. Structure and political organisation of the territory

1.1. Basic data: population and income level

Geographically, Spain consists of seventeen Autonomous Communities (AC's), which correspond to the territorial level of regions. The term 'Autonomous Community' is both used to refer to a geographical reality and to a level of political government, to which we will now refer. The basic characteristics of these geographical realities are presented in Table 1 and the Map.

In 1998 the population of Spain was close to forty million. The population share of the different Autonomous Communities is, as shown in Table 1, very unequal. On the one hand, four of them have a population exceeding 10% of the Spanish total: Andalusia, with more than 7.2 million (18.19% of the total); Catalonia, with 6.2 million (15.42% of the total); Madrid, with 5.1 million (12.78%); and the Comunidad Valenciana, with 4.0 million (10.11%). On the other hand, there are eight AC's with a population under 3% of the total: Aragón, Murcia, Asturias, Extremadura, the Balearic Islands, Navarra, Cantabria and Rioja, out of which the latter three with a population under 2% (Navarra and Cantabria, 530,000 inhabitants, and Rioja 263,000). In an intermediate position of around 4-6% of the total we find five other AC's (Galicia, Castilla-León, the Basque Country, Castilla-La Mancha and the Canary Islands); Ceuta and Melilla should be considered separately, as they are Spanish cities in North Africa. Therefore it is a strongly contrasting geographical reality, as clearly shown by the very different demographic weight of each of these regions in the whole of Spain.

There are important cultural and linguistic differences between Spanish regions. While Spanish is the common language, generally spoken in all Spain, there are regions with their specific languages. Thus, Catalan is spoken by around 7,7 million people (79% of the whole population of Catalonia, 55% in Valencia and 72% in Balearic Islands), Galician by 2,4 million people (89% of the whole population of Galicia) and Basque by 0,7 million people (28% of the whole population of the Basque Country and 16% of Navarra). Of course, it should be taken into consideration that all this people also speak Castilian (Spanish). Therefore, they are really bilingual. These cultural and linguistic identities produce an asymmetric reality, over which decentralisation must be applied.

Differences are also substantial in terms of GDP, largely reflecting the high concentration of economic activity in two Autonomous Communities, Catalonia and Madrid, which jointly represent more than 35% of the total GDP produced in Spain. In terms of GDP per head, the

wealthiest Community is the Balearic Islands (with an index of 154.48, 100 being the average) and the poorest is Andalusia, with 72.26% of the Spanish average. The fact that Andalusia is the most populated region in Spain obviously gives this situation a special signification.

Three Autonomous Communities of them have a per capita GDP more than 20% above the average: the Balearic Islands (154.48, as indicated before), Madrid (126.52) and Catalonia (123.64); four are between the average and 120%: Navarra (117.16), the Basque Country (114.62), Rioja (112.29) and Aragón (108.86); another six are below the average but over 80%: Valencia (which, with 99.75%, is very close to the average), the Canary Islands (97.52), Cantabria (92.95), Castilla-León (91.67), Asturias (85.38) and Galicia (84.40); and finally another four are below 80%: Castilla-la Mancha (79.98) and Murcia (79.96), around the 80% mark, Extremadura (73.26) and Andalusia (72.26). As regards income levels, the Spanish population is territorially distributed in a relatively polarised way. This is shown by the fact that two of the most populated AC's (Madrid and Catalonia) are among the regions with a higher income level, and the most populated (Andalusia) is the one with the lowest income level.

Finally, two additional considerations should be made in order to properly understand the existing income imbalances between the Spanish regions:

- i) First of all, there have been a spectacular reduction in recent decades. During the period 1955-1975 the ratio between the per capita GDP of the wealthiest and the poorest regions fell from 3.18 to 2.32, and the variation coefficient (standard deviation divided by the average) from 34.86% to 25.30%. During the 1975-1998 period the reduction in imbalances continued, though at a more moderate rate: the ratio between the per capita GDP of the wealthiest Community and the poorest fell from 2.32 to 2.14 and the variation coefficient from 25.30% to 21.92% (18.29% if we exclude the Balearic Islands, which is a relatively small region with a very high GDP per head).
- ii) Secondly, the comparison with other European countries (see Graph) shows that Spain is not a country with strong regional imbalances; on the contrary, it has smaller imbalance indexes than most of the other large European countries¹.

¹ Vid. Castells (1998), Castells-Bosch (1999), Esteban (1999), Hall (1999), European Commission (1997).

1.2. Political organisation: a brief description

Territorial distribution of public powers

Spain is a constitutional monarchy. The 1978 democratic Constitution established a decentralised State consisting of three levels of government: the central government, the autonomous governments (which correspond to the regional or intermediate governments) and the local authorities. The autonomous government level is formed of 17 Autonomous Communities. The autonomous governments enjoy self-government through their Parliaments. The local government level consists of two administrative tiers: municipalities (approximately 8,000) and provinces (50). The municipalities are the basic local entities. By contrast, the provincial governments ('Diputaciones') are the result of an indirect election system based on the municipal elections.

In Spain there is a very large number of municipalities. This is because most are very small: more than half (61.46%) have fewer than 1,000 inhabitants, and 25.24% have between 1,000 and 5,000. Accordingly, only 13.30% have more than 5,000 inhabitants. Only six have more than 500,000: Madrid and Barcelona (with more than one million), Valencia, Seville, Zaragoza and Málaga. Historical and political reasons could help to understand the large number of small municipalities there exist in Spain. But there should be considered some additional factors. Firstly, the very singular pattern of allocation of responsibilities to municipal governments, according to their size, that allows that very small municipalities may survive without having relevant responsibilities; and secondly, the existence of an upper tier of local government (the Diputacion) that plays a strong co-operative role. Anyway, the very small size of many municipalities has clear negative effects and is not based on strict economic grounds.

Responsibilities of the different levels of government

The basic distribution of responsibilities among the different levels of government is regulated by the Constitution and the Statutes of Autonomy of the 17 Autonomous Communities; and, obviously, by other laws approved by the central Parliament and the autonomous Parliaments. In any case, such distribution is, of course, compatible with the EU framework and its Treaties. The Constitution establishes the list of exclusive responsibilities of the central government. All the others can be attributed to the AC's, if explicitly provided by the respective Statutes of Autonomy (which are a kind of Constitution of the Autonomous Community). The remaining responsibilities (the ones not attributed to the AC's) are assumed by the State.

The central government has exclusive responsibility in matters of defence, justice, foreign affairs, macro-economic policy, market regulation, major infrastructure and communications and social security. It also has public order responsibilities, though these are shared with the autonomous governments in Catalonia and the Basque Country.

Regarding the AC's, it should be kept in mind that there are two groups of Communities which differentiated according to the level of responsibilities. The first group (the so-called article 151 Communities) have a high level of responsibilities, while another (the so-called article 143 Communities) have a lower level. The first group is formed by Andalusia, the Canary Islands, Catalonia, Galicia, Valencia, Navarra and the Basque Country. The key difference is that they have been given the important responsibilities of Education and Health, which have a strong budgetary impact. In the future, however, the Communities of the second group will also assume these responsibilities. In some Autonomous Communities (known as 'uniprovincial' because their territory consists of a single province: Asturias, the Balearic Islands, Cantabria, Madrid, Murcia, Navarra and Rioja), the autonomous government also assumes the functions of the provincial local government. Table 2 shows the basic characteristics of the attribution of responsibilities to the autonomous governments.

It should be clear that in many cases the responsibilities are shared both by the central government and the autonomous governments: for example, roads, transport, housing, social services and development policy. On the other hand, although in general the laws approved by the central Parliament and the regional Parliaments have the same status, the central government is also able to establish the basic legislation (the higher rank legislation) on matters of autonomous responsibility such as Education and Health. Thus it can happen that the autonomous governments have a substantial budgetary weight and important management responsibilities, but that these do not translate into a similar degree of political and decision power in their areas of responsibility, as far as some basic legislative powers remain in hands of the central government.

Finally, with regard to the responsibilities of local governments, the law establishes a minimum obligatory level of services, according to the population level of the municipality. Hence, municipalities are obliged to provide the following services: public lighting, refuse collection, road cleaning, drinking water supply, paving of public roads and food and drink control. Also, in municipalities with a population over 5,000, the municipal government has responsibility for parks and gardens, libraries, markets and waste treatment; in those over 20,000, civil protection, social services, fire prevention and fighting, public sports facilities and slaughterhouses; finally, in those over 50,000, public urban transport and environmental protection.

The important process of decentralisation experienced in Spain since the approval of the 1978 Constitution has logically had an extremely important budget repercussion. The central government, which represented around 90% of total public expenditure in 1979, at present represents less than 65% (Table 3). Autonomous governments assume 24% of public expenditure, and will reach about 30% when the transfer of Education and Health responsibilities to all autonomous governments is accomplished. Then, Spain has moved from a strongly centralised public sector to a level of expenditure decentralisation comparable to those we can find in the federal countries with a similar economic and political set up (Germany, Austria, Switzerland, Canada, the United States).

Finally, Table 4 presents the distribution of the budgetary weight of the different functions and the participation of the different government levels in each one of them. We can see that the central government has a leading position in Defence, Social Security, Communications or Research. The autonomous governments preponderate in Education and Health (and they will have it in a more clear way once these responsibilities have been transferred to all the AC's), Agrarian Infrastructures and other functions related to the regulation of the activity of the productive sectors. In turn, local governments play a preponderant role in Housing and Town Planning and Community Welfare (a function that includes locally provided basic services such as rubbish collection, street cleaning, lighting, etc.).

2. Brief historical and political background

Spain is a long-established European country, unified in the XV century under the kingdom of the Catholic Kings. They brought together in a single kingdom the former kingdoms of Castille and Aragón (of which Barcelona was the capital, Catalonia the dominant region and the Barcelona dynasty the reigning one). All the same, this old European State was never successful in overcoming the challenge of real national integration as the one that took place in other nation-states such as France and the United Kingdom, in which the creation of an authentic national market was accompanied by the creation of a national State capable of representing and integrating nationally (and culturally) the whole territory.

This did not occur in Spain, and the so-called 'regional problem' has always been present in Spanish political history, where some historical national realities have survived the process of national assimilation that took place in other European countries. We can state that, to some extent, Spain has been, in reality, a frustrated project of a national State. In fact, it is the expression of a double failure: certainly of the Spanish State, since it has shown itself incapable of either nationally integrating these historical national realities, or of offering them a framework of satisfactory self-government within the Spanish State; but also a failure of

these 'historical nations', incapable of either politically leading the Spanish State or separating from it in order to set up their own State.

This reason, among others, explains the weakness and the brevity of the democratic periods in Spain in the last century and a half. When Spanish political life has sought to adopt a centralist political system, not taking into consideration the aspirations to autonomy of Catalonia and the Basque Country, as happened during the Restoration period (1874-1923) after the 1st Republic, the instability created by the conflicts with these Communities (which in addition were the most economically powerful in Spain, the ones carrying the weight of industrial development, and the only ones with an industrial bourgeoisie needing a more modern and democratically legitimated State), resulted in the crisis of the system and the emergence of authoritarian solutions. When there was a prospect of a satisfactory solution to the problems of these regions in Spain, as happened during the 2nd Republic (1931-1936), when Statutes of Autonomy for Catalonia, the Basque Country and (in 1936) Galicia were adopted, the fear of a break-up of the unity of Spain by the more centralist and reactionary groups contributed to feed conflicts that, in this case, ended up in the terrible Civil War of 1936-1939.

This is why, after francoism, during the transitional period to democracy (1975-1978), Spanish society faced the historical opportunity of trying to channel an unresolved secular problem properly. The 1978 democratic Constitution tried to confront this challenge, and I believe it did it satisfactorily. The democratic Constitution has established a decentralised political system. The Constitution was the result of a pact basically established among three different groups: first, the Spanish democratic political forces that fought against francoism (including the Socialist Party, the Communist Party and some forces and personalities of the centre who played a relevant role); second, the reformist and democratic sectors arising from francoism; third, the democratic and autonomist political forces (and some nationalist ones) from the historical nations (specially from Catalonia and the Basque Country, and to a lesser degree from Galicia). Probably, as can be seen today with a certain historical perspective, it was fortunate that many of the leaders of the transition and of this pact had personally experienced, a long time before, the tragedy of the Civil War. This simultaneously ensured that the experience of the past was still sufficiently alive to avoid polarisation and recommend compromise and moderation, while sufficiently distant not to feed revengeful attitudes.

In addition, the Spain of the transitional period had changed, and the old conflicts involving the 'historical nations' had mixed up with the reality of strong territorial imbalances, aggravated by francoism, specially harmful for the poorest regions. These regions feared that, if they were left out of the decentralisation process, they would be further damaged. The Constitution set up the so-called 'State of the Autonomies'. It created an intermediary layer of

government, the Autonomous Communities, with political self-government and with a large level of responsibilities in relevant domains of public life (such as Education and Health). As we have seen in the previous section, its implementation has allowed the development of the State of the Autonomies, and nowadays the autonomous governments are a consolidated reality managing large budgets and carrying out an important part of public sector activities.

Nevertheless, the territorial conflicts have not totally ended in Spain, and we cannot consider the present situation as definitive. There is, of course, the situation of the Basque Country, with a basic problem of terrorism, mixed up with the 'sovereignist' approach of some political forces. In Catalonia, albeit from different positions, the main political forces are not satisfied with the present level of self-government, while in other Spanish regions there appear different kinds of claims regarding autonomy, here and there.

The Constitution, as an inevitable result of the pact in its origin, is an open framework, and different projects can arise from it. The 'State of the Autonomies' has allowed a very high level of administrative decentralisation, but the level of political decentralisation has probably not evolved at the same pace. By political decentralisation, I mean the capacity for self-government: the ability to take decisions in relevant domains of public life and being publicly accountable for them. With regard to this point, there are still important limitations: state legislation sets limits in many cases to the autonomous margin for manoeuvring; autonomous finances create a high degree of financial dependence; the responsibility of the autonomous governments over the administration of their own territories is only limited; there are no mechanisms (such as the Senate) to facilitate the participation of the autonomous governments in the set up of the State will.

The 'State of the Autonomies' is currently in a very crucial moment. Federalism should serve as inspiration for the basic purpose of making union and freedom compatible. In reality, in Spain and in Europe we are inevitably moving towards the structuring of pluri-national political entities, in which we have to articulate highly decentralised political formulae, based on different levels of government, with the existence of a 'plurinational' reality that seeks the political recognition of its constituent entities. Today, 'nation' is no longer a synonym of independent State, and the big challenge that we have facing us is to make this effective at the different levels. In Spain, in Europe and in Spain within Europe.

3. Financing regional governments

3.1. Introductory remarks

Financing autonomous governments is often placed at the heart of the political debate of the decentralisation processes. In fact, the discussion on this subject can be an element of confrontation as well as an element of pacification of territorial tensions. The different regions logically focus this debate according to their interests, and simplistic models should not be made regarding whether political decentralisation favours wealthy or poor regions from the point of view of their financial interests. Experience tells us that we can find all kinds of examples. In some cases, wealthy regions consider that a centralist State has harmful consequences, since they are required to make excessive fiscal transfers towards poor regions, while having autonomy would allow them a higher control over their own fiscal resources; in other cases, however, wealthy regions have clearly benefited from a centralist State because the capital effect, thanks to which they have enjoyed a politically dominant and financially favourable position. There are also cases in which poor regions can fear that financial decentralisation might negatively affect them, once they become more dependent on their own fiscal capacity; but, on the contrary, other poor regions may think exactly the opposite, that the cause of their underdevelopment is the abandonment to which they have been historically submitted by the central government, and what really favours them is the ability to decide to a larger measure on its own destiny and enjoy their own political voice, capable to manifest in defence of their own interests.

Thus, there are neither mechanical models nor concluding experiences regarding who can take more financial benefit from political decentralisation. That is why, it is not surprising that when in a decentralised state the matter of financing regional governments is discussed, the different governments involved easily find reasons to justify their own expectations for a better financial position. But, since not everyone will be able to reach its goals, political autonomy should no be based only on the financial advantages it could provide but on an essential political adherence to its underlying values and objectives.

In Spain, the discussion on the financing of autonomous governments remains open since the beginning of political decentralisation. Several reforms have been put into effect, and an important process of budgetary decentralisation has taken place, but the discussion on the financing system continues to occupy the centre stage of the political debate.

Before entering into the description and assessment of the financing system of the Autonomous Communities in Spain, it may be convenient to make two remarks:

- i) The financing system puts two kinds of problems of different nature. One is the amount of resources of the autonomous governments; the other is the financing structure, the distribution of those resources between taxes and grants and the characteristics of each one of them (notably the scope of fiscal responsibility of the

autonomous governments). Both subjects are interrelated, but are also relatively independent.

- ii) In many aspects, the relative situation of the different territories does not depend as much on the characteristics of autonomous financing, as on the fiscal flows produced through the central government budget.

3.2. *Elementary description of autonomous financing*

In Spain, there are two financing models for autonomous governments. One of them is the so-called 'concierto' model, applied to the 'foral' Autonomous Communities (the Basque Country and Navarra), which consists, very briefly, in that these Communities enjoy the revenues from the major taxes, for which they exert certain normative responsibility and the responsibility of tax administration, and they transfer an amount (the so-called 'cupo') to the central government in order to finance the services that this one carries out within their territory. The other one is the general system, applied to all the other AC's, that we will now examine. Logically, the Autonomous Communities with a higher level of responsibilities have a larger spending to finance, so that the financing systems of article 151 AC's (high level of responsibilities) and of article 143 ones (low level of responsibilities) show some different characteristics. However, they are two phases of the same model, and we will focus the explanation on the characteristics of the financing of article 151 AC's, since it is towards it that all the AC's will evolve in the future.

The financing of autonomous governments comes fundamentally from two main sources: tax revenues and grants (basically from the central government). *Tax revenues* represent 25.90% of the total autonomous resources and basically consist of three main kinds of taxes (Table 5):

- Own taxes and fees (4.02% of the total), on which the autonomous governments have a full decision capacity.
- Ceded taxes (10.50%), that are an ensemble of state taxes (wealth tax, inheritance tax, wealth transfers tax, stamp duties and gamble tax) whose product is attributed to the autonomous governments. Those have been given the tax administration and a certain normative responsibility in deciding some elements of those taxes.
- Individual income tax sharing (11.38%). The Autonomous Communities receive 30% of the personal income tax collected in that region. They also enjoy the possibility of deciding, within a limited interval, the establishment of the rate, and to decide on some specific tax credits.

Grants represent 72.80% of the autonomous government revenue, and they basically (63.44%) come from the central government (Table 5). The most important ones are:

- The unconditional grant (PIE) (21.50% of the autonomous resources). Although it is formally considered a participation in the central government taxes (PIE), in reality it is a grant of a general character, which amount is negotiated every five years. The amount corresponding to each autonomous government is calculated distributing the whole of unconditioned revenues (this grant plus the ceded taxes and the personal income tax sharing), according to a formula in which the fundamental weight corresponds to population.
- Grant for the financing of Health services and Social services (36.10%), which is a conditioned grant distributed among the autonomous governments according to population.
- Interterritorial Compensation Fund (ICF) (1.55%). It is also a conditioned grant devoted to the financing of investment projects in the poorest regions (less than 75% of the EU average).
- European Funds (8.60%). They are conditioned grants from the European Union. The main one is the European Fund for Regional Development (FEDER), devoted to financing investment projects in the poorest regions (less than 75% of the EU average).

3.3. An assessment of the financing system

The assessment of the financing system can be done from different angles. Here we are particularly interested in examining to which extent the intergovernmental fiscal relations have contributed or can contribute to the establishment of stable links between the different parts of the territory, to strengthen the cohesion and, as a result, to create a more legitimated and socially accepted political frame. In this respect I would like to underline the following points:

Basic aims: autonomy and equality

The autonomous financing system must pursue two basic political purposes: autonomy and equality. Autonomy implies the possibility of enjoying substantial margins in order

to decide the own policies, and in the field of autonomous financing, in order to decide the level and structure of own revenues. This implies the need of trying that, as far as possible, the majority of the autonomous revenues come from taxes paid by its own citizens and that on these taxes the autonomous governments have a wide decision responsibility. But this autonomy objective has to be made compatible with an equality purpose (defining equality according to conventional indexes; see Table 9), to avoid that the poorest Communities, with lesser fiscal capacity, have to be confronted to a painful alternative: either to provide a lower level of services, or to ask for a higher fiscal effort to its citizens in order to provide the same level. Any of those two solutions is fundamentally opposed to a basic notion of equality of rights and duties between citizens, which lies at the origin of any political community. This is why, tax revenues should be accompanied by a grant system ensuring this basic objective of equality, and automatically implying income transfers from the wealthiest to the poorest regions.

The consensus on diversity and solidarity

Any financing system that tries to simultaneously reach the objectives of autonomy and equality demands a certain trade-off between both objectives, and somehow a political decision that finally depends on values and on the importance that in every moment society gives to these objectives. This is why, any proposal of attributing a real autonomy to the autonomous governments and establishing mechanisms to guarantee the equality between AC's must be based on a double social consensus that accepts the values of diversity (expressed by the capacity of different regional governments to carry out different policies on matters of their responsibility) and solidarity (expressed by the degree in which rich regions produce fiscal flows towards poor regions) Gas positive and desirable.

Diversity has certainly a cost. It puts forward problems of a different nature that do not exist in uniform political systems. But if a system of autonomies has been created it is because diversity does not only have a cost but it also brings benefits. It allows the expression of own preferences, and the possibility of contrasting different alternative solutions for the same problems, and it finally leads to a stronger political stability. It is precisely because the benefits are larger than the costs that the option for a decentralised political system has been made. In a similar way, the consensus on interterritorial solidarity is necessary. That is, the acceptance that a share of the taxes paid in some territories (the wealthiest ones) is used to finance the services in other areas (the poorest ones) in order to ensure a basic equality among citizens. Naturally, this acceptance is

only possible on the ground of indispensable requirements of political identification (in other words, of a feeling of membership of the same community) and trust in the State that channels solidarity. Without the existence of this double consensus -if some do not accept diversity and others do not accept solidarity- then the 'State of the Autonomies' may be subject to insurmountable tensions.

What is the situation in Spain?

In Spain, the financing system produces a very high level of equality between the revenues of the autonomous governments, but it is very limitative in terms of autonomy. When facing the balance between autonomy and equality, it has clearly given preference to equality. The fear to weakening interterritorial solidarity has been stronger than the will to assure that autonomous governments could enjoy a substantial level of financial autonomy. The central government has kept the final decision power (through grants systems) on financing autonomous governments, what has resulted in an important financial dependence. More specifically, the following aspects should be underlined:

- When examining the structure of autonomous revenues there appears the high weight of grants (72.80% of the total, of which 63.44% coming from the central government and 8.60% from European Funds), as well as the small importance of tax revenues (25.90%) (Table 5), over which, in addition, the decision capacity of autonomous governments is very limited. Thus, the Spanish system creates a high financial dependence of autonomous governments from central government.
- The existing grants mechanisms are of two kinds: some try to reach a clearly equalitarian objective of revenues per inhabitant between the AC's (the general grant and those devoted to Health); others are exclusively oriented towards the poorest Autonomous Communities (ICF and European Funds). Therefore, the outcome of both of them is strongly redistributive.
- The financing system does not produce noticeable inequalities in the revenues per inhabitant between the Autonomous Communities applying the general financing system (as can be clearly seen in Table 6), and in any case no significant relation is traceable between autonomous revenues per inhabitant and the income level (measured by the GDP per head) (Table 7). Wealthiest regions do not have, then, a highest level of resources.
- If European Funds are taken into consideration, there is inequality in revenues per inhabitant, because the poorest Communities are the main beneficiaries of these

Funds (Table 6). A clearly significant relation of a negative sign between both variables is also noticeable (Table 7).

- The only noticeable inequalities are the ones existing between the revenues per inhabitant of the autonomous governments that we have examined and those of the ‘foral’ Communities (the Basque Country and Navarra), which apply a system of ‘concierto’. The respective revenues per inhabitant are in a proportion of 1.82 to 1.

Lack of fiscal responsibility and political conflict

During the last years, there has been a growing concern for the lack of fiscal responsibility arising from the little weight of tax revenues as well as from the high level of financial dependence resulting from the financing system existing in Spain. Lack of fiscal autonomy implies lack of fiscal responsibility. This situation generates negative consequences in different directions. First of all, autonomous governments have a powerful incentive towards transferring to the central government any demand presented by their citizens. Instead of taking decisions and assuming the corresponding responsibilities in front of its citizens, the autonomous government has a tendency to transfer responsibility to the central government, since this one controls, in the final instance, its financing. Thus, a permanent focus of conflict between the central government and the autonomous government is created, which has a political profitability for the latter, both whether the conflict is positively solved in its favour or not. Secondly, the lack of fiscal responsibility makes the task of control of the government by the citizens more difficult, since it makes less perceptible the link between the benefits obtained from public services and the cost of financing them through taxes. In addition, the fiscal illusion with respect to the price of public services may lead to an excessive and inefficient public expenditure. The lack of fiscal responsibility also contributes to generate conflicts between autonomous governments, since it makes the relations of solidarity among territories less transparent, and, on the other hand, any agreement reached between the central government and an autonomous government is seen by the other AC's with reticence and generates suspicions. Specially, when in the parliament the central government needs the votes of the nationalist parties of Catalonia and the Basque Country, that are the ruling parties in their respective regional governments. Dependency generates irresponsibility, as autonomy generates responsibility. Therefore, the lack of fiscal responsibility produced by the autonomous financing system in Spain is having political consequences of great importance, that go

far beyond its strictly financial effects, highly destabilising for the autonomic political system that we want to develop in Spain.

4. Public finance and interterritorial solidarity

4.1. Reduction of inequalities through the activity of the public sector

The public sector plays a very important role in the reduction of interterritorial inequalities, since the territorial distribution of taxes is usually related to income or the GDP (as an indicator of fiscal capacity), while that of public spending (services and transfers) is usually related to population (as an indicator of needs). As a result, income transfers take place through public budgets from the wealthiest regions (with a GDP per head above the average) towards the poorest ones (with a GDP per head below the average). We have seen that in Spain there is a noticeable equality of the autonomous revenues per inhabitant of the different Autonomous Communities and that, including the European Funds, the revenues per inhabitant of the poorest Communities are, in fact, higher than those of the wealthiest (Table 6). This means that the autonomous budgets already assure by themselves an important degree of interterritorial solidarity in the distribution of public resources. Tables 8 and 9 are specially illustrative to this purpose.

Table 8 shows the reduction of income inequalities produced by the financing of autonomous governments. In other words, it compares the degree of inequality existing among the GDP per head of the different AC's before and after the autonomous financing, taking in consideration the fiscal flows that this one generates between wealthy regions and poor regions. As can be seen, the inequality between the GDP per head of the different regions diminishes, in the non weighted average of the different indicators used, in approximately 13% (column C). If we take into consideration the European Funds, this reduction is still higher and reaches practically 20% (column D). Autonomous financing (especially if we take the European Funds into consideration) produces, then, a redistribution of income between regions of a certain importance. A more sophisticated approach would consist in obtaining the elasticity (equivalent to the degree of progressivity) between the final income (GDP per head plus net transfers produced by the public sector) and the initial income. Table 9 shows us that this elasticity is in the range of 0.89 (0.83 with European Funds), which means that when increasing the GDP per head in a 10%, final income increases only 8.9%, since a portion of

the growth is channelled, through the autonomous financing, towards the other regions (or that the improvement of the relative position of a region thanks to the autonomous financing is wider as smaller is its GDP per head level).

But the reduction of territorial imbalances deriving from the direct activity of the central government throughout the territory is even more important than the one generated by autonomous financing. The first column of Table 8 indicates that the reduction of inequalities resulting from the activity of the whole public sector (that is, including the central and autonomous sectors) is in the range of 33% (and would be around 40% including European Funds). Hence, income inequalities among regions are approximately reduced by one third through the interregional fiscal transfers that take place through the Spanish public sector. Then, from this 33%, a 13% is due to the autonomous financing, which means that the redistributive effect of the central government would represent another 20%. Table 9 shows that the degree of progressivity between final income (after the action of the public sector) and initial income would now be in the range of 0.69: when increasing the initial income by 10%, final income only increases 6.9%, and the remaining portion is channelled towards other regions through the public sector.

Therefore, when examining the interregional income transfers it is very important to keep in mind that a very important part of them does not take place through the financing of the autonomous governments, but through the direct activity of the central government ⁽²⁾.

4.2. Redistribution and growth

Against widespread commonplace, Spain is not a country with strong interterritorial income imbalances. If we compare it with the ones of other European countries, we reach the conclusion that Spain is placed among the countries with smaller inequality indexes from this point of view ⁽³⁾. In the European context, and in comparison with other countries, Spain is more prominent for being a relatively poor country (its income level stands around 80% of the EU average, and the wealthiest region only just in the average), than for being a country with strong territorial imbalances. Anyway, in Spain the public sector plays, as we have seen, a

² For a more in depth treatment of this subject, vid. Castells-Parellada (1993).

³ Vid. Graph, and also, for a more detailed approach, Castells (1993), European Commission (1997), Esteban (1999) and Hall (1999).

strongly redistributive role at a regional level. Fiscal balances between regions are perfectly comparable and even higher than those of other European countries (Table 10)⁽⁴⁾.

Sometimes the discussion arises whether more importance should be given to redistribution (which would imply to channel more transfers into the poor regions) or to growth, which would recommend to favour the situation of the wealthy regions, since they have a higher productivity and can act as locomotives of the whole. There is an important debate, which has obvious political resonance, on the possible trade-off between growth and redistribution⁵. Is not the purpose of this paper to deeply examine the main analysis made or the more relevant empirical results obtained on this issue. However, it should be underlined that the different studies do not provide significant evidence in the sense that higher spending in redistribution leads to lower rates of economic growth. On the contrary, they rather conclude that more fiscal redistribution could contribute to create strong incentives to economic growth, through investment in human capital and assurance of more political stability. Anyway, it is obvious that more detailed studies should be undertaken to explore this relationship at regional and territorial level within the different countries.

4.3. Some final considerations

- The development of a decentralised political system in Spain has not taken place without tensions and conflicts. Many of them have their origin in financial matters. These conflicts appear in a double front. On the one hand, between the central government and the autonomous governments (with each one of them individually or with the whole of them). To this, clearly contributes the financing system, which creates a situation of strong financial dependence of the Autonomous Communities and makes inevitable the discussion on the volume of financing. On the other hand, between the autonomous governments themselves and, more in general, between territories. In Spain, a special polarisation and radicalisation of the debate has taken place: while the wealthiest Autonomous Communities are under the impression of making an excessive solidarity effort and of having insufficient financing, the poorest Communities have the feeling that the wealthiest ones are treated preferentially by the central government, especially when the central government needs the parliamentary support of nationalist parties of the 'historic nations' and the terms of the agreement do not clearly come into view. In addition, nowadays these Communities have political representatives, the

⁴ Vid. also Castells (1998) and Davezies (1996).

⁵ Vid., particularly, Alesina-Perotti (1996), Atkinson (1995), Benabou (1996), Deininger-Squire (1996), Persson-Tabellini (1994), Perotti (1996), Persson (1995), Saint Paul-Verdier (1996).

autonomous governments, that manifest in the Spanish political scenario in relation with the interests of their Community. This conflict is strengthened by the big differences produced by the 'concierto' system in favour of the 'foral' Communities. The interterritorial financial problems easily become political conflicts, often politically profitable for the autonomous governments, which makes it difficult to find stable formulas.

- Stability does not mean absence of conflicts. It is illusory to think that a decentralised political system, with multiple government levels, will not experience problems between those governments. Conflicts express situations in which objectively different interests are present, or diverging positions regarding the same problems come out. Actually, conflicts can be a sign of vitality. It is no good to try to repress them or to ignore them, since they end up reappearing in an uncontrolled way. What has to be done is to channel them and to facilitate their expression, to establish institutional mechanisms for their resolution and to try to transform them in a dynamic element of social change.
- It is essential, first, to establish mechanisms to make possible that conflicts are solved through negotiation; second, that negotiation will lead to agreements (new equilibrium, in some aspect); and, third, that these new agreements will allow to transform the reality, overcoming, to some extent, the problems that were in the source of the conflict. Therefore, three main conditions are required: that conflict will lead to negotiation; that negotiation will lead to agreements; and that agreements will contribute to resolve the problems. At this point, the design of the institutional mechanisms is a crucial issue: the benchmark where the negotiations should be undertaken, the actors who participate in them, and the rules of the game. The problem arises when, as occurs in Spain, the conflicts produce by themselves political benefits. As well for the autonomous governments, which can appear as the champions of their community, as for the central government, that can appear as the defender of the unity and the general interest. This situation does not lead to new points of equilibrium (always in evolution, of course), but to the exacerbation of the initial conflict and to a vicious circle fed by the political profitability of the conflicts. Nowadays, in Spain the absence of effective institutional mechanisms is a major problem in the relations among different levels of government.
- There is not an immediate relationship between territorial inequality, interregional fiscal flows and cohesion. The equation 'more territorial inequality implies more interregional fiscal flows, and more interregional fiscal flows leads to more cohesion' does not necessarily applies. It could be specially useful to distinguish between territorial cohesion and national cohesion. Territorial cohesion concerns the territorial differences in terms of income and welfare, while national cohesion refers to the sentiment of

identification to the same national community. The reality shows that we have examples of territorial cohesion without national cohesion, and in the opposite way, we can find examples of national cohesion in situations of strong territorial economic inequalities. So, territorial cohesion not necessarily implies national cohesion.

- Thus, by itself solidarity does not guarantee cohesion. We have seen that in Spain autonomous financing assures a high level of equality between the revenues per inhabitant of the AC's, which implies the existence of important redistributive flows among regions, which has not prevented neither the appearance of conflicts, nor the existence of important instability factors. Equality assures, then, a high level of interterritorial solidarity. But solidarity does not guarantee interterritorial cohesion. For this, three additional requisites are needed. First of all, that this solidarity is recognised by the Communities receiving it and assumed by the ones financing it. Secondly, that the political system as a whole is satisfying for all Autonomous Communities; that is, that they all find in it the degree of self-government they wish. Thirdly, that conflicts are channelled through stable institutional mechanisms of negotiation and representation.
- The financing of regional governments is a crucial issue in shaping the relations between different levels of government. In Spain, the future evolution of the system should introduce more fiscal responsibility (and therefore more transparency) to the regional governments, should reform the system of grants, to achieve an objective of equalisation and should improve the institutional mechanisms of co-ordination.

Bibliography

Alesina, Alberto and Perotti, Roberto, 1996, "Income distribution, political instability, and investment", *European Economic Review*, June, pp. 1203-1228.

Andersen, Torden M., Moene, Karl O. And Sandmo, Agnar (eds.), 1995, *The Future of the Welfare State*, Blackwell, Oxford (UK).

Atkinson, A.B., 1995, "The Welfare State and Economic Performance", *National Tax Journal*, June, pp. 171-188.

Benabou, Roland, 1996, "Inequality and Growth", *Discussion Paper Series* (num. 1450), Centre for Economic Policy Research, July.

Castells, Antoni, 1993, "Desequilibris regionals a Espanya i a Europa: unes notes comparatives", *Revista Econòmica* (Banca Catalana), num. 100, June-September, pp. 15-21.

Castells, Antoni, 1998, "Integració monetària i desequilibris territorials a la Unió Europea", *Revista Econòmica* (Banca Catalana), num. 114, March , pp. 19-45.

Castells, Antoni and Bosch, Núria (eds), 1999, *Desequilibrios territoriales en España y Europa*, Ed. Ariel, Barcelona.

Castells, Antoni and Parellada, Martí, 1993, "Los desequilibrios territoriales en España", *Primer simposio sobre igualdad y distribución de la renta y la riqueza*, Fundación Argentaria, Madrid.

Castells, A., Barberán, R., Bosch, N., Espasa, M., Rodrigo, F., Ruiz-Huerta, J., 2000, *Las balanzas fiscales de las Comunidades Autónomas*, Ed. Ariel, Barcelona.

Davezies, Laurent, Nicot, B.H. and Prud'homme, Rémy, 1996, "Interregional Transfers from Central Government Budgets", in *Economic and Social Cohesion in the European Union: The Impact of Member States Own Policies* (Final Report to the European Commission, DG XVI), University of Strathclyde (Glasgow) – European Policies Research Centre, October.

Deininger, Klaus and Squire, Lyn, 1996, "A New Data Set Measuring Income Inequality", *The World Bank Review*, September, pp.565-591.

Escardó, Maria, 1999, "Els pressupostos de la Generalitat de Catalunya per al 1999", *Nota d'Economia*, May-August , pp. 135-155.

Esteban, Joan M^a, 1999, "Un análisis de las desigualdades interregionales en Europa: la década de los ochenta", in Castells-Bosch (1999), pp. 58-93.

Hall, Ronald, 1999, "Disparidades regionales en Europa durante los años noventa. Una referencia a España y sus regiones", in Castells-Bosch (1999), pp. 21-57.

Perotti, Roberto, 1996, Growth, Income Distribution, and Democracy: What the Data Say", *Journal of Economic Growth*, June, pp. 149-187.

Persson, Mats, 1995, "Why are Taxes so High in Egalitarian Societies?", in Andersen-Moene-Sandmo (1995), pp. 102-112.

Persson, Torsten and Tabellini, Guido, 1994, "Is Inequality Harmful for Growth?", , *American Economic Review* , pp. 600-621.

Saint Paul, Gilles and Verdier, Thierry, 1996, "Inequality, redistribution and growth: A challenge to the conventional political economy approach", *European Economic Review*, April, pp. 718-728.

-----, *First Report on Economic and Social Cohesion (1996)*, European Commission, Brussels, 1997.

-----, *Renta Nacional de España y su distribución provincial*, (Serie Homogénea, años 1955 a 1993 y avances 1994 a 1998), Fundación BBV, 1999.

Table 1**Population and GDP per Autonomous Community (1998)**

	<i>Population</i>		<i>GDP</i>		<i>Index_(GDP per capita)</i>		
		<u>% s/total</u>	(Millions ptas.)	<u>% s/total</u>	<u>1955</u>	<u>1975</u>	<u>1998</u>
Andalusia	7,258,168	18.19	12,068,935	13.14	68.79	73.05	72.26
Aragón	1,181,814	2.96	2,960,313	3.22	98.10	100.88	108.86
Asturias	1,080,103	2.71	2,122,072	2.31	109.70	99.43	85.38
Balearic Islands	801,023	2.01	2,847,356	3.10	125.04	133.97	154.48
Canary Islands	1,639,795	4.11	3,679,858	4.01	72.49	81.24	97.52
Cantabria	526,557	1.32	1,126,226	1.23	115.62	102.30	92.95
Castilla-La Mancha	1,719,756	4.31	3,165,155	3.45	65.96	78.10	79.98
Castilla-León	2,478,391	6.21	5,228,164	5.69	83.37	83.94	91.67
Catalonia	6,154,987	15.42	17,511,487	19.07	159.90	127.82	123.64
Comunidad Valenciana	4,033,902	10.11	9,258,703	10.08	111.95	100.05	99.75
Extremadura	1,069,098	2.68	1,802,331	1.96	55.78	57.90	73.26
Galicia	2,722,637	6.82	5,287,730	5.76	69.93	76.19	84.40
Madrid	5,100,500	12.78	14,849,141	16.17	156.04	133.78	126.52
Murcia	1,119,082	2.80	2,058,929	2.24	68.96	83.06	79.96
Navarra	530,394	1.33	1,429,913	1.56	114.60	113.82	117.16
Basque Country	2,095,900	5.25	5,527,948	6.02	177.56	132.78	114.62
La Rioja	263,512	0.66	680,900	0.74	108.74	104.43	112.29
Ceuta and Melilla	132,467	0.33	226,202	0.25	52.63	68.47	74.02
Total	39,908,086	100.00	91,831,363	100.00	100.00	100.00	100.00
Ratio max/min					3.1832	2.3138	2.1378
Variation Coefficient					0.3486	0.2530	0.2192

Source: Fundación BBV (1999).

Table 2

Responsibilities of the Autonomous Communities

Level of responsibilities		Responsibilities
HIGH (art. 151)	LOW (art. 143)	<ul style="list-style-type: none"> * Forestry, agriculture, livestock and fisheries in internal waters * Urbanism and housing * Roads * Ports and airports without commercial activity * Hydraulic exploitations, channels and irrigation * Environmental protection * Monumental patrimony of the Autonomous Community, cultural promotion and of the regional languages, libraries, museums and conservatories * Self-government institutions * Internal commercial fairs, sports promotion and tourism
		<ul style="list-style-type: none"> * Education (management of the educational system at all levels) * Health (medical assistance at all levels)

Table 3

Public sector by levels of government in Spain

(in % of the total consolidated public spending)

	<u>Central government</u>	<u>Autonomous governments</u>	<u>Local governments</u>	<u>Total</u>
1979	88.0	0.1	11.9	100.0
1985	76.6	12.6	12.8	100.0
1990	67.5	19.2	13.3	100.0
1995	67.0	21.5	11.5	100.0
1996	65.5	22.6	11.9	100.0
1997	63.8	23.9	12.3	100.0

Source: Dir. Gral. de Coordinación con las Haciendas Territoriales (Min. Economía y Hacienda).

Table 4

Functional classification of consolidated expenditure in the Spanish public sector (1993)

(Million ECU's)

	State		Autonom. Communities		Local Government		PUBLIC SECTOR	
	Consolidated total	%	Consolidated total	%	Consolidated total	%	Consolidated total	%
1. General Services	2,491	34.9	1,333	18.7	3,311	46.4	7,135	100.0
2. Defence, Civil Protection and Citizens' Safety	8,264	80.5	463	4.5	1,539	15.0	10,266	100.0
3. Social Security, Protection and Promotion	62,192	91.7	3,201	4.7	2,402	3.6	67,794	100.0
3.1. Social Security and Protection	60,167	93.3	2,483	3.8	1,848	2.9	64,498	100.0
3.2. Social Promotion	2,025	61.4	718	21.8	554	16.8	3,296	100.0
4. Production of Public Goods of a Social Nature	18,497	33.8	25,951	47.5	10,200	18.7	54,647	100.0
4.1. Health	10,502	43.8	12,677	52.8	821	3.4	24,000	100.0
4.2. Education	6,684	38.5	9,689	55.8	1,001	5.7	17,374	100.0
4.3. Housing and Town Planning	486	9.4	1,685	32.6	2,991	58.0	5,161	100.0
4.4. Community Welfare	161	4.4	728	19.9	2,777	75.7	3,665	100.0
4.5. Culture	518	14.4	935	26.1	2,135	59.5	3,589	100.0
4.6. Other Community and Social Services	148	17.2	237	27.5	475	55.3	859	100.0
5. Production of Economic Goods	9,041	53.4	4,957	29.3	2,921	17.3	16,919	100.0
5.1. Basic Infrastructures and Transports	6,235	49.3	3,691	29.2	2,716	21.5	12,642	100.0
5.2. Communications	1,118	93.2	51	4.3	31	2.5	1,199	100.0
5.3. Agrarian Infrastructure	255	19.8	901	69.7	136	10.5	1,293	100.0
5.4. Scientific, Technical and Applied Research	1,216	81.9	256	17.3	12	0.8	1,485	100.0
5.5. Basic and Statistical Information	217	72.5	57	19.0	25	8.5	299	100.0
6. General Economic Regulation	3,991	66.7	1,054	17.6	936	15.7	5,981	100.0
6.1. Economic Regulation	1,883	56.0	678	20.1	803	23.9	3,364	100.0
6.2. Commercial Regulation	813	75.7	128	12.0	132	12.3	1,074	100.0
6.3. Financial Regulation	1,295	83.9	248	16.1	0	0.0	1,544	100.0
7. Economic Regulation of Productive Sectors	6,050	69.6	2,232	25.7	408	4.7	8,689	100.0
7.1. Agriculture, Livestock and Fisheries	4,580	79.2	1,124	19.4	82	1.4	5,785	100.0
7.2. Industry	902	48.5	801	43.1	156	8.4	1,859	100.0
7.3. Energy	57	27.2	90	43.1	62	29.7	209	100.0
7.4. Mining	402	87.7	55	12.0	2	0.3	458	100.0
7.5. Tourism	109	28.8	162	42.9	107	28.3	377	100.0
9. Grants to Public Administrations	5,358	88.8	339	5.6	338	5.6	6,035	100.0
10. Public Debt	27,015	80.7	2,740	8.2	3,729	11.1	33,484	100.0
<u>TOTAL NON FINANCIAL</u>	131,365	66.7	41,440	21.0	24,267	12.3	197,072	100.0
<u>EXPENDITURE</u>								
<u>TOTAL EXPENDITURE</u>	142,899	67.8	42,269	20.0	25,783	12.2	210,951	100.0

Source: Ministerio de Economía y Hacienda: La descentralización del gasto público en España, período 1984-93.

Table 5

Revenues of the Spanish Autonomous Communities⁽¹⁾(1998)

	<u>as % of total</u>
Tax revenues	25.90
Own taxes and fees	4.02
Ceded taxes	10.50
Personal income tax sharing	11.38
Grants	72.80
From the central government	63.44
<i>Unconditional (PIE)</i>	<i>21.50</i>
<i>Health and Social Services</i>	<i>36.10</i>
<i>Interterritorial Compensation Fund</i>	<i>1.55</i>
<i>Others</i>	<i>4.29</i>
European Funds	8.60
Others	0.76
Other revenues	1.30
Total	100.00

Source: Escardó (1999).

Notes: 1. Corresponds exclusively to the art. 151 AC's.

Table 6

Revenues of the autonomous governments and income level (1998)

	<u>Autonomous revenues</u> <u>per head⁽¹⁾</u>		<u>Autonomous revenues (incl.</u> <u>European Funds) per head</u>		<u>GDP per head</u>	
	<u>(in ptas.)</u>	<u>Index</u> (average=100)	<u>(in ptas.)</u>	<u>Index</u> (average=100)	<u>(in ptas.)</u>	<u>Index</u> (average=100)
Art. 151 AC's						
ANDALUSIA	241,569	0.9663	292,684	1.0687	1,662,807	0.7298
CANARY ISLANDS	257,654	1.0306	274,073	1.0007	2,244,096	0.9849
CATALONIA	253,848	1.0154	256,857	0.9379	2,845,089	1.2486
GALICIA	271,167	1.0847	294,041	1.0737	1,942,136	0.8523
C. VALENCIANA	241,914	0.9676	252,267	0.9211	2,295,223	1.0073
average	250,003	1.0000	273,868	1.0000		
Art. 143 AC's						
ARAGÓN	114,698	1.0689	189,985	1.2727	2,504,889	1.0993
ASTURIAS	108,265	1.0089	124,895	0.8367	1,964,694	0.8622
BALEARIC ISLANDS	142,154	1.3247	148,182	0.9927	3,554,649	1.5600
CANTABRIA	109,164 ⁽²⁾	1.0173	141,484	0.9478	2,138,849	0.9387
CASTILLA-LM	93,557	0.8718	193,258	1.2947	1,840,467	0.8077
CASTILLA-LEÓN	108,810	1.0140	178,660	1.1969	2,109,499	0.9258
EXTREMADURA	125,200	1.1667	227,425	1.5236	1,685,843	0.7399
MADRID	108,266 ⁽²⁾	1.0089	112,822	0.7558	2,911,311	1.2777
MURCIA	70,718	0.6590	101,759	0.6817	1,839,837	0.8075
LA RIOJA	100,603	0.9375	112,230	0.7518	2,583,943	1.1340
Average	107,310	1.0000	149,272	1.0000		1.0000

Sources: Escardó (1999) and Fundación BBV (1999).

Notes: 1. Revenues from indebttness are not included nor, in the uniprovincial Communities, the revenues corresponding to the provincial government (Diputación).

2. Includes the provincial share in the State revenues.

Table 7

Autonomous revenues and income level^(1, 2)

<u>Dependent Variable</u>	<u>Constant Term</u>	<u>Independent Variable: ln GDP p/head</u>	<u>R</u> ²⁽³⁾	<u>F</u>	<u>N</u>
ln R	5.6147** (13.3054)	-0.0109 (0.1998)	0.3063 (-0.0736)	0.0399	15
ln R'	0.0754** (14.4766)	-0.3283** (2.8126)	0.9983 (0.9981)	7547	15

Notes:

1. Definition of the variables:

R: autonomous revenues per head (for art. 143 AC's an estimate is made considering they had already assumed the same responsibilities as the art. 151 AC's).

R': R + European Funds included in the autonomous budgets.

2. The Table shows the value of the regression coefficients; the value of the statistic 't' (**=significativity for a confidence interval of 95%) is shown between parenthesis.

3. Between parenthesis, correlation coefficient adjusted by the degrees of freedom.

Table 8

Public finance impact on reduction of interregional inequalities (1998)

Indicators	(A) GDP p/head	(B) ⁽¹⁾ (A)+ TPS ⁽⁴⁾		(C) ⁽²⁾ (A)+APS ⁽⁵⁾		(D) ⁽³⁾ (C)+EF	
			<u>% variation⁽⁶⁾</u>		<u>% variation⁽⁶⁾</u>		<u>% variation⁽⁶⁾</u>
Variation Coefficient	0.2229	0.1581	-29.07	0.1983	-11.04	0.1913	-14.18
Gini Index	0.1230	0.0745	-39.43	0.1062	-13.66	0.0840	-31.71
Williamson Index	0.2228	0.1534	-31.15	0.1916	-14.00	0.1869	-16.11
Kuznets Index	0.0963	0.0660	-31.46	0.0837	-13.08	0.0790	-17.96
Non-weighted average			-32.78		-12.95		-19.99

Notes:

1. Final income per head: GDP per head plus net public transfers produced by the activity of the whole public sector, including the central government (TPS: Total Public Sector).
2. APS: net transfers produced by the autonomous public sector.
3. EF: European Funds.
4. Fiscal balances of the different AC's with the public sector obtained from Castells e.a. (2000).
5. Fiscal balances produced by autonomous financing are estimated on the budgetary information provided in Escardó (1999); for the art. 143 AC's an estimate is made considering they had already assumed the same responsibilities as the art. 151 AC's.
6. In relation to column (A).

Table 9

Degree of progressivity of public sector activity (1998)^(1,2)

<u>Dependent Variable</u>	<u>Constant Term</u>	<u>Independent Variable: ln GDP p/head</u>	<u>R²⁽³⁾</u>	<u>F</u>	<u>N</u>
ln YF1	0.2709** (8.0575)	0.6898** (16.9502)	0.9567 (0.9534)	287.31	15
ln YF2	0.0989** (12.5140)	0.8857** (92.5851)	0.9985 (0.9984)	8572	15
ln YF3	0.1583** (8.4948)	0.8319** (36.5311)	0.9904 (0.9896)	1334.52	15

Notes:

1. Definition of the variables:
YF1= GDP+TPS (vid. Table 8).
YF2= GDP+APS (vid. Table 8).
YF3= YF2+EF (vid. Table 8).
2. Vid. note 2 Table 7.
3. Vid. note 3 Table 7.

Table 10

Territorial impact of public sector activity in some European countries
(net tax transfers⁽¹⁾ as % of GDP)

	<u>More positive balances</u>		<u>More negative balances</u>	
Spain	Extremadura	(+18.35%)	Balearic Islands	(-8.35%)
France ⁽²⁾	Corsica	(+12.52%)	Île de France	(-4.36%)
Italy	Basilicata	(+37.92%)	Lombardia	(-12.90%)
Portugal	Alentejo	(+26.17%)	Norte	(-2.39%)
Germany ⁽²⁾	Mecklenburg-Vorpommern	(+25.75%)	Baden-Württemberg	(-4.38%)
UK	North	(+9.26%)	South-East	(-6.36%)
Sweden	North Norrland	(+13.31%)	Stockholm	(-7.53%)

Source: Davezies (1996) (data of 1993); except for Spain, Castells e. a. (2000) (data of 1996).

Notas: 1. Public spending minus taxes allocated to the corresponding territory.

2. Does not include Social Security budget.