

The Role of the Decentralization of Public Spending in the Autonomous Communities of Spain: 1988-1997¹

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Abstract

Decentralization of public spending in Spain has been one of the main landmarks in recent years in Spain and also in many different countries. The main objective of this article is to understand how Autonomous Communities have been benefited from this decentralization process. The classical assumption to speak about this topic is the theory of fiscal federalism. However, nowadays this theory is considered more as a set of general "guidelines" than a practical rule of application, and in this sense it is used in the paper.

The research include a general description of the decentralization process in Spain since 1984 to 1997, that clearly shows how Autonomous Communities are the great "winners" of that process. Afterwards, the paper goes deeper analyzing the evolution of the functional classification of spending in Autonomous Communities, trying to show if all regions have benefited the same from decentralization.

The principal conclusion is that, so far, mainly political motives have justified in Spain the transference of competencies from the central to the regional government. Moreover, there is a great different among the Autonomous Communities with high level of competencies, which spend more on *Social Assistance and Social Goods*, and the ones with low level of competencies, which spend more on *Spending on Other Services (production of economic public goods and economic regulation of productive sectors)*. Moreover, the analysis of the data is made in order to justify this evolution. The fiscal federalism theory can also enlighten our analysis from a theoretical point of view.

(J.E.L.: E62, H70)

Keywords: decentralization, public spending, Autonomous Communities, competencies.

"Fiscal Decentralization is in vogue. Both in the industrialized and in the developing world, nations are turning to devolution to improve the performance of their public sectors" (Wallace Oates, 1999)

¹ I have to dedicate a special mention to Professor Wallace Oates (University of Maryland), who masterfully led the first version of this article during my stay as a Visiting Scholar at the University of Maryland. Suggestions coming from Professor Maximino Carpio (University Autónoma of Madrid), and Professor Francesc Pujol (University of Navarra) were also very useful, as well as two other anonymous referees. All remaining errors are mine.

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1. Introduction

Developed countries are leading decentralization processes (Prud'homme, 1991; Inman and Rubinfeld, 1997, 1998). The objective here is not a greater macroeconomic stability, but to reshape their intergovernmental fiscal structure, trying to attend the requirements of the new «post-welfare state», where citizens demand goods and services coming from a close Public Sector (Wildasin, 1997). In this sense, in Europe decentralization is actively working³. Central levels of government are transferring power to the regional and local ones. Spain is one of the most striking examples; here this issue is moving very fast. In recent years, this country is showing a similar situation to others with more federalist tradition, like Germany or Switzerland. With respect to Austria and Belgium, regional governments are even controlling bigger quantities of spending. And it is clearly a country more decentralized, either revenue or expenditure point of view, than France⁴. It will be the objective of this research to go further studying the decentralization of public spending in Spain in the case of A.C.

The article will follow these steps. First, it explains the fiscal federalism theory, exploring afterwards the regional government in Spain, its laws, different legal functions, and competencies. Next, it discusses, among others issues, the objective and the methodology used. After assembling the data, the study describes and justifies how the decentralization process of public spending during the chosen period has influenced A.C. The article ends with some concluding observations.

2. The fiscal federalism theory: a practical rule or some general "guidelines"?

Generally speaking, fiscal federalism⁵ is a study of the interrelations that occur in the public revenues and spending between levels of Public Administration (Domingo Solans, 1977). However, the relationship among decentralization and federalism is not an easy issue. Inman and Rubinfeld (1997 and 1998) describe three *Principles of Federalism* depending on how central government policies be decided:

The principle of economic federalism, or centralized federalism, prefers the most decentralized structure of government capable of internalizing all economic externalities, subject to the constitutional constraint that all central government policies be decided by an elected or appointed "central planner".

Also *the principle of cooperative federalism, or decentralized federalism*, prefers the most decentralized structure of government, but here all central government policies are agreed to unanimously by the elected representatives from each of the lower-tier governments. As it is pointed out in section number 3 of this paper, decentralization process in Spain is working, in some sense, according to this kind of federalism.

In the case of *The principle of democratic (or majority-rule) federalism* all central government policies are agreed to by a simple (51 percent) majority of elected representatives from lower-tier governments. Nowadays, European Union is working following this kind of federalism, combining it with centralized and decentralized federalism for some aspects (Ruiz Álvarez, J.L.,

³ In this sense, PANNIZA (1998, pages 263-264) points out that with the end of the Cold War, "strong pressures for a more decentralized system have been at the center of the political scene in many Western European countries". Another interesting work about decentralization in Europe is: BEGG *et al.* (1993) and FEARON (2000)

⁴ For more information comparing decentralization process in Spain with others developed countries see: OCHANDO and TOBOSO (2000), IMF (1999), MIÑANA SIMÓ (1999), and BEL and CASTELLS (1991)

⁵ It is not the objective of this research to perform a wide study on fiscal federalism. A good description of this issue is, for instance, in: ALBI *et al.* (2000, pages 159-219) and MUSGRAVE, R.A. and MUSGRAVE, P.B. (1992, pages 557-620)

1999)

According to Inman and Rubinfeld (1997, page 45), among these three *Principles of Federalism* mentioned above, Musgrave's (1959) and Oates's (1972) classic *Fiscal Federalism Theory*⁶ still provides the most complete description of economic federalism. Basically, this theory has its economic grounds on "the voluntary exchange theory of public economic" of Musgrave (1939), "the theory of collective goods", from the contribution of Samuelson (1954), and "the fiscal migrations theory" of Tiebout (1956). The traditional fiscal federalism theory has become the most important among fiscal theories, with wider diffusion in economics circles, and being named as a orthodox theory among economists (Casahuga, 1978). Because of that, next paragraphs will describe briefly this theory.

The traditional theory of fiscal federalism draws a general normative framework for the assignment of functions to different levels of government and the appropriate fiscal instruments for carrying out these functions (Oates, 1999)⁷. Taking into account this framework, central governments would have primary responsibility for two of the three functions which any government must provide: income redistribution and macroeconomic stabilization. Meanwhile, each level of government (in Spain: central, regional or local) would carry out part of the function of allocation, that is, the "provision of goods and services whose consumption is limited to their own jurisdictions" (Oates, 1999, page 1121).

The income redistribution function must be largely in central government hands, otherwise, some problems may appear. For example, if one lower level of government applies any kind of income redistribution in its jurisdiction, this measure can easily cause positive or negative external effects in other territories. In addition, population interjurisdictional movements can appear and counteract redistribute measures. The same problem can happen with the mobility of taxable factors. Moreover Oates (1972), King (1984), Gramlich (1987), and Feldstein & Wrobel (1998) support, among others, these kind of problems could appear: they do not believe on the success of redistribution function in any lower government hands. However, opinions from different authors are divided. Pauly (1973) says that, in practice, state (regional in Spain) and local governments carry out significant redistribute activity. Goodspeed (1989), in one study for the U.S.A., points out that local governments can use income taxation for redistributing purposes.

In the same way, the macroeconomic stabilization function must be primarily in central government hands (Oates, 1972; Castells, 1988; Begg *et al.*, 1993). The control over some national variables (interest rate, prices, exchange rate, unemployment rate, etc) can not be entrusted to lower governmental control. And the same conclusion should be addressed for the fiscal and monetary policies, and the public debt. However, some authors say that stabilization could be considered as a public good with a important geographic dimension. In this sense, each region could handle better its own stabilization function, according to different preferences and grades of development, and also different productive specialization between regions (see, for instance, Pauly, 1973 and Head, 1976)

With respect to the function of allocation⁸, the problem is that it is not always easy to find the most effective level of government for the provision of the different goods and services⁹. In this sense, many authors point out that the solution would come from the construction of an "optimal allocation table" between

⁶ King (1984) revised and updated this theory and a recently review is in: OATES (1999)

⁷ Moreover last Oates' article on fiscal federalism, worthy summaries describing these functions among the different government levels are in: VALLÉS GIMÉNEZ & ZÁRATE MARCO (2000, pages 118-131), MOLERO (1998, pages 19-39), JAÉN GARCÍA and MOLINA MORALES (1996), and MUSGRAVE, R.A. and MUSGRAVE, P.B. (1992, pages 557-620)

⁸ A good summary of this function can be found in: CARPIO (1994), CASTELLS (1988).

⁹ According to OATES (1999, page 1122), two useful treatments of the assignment of specific public services to the appropriate level of government are: MCKINNON & NECHYBA (1997) and SHAH (1994)

the whole quantity of goods and services, which the public sector must provide, and the different jurisdictional levels. For the construction of that "table", it would be necessary take into account several principles:

The decentralization theorem: if there are neither cost savings in the centralized provision, nor inter-jurisdictional external effects; the welfare level will be the same or higher, if the provision comes from the decentralized governments. That is, a presumption exists in favor of the decentralized provision of such public goods and services (Tiebout, 1956; Oates, 1972, 1997, and 1999).

The principle of "fiscal equivalence" (Olson, 1969): the objective would be to reach the coincidence between the geographic area of the public good benefits and the jurisdictional area where the government provides that public good.

The theory of optimal jurisdictional size (Buchanan, 1965¹⁰; Berglas, 1976; Berglas and Pines, 1981; Scotchmer and Wooders, 1987; Brueckner, 1994): for the not fully public goods, this theory tries to determine the population volume who maximizes benefits and minimizes costs in the provision of these public goods, for one constant real provision level.

The "optimal allocation table", described above, tries to find the appropriate degree of decentralization for every country, within function of allocation context; in other words, to understand which goods and services are best centralized and which are best placed in the sphere of decentralized levels of government. But, this is a complex issue, which bring us closer to the question entitling this section 2 of the paper: *the fiscal federalism theory: a practical rule or some general "guidelines"?*

Criticism against traditional theory of fiscal federalism started very early. Already in 1978, Casahuga pointed out that distribution of functions among levels of government is impossible to apply in real world as rigid as fiscal federalism theory suggests. Moreover, "optimal allocation table" would be far away from a real normative rule. About distribution of functions complexity, Helm and Smith (1987, page VIII) say that the "theoretically appealing separation of efficiency and distribution is however less straightforward in practice. Most of the relevant services are mixed goods -part public and part distributional". But, even one of its main authors, Oates (1999, page 1122), says that the fiscal federalism theory "does not offer a precise delineation of the specific goods and services to be provided at each level of government"; then, its precepts "should be regarded more as general *guidelines* than firm *principles*".

Nowadays, and among others, authors like Qian and Weingast (1997, page 91) are offering a new theory of federalism, which complement traditional approaches. They appeal "to the theory of the firm to address a range of problems in federal system ignored by traditional theories". However, neither these new attempts are suggesting some practical rule to decentralize more properly from central to lower levels of government. In any case, and as we will see in the Spanish case, decentralization can not follow concrete rules, since it occurs in each particular country, "with its own history and traditions and its own specific institutional, political, and economic context" (Bird and Vaillancourt, 2000, page 2). But, precisely because traditional fiscal federalism theory is not a practical rule, it could continue being useful: it is, for the moment, the best general *guideline* trying to enlighten decentralization processes.

3. Regional government in Spain

Before going further, it is necessary to describe the structure of the Autonomous Communities (hereafter A.C.) in Spain.

¹⁰ The "theory of the optimal jurisdictional size" has its roots in the Buchanan's "economic theory of clubs". For more information see: BUCHANAN (1965)

The Spanish Constitution of 1978¹¹ establishes a special kind of organization for the Spanish State, neither purely federal, nor centralized; it is called "Cooperative Federalism"¹² (Jiménez Arias and Lagos Rodríguez, 1992), in which the main new element is the birth of the A.C. In addition to the provinces and the towns, the A.C. constitute the basic structure of the territorial organization of the State. The change from a centralized state to a decentralized one takes time; it is a slow and difficult process that is still not finished in Spain (Torres Cobo, 1990).

The seventeen A.C.¹³ of Spain are divided in different groups, taking into account different aspects¹⁴.

According to the way each one became an autonomous region and their responsibilities we distinguish two groups.

The first group is named *the slow way in Article 143* of the Spanish Constitution or A.C. with *low level of responsibilities*. These regions (with clearly shorter historical backgrounds as independent regions) would not assume the competencies from Article 148 immediately, but only after five years (even longer in practice). Ten regions used the slow way: *Castilla-La Mancha, Castilla y León, Aragón, Extremadura, Cantabria, Asturias, La Rioja, Islas Baleares, Murcia and Madrid*.

The summary of the competencies¹⁵ (or functions) for this group of A.C. (called "common competencies") is:

- Self-government institutions.
- Some competencies from the Central Administration over the Local Corporations.
- Forestry, agriculture, stockbreeding and fishing.
- Dwelling and city planning.
- Roads.
- Ports and airports without trade activity.
- Hydraulic issues, channels and irrigated land.
- Environmental protection.
- Regional traditions: culture, museums, exhibitions, etc.

The second group is called *historic nationalities from Article 151* of the Spanish Constitution or A.C. with *high level of responsibilities*. These regions assumed immediately all the competencies prescribed in Article 148. From this group (also called "fast way"), the following regions (7) became A.C.: *País Vasco, Cataluña, Galicia, Andalucía, Comunidad Valenciana and Islas Canarias*. *Navarra* used a different way, but also with full competencies.

Besides the "common competencies" described for the first group, this group of A.C. (with "full competencies") include the following competencies:

- Education in all its branches.

¹⁴ Two good references about the Spanish Constitution are: LÓPEZ GUERRA (1987) and ALZAGA VILLAAMIL (1978)

¹² We explained this kind of federalism in title number 2 of this paper, referring to *the principle of cooperative federalism or decentralized federalism*(INMAN and RUBINFELD, 1997 and 1998)

¹³ Two important laws in the regulation of Spanish A.C. are: the law 8/1980, September 22, for the regulation of the financing of A.C. And the law 9/1992, December 23, with which the competencies equalization process between the different A.C. started.

¹⁴ There is more detailed information about that in: LÓPEZ LÓPEZ & UTRILLA (2000, pages 165-191), SUÁREZ PANDIELLO (1999, pages 222-254), BROSIO, G. (1997, pages 221-233), PANIAGUA SOTO & ALVARADO PÉREZ (1997), and TAMAMES (1995)

¹⁵ Some references about competencies for this group of A.C., and also for L.C., are: MONASTERIO ESCUDERO & SUAREZ PANDIELLO (1998), TORRES COBO (1995), and Spanish Constitution of 1978, Article 148 (LÓPEZ GUERRA, 1987)

- Social Security (*medical care and social assistance*-non contribute pensions-).
- Justice and Public Order.
- A wide set of competencies in: Labor, Agriculture and Public Works.

With respect to the competencies described in the previous paragraphs, and according to Article 148.2 of the Spanish Constitution, the first group of A.C. would assume "full competencies" in five years, which would have been in 1983. But, even after law 9 of December 23, 1992, called "transfer of competencies to the regions that became A.C. through the Article 143 of the Constitution", the process has been slower¹⁶. In this sense, nowadays the situation in:

- Communities included in the first group still have not received competencies in *medical care and justice and public order*.
- All of them have received the *social assistance* competence -non contribute pensions- and other competencies of minor importance.
- Also education¹⁷ in all its branches has been transferred to these A.C.

According to their financing system¹⁸, there are two *Foral regime* communities (*Navarra* and *País Vasco*), which have a special and more autonomous regime of finance. The rest of A.C. (15) have a *Common regime* of finance, with a general (but fundamentally dependent on central government) system.

According to the number of provinces in their territory¹⁹, we find 6 one-province communities where provincial governments do not exist and regional governments have assumed their responsibilities (*Asturias, Cantabria, Madrid, Murcia, Navarra* and *La Rioja*). The rest of A.C. (11) are multi-province communities where provincial governments exist and assume their own responsibilities.

4. Objective of the study and methodology

Decentralization process of public spending in Spain from the central level of government to the lower ones (regional and local) started in 1978 with the proclamation of the Spanish Constitution. Given the importance of this process, the main objective of the present paper is to analyze its influence on Autonomous Communities: the great "winners" of the decentralization. But, we will include before some preliminaries.

The first Statutes of Autonomy²⁰ were approved in 1979 for two of the seventeen Autonomous Communities (*País Vasco* and *Cataluña*) and the last ones in 1983. The year 1984 was "the first...in which all the Autonomous Communities started to develop their complex activity"²¹. Furthermore, "1984 is the first year in which all the regional governments had a budget for the entire budgetary period"²².

¹⁶ For more information about that process, I recommend: ARANZADI (1993-2000), DIRECCIÓN GENERAL DE COORDINACIÓN CON LAS HACIENDAS TERRITORIALES (2000): *Las Haciendas Territoriales en cifras. Ejercicios 1997 y 1998*, page 30, and MOLERO (1998, pages 115-119)

¹⁷ Non university studies have been transferred in recent years, after 1997. Therefore, they are not included in the statistics of this research.

¹⁸ See for instance: SUÁREZ PANDIELLO (1999, page 224)

¹⁹ Ibid.

²⁰ To get information about the "Statutes of Autonomy" in Spain, see: GARCÍA DE ENTERRÍA (1985) and BASSOLS COMA (1983)

²¹ DIRECCIÓN GENERAL DE COORDINACIÓN CON LAS HACIENDAS TERRITORIALES. 1986. *Liquidación de Presupuestos de las Comunidades Autónomas. Ejercicio 1984*, page I.

²² DIRECCIÓN GENERAL DE COORDINACIÓN CON LAS HACIENDAS TERRITORIALES. 1999. *La descentralización del gasto público en España. Período 1986-1997*, page 9.

The evolution of public spending²³ in Spain has had different periods²⁴. The most important took place between 1976 and 1985, when public spending as a percentage of GIP passed from 27.51% to 44.10%. That period is called the "welfare state". From 1986 growth has continued, but at a slower pace (in 1997 the spending was 52.50% of GIP). In this context, one of the most important events is that spending has been decentralized from the Central level of government to the lower ones. Graph 1 (see also annex 1) below include a general evolution of this decentralization process.

(include graph 1 here)

The data show clearly that the Central level of government has lost importance with respect to total public spending for the period²⁵ 1984-1997, and the A.C. and the Local Corporations (hereafter L.C.) have gradually increased their share of public spending. The percentages for the three government levels (Central, A.C. and L.C.) went respectively from 72.6%, 14.4% and 13.0% in 1984, to 53.2%, 30.9% and 15.9% in 1997 (see table 1). In the period analyzed, the Central level has decreased its share of public spending every single year, except in 1993 and 1994, when certain centralized decisions were implemented (perhaps to control the economic crisis of those years). The great "winners" in the whole process were the Autonomous Communities and the "losers" the Local Corporations which still need a "second decentralization process", consisting largely of receiving more competencies from the Autonomous Communities.

After a description of the preliminaries needed, we have to point out that in order to analyze how the decentralization process, generally described above, has influenced Autonomous Communities, the methodology chosen for reaching this goal is the study of the statistics of public spending between 1988 (first year with available statistics) and 1997²⁶ in A.C., taking into account the *new functional classification* of spending²⁷, also called *programmatic*, which appeared with the *Ministerial Order of September 20, 1989*. Nowadays, most of the administrations are using this classification.

In order to simplify the analysis we have re-grouped the spending functions according to tables 1, 2, and 3.

(include tables 1, 2, and 3 here)

²³ Some important researches about the Spanish public spending are: GONZÁLEZ-PÁRAMO & LÓPEZ CASASNOVAS (1996), GONZÁLEZ-PÁRAMO & UTRILLA (1992), VALLE (1988, 1989, 1990), BAREA TEJEIRO (1988, 1989), GONZÁLEZ-PÁRAMO & RAYMOND BARA (1988), and BORRELL (1988)

²⁴ The statistical information that I have included in this paragraph can be obtained from different sources of information: DIRECCIÓN GENERAL DE COORDINACIÓN CON LAS HACIENDAS TERRITORIALES (1999), Informe anual del BANCO DE ESPAÑA (several years), Perspectives économiques de L'OCDE (nº 61, June 1997), *BOLETÍN ECONÓMICO DE INFORMACIÓN COMERCIAL ESPAÑOLA* (nº 2513, September 1996), and COMIN (1988)

²⁵ 1984 is the first year with completed information for the three levels of government, and 1997 is the last one with available statistics.

²⁶ The desirable period of study would have been: 1984-1997 (used in graph 1), but only since 1988 functional data are available in A.C.

²⁷ In Spain there are many ways to classify the public spending, but the four most important are:

The *organic classification* responds to the question: *who spends?*

Through the *economic classification* we can answer the question: *what is the spending on?*

The *territorial classification* is not exactly a specific classification; rather that it is a detailed way to present the spending budget.

The *functional classification* is the most recent method to classify the public spending and through it we can respond to the question: *what is the spending for?* This classification, according to the opinion from several authors (for instance: DIZY MENÉNDEZ, 1996 and BAREA TEJEIRO, 1971 and 1989), is the best way to classify the public spending, because it is the only one that shows the real and final destination (or objective) of the different spending concepts.

For a wider explanation about the different ways to classify the public spending see: LÓPEZ LÓPEZ & UTRILLA (2000), MOLERO (1998, pages 183-214), *BOLETÍN OFICIAL DEL ESTADO* (1997), and CORONA & DIAZ ÁLVAREZ (1994)

5. Statistical results

It was showed in graph 1 how, by virtue of the decentralization process, the A.C. have acquired an increased spending capacity. Their expenditures went from 14.4% respect to the consolidated spending of the Public Administrations in 1984, to 30.9% in 1997, being very important in this process the political determinants. However, looking at graph 2 (and annex 2), the first impression is that the composition of this spending did not change much during those years. This is only partially true, because we need to distinguish what happened in the two different kinds of A.C., that is, the A.C. with "high level of competencies" and those with "low level of competencies" (see annex 3). We will try to analyze what has determined the spending behaviour in these two different kinds of regions.

(include Graph 2 here)

Expenditure on *social goods* (see graph 2) in the A.C. was 56.30% of the total A.C. expenditure in 1988, and 52.34% in 1997. In the same way, spending on *social assistance* decreased less than two points between these years. The key point behind these data is that A.C. with "high level of competencies" absorbed most of the spending on *social goods* and *social assistance* (see graph 3), due of their higher level of competencies (basically on *medical care* and *education*). Expenditures on these groups started growing between 1984 and 1988²⁸ (when they received most of their competencies, although statistics are not available for this period) and the tendency continues from 1988 to 1997 in most of them. The contrary happened in the regions with "low level of competencies", where spending percentages on *social assistance* and *social goods* (see graph 3) were clearly lower, and decreased in most of these A.C. between 1988 and 1997. The influence of this group of regions caused the decrease of global percentages on *social assistance* and *social goods* referred to the beginning of this paragraph.

The statistics for the period 1998-2001 will reflect the influence of the A.C. with "low level of competencies", which are receiving during these years more competencies for *social goods*, basically *non-university education*²⁹.

This is the situation, but *where is the cause?* According to Brosio (1997, page 214), "the reasons behind the creation of the hybrid Spanish system -often referred to as a "multispeed regional system"- are to be found..., in the linguistic differences..., and in the separatist tendencies of some regions". In this sense, the greater historical background allowed some regions to claim the control over specific social goods, mainly *education* and *medical care* (Dizy, 1996). The simulation study make for the year 1993 by Monasterio Escudero and Suárez Pandiello (1998, page, 59), show that over all competencies one region can assume, the quantitative weight of *education* and *medical care*, as spending categories, could represent even more than 80% over the total competencies. This explains two things. First, the great interest that some regions (the ones with more historical background) had to assume these competencies . Second, the big percentages that *social assistance* and *social goods*, as categories of spending, represent over their total spending in these regions: for instance, 75% in the Autonomous Community of *Valencia* (see graph 3).

(include Graph 3 here)

Something similar, but in the opposite direction, happened with the expenditure group called in this article *spending on other services* -mainly production of *economic public goods* and expenditures on *economic regulation of productive sectors*- (see graph 4). In this case, most of the A.C. with "low level of competencies" increased their percentages on this spending group between 1988 and 1997. On the other

²⁸ During these years the central level did not decrease its percentages on these expenditures, probably because of duplication of spending and the incapacity of the central government to reduce its expenditures on areas already transferred to the A.C.

²⁹ See section three of this article for more information about the transference of competencies to this group of A.C.

hand, only three of the A.C. with "high level of competencies" followed this pattern; moreover, all of them had, for that same period, smaller percentages of these expenditures with respect to those with "low level of competencies". Taking into account this explanation, it is easier to understand that the global *spending on others services* percentages in all A.C. increased: from 18.30% respect to the total A.C. spending in 1988 to 20.90% in 1997 (see graph 3)

The question here would be: *Why this spending category is smaller in A.C. with "low level of competencies"?* Two reasons could explain this evolution. First, they are A.C. with less historical background, receiving firstly competencies in *economic public goods* and *economic regulation of productive sectors* from Central government (see Molero, 1998, pages, 295 and 296) and secondly in *social goods* (as it is starting to happen nowadays). Second, most of these regions have been (and they continue being), for the period of analysis of this paper, within the group of the less developed regions of Spain, receiving grants from the European Union³⁰. And precisely they were grants to improve basic infrastructures (transportation, energy, etc.), scientific research, agriculture, etc. In other words: grants on *economic public goods* and *economic regulation of productive sectors*. According to Utrilla (1996, page 269), the regional incidence of EU grants is very different among A.C.: bigger than 30% of the budgetary incomes in regions like *Castilla-La Mancha*, *Castilla y León* and *Extremadura*, and only 2% in *Cataluña*, *Madrid*, *Navarra* and *País Vasco*. In general, there is a great relationship between A.C. competencies, the quantity of EU grants and the degree of regional development.

(include Graph 4 here)

General expenditures did not increase for the Autonomous Communities, rather they did not change to much, going from 4.47% over the total A.C. spending in 1988 to 3.65% in 1997. Graph 5 below show that, due to decentralization process, these expenditures lost importance in most of the A.C.: both with high or low level of competencies. During our period of analysis the region of *País Vasco*³¹ show the bigger percentages on *general expenditures*. The justification here is that this Autonomous Community has a special problem to solve (the terrorism), which is causing bigger spending on *public order*, and three provinces with a special *Foral regime* of financing, which need more coordination from the regional level, causing bigger spending on *general services*.

(include Graph 5 here)

Looking again at graph 2 above, the *non-classified* group of expenditures had a clear growth for the A.C.: from 12.65% of the total spending in 1998 to 16.43% in 1997. However, the components of this group showed different evolutions. The *grants to other public administrations* subgroup had an irregular tendency with many increases and decreases among the different years of the period. In contrast, the *public debt* subgroup went from 1.97% in 1988 to almost 7% in 1997, with a regular growth during the whole period. The debt levels were higher in the A.C. with "low level of competencies" than in the ones with "high level"³² (see graph 6).

The justification of the general growth of the debt in all the A.C. can be explained by the fact that most of the communities found suddenly they had to undertake a larger volume of spending (thanks to the

³⁰ For the period 1989-1999: Asturias, Cantabria, Castilla-La Mancha, Castilla y León, Extremadura and Murcia. For the period 2000-2006: the same regions, with the exception of Cantabria. For more informatio, see: COMISIÓN DE LAS COMUNIDADES EUROPEAS (1991), and FONDO EUROPEO DE DESARROLLO REGIONAL Y FONDO DE COHESIÓN (2001)

³¹ For more information about *general expenditures* in this A.C., see: DIRECCIÓN GENERAL DE COORDINACIÓN CON LAS HACIENDAS TERRITORIALES: *Presupuestos de las Comunidades Autónomas. Ejercicio 1997*, page 303.

³² See for that information: DIRECCIÓN GENERAL DE ACCIÓN ECONÓMICA TERRITORIAL: *Informe económico-financiero de las Administraciones Territoriales en 1994*, page 285. DIRECCIÓN GENERAL DE COORDINACIÓN CON LAS HACIENDAS TERRITORIALES: *Presupuestos de las Comunidades Autónomas. Ejercicio 1997*, pages 77-333.

decentralization process), with a lack of experience in that matter and, in many cases, without the right means to finance it. This problem is greater in the regions (15 over the total of 17) with a *Common regime* of financing³³, because there is a lack of "fiscal co-responsibility" among incomes and spending: the financing system is mainly based on grants coming from the Central government, instead of on the taxing power of the regions. The study of A.C. financing system is a really interesting topic, but we can not go further in this paper. Two authors³⁴ who make great contributions are: Rubio & Sanz (2000) and Monasterio Escudero (1997)

(include Graph 6 here)

As a summary, through decentralization process, A.C. in Spain are spending more basically on *social assistance, social goods, economic public goods* and *economic regulation of productive sectors*. In all these spending categories, citizens can better observe the behavior of the government which is providing goods and services, and the regional government can know better the citizens preferences. Here, we think the decentralization is making sense, and, generally speaking in the context of *traditional fiscal federalism theory*, it could bring us closer to the *theory of optimal jurisdictional size* and to the *principle of "fiscal equivalence"*³⁵. But, the problem, as we have seen above, is that, from an economic point of view, it is hard to explain why they are so many differences among regions. According to Rosselló Villalonga (2001, page 20), "it seems that the level of population, the size of the territory or even historical arguments, cannot explain how regions were created. Although most of the theories related to the creation of new jurisdictional units assume that regions are created on an economic basis, the present territorial division in Spain is largely culturally and political determined", what is conditioning, at the same time, A.C.'s financing system, which is not based on the volume of assumed responsibilities, bringing us further off the *principle of "fiscal equivalence"*. Moreover, "the lack of an explicit agreement about the ceiling of responsibilities to be reached by A.C....has produced a series of juridical conflicts and inefficient duplicities of bureaucratic organisms" (Suárez-Pandiello, 1999, page 232)

In other words, and because of its political roots, the study of how the decentralization process to A.C. in Spain has followed the general *guidelines* of the *fiscal federalism theory*, mainly based on economic arguments, is not a clear issue³⁶. From the spending point of view, regions are carrying out significant redistribute and stabilizing activity. Here, the economics arguments for the centralization of redistribution and stabilization functions does not work. Moreover, and in general, *economic federalism*³⁷ seems too biased in favor of centralization, and *cooperative federalism* (the case of Spain) seems to bias the fiscal constitution too far in the other direction (Inman and Rubinfeld, 1997, page 50). But, on the other hand, and from the point of view of income (although going further from the objective of this article), "fiscal decentralization in Spain...respects to a high degree fiscal federalism theory guidelines..., because taxes more closely related to redistributive or stabilising activities (income tax or corporation tax for example) were not decentralised with the exception of *Foral regimes*" (Suárez-Pandiello, 1999, page 250)

³³ This regime is not a fixed one, but it changes every five years after the negotiation among the A.C. and the Central government. Nowadays the regime is for the period 1997-2001, and negotiations for the next one (2002-2006) are actively working.

³⁴ Other important works about the financing means for the A.C. are, for instance: MONASTERIO ESCUDERO and ZUBIRI (1996), MARTÍNEZ GARCÍA-MONCÓ (1996), EZQUIAGA (1996), UTRILLA DE LA HOZ (1995), several authors (1995), RUIZ-HUERTA CARBONELL and LÓPEZ LABORDA (1995), CARPIO (1994), MONASTERIO ESCUDERO (1988).

³⁵ These theories were analyzed in section number 2 of this paper.

³⁶ For a wider explanation in this sense, see: SUÁREZ-PANDIELLO, 1999, pages 229-232, and 250-251.

³⁷ In the section number 2 of this paper, we showed how Musgrave's (1959) and Oates's (1972) classic *Fiscal Federalism Theory* still provides the most complete description of economic federalism.

6. Concluding observations

The main point is that the real "winners" of the decentralization process has been the A.C., which have increased their redistribute and stabilizing activity during the period of analysis, but with many differences among the A.C. with "high level of competencies" and the ones with "low level of competencies". Moreover, the main problem here is that the process should have had a clearer arrival point and a parallel process of income decentralization from Central government.

Because of its determinant was mainly political, the study about how that decentralization process to A.C. in Spain has followed the general *guidelines* of the *fiscal federalism theory*, mainly based on economic arguments, is not a clear issue. It will depend of the kind of aspects from what the process is seen.

Literature presents many authors who summarizes the problematic of the decentralization issue. For instance, according to Suárez-Pandiello (1999, page 251), "the Spanish process of decentralisation continues to be an incomplete and fundamentally unstable system, due...to the fact that its origin was political rather than economic". Rosselló Villalonga (2001, page 23) points out that the "inefficiencies are due to the non-cooperative behaviors of regional governments and to the competition that arises between all levels of government".

In spite of the different kind of problems we have listed above, we have to remark that the public spending decentralization has been one the greatest events in Spain during recent years. Moreover, it has helped Spain to establish a democratic spirit and move through the centralization phase.

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TABLES

TABLE 1

MINISTERIAL ORDER OF SEPTEMBER 20, 1989 (New classification)	SUGGESTED RE-GROUPING
	GENERAL EXPENDITURES
	National defense
Defense, civil protection and citizen security (2)	Public order
Services of general sort (1)	General services

TABLE 2

MINISTERIAL ORDER OF SEPTEMBER 20, 1989 (New classification)	SUGGESTED RE-GROUPING
Security, protection and social promotion (3)	SOCIAL ASSISTANCE
Production of social public goods (4)	SOCIAL GOODS
Education	Education
Medical care	Medical care
Dwelling and city planning Community welfare Culture Other social and community services	Housing and related services

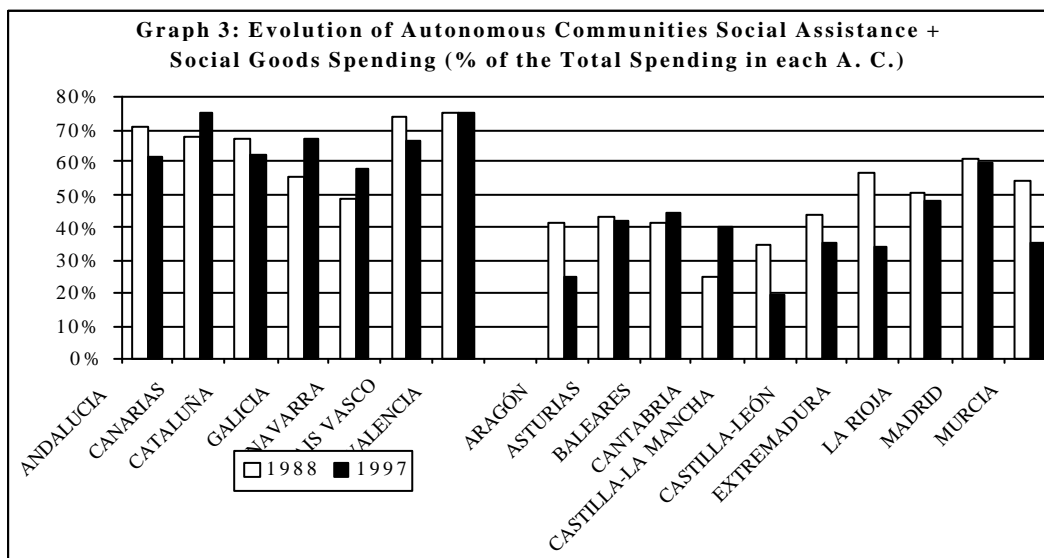
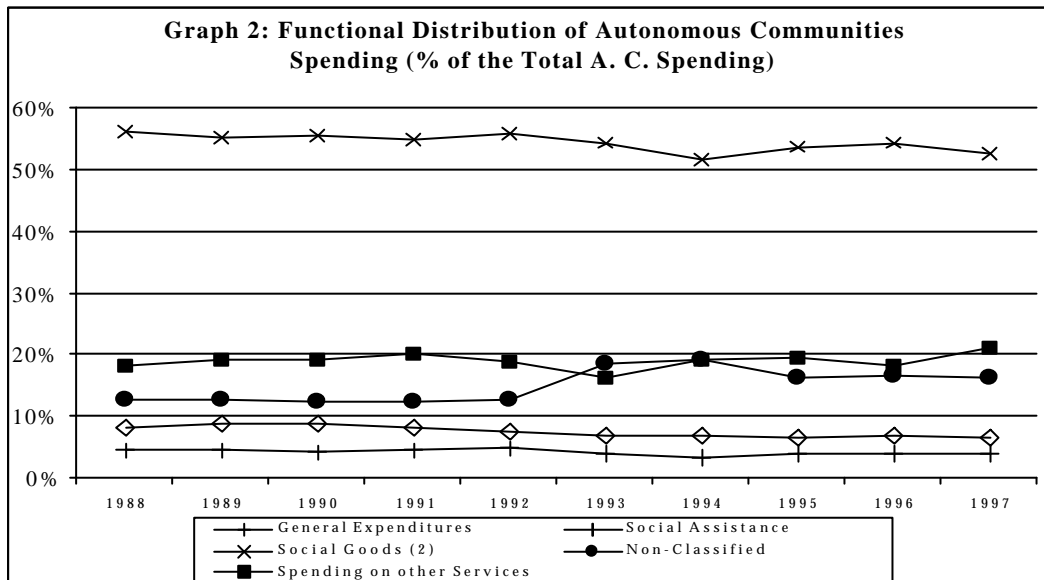
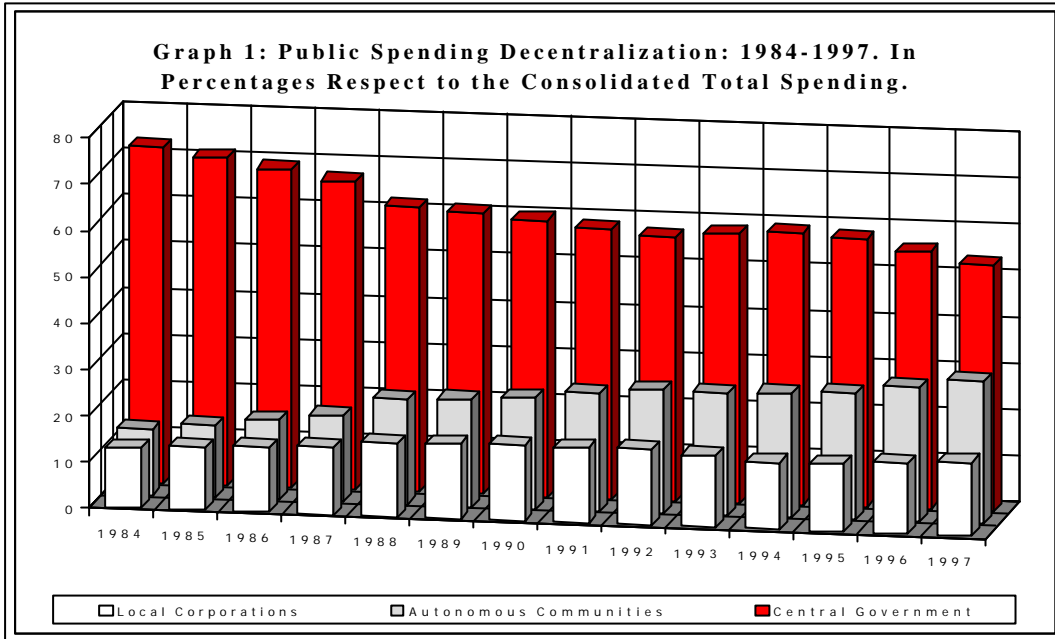
TABLE 3

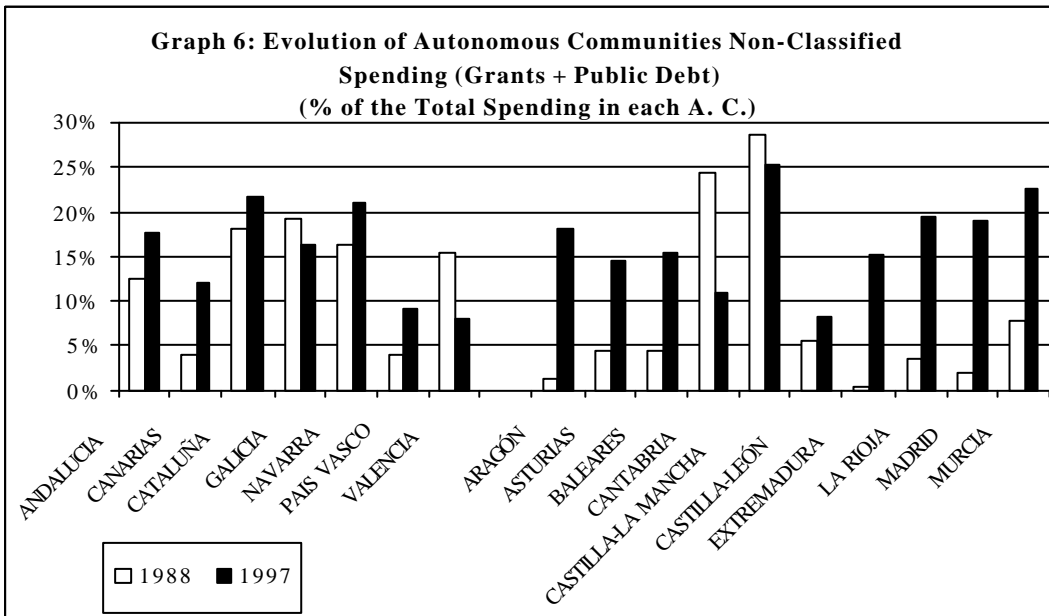
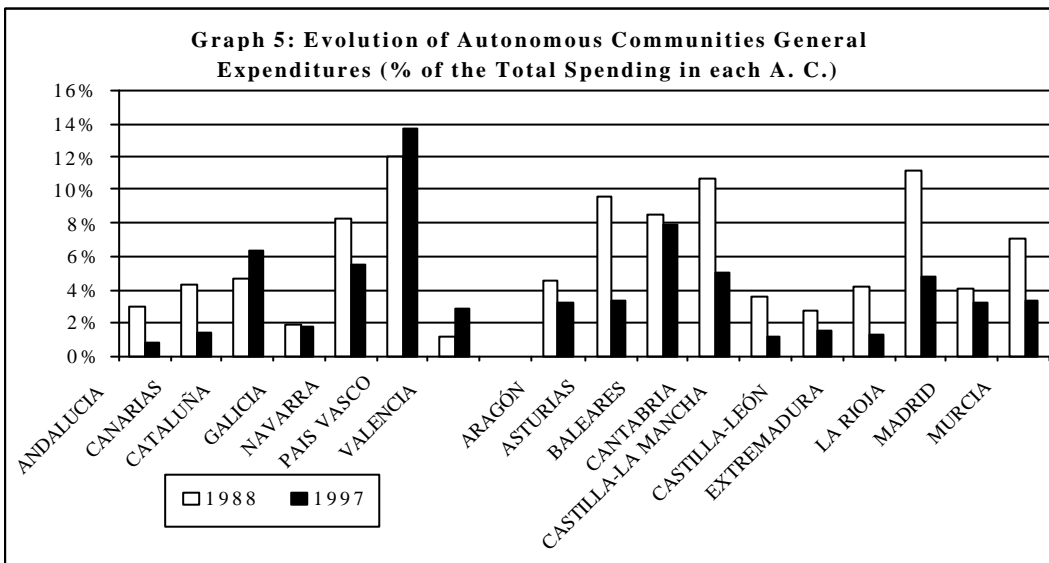
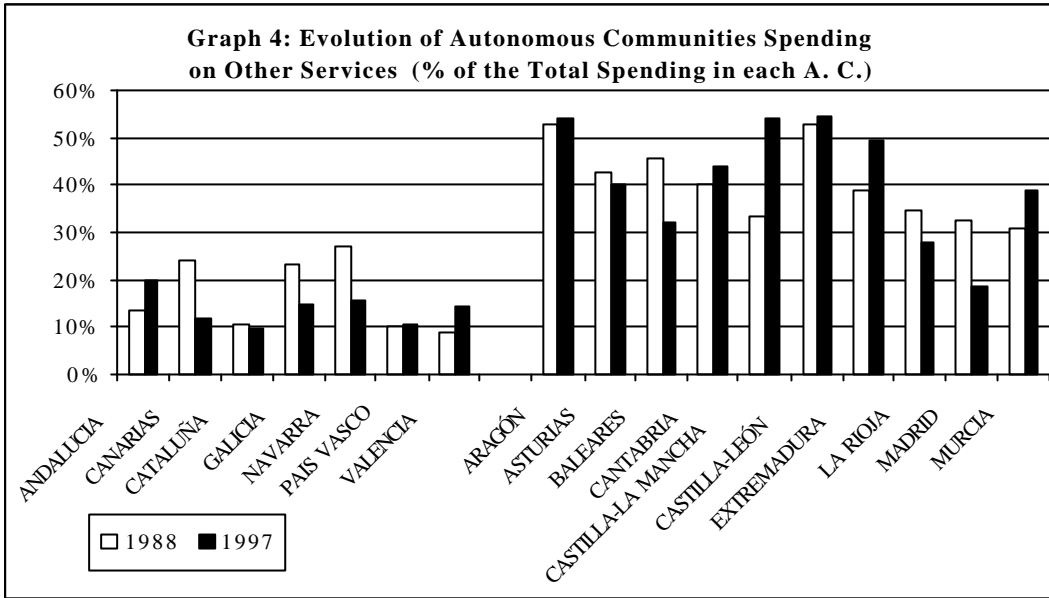
MINISTERIAL ORDER OF SEPTEMBER 20, 1989 (New classification)	SUGGESTED RE-GROUPING
Production of economic public goods (5) (Communications, transportation, agrarian structures, scientific research, etc.)	SPENDING ON OTHER SERVICES
General economic regulation (6) (Economic and financial regulation)	
Economic regulation of productive sectors (7) (Agriculture, stockbreeding, fishing, industry, energy, mining, tourism, etc.)	
	NON-CLASSIFIED
Grants to other public administrations, national or international (9)	Grants to other public administrations

Public debt (1) (0)	Public debt (1)
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(1) The expression "public debt" does not mean the total public debt, but makes reference only to the amortization of the payable credits plus the interest for each year.

GRAPHS





ANNEXES

ANNEX 1: Consolidated spending of the Public Administrations. Decentralized structure. Statistics in millions of pesetas and in percentages respect to the consolidated total.

	CENTRAL LEVEL (1) and (2)		A. C. (2) and (3)		L. C. (2) and (4)		CONSOLIDATED TOTAL	
	<i>Consolidated Total</i>	%	<i>Consolidated Total</i>	%	<i>Consolidated Total</i>	%		%

1984	6,178,150	72.6%	1,227,650	14.4%	1,106,640	13.0%	8,512,450	100%
1985	6,931,130	70.7%	1,545,960	15.8%	1,321,600	13.5%	9,798,700	100%
1986	7,311,833	68.7%	1,833,479	17.2%	1,500,853	14.1%	10,646,165	100%
1987	7,711,673	66.6%	2,167,328	18.7%	1,692,919	14.6%	11,571,920	100%
1988	7,635,427	61.5%	2,816,318	22.7%	1,963,472	15.8%	12,415,217	100%
1989	9,150,571	60.7%	3,488,127	23.1%	2,437,762	16.2%	15,076,460	100%
1990	10,508,887	59.6%	4,210,321	23.9%	2,915,305	16.5%	17,634,513	100%
1991	11,169,503	58.3%	4,869,870	25.4%	3,104,698	16.2%	19,144,071	100%
1992	12,207,146	57.0%	5,704,963	26.6%	3,519,570	16.4%	21,431,679	100%
1993	13,573,856	58.1%	6,179,590	26.4%	3,618,649	15.5%	23,372,095	100%
1994	15,016,092	58.8%	6,806,344	26.7%	3,711,579	14.5%	25,534,015	100%
1995	15,367,393	58.0%	7,234,838	27.3%	3,872,514	14.6%	26,474,745	100%
1996	15,140,370	55.6%	7,930,660	29.1%	4,160,668	15.3%	27,231,698	100%
1997	14,771,943	53.2%	8,588,785	30.9%	4,427,368	15.9%	27,788,096	100%

- (1) Unemployment and Social Security pensions are not included.
(2) The spending in financial liabilities variation is not included.
(3) A.C.= Autonomous Communities.

(4) L.C.= Local Corporations.

Bibliography: Self elaboration from:

DIRECCIÓN GENERAL DE COORDINACIÓN CON LAS HACIENDAS TERRITORIALES: *La descentralización del gasto público en España*. Periods: 1984-1994, 1985-1996 and 1986-1997.

ANNEX 2: Evolution of the functional distribution of the budgeted spending in the Autonomous Communities. Period 1988-1997. In percentages respect to the total A.C. spending.

	1988	1989	1990	1991	1992	1993
General Expenditures	4.47%	4.44%	4.23%	4.41%	4.83%	3.66%
<i>Public Order (1)</i>	0.89%	0.96%	0.99%	1.05%	1.10%	1.04%
<i>General Services</i>	3.58%	3.48%	3.24%	3.36%	3.73%	2.61%
Social Assistance	8.28%	8.68%	8.72%	8.27%	7.65%	6.99%
Social Goods (2)	56.30%	55.17%	55.51%	54.84%	56.03%	54.50%
<i>Education</i>	–	–	–	–	–	18.89%
<i>Medical Care</i>	–	–	–	–	–	28.43%
<i>Housing and related Services</i>	–	–	–	–	–	7.17%
Spending on other Services	18.30%	19.13%	19.18%	20.09%	18.78%	16.27%
Non-Classified	12.65%	12.59%	12.36%	12.39%	12.71%	18.60%
<i>Grants to other Public Administrations</i>	10.68%	10.18%	9.20%	8.78%	8.30%	12.41%
<i>Public Debt</i>	1.97%	2.40%	3.16%	3.62%	4.41%	6.18%
TOTAL SPENDING	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

	1994	1995	1996	1997
General Expenditures	3.25%	3.66%	3.63%	3.65%
<i>Public Order (1)</i>	1.01%	1.14%	1.15%	1.10%
<i>General Services</i>	2.24%	2.52%	2.47%	2.55%
Social Assistance	7.01%	6.65%	6.91%	6.68%
Social Goods	51.49%	53.87%	54.50%	52.34%
<i>Education</i>	17.70%	18.92%	19.96%	19.53%
<i>Medical Care</i>	27.32%	27.33%	27.00%	25.96%
<i>Housing and related Services</i>	6.47%	7.62%	7.54%	6.85%
Spending on other Services	19.04%	19.60%	18.20%	20.90%
Non-Classified	19.20%	16.23%	16.77%	16.43%
<i>Grants to other Public Administrations</i>	12.20%	9.31%	9.42%	9.54%
<i>Public Debt</i>	7.00%	6.92%	7.35%	6.90%
TOTAL SPENDING	100.00%	100.00%	100.00%	100.00%

(1) It does not make much sense to speak about "National Defense" for the A.C.; therefore, the data makes reference just to "Public order".

(2) There are not consolidated statistics for all the Autonomous Communities about "education", "medical care", and "housing and related services" until 1993.

Bibliography: Self elaboration from:

DIRECCIÓN GENERAL DE COORDINACIÓN CON LAS HACIENDAS TERRITORIALES:

Presupuestos de las Comunidades Autónomas, several years.

ANNEX 3: Functional budgets of the Autonomous Communities. Years 1988 and 1997. Data in percentages respect to the total budget in each Autonomous Community for each year.

AUTONOMOUS COMMUNITY	General Expenditures	Social Assistance + Social Goods	Spending on other Services	Non-Classified (Grants + Public Debt)
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	1988	1997	1988	1997	1988	1997	1988	1997
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HIGH LEVEL OF COMPETENCIES								
ANDALUCIA	2.92%	0.79%	71.00%	61.75%	13.54%	19.80%	12.51%	17.67%
CANARIAS	4.25%	1.34%	67.47%	74.67%	24.05%	11.88%	4.17%	12.11%
CATALUÑA	4.58%	6.34%	66.83%	62.22%	10.47%	9.61%	18.06%	21.83%
GALICIA	1.88%	1.75%	55.61%	66.70%	23.29%	14.89%	19.24%	16.16%
NAVARRA	8.19%	5.47%	48.36%	57.84%	27.03%	15.51%	16.33%	21.18%
PAIS VASCO	12.05%	13.77%	73.68%	66.37%	10.11%	10.75%	4.11%	9.11%
VALENCIA	1.11%	2.78%	74.67%	74.80%	8.85%	14.31%	15.32%	8.11%
LOW LEVEL OF COMPETENCIES								
ARAGÓN	4.50%	3.17%	41.21%	24.45%	52.80%	54.28%	1.43%	18.12%
ASTURIAS	9.62%	3.41%	43.04%	41.80%	42.82%	40.26%	4.40%	14.54%
BALEARES	8.46%	7.87%	41.16%	44.83%	45.81%	32.24%	4.34%	15.26%
CANTABRIA	10.69%	5.12%	24.50%	40.22%	40.27%	43.75%	24.35%	10.90%
CASTILLA-LA MANCHA	3.60%	1.18%	34.28%	19.45%	33.55%	54.23%	28.56%	25.14%
CASTILLA-LEÓN	2.73%	1.51%	43.82%	35.67%	52.94%	54.55%	5.50%	8.26%
EXTREMADURA	4.19%	1.27%	56.31%	33.90%	38.88%	49.32%	0.52%	15.17%
LA RIOJA	11.12%	4.76%	50.39%	47.91%	34.63%	27.77%	3.68%	19.56%
MADRID	4.04%	3.19%	61.11%	59.17%	32.72%	18.64%	2.08%	19.00%
MURCIA	7.05%	3.23%	54.19%	35.37%	30.79%	39.01%	7.84%	22.39%

Bibliography: Self elaboration from:

DIRECCIÓN GENERAL DE COORDINACIÓN CON LAS HACIENDAS TERRITORIALES:
Presupuestos de las Comunidades Autónomas, years 1988 and 1997.
Las Haciendas Territoriales en cifras. Ejercicios 1997 y 1998.