

## **FISCAL DECENTRALIZATION IN SPAIN**

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During the last twenty five years the state has undergone a profound change in its structure and organization in Spain. An autocratic state for forty years became a modern democratic state. A highly centralized state turned into a very decentralized one due to the double influence of the evolution of powers to the regions and the integration in the EEC. Decentralization involved the transfer of important shares of power from the central government to the newly created regional governments, the Autonomous Communities, as they are legally called in Spain. Likewise, integration in the EEC meant the transfer of no less important shares of sovereignty from the central government to the European institutions, but it also affected to the recently assumed powers of the regional governments. In a sense, these three processes were complementary. Democracy was strengthened by regional decentralization and integration in the EEC. Regional decentralization would have been unimaginable except in a democratic context, and this context was a requirement to become a member of the EEC. The aim of this paper is to survey the fiscal aspects of regional decentralization. However, before doing that, it is convenient to set out the main features of the decentralization process, how the new regional governments came into being, and what was the new territorial organization of the state that resulted from decentralization.

### **RATIONALE AND CHARACTERISTICS OF THE SPANISH DECENTRALIZATION**

The rationale for regional decentralization in Spain was political and its roots are to be found far back in history. Economic considerations were not relevant, even though, given the traditional high centralization of the state in Spain, there might be important efficiency gains to reap from some kind of decentralization. If the determining factors had only been economic, surely, the type of decentralization to be undertaken should have been completely different. An administrative decentralization, even a mere deconcentration, might have been enough.

There were serious political reasons to carry out a far-reaching political decentralization that would involve the devolution to the regional governments of powers to design and implement policies on matters that were of their own interest. The first was the need to find a solution to an old problem. Spain is not, and never was, an homogeneous country. There are important cultural, linguistic, and historical differences across regions. In fact, until the early eighteen century, Spain was formed by a set of kingdoms that were united by the person of the king. Some of these kingdoms had their own political and economic institutions which were very different from those existing in Castille. The centralization imposed by the Borbon dynasty put an end to this diversity. Fifty provinces were created ex-novo in an attempt to introduce some kind of administrative decentralization in the country and to make forget the old organization of the state. But the regional identities survived, and their demands for decentralization became more urgent with the rise of

nationalisms at the end of the nineteenth century. A serious attempt to solve the regional problem, as it used to be called in Spain at that time, was made during the second republic (1931-1936). The Statute of Autonomy for Catalonia was approved in 1931. The ongoing processes to approve those of Pais Vasco and Galicia were stopped by the civil war (1936-1937). The autocratic regime of General Franco (1939-1975) abolished the Statute of Catalonia, repressed the use of other languages, but the Castilian, and any other expression of nationalist identity and strengthened the centralism of the state. The second political reason for decentralization, closely related to the previous one, was that, after Franco's death, a peaceful transition to democracy could be jeopardized, unless the demands for autonomy of the Catalans and the Vasquez were addressed. So it was that political decentralization became an important component of the constitutional pact and it was one of the main innovations of the 1978 constitution.

Political considerations are also behind the asymmetrical decentralization that was designed by the constitution. Two asymmetries are worth while mentioning because they have marked the evolution of decentralization in Spain. The first is the existence of regional governments with very different fiscal powers. The constitution recognized the historical rights of the Basque Country and Navarra to have their own specific, traditional, fiscal institutions. This means that these regions have the power to collect, and regulate within limits, the main tax sources of revenues (the so-called concerted taxes) and to pay to the central government an amount (the cupo) to contribute to the financing of those functions, like defense or foreign relations, that are exclusive of the central government. However, the rest of the regional governments, called the autonomous communities of common regime, as will be seen later, were financed until 1996 mainly with grants and a few minor taxes, on which they did not have any normative capacity. The second asymmetry, this on the expenditure side, had its origin in the constitutional design of two different ways to accede to self-government. One, that might be called a fast, broad track (FBT), thought for the historical nationalities, which involve the immediate assumption of a broader share of power, basically education and health-care. Other, a slow, narrow track (SNT) for the rest of the regions, which would have to wait a five year period to get to the top of self-government. These asymmetries have made the decentralization process more complex than necessary, have sometimes been the source of inefficiencies, and are bringing about a race to the top of the common regime regions to neutralize these differences in fiscal powers.

A third characteristic of the Spanish decentralization process was that the devolution of powers to the regions was marked from the very beginning of the constituent period by a certain urgency in its implementation. This urgency motivated that, even before the approval of the constitution, the government had to take certain decisions to give assurances to the historical nationalities (Catalina, Pays Vasco and Galician) that their self-government was going to be a high political priority. The first was the legal recognition and re-establishment of the traditional institutions of self-government in Catalonia. The second was the creation, first in the historical nationalities and then in other ten regions, of pre-autonomic governments with capacity to negotiate with the central government the assumption of power on certain subject matters. With this decision, a transitory process of administrative decentralization was started in these

regions in 1977 and lasted until the approval of their statutes of autonomy. This second decision was going to have far-reaching effects. The need for self-government was really felt in the historical nationalities with cultural and linguistic differences, and much less or not at all in the rest of the regions. It was argued that these different needs might be satisfied by granting political autonomy to the three historical nationalities and a broad administrative autonomy to the rest of the regions. However, the return to democracy and the creation of the pre-autonomic regimes gave rise to the emergence of regional politicians willing to take over the emerging powers and concerned with the potential economic privileges that different degrees of autonomy might involve for the historical nationalities.

These concerns led to the fourth feature of the Spanish decentralization process. Decentralization had to be general, voluntary, gradual, and flexible. Self-government was constitutionally open to all the provinces fulfilling certain requirements. It is a right, not a duty, that can be exercised on a voluntary basis. Free was also the choice of the way to accede to self-government within a range of ways provided by the constitution, though, as will be seen next, these ways involved different degrees of difficulty in order to make gradual the accession of most of the regions to the top of self-government. Finally, the constitutional design of the process did not compel the regions to assume a given set of powers. On the contrary, it contained a list of subject-matters on which they could assume power as they saw fit. In one sense, these features were very convenient for a smooth transition to a decentralized state, since they allowed the regions to get prepared to assume a given power. However, in other sense, they might give rise to such heterogeneity in the distribution of powers across the regions that policy design and implementation on partially assumed matters could result complex and confusing for the citizens. This risks were minimized by the fact that most regions, when they got the status of autonomous community, tried to get their maximum quota of power as soon as possible. Nevertheless, agreements between the main political parties were necessary sometimes to introduce some homogeneity in the transmission of powers.

## **THE NEW REGIONAL MAP**

This open design of decentralization contained in the constitution was surely motivated partly by the fact that, at the moment of drafting the constitution, nobody had an idea of what the final regional map of the country would be. The priorities to design the process were the following. First, the historical nationalities should get the top of self-government as soon as possible. They did not need to prove that the majority of their populations were really desiring to become autonomous. Second, for the rest of the regions, whatever they were, access to self-government involved fulfilling a set of requirements that showed clearly that their local governments, provinces and municipalities, were for becoming an autonomous community. Third, for these regions, which might need to build their institutional capacity to manage effectively certain policies, the powers they could assume, during a transitory period of five years, should be much lower than for the historical nationalities. Fourth, to prevent that some of these regions may felt discriminated relative to the historical nationalities, it was necessary to leave a door open for them to get to the top of self-government without waiting the period of five years, but

fulfilling such stringent requirements than the possibilities of success were practically null. Five, it was necessary to avoid an excessive fragmentation of the country by restricting the possibility that a province could accede to self-government, what could prevent an efficient provision of regional public services. But it was necessary again to leave a door open to solve special cases, such as Madrid, the capital of the country, and Navarra, which has historically had an exceptional status very similar to that of Pais Vasco, even during the autocratic period. The result of having to comply with all these priorities was necessarily a great complexity of this part of the constitution. The final step for a region to become autonomous was the approval by law of the state parliament of the corresponding statute of autonomy, which is the basic law of the region.

The result of this process, which lasted from 1979 to 1983, was the constitution of seventeen autonomous communities with very different sizes, populations and economic capacities. Table 1 presents some indicators of the physical, human and economic characteristics of the regions. The first seven in the table are those that were called before the FBT regions. In this group are included the three historical nationalities, the special case of Navarra, and three other regions that did not have to wait the five year period to get to the top of self-government. One, Andalucia, because it decided to follow the stringent way. The two others, Canarias and Valencia, because, having followed the general way, they were upgraded by using a constitutional provision that authorizes the delegation of powers of the central government to the regions by organic law. (These laws have to be approved by a qualified majority).

This territorial structure of the state adds to the asymmetries mentioned above, which have their origin in the constitution itself, a different type of asymmetry, which is due to the different sizes, levels and structure of the populations, and economic capacity of the regions. These new asymmetries exist surely in most federations, but they may raise two set of problems. On the one hand, they introduce notorious differences in the political influence of the regional governments in national policy. On the other, they may affect the economic capacity of the less endowed regional governments to provide the public services at a level comparable to that of other better endowed regions. When these two problems emerge, they are a worrying source of resentment and division between regions, and, therefore, of instability, unless corrective mechanisms are introduced in the system. The first problem already exists in Spain, not only because of the lack of institutions where the regional governments could give an opinion on those national policies which affect their own powers, but also for the leading role that the nationalists parties play in the formation of political majorities at the national level in a country where absolute majorities are difficult. This fact, that may be good for the political stability of the country as a whole, may be the source of a different political instability at the regional level if, as it often happens, the political support is used to affect in some way the fiscal and financial powers of the regions. Nothing more will be said in this paper on this problem.

The second problem, as will be argued later, is presently one of the most urgent problems, if not the most, of the fiscal decentralization process in Spain. The constitution foresaw that this problem may become true and, to address the issue, provides several

principles that should inspire the new decentralized state. These principles, stated explicitly in the second article of the constitution, are those of unity, autonomy and solidarity. These principles have several facets. From an economic point of view, they are partly clarified in other articles of the constitution and partly in laws of development of the constitution or in decisions of the constitutional court. Thus, the minimum economic unity that should be guaranteed, it says the constitutional court, consists in the free movement of goods, services, capitals and labor in all the national territory and the equality in the basic conditions to practice economic activities. Similarly, the constitution states that the autonomous communities can never take tax measures which involve an obstacle for the free movement of goods or services. The principle of autonomy, from the fiscal point of view, has two aspects. One, that the regional governments should have the capacity to decide on the level and structure of their expenditures. Other, that they should also have the possibility of deciding on the most appropriate combinations of revenue sources to finance their expenditures. Finally, concerning the principle of solidarity, the constitution states that an effective implementation of this principle means the achievement of a fair economic balance between the different territories and adds that the differences between the statutes of autonomy of the regions should never involve economic and social privileges.

The matter of the fact is that the effective implementation of these principles, stated as they are in general terms, require a precise definition of specific standards of autonomy and solidarity either through laws of development of the constitution, or through agreements between both levels of government. Besides, since these principles can sometimes be in contradiction with each other, their effective implementation also requires the choice of a fair combination of both. As will be seen, this a problem is waiting for a solution.

### **EXPENDITURE ASSIGNMENT**

The distribution of spending and regulatory powers between levels of government is usually regarded, and rightly so, as the keystone of decentralization. In fact, leaving aside political considerations, the economic rationale for decentralization lies in the potential efficiency gains that can be reaped if non-national public goods are provided by lower tiers of government. The other aspect of fiscal decentralization, financing the decentralized expenditures, tries to prevent the efficiency losses that may be caused by the necessary decentralization of revenue sources, the solidarity problems that may arise from the unequal distribution of fiscal capacities, and the macroeconomic problems that usually derive from an insufficiently hard budget constraint. This explains why a decentralization policy from the economic point of view is considered very risky and arouses suspicions. The efficiency gains and losses are difficult to measure, but the solidarity and macroeconomic problems are more evident.

It is also usually agreed that the expenditure assignment problem should be solved first. Assigning revenues earlier than expenditure is like placing the horses behind the cart. The volume of resources to be assigned to the regional governments will depend on their expenditure responsibilities. This does not mean that the different aspects of

decentralization -expenditure, tax assignment and macroeconomic coordination- are independent from each other. In fact, they are interrelated and a proper solution of all of them is necessary for the success of the process.

The expenditure decentralization process has in three stages. First, assignment of policy areas by levels of government and allocation of the corresponding policy-making and implementation functions (legislative and executive). Second, distribution of the existing administrative units in charge of those policies, as well as the corresponding human, material, and financial resources, according with the new division of powers. Third, financial valuation of these resources as a basis to solve the revenue assignment. The clarity and consensus with which these stages are carried out are of the greatest importance to avoid overlapping in policies and expenditure duplications, to avoid future interjurisdictional conflict, and for transparency and accountability.

There is an vast literature on the principles and practices that should be followed in expenditure assignment according to whether the preferences are more or less homogeneous for the different policies, the territorial spread of their benefits, the existence of economies of scale and spillovers, and so and so forth. Other principles, like that of subsidiary, which states that a service should be assigned to the lowest level of government which can provide it in the most efficient way it is a bit tautological, because the problem is precisely to decide which level of government is the most efficient. Likewise, it is advisable to phase out the process depending on the institutional capacity of the receiving governments.

Making a clear division of policies and functions is not an easy task. Ideally, it would require to make a detailed subdivision of policy subjects, decide which ones correspond to each level of government based on the above mentioned principles, and allocate the corresponding legislative and executive functions. The fact of the matter, however, is that this procedure has proved to be impossible almost everywhere and the existence of overlappings inevitable because of the difficulty to define watertight compartments.

In Spain, the distribution of functions was made by the constitution and the statutes of autonomy. The first uses a system of double list with a residual clause. Article 148 lists those matters on which power may be adopted by the regional governments in their statutes, but it did not say which functions, legislative and/or executive, they could assume. Article 149 contains the functions which, on the listed matters, are the exclusive competence of the central government. The residual clause allowed the regions to assume functions on those matters not included in any list, but if they were not assumed by them, they were retained by the central government. For a period of five years, the LNT regions could only adopt competences on the matters of article 148. The FBT regions could assume in their statutes from the very beginning those of article 148, the functions not retained by the central government on the matters enumerated in article 149, and the residual matters.

Both the constitution and the statutes were voluntarily drafted in an ambiguous way because of the need to achieve a consensus. The abuse of the expression "exclusive

competence" in these documents to name what in fact were in many cases shared or concurrent powers, and the in definition of certain expressions used by article 149 to designate the functions reserved to the central government, such as "bases", basic legislation", "general regime", etc, gave rise to great confusion until the constitutional court judged that all of them have the same meaning.

The division of powers that finally has emerged from the constitution and the statutes assigns the central government policy-making and implementation on a few areas, such as defense, international relations, foreign trade, social security and general economic policy. In most of the remaining policy subjects powers are shared. The sharing may be of different types. First, because the central government keeps all the legislation and leaves the regional governments only the execution; for example, penitentiary legislation, intellectual and industrial property, or weights and measures. Second, and the most common, because the central government dictates the basic legislation, minimum standards that should be common for the whole country, and the regional governments develop the basic legislation to adapt it to their specific circumstances; examples are education, health care, environment protection, and press, radio and television. Third, because both levels of government retain legislative and executive functions only on part of the same subject; the public works of regional interest are a competence of the region and those affecting more than one jurisdiction are left to the central government. Finally, there are a few subjects with concurrent competences, for example, tourism or culture.

Redistribution policies remained in the central government. So it was macroeconomic policy. The regional governments have powers to promote economic development and regulate important economic sectors within their jurisdictions, limited by the capacity of the central government to dictate basic legislation. Many regulations of economic sectors coming from the previous state, which was very interventionist, could not be changed or suppressed before the start of the decentralization process and the use by the regional governments of their new legislative powers, gave rise to a multiplication of regionally heterogeneous regulations that made sometimes difficult to ascertain which regulation was applicable in a given situation.

EEC membership affected the process when the distribution of powers had already been made. It meant decreased powers for the central government, but also for the regions by limiting their regulatory functions and their capacity to grant aids to private companies for regional development purposes. Besides, EEC policies on subjects that used to be of regional competence are implemented by the autonomous communities, but the central government is the only one with capacity to negotiate those policies and assumes the responsibility for their implementation. The regions have claimed rightly a share in the design of the Spanish position in the negotiations with the European institutions and a representation in the negotiating team when their powers are affected. On the other side, if the central government has to assume the responsibility for regional deficiencies in the implementation of European policies, mechanisms to monitor these executive functions and distribute that responsibility are necessary.

The second stage of expenditure decentralization was undertaken by bilateral committees consisting of an equal number of representatives of both levels of government. This was a long and time consuming process due to the voluntary character of the adoption of powers established in the constitution, on the one hand, the high number of regional governments that were created, on the other, and the commitment that all transfers of administrative units and resources should be made by consensus. It was also the moment in which the resistance of the central bureaucracy to lose power was more clear.

These committees had the mission to identify the ministries and administrative units affected by the transfer of powers and determine, in the case of shared functions, which tasks should be assumed by each level of government and how public employees, public buildings and furniture should be allocated. Behind those tasks were civil servants implementing them who, in many cases, were not very prone to be moved to another jurisdiction. This was a delicate part of the process. An agreement was reached by the main political parties by which the public employees already working in the regions and affected by the tasks assumed by the regional government should be compulsorily transferred. Public employees working in the state capital could only be transferred on a voluntary basis.

In Spain, most public employees have civil servant status, are not subject to general labor legislation, and benefit of a life job. The constitution assigned to the central government the capacity to dictate the basic principles that should be applied to the civil service and left to the regional government the power to adapt and implement those principles. This means that the basic rights and duties of the civil servants are centrally regulated, as well as the general principles of recruitment and promotion, though on these two aspects regional governments have a lot of freedom. They can also decide the number of employees and their salaries, but on this last point the central government for reasons of general fiscal policy can impose limits to the aggregate increase of wages in all the levels of government.

Finally, the third stage of expenditure decentralization consisted in making a valuation of the regional resource cost of the public services affected by decentralization. This raised several problems. First, services were not equally well endowed in each region, and there were neither indicators of needs nor time to find them. Besides, had they been available, their use would have required regional redistributions of person or an increase in public expenditure. Second, there was not a cost accounting of services by regions in the central government and the traditional budgetary accounting did not provide information on depreciation cost. Third, the provision of certain public services involves the granting of public aids or the making of investments, and a decision had to be made on the convenience of regionalizing the corresponding funds included in the budget. The pragmatic solution that was finally adopted was to define a new concept of cost, that it used to be called the "effective" cost, which was composed of three components: direct costs of the service, regionalized expenditures on personnel and purchases of goods and services; indirect cost, imputed share of the same expenditures in the central administration; and investment cost, formed by a share of the investments included in the budget to maintain the stock of real assets in working conditions. Public aids would

remain in the central government budget to be distributed annually among the regional government with criteria to be agreed upon in multilateral negotiations. Resources for new investments were provided initially through an instrument designed by the constitution to reduce economic imbalances between the territories, the Interterritorial Compensation Fund.

These decisions, whatever their technical deficiencies might have been, allowed the central government to give an answer to the generalized political pressures for a fast decentralization, and to fund temporarily the provision of public services by the regional governments at the same level that they were being provided by the central government. However, they also raised problems. The differences in the regional endowments to provide similar levels of public services remained. The central government retained too many employees in the regions who had to be transferred later on. The reserve of the central civil servants involved a duplication of public expenditures and made difficult the reorganization of the central government. Finally, the decision to fund new investments by the regions through a fund designed in the constitution for the development of areas with less economic potential, and, therefore, allocated among with redistribute criteria, was probably justified temporarily for the precarious situation of the budget at that moment. However, it put a pressure on regional spending and borrowing in the advanced regions and adulterated until 1990 the nature of that fund by its use as a tool of financial sufficiency and regional redistribution.

Table 2 shows the distribution of spending powers by levels of government. Sub national governments, excluding social security, have a share of general government expenditures higher than the central government. Table 3 gives an idea of the distribution of functions across levels of government.

Expenditure decentralization has had some positive effects. First, it has given an answer to the desires of differentiation of the historical nationalities, thus solving an old, serious political problem. Second, it turned a very centralist state in a decentralized one in a short period of time. Third, it has involved a deep democratization of all levels of government, making them more responsive and accountable to the citizens. Fourth, the quality of public services did not deteriorate. In fact, the general perception is that their quality has improved, but it is difficult to say the extent to which that improvement was brought about by the use of more efficient procedures and/or by increased public expenditure.

There is a negative side as well. First, for quite some time, the confusion in the division of powers made difficult to ascertain who was responsible for what and caused many interjurisdictional conflict of powers that tested the capacity of the newly created constitutional court, whose decisions have proved to be decisive for the clarification of the process. In recent years, the number of conflicts have be reduced to a minimum. Second, heterogeneity in the assignment of powers across regions was also a cause of problems for the management of public services and compelled to introduce more homogeneity by reducing the differences between the FBT regions and the LNT ones. In fact, after the transfer this year of education to the rest of the regions and the commitment to make the same thing with health care in 2004, the assignments of powers will be very

similar across regions. Third, the central government needs to adapt their administrative structures to the new situation., in which its functions should be more focused on policy design and coordination and less on policy execution. Besides, the regional governments have mimicked the administrative structures of the central government, which were designed to operate a centralist state. Fourth, though the number of public employees is still lower in Spain than in other OECD countries, the fact of the matter is that decentralization has increased the figures of personnel at all levels of government, particularly at the local level. Finally, with so high a number of concurrent powers, more efforts should have been made to strengthen coordination. The high number of sectoral conferences which have been created to this end have had a limited effectiveness. A serious gap is the lack of institutional mechanisms to produce and exchange timely information in comparable formats on the activities of the different levels of government and their results. Lack of this information prevents from having a broad picture of the public sector and is giving rise to expenditure duplications.

## **FINANCING THE REGIONAL GOVERNMENTS**

Financing the decentralized state raises no less important problems than the assignment of spending powers. On the one hand, one new dimension of fiscal autonomy comes into being. As mentioned above, regional governments should have the power to choose the bundle of public services that best fits the preferences of their residents, but also the mix of revenue sources to finance them. They should have access to sufficient, diversified tax sources to marginally adjust their revenues to their spending needs. This is the tax assignment problem. Avoiding excessive fiscal gaps is usually recommended both for efficiency reasons and for macroeconomic policy considerations.

Besides, decentralizing a state with great differences of economic capacity across regions raises the additional issue of how to prevent excessive inequalities in the provision of regional public services. This is the equalization problem, or solidarity problem as it is usually called in Spain. The literature on fiscal federalism has emphasized the importance of properly solving this issue, not only for equity reasons, but also for economic efficiency in territorial resource allocation.

In the Spanish case, solidarity has two aspects. The first is to equalize the fiscal capacities of the regions to provide a given level of public services with a similar fiscal effort. This aspect is related to the design of the regional financing system. The second is to reduce the differences in regional economic development. Countries differ in the way to address this second question, depending on the emphasis they give to the free play of market forces and/or to explicit regional development policies to complement or correct the market results. Whatever the relative effectiveness of these two approaches to the problem may be, the Spanish constitution gives high relevance to this issue and creates a specific tool -the Interterritorial Compensation Fund (ICF)- with the goal of reducing the differences in income and wealth across regions. The relevant place that the ICF occupies in the constitutional provisions concerning the new territorial organization of the state, along with the confusing regulation that the Organic Law on the Financing of the

Autonomous Communities (LOFCA) makes of equalization has led to misunderstandings on these two aspects of solidarity.

The constitution assigned autonomy and solidarity the same priority. However, this type of concept words may ideally be easily defined, but need to be given an empirical content if they are to be of any use in policy-making. This may be made through legislation or be left to the agreement or consensus of the interested parties. The advantage of clear legislative guidelines is that they permit to reduce the margin of confrontation which necessarily exists because of the diverging interests of the central government and the regional governments, on the one hand, and among so different regional governments, on the other. LOFCA contained guidelines to address the tax assignment and equalization problems, but they were not always sufficiently clear and left too much room to future negotiations.

This section deals first with tax assignment. Grants and equalization comes next. Finally, a few comments are made on the role played by the development funds. Before, a brief overview of the present regional financing system is convenient to keep the different pieces in perspective.

Table 4 shows the main sources of regional revenues, making a distinction between unconditional and conditional financing. Unconditional financing is not earmarked to a specific expenditure function. It includes own taxes, which are necessarily to be of minor importance, since the regional governments cannot levy taxable sources that are already used by the central government, and user fees and charges on public services transferred to the regions. The so-called "ceded" taxes, mainly on property, refer to a set of central government taxes collected by the regions whose revenues were ceded to them to finance partly their spending functions. Until 1996, the power to regulate these taxes remained with the central government. The regional individual income tax was created in 1996 by splitting the tax rates schedule of the income tax in two tranches. One, corresponding to 85 per cent of the tax liabilities within each jurisdiction was retained by the central government. The remaining 15 per cent, known as the autonomic tranche, was ceded to the regions with a parallel reduction of the resources they received through the general revenue sharing system. "Concerted" taxes is the name usually given in Spain to central government taxes, whose administration, and to a great extent regulation, has been agreed with the Basque Country and Navarra. They include practically all the central government taxes and are shown in the table just to provide a first idea of the degree of tax autonomy that these regions enjoy relative to the common regime regions.

General revenue sharing was the main tool to finance the regional governments up to 1996. Today, with the creation of the regional income tax, its capacity to achieve fiscal equalization is being argued. The share in the 15 per cent of the revenues collected within each jurisdiction was established in 1993 and consolidated in 1996. It should be absorbed by the autonomic tranche of the income tax when the powers on education were transferred to all the regions, what has happened this year.

Conditional financing consists mainly of grants to finance health care, a function which has only be assumed by the FBT regions. The other conditional grants are investment agreements to promote certain activities and grants included in the central government budget which are manage by the regions according national legislation. Within the unconditional financing in the table are included the development funds: the ICF and the resources received from the different EU structural funds.

After a transitory period that finished in 1986, the regional financing system is negotiated every five years in the Fiscal and Financial Policy Council, formed by two ministers of the central government, Economy and Finance and Public Administration, and the Economy or Finance Counselors of the regional governments. Legally, it is an advisory body; in practice has become the decisive body on everything concerned with regional financing. Its decisions are taken by a qualified majority vote. The vote of the two central government ministers weights as much as that of all the regional counselors.

### **Tax Assignment**

Table 5 contains the assignment of taxing powers in Spain in 1997, last year for which the public sector accounts are available. The assignment of taxes by levels of government is easily discernible. The central government retains the main broad-based taxes and local governments are financed with property taxes, business and professional licenses, the motor vehicle tax and fees and user charges. The regional governments have the ceded taxes and the autonomic tranche of the income tax. A brief explanation is needed for the revenues obtained by local governments from central governments taxes. In the Basque Country, the tax autonomy provided by the concerted taxes does not belong to the regional government, but to the three provincial governments (Diputaciones Forales). They manage, inspect and collect the concerted taxes and finance the regional government though a specific revenue sharing system.

While expenditure decentralization proceeded at a fast pace, tax decentralization lagged behind. LOFCA listed the following tax sources which might be ceded to the regions (ceded taxes): individual net wealth, gifts and inheritances, transfers of immovable property, gambling, retail stage of the luxury tax, retail stage of the general sales tax, and retail stage of certain consumptions. It also allowed them to levy surcharges on the individual income tax and the above ceded taxes. The cession, to be approved by law, should wait until each region had assumed powers whose effective cost were higher than the revenues collected in its jurisdiction, in order to avoid the problems that could be brought about by the devolution of revenues by the regions to the central government.

Of these optional taxes, only the first five were actually ceded in the following conditions. The normative capacity remained with the central government, but the regions could manage, inspect and collect them. Besides, they could regulate the user fees and charges linked to the public services they provided. It was thought advisable to postpone the cession of the general sales tax at the retail level, because it would be replaced by the VAT in 1995, when Spain would become a member of the EEC. In 1988

the luxury tax, which was suppressed because of the VAT, was replaced by the stamp tax as a ceded tax. Ceded taxes and user fees represented about 15 per cent of the regional revenues in the period 1987-1996.

This meant that the only autonomy available to the regions was to benefit of the additional revenues that they could obtain through a better administration of the ceded taxes than the central government. This decision is arguable from a different viewpoint. The first three ceded taxes mentioned above are usually complements of the individual income tax, because of the information they provide on the increments of net wealth. Their cession to other level of government should, at least, have been accompanied by an enforceable agreement between both tax administrations to exchange relevant information, which does not seem to have been the case.

The effects of this decision are easily discernible. Regional politicians received the political benefits of providing the public services, but they did not have to pay the political cost of levying taxes. The dialogue with the taxpayers about how much are they willing to pay in exchange for what services was replaced by confrontation with the central government every five years to get a bigger share of general revenues. If public services are not appropriate in number or quality, the responsibility is easily shifted to the central government. This, in turn, has to pay a price in the form of increased grants every five years to keep centralized the main tax sources. The final result is lack of efficiency in resource allocation and a soft budget constraint. The fast rise in regional borrowing that took place in the late eighties was in some extent caused by the inability of regional governments to decide on their own tax revenues.

This state of affairs lasted until 1996, when a new financing system was agreed upon, which increased the tax autonomy of the regional governments in several respects:

- 1) The individual income tax was partially ceded to the regions. This was accomplished by splitting the tax rates schedule in two tranches. One, corresponding to 85 per cent of the tax liabilities collected within each jurisdiction, was retained by the central government. The other 15 per cent was assigned to the regions.
- 2) The regions were given power to legislate on certain aspects of the old ceded taxes and the autonomic tranche of the income tax.
- 3) Another 15 per cent of the individual income tax collected within each jurisdiction would be shared by the regions until the powers on education were assumed by all the regional governments, when it would be added to the autonomic tranche mentioned in 1).

The assignment of legislative powers to the regions has required the definition of coordination rules in order to avoid problems of double taxation and to prevent that taxpayers earning incomes in several jurisdictions could circumvent the progressiveness of the tax rates schedule. Thus, individual income and net wealth taxes are entirely paid in the jurisdiction of the permanent residence of the taxpayer. Immovable property is taxed in the jurisdiction where it exists. Gifts of movable property and financial assets, in the residence of the receiver. Inheritances in the residence of the deceased.

Likewise, some harmonization rules were adopted to prevent excessive interjurisdictional mobility of taxpayers for fiscal reasons and to minimize administration costs. In the individual income tax, the legal powers of the regions are limited in the following way: the tax rates schedule has to be progressive, and the tax liabilities cannot exceed in more than 20 per cent upward or downward the tax liability resulting from the application to the tax base a tax rates schedule that will be legally defined. Similarly, preserving progressiveness is required in the net wealth tax and gift and inheritance tax, with the additional restriction that the tax rates schedule is to have the same number of tranches as that of the central government and the amount of the first tranche of the tax base and the minimum marginal tax rate should coincide as well with those of the central government. In the other ceded taxes, the legal powers to set tax rates and deductions are less restricted.

The excessive reliance on just one broad based tax, like the individual income tax, may bring about a high volatility in the revenues of a level of government whose expenditures usually follow a stable growing path. In particular, this volatility may be specially risky for those regions where the 30 per cent of the autonomic tranche of the income tax amounts to a high share of their total revenues. As it is shown in Table 6 the autonomic tranche of the individual income tax along with the 15 per cent territorial share of the income tax liabilities may amount to over 50 per cent of the unconditional financing in many regions, specially the rich ones. To cover against these risks, the new financing system approved in 1996 introduced a guarantee scheme. Revenues collected by the autonomic tranche of the individual income tax should increase during the period 1997-2001 at the same rate as the smaller of the following two magnitudes: nominal GDP or 90 per cent of the growth rate of central government revenues by the individual income tax. This scheme had to be changed in 1998, after this year reform of the individual income tax, which involved mainly a decrease in the tax rates and simplification in tax administration.

According to the new guarantee scheme, regional revenues collected by the autonomic tranche of the income tax and by the income tax revenue sharing system should grow at least at the same rate as nominal GDP. This scheme raises several problems. First, all the burden of the scheme falls on the central government, since no compensation is foreseen in those circumstances in which regional income tax revenues grow above nominal GDP.. Second, the cost of the guarantee for the central government may amount to important figures, not only for the decreased revenues brought about by the income tax reform, but also because income tax revenues were already growing before the reform at a rate lower than that of GDP. Thus, the attempt to reduce the tax burden may be jeopardized. Third, the fiscal discipline and efficiency effects that might be expected from the increased tax autonomy of the regions may be difficult to obtain, with a lower bound to the increase of regional revenues which involves necessarily an increase in the regional revenues-GDP ratio.

## **Grants**

### *General Revenue Sharing*

LOFCA made a distinction between two types of instruments to finance the regional governments. On the one hand, those whose main goal was to provide the regions a volume of resources that were sufficient to finance their public services. These instruments were the ceded taxes and a general revenue sharing system. On the other hand, a tool to guarantee the provision of a minimum level of public services all over the country.

The restricted definition that was made of the ceded taxes until 1996, and the fact that equalization was given much less priority than sufficiency in the implementation of the financing system, made of the general revenue sharing system the main unconditional revenue source of the regions. The financing of health care followed a different way and was left out of the general financing system.

According to LOFCA, for a transitory period, which lasted until 1986, the central government should guarantee the financing of the public services with a volume of resources equal to the effective cost. The guarantee should be implemented by assigning each region a share of central government revenues, sufficient to cover the difference between the effective cost and the revenues actually obtained from the ceded taxes. Besides, it was decided that the cession of the taxes should not be implemented until the effective cost were higher than the revenues collected from them in each jurisdiction. Thus, revenue sharing was the first instrument used to finance the regions.

This way of calculating the regional shares of general revenues raised initially two problems. First, there was a disincentive for the regions to manage properly the ceded taxes, since revenue sharing would cover the difference anyway. This problem remained until 1986 when the first five year financing system was approved. Second, the resources obtained by the regions through revenue sharing were growing much faster than their spending needs. At that time, central government revenues were increasing at a higher rate than the effective cost, which was designed to grow in parallel with central government expenditures. This regional over financing involved a penalty for central government finances and was unequally distributed among regions, depending on each one share of the effective cost financed by the ceded taxes. This second problem was solved by sliding downward the revenue sharing percentage of each region every year, but increasing the disincentive for a good administration of the ceded taxes.

In 1996, the transitory period finished, and negotiations started within the Fiscal and Financial Policy Council to set each region revenue sharing percentage for the next five years. This involved a change in the procedure which had been used during the transitory period.

The main legal requirement of the new procedure was that regional revenue shares had to be calculated by employing certain parameters that were defined by LOFCA. Besides, it was required to define the global mass of resources to be distributed and the central government revenues used to compute the regional revenue shares. An additional restriction to start the negotiations was that the resources resulting from the new method

could not be lower for each region than those received in the base year. This restriction became a norm for future negotiations.

The central government revenues were defined as tax revenues, excluding the ceded taxes, plus contributions to the social security system. This addition was made in order to make the evolution of regional revenues more stable over time.

The mass of global resources to be distributed was formed by the effective cost in 1996, plus a 25 per cent of the ICF, in order to provide the regions some resources to finance new investments, plus some grants related to the powers assumed by the regional governments, minus the ceded taxes actually collected in 1995. In order to prevent the disincentive effect already mentioned, a normative path was defined for the evolution of the revenues from the ceded taxes during the quinquennium 1987-92. Thus, the effective cost remained the main determinant of the global financing received by the regions.

LOFCA listed four parameters whose use was compulsory (population, fiscal effort, real income per capita, and an amount proportional to the contribution that each region had to make to finance the powers retained by the central government (?)), and two others, whose use was optional, such as an indicator of each region deficit of infrastructures and social services and the ratio between the costs per head of providing the regional public services within each jurisdiction and the national average cost per head. It also left the door open to the use of any other indicator agreed upon by the negotiating parties.

Three of these parameters are clear indicators of regional spending needs (population, deficit of public services and infrastructure, and relative average cost of providing regional services). Of the last two no information was available then and no effort has been made since to produce it. Two parameters were redistributive (income per head and fiscal effort). Their objective is to make horizontal transfers according to whether their values are above or below the national average. The inclusion of fiscal effort is difficult to understand in a country where tax legislation, even for the ceded taxes, was uniform. The last variable, which seems to be redistributive one, was logically never used. The negotiating parties agreed that the effective cost of education should be distributed among the regions that had assumed this policy by assigning a higher weight to the population.

The variables that were finally chosen and their weights were the following:

<i>Common functions</i>	<i>1987-91</i>	<i>1992-96</i>
Population	59	64
Insularity	0.7	0.4
Surface	16	16.6
Administrative units	24.3	2
Relative poverty	4.2	17
Fiscal effort	5	2.7
Population dispersion		2
<i>Education</i>		

Population	84.4	94
Insularity	3.1	1.5
Population dispersion		0.6
Surface	15	3.5
Relative poverty	0.4	2.7
Fiscal effort	1.7	1.82
Constant	-2.5	
Administrative units		0.4

Defining this list of variables and weights was the main difficulty to get to an agreement. Fiscal effort, defined by the difference between the relative tax liabilities collected in each region from the individual income tax and the relative regional GDP, was imposed by the rich regions. Territorial surface and administrative units, measured by the number of provinces, were supported by big sized regions as an indicator of higher cost in the provision of services.

The application of this method to determine general revenue shares was supposed to guarantee that the resources allocated to each regional government would be sufficient to finance a level of public services similar to that provided by the central government before the transfer of powers. The central government retained the main taxing powers, but also the deficit. Therefore, some limits were imposed to the rate of increase of regional financing. In normal conditions, regional revenue shares would grow at the same pace than central government revenues, as defined above, with an upper bound set by the rate of growth of nominal GDP, and a lower bound determined by the annual increase of the sum of central government operating expenses, salaries and purchases, and real investments, which used to be called the "equivalent expenditure".

This method of implementing the general revenue sharing system has survived, with minor changes, up to now. The next negotiating rounds, held in 1991 and 1996, retained the initial restriction that there should not be any loser, and involved an increase in the volume of resources added to the global mass to be distributed. In 1991, a new variable, population dispersion, was added to the list and the variable population was given more weight. Table 6 shows the unconditional resources in 1997.

An assessment of this instrument should be made when all the pieces of the regional financing system are available. It has been the main tool to finance the regions until 1996, and it has contributed to an important decentralization of powers without a deterioration in the quality of the services provided by the regions. However, the effects that some of its features have had on the incentives and behavior of the agents participating in the negotiations have affected the stability of the whole system. The restriction that there should be no losers is justified because the system provides only sufficient resources to finance the assumed powers and does not give the regions any flexibility to decide on their own revenues. But it is also an incentive to multiply the negotiating processes. The result is usually an increase in the global resources assigned to the regions, as the three negotiating round have shown. A second problem is raised by the logical division of the negotiating process in two stages. One in which the mass of resources is decided and

another in which that mass is allocated to the regions. In this second stage, the regions try to maximize their share of the total by changing variables or weights, normally justified by the asymmetries of the decentralization process: great differences in fiscal capacity relative to the Basque Country and Navarra or the need to give more weight to the redistribution variables in the case of the regions with less economic potential. This usually result in the central government contributing additional resources to the global fund for the sake of reaching a consensus.

The 1996 agreement for the period 1997-2001 had two additional effects for the stability of the system. On the one hand, the excessive focus of the reform on the regionalization of the income tax revenues awoke the suspicions of the less developed regions that the horizontal imbalances might worsen. Three of them did not accept the agreement and retained the financing system agreed in 1991. On the other hand, the 1998 reform of the income tax turned the growth rate of nominal GDP in a lower bound not only for the increase of the revenues obtained through the autonomic tranche of the income tax and the regional income tax share, but also for the increase in the resources received via general revenue sharing.

### *Health care*

Health care was left outside of the general financing system. The national health service was under the umbrella of social security and it was financed partly with social security contributions and partly by grants of the central government. For a period of time, until health care were financed exclusively with tax revenues, health services in the regions which had assumed this power- the FTB regions- would be financed through conditional grants of the social security budget.

Since the transfer of powers on health care involved an important volume of resources, a new general health care law was approved to regulate how the national health service would work in a decentralized framework. According to this law, the financial resources should be allocated to the regions in proportion to the population legally resident in each jurisdiction. Given that the social security budget for health was actually allocated with different criteria, it was agreed that, in order not to disrupt the health service, the regional governments would receive the volume of resources actually spent in their jurisdiction the previous year, and that figure would be made to converge lineally during a ten year period toward that resulting from the criterion defined by the law.

The transfer of health was the source of serious financial problems for the regions. Traditionally, health care was under budgeted, and supplementary budgets had to be approved over the year to avoid excessive arrears. This did not changed with decentralization. The regional governments were receiving funds according with the initial budget and had to wait almost a year to get the supplementary funds. The result was that they had to assume the financial burden of the arrears, which, with very tight budgets, was financed by borrowing.

### *Other conditional grants*

Two additional types of conditional grants have been commonly used since the beginning of the decentralization process. The first type consists of grants for various purposes which are budgeted by the central government, but correspond to subject-matters on which the regional governments have assumed functions. Therefore, the resources are annually allocated to the regions following agreed upon criteria, which are in charge of their final distribution. The reasons for their existence is not always clear. In some cases, they may be justified by the existence of a concurrent power and the executive function corresponds to the regional governments. In others, the amounts are so small that it might be more efficient to include them in the general revenue sharing system and close the administrative unit in charge of their administration.

The second type of grants, joint investments of the central government and the regional governments, was mainly used to increase the stock of capital necessary for the provision of certain public services with positive spillover effects, but also to make up for deficiencies in certain services transferred to the regions. The global figures assigned to these agreements depend on each year budgetary situation, and the regional allocation is completely discretionary. Table 7 shows the conditional resources assigned to the regions in 1997.

### *Equalization*

Equalizing the regional fiscal capacities to provide a given level of public services with a similar fiscal effort is usually considered an objective to be achieved in decentralized states with important economic differences across regions. This objective is explicitly recognized by the Constitution and LOFCA. One article of this law stipulates that the central government should guarantee a minimum level of fundamental public services assumed by the regions, whenever they are unable to supply that minimum level with the resources obtained through the ceded taxes and revenue sharing. The law also stipulated that the National Institute of Statistics should produce indicators to know the regional endowments of these services. This drafting does not help much. First, it is necessary to specify what those fundamental public services are. Second, the minimum level of provision is to be defined. The law defines it as the average level, which is itself unknown. Third, one has to prove that the resources provided by the general financing system are insufficient

These are problems difficult to agree upon when the negotiating parties have conflicting interest. The advanced regions are of the opinion that the present financing system is already very redistributive. That it should converge to a more equal financing per head, because this standard of equity embodies already an important redistribution. Less advanced regions consider that the present redistribution is not enough, and demand for the implementation of this tool in addition to the redistribution implicit in the general financing system.

Very likely, these conflicting opinions are much influenced by the prevalence that revenue sharing has had until recently in the system, and the double function that was

compelled to undertake of providing sufficient financial resources to the regions and redistribute them regionally. It is not easy to find out whether the present financing system provides or not sufficient resources, because that requires to specify what services are to be supplied and at what level. Neither is it easy to ascertain whether it over-redistributes or under-redistributes, since that requires to define a standard of equity. Nothing of this sort has been made in Spain.

A frequently used indicator to assess the degree of equalization is financial resources per head. On the one hand, it is a good proxy for spending needs, unless there are great regional differences in the unit costs or in the ratio population-users for the different services. On the other hand, when regional differences in economic potential are relevant, equality in financing per capita means that an important regional redistribution is in place.

Tables 8 and 9 present per capita resources supplied by the system in the forms of conditional and unconditional financing. The first shows that there are important differences which are difficult to explain. In the case of the LNT regions might be due to remaining differences in the powers they have assumed. More difficult is to find a justification for the FBT regions, because they have practically the same level of powers. The differences between Catalonia and Valencia, on the one hand, and Galicia and Canarias, on the other, may be explained by the redistribution factor implicit in the system, given the unequal economic capacity of these two regions. But the differences between Andalusia and the last two remain unexplained. However, Table 8 shows that the differences in the resources provided for health are very similar.

The higher tax autonomy achieved by the regions in 1996 will surely increase their differences in fiscal capacity. If these differences are to be equalized in some sense, this will probably require a redefinition of the role of revenue sharing in the new financing system. If ceded taxes are going to be in the near future the main revenue source to finance the regions, then revenue sharing fund, which has decreased in size, might become mainly an equalization fund. This requires a political definition of the minimum level of public services to be provided everywhere, or, what amounts to the same thing, how many resources may be allocated to each service and how fairly are they to be distributed across regions. If this problem were addressed, the financing system resulting from the 1996 reform should be considered as a transition stage in two respects. One, because the excessive focus on the income tax may generate volatility, which could be reduced by the use of smaller shares of other several taxes. Other, because the revenue sharing fund, if the legal goal of equalization is to be achieved, will require a change of the revenue sharing system, which was not touched in the last reform, toward an explicit equalization fund.

### *Development funds*

Presently there are two revenue sources for development purposes. One is the Interterritorial Compensation Fund (ICF). The other are the different EU funds, mainly the European Regional Development Fund, the European Social Fund, and the Agricultural Orientation

and Guarantee Fund. Table 10 gives the resources of this type received by the regions. In 1997, they amounted to 7 per cent of funds received by the common regime regions.

The ICF is the only financing tool that is mentioned in the constitution. LOFCA laid the foundations by stipulating a lower bound for the amount of resources to include in the fund (no less than 30 per cent of the net public investment included in the national budget), the parameters to use in the distribution (income per head, emigration rate of the last ten years, unemployment rate, regional surface, insularity, and other agreed upon criteria), and the kind of investments to finance, mainly real investments in overhead capital. The specifics and the weights to assign to the parameters were defined by a law approved in 1984.

The main stipulations of the law were that the investment projects should be decided jointly by the central and the regional governments, that the regions should prepare a regional development plan, this was to be also a requirement of the EU to accede to the structural funds, that it should amount to 40 per cent of national net investment, and the weights of the variables should be: 70 per cent for income per head, 20 per cent for the emigration rate, 5 per cent for the unemployment rate, and 5 per cent for the regional surface, plus a correction for insularity.

The decision to include all the regions in the ICF was based, as mentioned above, on the need to give the otherwise non-beneficiary regions access to resources to finance net investments, since the effective cost included only conservation investments. This adulterated for several years the nature of the fund, and raised problems for the rich regions, which, given the strongly redistributive character of the fund, were allocated insufficient resources to finance their services, and, very likely, moved them to borrow.

This disruption, which moved to reduce the size of the fund in 1997 a 25 per cent to increase the revenue sharing fund, and the anomalous behavior of the emigration rate, which changed to favor the rich regions, required the approval of a new law in 1990. The main changes were an increase in the number of variables for the allocation of the resources (population and its dispersion) as well as in the weights used, and the reduction of the number of beneficiaries to adapt them to the EU rules concerning the access to the structural funds. This meant that the fund could only benefit those regions with an income per head lower than 70 per cent of the UE average (the so-called type I regions). Thus, a process started which allowed a better coordination of the ICF and the UE funds. All the regions received a transitory compensation, which was included in 1992 in the revenue sharing fund.

Table 11 how the unconditional financing per capita changes when this funds are taken into account. A side effect of the high volume of resources received by the regions through EU funds is that the regions have to cofinance investment projects which receive EU assistance, and that may have been also a factor explaining the regional debt in the late eighties and late nineties.

## MACROECONOMIC COORDINATION AND BORROWING

The introduction of an intermediate level of government with power to make decisions on important shares of public expenditures and public revenues requires the design of some scheme to coordinate the deficits of the different tiers of government for macroeconomic policy purposes and instruments to control regional borrowing to preserve the financial solvency of the regions.

Fiscal policy coordination may be needed to maintain fiscal discipline at the national level or to neutralize the negative consequences of external shocks. Recently, in most countries the main concern has been to reduce public deficits to levels that could be sustainable in the long term. Spain has not been an exception to that trend. As can be seen in Table 12, after a period of fiscal consolidation in the second half of the eighties helped by a strong reduction of the cyclical deficit, the fiscal situation deteriorated in the first half of the nineties. In 1995 a strong fiscal adjustment allowed the country to fulfill the Maastricht requirements to accede to Euro.

LOFCA assigned the FFPC the task of coordinating the borrowing policy of the central government with those of the regional governments. However, how this coordination should be carried out was never regulated. After the approval of the Maastricht Treaty, the Ministry of Finance started bilateral negotiations with the regional governments to agree on fiscal consolidation scenarios for the period 1992-96 to be approved by the FFPC along with the regional financing system for the same period.

Control of regional borrowing has to take into consideration other goals besides fiscal discipline. One is to keep the financial solvency of the regional governments in order to prevent the extra-jurisdictional effects of a potential bail out. A similar reason, to avoid the external effects of the central government fiscal misbehavior on the regional governments, would justify the adoption of some type of control of the central accounts. A second objective is to leave a margin of autonomy to the regions to decide what combination of ordinary revenues and borrowing to use, particularly for reasons of intergenerational equity.

To address this issue, LOFCA stipulated, first, that regional governments could borrow short term for cash management purposes. Second, long term borrowing should be used just to finance investments. Third, debt service should not exceed 25 percent of current revenues. The Ministry of Finance should authorize domestic issues of securities, as well as foreign borrowing in general. There are, therefore, two rules, the so-called golden rule for intergenerational equity purposes, and a financial solvency rule; an unbounded authorization for short term borrowing, which supposedly is to be cancelled at every year end; and two direct controls, one justified by the nexus between foreign debt policy and macroeconomic policy, and the other, probably less founded in a decentralized

framework, might be motivated by concerns on the time coincidence of different government issues in a narrow domestic market.

The two rules have never been given a specific content to make them implementable and enforceable. It is well known that, to be effective, rules should specify a body in charge of monitoring them, define precisely the variable or variables to monitor along with the entities affected by the rule, design a system to produce and exchange timely and accurate information, and, finally, specify realistic and proportionate penalties in case of non compliance. Even when these requirements are well established, rules may be circumvented.

Despite these coordination schemes, rules and direct controls, regional debt has had a fast increase. (Table 13). Until 1993, year in which regional government debt exceeded already that of the local governments, its rate of growth was explosive. From 1993 to 1997, the rate of growth of regional debt relative to national GDP decreased and, since 1997, the ratio itself went down. This trend was general, but with different pace across regions. In fact, four regions can hold more than 85 per cent of the debt (Table 14). The figures of regional debt by type of instrument show two clear trends. A fast increase of the share of loans until 1992 and a similar fast decrease until 1999. (Table 15).

These facts raise several questions. First, what forces have brought about that increase in regional debt. Second, what is the explanation for the different trends observed in the series. Third, how effective have the controls on regional debt been.

The relative responsibility of the central government and the regional governments for the increase of regional debt has been a frequent topic of discussion. Have the regions borrowed to fund unfunded mandates? Or have they spent more than they could afford because, being closer to the citizens, it is more difficult to resist the demand for more and better public services? For electoral reasons? These are difficult questions that resist a simple and unique answer.

The resources needed to finance them did not always match the assignment of spending responsibilities to the regional governments. The central bureaucracy was not affected by the transfer of functions, new administrative units had to be created in the regions to perform tasks of policy design, coordination and supervision, and the resources sent to the regions to fund these newly created self-government bodies were insufficient. Many public employees were not civil servants. They were linked to the public service through very different contractual arrangements, especially on salaries. The cost of introducing homogeneity in the salary structures was born by the regions. The effective cost did not take into consideration the interregional differences in the costs of providing the assumed public services. For a long time the resources to fund investments linked to regional services were insufficient in the advanced regions. In the less advanced ones, the vast amount of resources received from the ICF and the UE funds were not matched with those necessary to finance current expenditures. The regional financing system relied to much on grants and the regions did not have normative capacity on the ceded taxes.

Therefore, they did not have many margins to face any pressure on expenditure. All these factors may have contribute to centrifuge deficit to the regions.

Closeness to the citizens may have also put pressure on the regional governments to provide new and better public services. Many municipalities' finances are not in good shape and grants to the local governments have increased a lot since decentralization. Electoral reasons have also played a role. Nearly all the new regional, public TVs are having deficit.

Attempts to control regional borrowing through direct controls, when there are many loopholes to circumvent them, explain the shift of regional borrowing to bank loans in the second half of the eighties. The central government tried to restrict regional government access to the capital market rejecting any request for bond issues at a time in which it has instructed the financial institutions to reduce credit to the private sector. The result was a strong increase in regional bank borrowing.

The golden rule is usually justified by intergenerational equity considerations, but its implementation raises serious problems concerning the kind of investments to which it should efficiently apply and how to monitor it. The rule imposing a 25 per cent upper bound to debt service relative to current revenues was imported from the local governments, disregarding that local government in Spain had greater tax autonomy than regional governments. Besides, a gradual implementation of that limit might have been necessary, given that regional governments had just been created. No lesser are the problems that the specification of the rule raise. For example, how zero coupon bonds should be treated in computing the interest charge. How loans with a grace period should be dealt with. What about refinancing operations that increase debt repayments without an increase in total debt outstanding. Likewise, the current revenues that should be used as a base need to be defined, because conditional revenues probably should not be included. Even the concept of conditional has needs to be specified. Table 16 gives a very low ratio for the FBT regions, which are the most indebted ones, just because they have powers on education and health and, therefore, have high current revenues because they have to pay the salaries of many people. This Table 16 shows also that in the period considered three regions exceeded the limit and two SNT regions are above 20 per cent.

Unbounded short term borrowing without control is a way of circumventing the golden rule. Table 17 presents a high dispersion in the percentage share of short term debt in total regional debt, with the most indebted regions having the highest shares.

Sometimes these rules offer a higher margin for borrowing than that required by fiscal discipline. When this is really the main goal, it also becomes the binding constraint. This is at least the case in Spain, and probably in other European countries that have to comply with the fiscal rule of the Stability Pact. The contribution of the regional governments to fiscal consolidation has been very important. As can be seen in Table regional government deficit as percent of GDP decreased from 1.1 in 1993 to 0.2 in 1999. This effort, however, has not been shared equally across regions.

This success can be surely be assigned to the attempts at coordinating deficits and debt within the FFPC. The fiscal consolidation scenarios approved in 1192, though were not complied neither by the central government nor the regional governments because of the 1992-1993 recession, represented a turning point in the evolution of public debt and paved the way for a closer coordination between the central and the regional governments. The new agreements reached in 1996 were more successful. Hey also coincided with a buoyant economy and decreased interest rates. The first scenarios were made public. The following ones have not been published. Both resulted from bilateral negotiations. Probably this may be necessary in a country like Spain in which regional governments do not like legal and open coordination. The fact of the matter is that this secrecy prevent to know which one is the free rider and what was exactly the agreement that was reached.

However, the commitments imposed by the Stability and Growth Pact in terms of deficit and debt, with the possibility of being fined in case of non-compliance, require more than a private agreement which can be breached without any consequence. It seems to be necessary an internal stability pact designed along the same lines than the European one. This requires to find a solution to the problem on how the burden of the adjustment should be allocated, first, between the central government and the regional governments, and, second, among the regional governments themselves.

None of these two problems are easy to address. The first has to take into consideration the higher cyclical volatility of the central government budget. The second has to define a criterion to allocate the adjustment across regions. A per capita allocation may be reasonable, but when there are important differences in the starting point, a strict application of this criterion may not be very realistic. But if the starting points are given too much emphasis, the low deficit regions may block the negotiations and there might be an incentive to relax fiscal discipline.

But an internal stability pact requires also multilateral negotiations, publicity of the agreements, a good information system to monitor the borrowing policies of the regional governments. The information available on the final accounts of the regional governments is scarce and is made public very late. To comply with the information requirements of the EU Stability Pact, there exist an agreement between the Ministry of Finance and the Regions, but only aggregate figures are published. The Bank of Spain publishes periodically figures of regional borrowing with sufficient desegregation, but the information on the financial relations of the regional governments and their enterprises is not known. Since 1995, the share of regional public companies in total regional debt has been following an increasing path.

## CONCLUSIONS

In Spain, decentralization was undertaken for political reasons. Economic factor were not determining. It was thought that transition to democracy could be in danger, unless a solution were given to the old regional problem. Political reasons were also the cause of

the main asymmetries existing in the Spanish decentralized state. Important regional differences in tax autonomy ,political influence and economic capacity.

Spain has achieved a decentralization of public expenditure similar to that existing in the federal states. Initially, the process was very confusing for the lack of clarity in the allocation of functions between the center and the regions, and resulted in an heterogeneous distribution of powers across regional governments. These problems have been solved partly by the constitutional court, partly by agreements between the main political parties. The transfer of human resources was insufficient and caused duplications in expenditure. Decentralization did not caused a deterioration in the quality of public services. The general perception is that it has increased.

The regions did not have any tax autonomy until 1996. This gave rise to an excessive dependence of regional financing on grants with perverse effects in terms on efficiency and fiscal discipline. The assignment of 30 per cent of the income tax to the regions was an important step forward in terms of tax autonomy. However, the excessive focus on one broad-based tax, the subsequent reform of the income tax in 1998, and the scheme designed to guarantee the growth of regional revenues, will neutralize the beneficial effects of greater fiscal responsibility, and will make fiscal discipline more difficult.

Partial decentralization of the income tax has brought about uneasiness in less developed regions for fear of an increase in the differences of fiscal capacities. This may really be the case, unless some kind of equalization scheme will be implemented.

Regional borrowing increased very fast in the late eighties and early nineties. The different instruments to control regional debt proved to be ineffective. Closed coordination was started in order to comply with the convergence criteria of the Maastricht Treaty and strengthened after the EU Stability Pact. But the procedures continue to be based on bilateral procedures and secrecy. A domestic version of the Stability Pact should be advisable.

## REGIONAL INDICATORS. 1998

Table 1

	Provinces (No)	Surface (Sq.Km)	Population (No)	<15 years (%)	>64 years (%)	Population Density	GDP pc (%)	GDPppp (EU=100)	Statute (Year)
<b>Andalucia</b>	8	87,595	7,236,459	18.7	13.6	82.6	71.8	58	1982
<b>Canarias</b>	2	7,447	1,630,015	17.9	11.4	218.9	101.8	76	1982
<b>Cataluna</b>	4	32,113	6,147,610	14.2	17	191.4	123.3	100	1979
<b>Galicia</b>	4	29,575	2,724,554	13.2	19	92.1	84.4	64	1981
<b>Navarra</b>	1	10,391	530,819	13.7	17.4	51.1	117.7	97	1982
<b>Pais Vasco</b>	3	7,234	2,098,628	12.4	16.4	290.1	114.9	94	1979
<b>Valencia</b>	3	23,255	4,023,441	15.7	15.6	173	99	76	1982
<b>Aragon</b>	3	47,720	1,183,234	13.1	19.3	24.8	108.8	90	1982
<b>Asturias</b>	1	10,604	1,081,834	11.7	20	102	87.1	76	1982
<b>Baleares</b>	1	4,992	796,483	17	15.4	159.6	147.9	101	1983
<b>Cantabria</b>	1	5,321	527,137	13.3	18.1	99.1	92.4	77	1982
<b>Castilla La Mancha</b>	5	79,461	1,716,152	16.8	18.8	21.6	79.2	67	1982
<b>Castilla y Leon</b>	9	94,224	2,484,603	13	21	26.4	91.6	77	1983
<b>Extremadura</b>	2	41,634	1,069,419	17.6	17.5	25.7	72.5	55	1983
<b>La Rioja</b>	1	5,045	263,644	13.5	19	52.3	112.9	90	1982
<b>Madrid</b>	1	8,028	5,091,336	15	14.8	634.2	128.2	101	1983
<b>Murcia</b>	1	11,314	1,115,068	18.7	13.7	98.6	79.6	68	1982
<b>SPAIN</b>	50	505,986	39,852,651	15.5	16.3	78.8	100	80	

**Table 2. PUBLIC EXPENDITURE BY LEVELS OF GOVERNMENT**

(In percent)

YEAR	Central Government	Social Security	Regional Governments	Local Governments
1980	48.3	42.0	0.2	9.5
1981	45.7	43.3	1.6	9.4
1982	44.9	41.0	3.5	10.5
1983	43.7	40.6	5.4	10.2
1984	41.0	40.2	8.4	10.4
1985	40.9	37.8	10.3	11.1
1986	40.6	37.8	11.1	10.4
1987	39.1	35.6	14.9	10.4
1988	37.6	34.3	17.3	10.7
1989	38.2	33.8	17.1	10.9
1990	36.0	34.7	17.9	11.5
1991	34.0	35.3	19.4	11.4
1992	33.0	36.1	19.8	11.1
1993	34.5	35.6	19.3	10.5
1994	34.0	35.6	19.7	10.7
1995	36.5	33.9	19.3	10.4
1996	33.3	35.2	20.8	10.7
1997	31.9	36.0	21.0	11.1
1998	31.3	36.0	21.5	11.3

Source: Cuentas de las Administraciones Publicas. Several issues

Table 3  
**PUBLIC EXPENDITURE BY FUNCTIONS AND LEVELS OF GOVERNMENT**  
(In percent)

	CENTRAL GOVERNMENT	SOCIAL SECURITY	REGIONAL GOVERNMENT	LOCAL GOVERNMENT
<b>General Public Services</b>	40.2	0	14.8	44.9
<b>Defense</b>	100.0	0	0.0	0.0
<b>Public order and safety</b>	66.6	0	12.6	20.8
Police and fire protection	64.1	0	8.4	27.5
Law courts	68.8	0	31.2	0.0
Prisons	89.9	0	10.1	0.0
Others	31.2	0	68.8	0.0
<b>Education</b>	34.2	1.3	59.0	5.5
Pre-primary and primary	41.6	4.3	43.8	10.3
Secondary	46.6	0.0	48.4	4.9
Tertiary	14.0	0.0	84.1	1.8
Special	71.6	0.0	28.1	0.4
Others	13.6	0.0	83.3	3.1
<b>Research</b>	61.9	5.7	32.3	0.2
Fundamental	41.7	0.0	29.2	0.0
Defense	100.0	0.0	0.0	0.0
Medical	45.2	52.9	0.8	1.1
Agricultural	21.4	0.0	78.0	0.6
<b>Health</b>	1.5	45.2	50.3	2.9
<b>Social security and welfare</b>	8.4	87.8	1.7	2.1
Social security	8.9	90.7	0.1	0.3
Social welfare	3.1	38.4	35.0	23.5
<b>Housing and community affairs</b>	7.6	0.2	20.7	71.5
Housing and community deveop.	12.7	0.4	24.3	62.5
Water supply	7.2	0.0	22.4	70.5
sanitary affairs	1.7	0.0	19.1	79.2
Street lighting	0.0	0.0	0.0	85.0
<b>Culture and sports</b>	14.3	1.8	28.5	55.5
Sports	8.5	5.3	12.9	73.3
Culture	17.2	0.0	36.3	46.5
<b>Economic services</b>	28.9	14.6	36.2	20.2
Fuel and energy	69.5	0.0	26.0	4.5
Agriculture	26.0	0.0	67.3	6.7
Industry and construction	52.1	0.0	42.5	5.4
Road transport	36.5	0.0	23.2	40.3
Railways	84.7	0.0	14.6	0.7
Other transports	36.7	0.0	38.8	24.5
Communications	101.0	0.0	-0.8	-0.1
Distribution trade	5.8	0.0	37.6	56.6
Tourism	10.9	0.0	61.3	27.9
Labor affairs	7.6	57.2	26.3	9.0

Others	71.4	23.8	4.1	0.6
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Table 4

**FINANCING THE REGIONAL GOVERNMENTS**  
(Billion pesetas and percent)

	1987		1992		1996		1997	
<b>UNCONDITIONAL</b>	<b>1,250</b>	59.1	<b>2,898</b>	55.9	<b>4,046</b>	59.1	<b>4,483</b>	61.4
<b>Tax revenues</b>	<b>536</b>	25.4	<b>1,372</b>	26.5	<b>1,769</b>	25.9	<b>2,704</b>	37.0
Own taxes and fees	58	2.7	123	2.4	185	2.7	197	2.7
Ceded taxes	254	12.0	685	13.2	814	11.9	988	13.5
Individual income tax							681	9.3
Concerted taxes	224	10.6	564	10.9	770	11.3	838	11.5
<b>Grants</b>	<b>715</b>	33.8	<b>1,526</b>	29.4	<b>2,277</b>	33.3	<b>1,779</b>	24.4
General Revenue Sharing	714	33.8	1,516	29.2	2,103	30.7	1,362	18.6
IIT revenue sharing					23	0.3	406	5.6
Others	1		10	0.2	151	2.2	11	0.2
				0.0		0.0		0.0
<b>CONDITIONAL</b>	<b>864</b>	40.9	<b>2,288</b>	44.1	<b>2,795</b>	40.9	<b>2,821</b>	38.6
Health	442	20.9	1,467	28.3	1,956	28.6	1,975	27.0
ICF	124	5.9	129	2.5	129	1.9	133	1.8
UE funds	42	2.0	173	3.3	362	5.3	288	3.9
Others	256	12.1	519	10.0	348	5.1	425	5.8
<b>TOTAL</b>	<b>2,114</b>	100.0	<b>5,186</b>	100.0	<b>6,841</b>	100.0	<b>7,304</b>	100.0

Source: Informe sobre la Financiacion de las CCAA. Several issues. MEH

Table 5

**TAX REVENUES BY LEVELS OF GOVERNMENTS**

(Billions pesetas)

	<b>Central Government</b>	<b>Regional Government</b>	<b>Local Government</b>	<b>General Government</b>
Individual income tax	4,922	676	385	5,983
Corporate income tax	2,133	36	96	2,265
Value-added tax	4,092	92	345	4,529
Excises	2,086	51	131	2,268
Foreign trade	116			116
Insurance premia tax	63		4	67
Social security contributions	11,803	71	30	11,904
Property transactions tax	4	620	34	658
Gift and inheritance		176	3	179
Individual net wealth tax	34	84	10	128
Gambling	54	192	10	256
C.I general indirect tax				
Business and professional tax		6	257	263
Inmovable property tax	1		553	554
Motor vehicles tax			174	174
Construction and works tax			111	111
Urban land surplus tax			80	80
Fees and charges	14	27	155	196
Others	154	54	126	334
Adjustments UE	-577			-577
<b>TOTAL</b>	<b>24,899</b>	<b>2,085</b>	<b>2,504</b>	<b>29,488</b>

Source: Cuentas de las Administraciones Publicas. MEH.1997

## UNCONDITIONAL FINANCING. 1997

Table 6

(Millions pesetas and percent)

	<b>Ceded Taxes</b>	<b>Regional Income % Tax</b>	<b>General Revenue % Sharing</b>	<b>IIT Revenue % Sharing %</b>	<b>TOTAL</b>
<b>Art.151</b>					
Andalucia	142,540	18		644,094 82	786,634
Canarias	40,655	20	28,002 13	112,321 54 28,002	13 208,980
Cataluna	232,757	33	184,630 25	119,197 17 176,834	25 713,418
Galicia	48,727	14	46,079 14	205,061 60 42,213	12 342,080
Valencia	121,297	30	77,635 19	132,546 33 72,833	18 404,311
<b>Art.143</b>					
Aragon	37,524	46	28,348 36	6,104 7 9,304	11 81,280
Asturias	25,172	43	24,068 42	1,124 2 7,482	13 57,846
Baleares	28,575	56	18,045 36	4,039 8	0 50,659
Cantabria	14,246	33	11,057 27	7,021 16 10,412	24 42,736
Castilla La Mancha	27,458	27		74,988 73	102,446
Castilla Leon	59,319	32	50,079 27	33,541 18 44,770	24 187,709
Extremadura	13,438	19		58,043 81	71,481
La Rioja	8,105	41	6,137 31	1,526 8 3,843	20 19,611
Madrid	166,343	53	189,871 60	-39,869 -13	316,345
Murcia	22,164	44	15,828 31	2,348 5 10,164	20 50,504
<b>TOTAL</b>	<b>988,320</b>		<b>679,779</b>	<b>1,362,084 405,857</b>	<b>3,436,040</b>

Source: In forme sobre la Financiacion de las Comunidades Autonomas.MEH.1977

Table 7

**CONDITIONAL FINANCING. 1997**

(Millions pesetas)

	<b>Health</b>	<b>Subsidies ICF</b>	<b>EUF</b>	<b>Others</b>	<b>TOTAL</b>	
<b>Art.151</b>						
Andalucia	629,777	30,583	53,229	69,275	31,999	814,863
Canarias	137,999	17,316	6,124	25,510	9,541	196,490
Cataluna	575,261	42,034		19,148	30,236	666,679
Galicia	250,165	23,846	24,285	37,985	7,266	343,547
Valencia	357,788	28,889	7,920	21,338	6,850	422,785
<b>Art.143</b>						
Aragon		7,854		13,384	3,834	25,072
Asturias		6,066	4,352	9,766	2,060	22,244
Baleares		4,683		1,777	928	7,388
Cantabria		4,064	1,252	8,331	894	14,541
Castilla La Mancha		12,721	9,688	19,589	3,060	45,058
Castilla Leon		18,937	11,929	18,924	6,091	55,881
Extremadura		9,141	10,184	8,974	5,123	33,422
La Rioja		1,294		2,098	1,021	4,413
Madrid		21,674		6,658	37,414	65,746
Murcia		7,115	4,281	7,959	1,724	21,079
<b>TOTAL</b>	<b>1,950,990</b>	<b>236,227</b>	<b>133,244</b>	<b>270,716</b>	<b>148,041</b>	<b>2,739,218</b>

Source: Informe sobre la Financiacion de las Comunidades Autonomas.1997

Table 8

**UNCONDITIONAL FINANCING PER CAPITA.1997**  
( In pesetas)

	<b>Ceded</b>	<b>Individual</b>	<b>General</b>	<b>IIT</b>	
	<b>Taxes</b>	<b>Income</b>	<b>Revenue</b>	<b>Revenue</b>	<b>TOTAL</b>
		<b>Tax</b>	<b>Sharing</b>	<b>Sharing</b>	
<b>Art.151</b>					
Andalucia	19,557		88,374		107,932
Canarias	24,950	17,183	68,923	17,183	128,235
Cataluna	38,255	30,345	19,590	29,064	117,256
Galicia	17,788	16,821	74,857	15,410	124,839
Valencia	30,053	19,235	32,840	18,045	100,173
<b>Art.143</b>					
Aragon	31,671	24,771	5,152	7,853	69,448
Asturias	23,217	22,199	1,037	6,901	53,355
Baleares	37,071	23,410	5,240		65,722
Cantabria	27,067	21,008	13,340	19,783	81,198
Castilla La Mancha	15,950		43,559		59,509
Castilla Leon	23,777	20,073	13,444	17,945	75,240
Extremadura	12,561		54,253		66,814
La Rioja	30,617	23,183	5,765	1,452	74,083
Madrid	33,080	37,758	-7,928		64,005
Murcia	20,023	14,299	2,121	9,182	45,625

Source: Informe sobre la Financiacion de las Comunidades Autonomas. 1997

Table 9

**CONDITIONAL FINANCING PER CAPITA. 1997**  
(pesetas)

	<b>Health</b>	<b>Subsidies ICF</b>	<b>EUF</b>	<b>Others</b>	<b>TOTAL</b>	
<b>Art.151</b>						
Andalucia	86,410	4,196	7,303	9,505	4,391	111,805
Canarias	84,680	10,626	3,758	15,654	5,855	120,571
Cataluna	94,549	6,909		3,147	4,970	109,574
Galicia	91,322	8,705	8,865	13,866	2,652	125,411
Valencia	88,646	7,158	1,962	5,287	1,697	104,750
<b>Art.143</b>						
Aragon		6,629		11,297	3,236	21,161
Asturias		5,595	4,014	9,008	1,900	20,169
Baleares		6,075		2,305	1,204	9,545
Cantabria		7,722	2,379	15,829	1,699	27,628
Castilla La Mancha		7,389	5,628	11,379	1,778	25,173
Castilla Leon		7,591	4,782	7,585	2,441	22,399
Extremadura		8,544	9,519	8,388	4,788	31,240
La Rioja		4,888		7,925	3,857	16,671
Madrid		4,310		1,320	7,440	13,075
Murcia		6,428	3,867	7,190	1,557	19,043

Source: Informe sobre la Financiacion de las Comunidades Autonomas.

FUNCAS

Table 10

<b>DEVELOPMENT FUNDS</b>									
(Millions pesetas)									
	<b>1992</b>			<b>1996</b>			<b>1997</b>		
	<b>ICF</b>	<b>EUF</b>	<b>TOTAL</b>	<b>ICF</b>	<b>EUF</b>	<b>TOTAL</b>	<b>ICF</b>	<b>EUF</b>	<b>TOTAL</b>
<b>Art.151</b>									
Andalucia	51,114	36,686	87,800	51,185	57,016	108,201	53,229	69,275	122,504
Canarias	7,628	10,756	18,384	6,313	10,707	17,020	6,124	25,510	31,634
Cataluna		11,915	11,915		26,526	26,526		19,148	19,148
Galicia	22,130	28,685	50,815	23,670	52,867	76,537	24,285	37,985	62,270
Valencia	6,686	10,596	17,282	7,740	35,623	43,363	7,920	21,338	29,258
<b>Art.143</b>									
Aragon		6,272	6,272		9,085	9,085		13,384	13,384
Asturias	2,653	5,765	8,418	4,141	15,442	19,583	4,352	9,766	14,118
Baleares		975	975		3,087	3,087		1,777	1,777
Cantabria		918	918	1,242	1,584	2,826	1,252	8,331	9,583
Castilla La Mancha	12,326	13,053	25,379	9,037	20,494	29,531	9,688	19,589	29,277
Castilla Leon	9,942	18,840	28,782	11,623	31,963	43,586	11,929	18,924	30,853
Extremadura	11,735	8,772	20,507	9,861	22,901	32,762	10,184	8,974	19,158
La Rioja		1,027	1,027		1,831	1,831		2,098	2,098
Madrid		4,174	4,174		6,396	6,396		6,658	6,658
Murcia	4,630	3,330	7,960	4,033	8,676	12,709	4,281	7,959	12,240
<b>TOTAL</b>	<b>128,844</b>	<b>161,764</b>	<b>290,608</b>	<b>128,845</b>	<b>304,198</b>	<b>433,043</b>	<b>133,244</b>	<b>270,716</b>	<b>403,960</b>

Source: Informe sobre la Financiacion de las Comunidades Autonomas. Several issues.

Table 11

**UNCONDITIONAL AND DEVELOPMENT FINANCING PER CAPITA**

(pesetas)

	1992			1996			1997		
	UF	DF	TOTAL	UF	DF	TOTAL	UF	DF	TOTAL
<b>Art.151</b>									
Andalucia	80,516	12,426	92,942	103,551	14,935	118,486	107,932	16,808	124,740
Canarias	92,731	11,991	104,722	114,088	10,569	124,657	128,235	19,411	147,646
Cataluna	80,375	1,950	82,325	100,866	4,355	105,221	117,256	3,147	120,403
Galicia	88,050	18,450	106,500	111,949	27,903	139,852	124,839	22,732	147,571
Valencia	68,232	4,404	72,636	89,067	10,802	99,869	100,173	7,249	107,422
<b>Art.143</b>									
Aragon	40,072	5,239	45,311	50,224	7,650	57,874	69,448	11,296	80,744
Asturias	27,447	7,651	35,098	36,454	18,004	54,458	53,355	13,022	66,377
Baleares	29,110	1,341	30,451	52,809	4,051	56,860	65,722	2,305	68,027
Cantabria	33,870	1,728	35,598	60,814	5,358	66,172	81,198	18,208	99,406
Castilla La Mancha	39,074	15,069	54,143	51,284	17,226	68,510	59,509	17,006	76,515
Castilla Leon	40,630	11,267	51,897	57,105	17,384	74,489	75,240	12,367	87,607
Extremadura	41,476	19,135	60,611	55,812	30,604	86,416	66,814	17,907	84,721
La Rioja	46,784	3,865	50,649	60,708	6,910	67,618	74,083	7,925	82,008
Madrid	24,222	834	25,056	37,583	1,273	38,856	64,005	1,324	65,329
Murcia	22,476	7,465	29,941	33,271	11,564	44,835	45,625	11,058	56,683

Source: Informe sobre la Financiacion de las Comunidades Autonomas.MEH.Several issues  
FUNCAS

Table 12  
**DEFICIT BY LEVELS OF GOVERNMENT**  
 (Percent of GDP)

	<b>Central Government</b>	<b>Regional Government</b>	<b>Local Government</b>	<b>General Government</b>
1986	-5.1	-0.5	-0.2	-5.9
1987	-3.1	0.1	0.0	-3.1
1988	-2.8	-0.3	0.0	-3.2
1989	-2.8	-0.6	-0.2	-3.6
1990	-3.2	-0.8	-0.2	-4.2
1991	-2.8	-1.4	-0.2	-4.4
1992	-2.9	-1.0	-0.1	-4.0
1993	-5.6	-1.1	-0.1	-6.8
1994	-5.3	-0.8	-0.1	-6.2
1995	-6.0	-0.6	0.0	-6.6
1996	-4.3	-0.6	0.0	-5.0
1997	-2.9	-0.3	0.0	-3.2
1998	-2.2	-0.3	0.0	-2.6
1999	-0.9	-0.2	0.0	-1.1

Source: 1979-84 (SEC79):Boletin de Informacion Estadistica del Sector Publico. 1995-99:Avance de la Actuacion Presupuestaria del Estado durante 1999. MEH

