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ANALYSIS OF THE DECENTRALIZATION OF PUBLIC SPENDING IN SPAIN

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Abstract

This paper studies the decentralization process of public spending in Spain, which has been one of the main landmarks in recent years, and not only in Spain but also in many different countries. The classical assumption to speak about this kind of processes is the theory of fiscal federalism. However, nowadays this theory is considered more as a set of general "guidelines" than a practical rule of application.

To undertake this study the article proposes a new method to describe the outcomes of the decentralization process through the functional classification of spending. The analysis of the data in each level of government -central, regional and local- is made in order to justify the process. So far, mainly political motives have justified the transference of competencies from the central to the regional and local governments in Spain. The fiscal federalism theory can enlighten our analysis from a theoretical point of view.

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1. Introduction

To decentralize or not to decentralize? That is the question. Although literature presents arguments supporting both these tendencies, (1) there is not doubt that in recent years one can see worldwide interest in fiscal decentralization: "In Europe, the former Soviet Union, South Africa, and elsewhere, the view that effective government will involve a well-chosen mix of local and central government decision-making is now accepted" (Inman and Rubinfeld, 1997: p. 43) The author includes below some comments that try to justify decentralization in different groups of countries.

In the case of developing countries, where the process of decentralization seems to be a common characteristic (Oates, 1993, 1999), they justify the process as "one possible way of escaping from the traps of ineffective and inefficient governance, macroeconomic instability, and inadequate economic growth" (Bird and Vaillancourt, 2000: p. 1) In this sense, some authors believe that decentralization is a real cause of economic development (see Campbell *et al.*, 1991, Oates, 1997) However, most of them point out that, without a previous regional and local government structure, decentralization could provoke even greater inequity and macroeconomic instability (Bahl and Linn, 1994, Prud'homme, 1995)

In a way, countries in transition in eastern and central Europe are also trying to approximate *first world countries* by applying decentralization processes (Bird et al., 1995, Stewart, 2000) As said earlier, problems also appear in developing countries, for example, in Russia decentralization "has led to growing disparities in the provision of government services across regions, and in particular in the provision of education" (Stewart, 2000: p. 143)

Developed countries are leading the decentralization processes (Prud'homme, 1991, Inman and Rubinfeld, 1997, 1998) The objective here is not a greater macroeconomic stability, but a reshaping of their intergovernmental fiscal structure by trying to attend the requirements of the new «post-welfare state», where citizens demand goods and services coming from a close Public Sector (Wildasin, 1997) In this sense, decentralization is actively working in Europe. (2) Central levels of government are transferring power to the regional and local governments. Spain is one of the most striking

examples. In this country, the issue of decentralization is moving very fast. In recent years, this country is showing a similar situation to others with more federalist traditions, like Germany or Switzerland. With respect to Austria and Belgium, regional governments are even controlling bigger quantities of spending. Spain is clearly a country more decentralized, either from revenue or expenditure point of view, than France. For more information comparing decentralization process in Spain with others developed countries see (Ochando and Toboso, 2000, IMF, 1999, Miñana Simó, 1999, Bel and Castells, 1991) It is the objective of this research to go deeper in studying the decentralization of public spending in Spain.

The article will follow four steps. First, it explains the fiscal federalism theory, exploring afterwards the regional and local governments in Spain, its laws, different legal functions, and competencies. Next, it discusses, among others issues, the methodology used, the period of study: 1984-1997, and the available statistics. After assembling the data, the study describes and justifies the decentralization process of public spending during the chosen period in each level of government. The article ends with some concluding observations.

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

Generally speaking, fiscal federalism (3) is a study of the interrelations that occur in the public revenues and spending between levels of Public Administration (Domingo Solans, 1977) However, the relationship among decentralization and federalism is not an easy issue to discuss. (Inman and Rubinfeld, 1997, 1998) describe three *Principles of Federalism* depending on how central government policies are decided upon:

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

Also *the principle of cooperative federalism, or decentralized federalism,* prefers the most decentralized structure of government, but here all central government policies are agreed upon

unanimously by the elected representatives from each of the lower-tier governments. As is pointed out in section number 3 of this paper, the decentralization process in Spain is working, in some sense, according to this kind of federalism.

In the case of *The principle of democratic (or majority-rule) federalism* all central government policies are agreed upon by a simple (51 percent) majority of elected representatives from lower-tier governments. Nowadays, the European Union is following this kind of federalism, combining it with centralized and decentralized federalism for some aspects (Ruiz Álvarez, 1999)

According to (Inman and Rubinfeld, 1997: p. 45), among these three *Principles of Federalism* mentioned above, (Musgrave's 1959) and (Oates's, 1972) classic *Fiscal Federalism Theory* (4) still provides the most complete description of economic federalism. Basically, this theory has its economic grounds on "the voluntary exchange theory of public economics" of (Musgrave, 1939), "the theory of collective goods", from the contribution of (Samuelson, 1954), and "the fiscal migrations theory" of (Tiebout, 1956) The traditional fiscal federalism theory has become the most important among the fiscal theories, with wider diffusion in economic circles. This led it to being named as a orthodox theory among economists (Casahuga, 1978) Because of this, the author will then offer a brief description of this theory.

The traditional theory of fiscal federalism calls for a general normative framework for the assignment of functions to different levels of government as well as the appropriate fiscal instruments for carrying out these functions (Oates, 1999) (5) Taking into account this framework, central governments would have primary responsibility for two of the three functions which any government must provide: income redistribution and macroeconomic stabilization. Meanwhile, each level of government (in Spain: central, regional or local) would carry out part of the function of allocation, that is, the "provision of goods and services whose consumption is limited to their own jurisdictions" (Oates, 1999: p. 1121)

The income redistribution function must be largely in the hands of the central government, otherwise, problems may appear. For example, if one lower level of government applies any kind of income redistribution within its jurisdiction, this measure can easily cause positive or negative external effects in other territories. In

addition, population interjurisdictional movements can appear and counteract redistribution measures. The same problem can happen with the mobility of taxable factors. Moreover (Oates, 1972, King, 1984, Gramlich, 1987, Feldstein and Wrobel, 1998) support that the aforementioned problems could appear. They do not believe on the success of redistribution functions in any lower government hand. However, opinions from different authors are divided. (Pauly, 1973) says that, in practice, state (regional in Spain) and local governments carry out significant redistribution activity. (Goodspeed, 1989), in one study for the U.S.A., points out that local governments can use income taxation for redistribution purposes.

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

With respect to the function of allocation (a good summary of this function can be found in Carpio, 1994, Castells, 1988), the problem is that it is not always easy to find the most effective level of government for the provision of the different goods and services. (6) In this sense, many authors point out that the solution would come from the construction of an "optimal allocation table" between the whole quantity of goods and services, which the public sector must provide, and the different jurisdictional levels providing these services. For the construction of that "table", it would be necessary take into account several principles:

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

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

The theory of optimal jurisdictional size (Buchanan, 1965, (7) Berglas, 1976, Berglas and Pines, 1981, Scotchmer and Wooders, 1987, Brueckner, 1994): for not fully public goods, this theory tries to determine the population volume who maximizes benefits and minimizes costs in the provision of these public goods, for one constant real provision level.

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

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

Nowadays, authors like (Qian and Weingast, 1997: p. 91) are offering a new theory of federalism, which complement traditional approaches. They, among others, appeal "to the theory of the firm to address a range of problems in federal system ignored by traditional

theories". However, neither these new attempts are suggesting some practical rule to decentralize more properly from the central to the lower levels of government. In any case, and as we will see in the Spanish case, decentralization can not follow concrete rules, since it occurs in each particular country, "with its own history and traditions and its own specific institutional, political, and economic context" (Bird and Vaillancourt, 2000: p. 2) But, precisely because traditional fiscal federalism theory is not a practical rule, it could continue being useful: it is, for the moment, the best general *guideline* trying to enlighten decentralization processes. In this sense the author will mention it in section 5 of this paper.

3. Regional and local governments in Spain

Before going further, it is necessary to describe the structure of the lower levels of government in Spain, (8) that is: Autonomous Communities (hereafter A.C.), and Local Corporations (hereafter L.C.)

The Spanish Constitution of 1978 (see López Guerra, 1987, Alzaga Villamil, 1978) establishes a special kind of organization for the Spanish State, neither purely federal, nor centralized; it is called "Cooperative Federalism" (9) (Jiménez Arias and Lagos Rodríguez, 1992), in which the main new element is the birth of the A.C. In addition to the provinces and the towns, the A.C. constitute the basic structure of the territorial organization of the State. The change from a centralized state to a decentralized one takes time; it is a slow and difficult process that is still not finished in Spain (Torres Cobo, 1990)

The seventeen A.C. (10) of Spain are divided in different groups, taking into account different aspects. There is more detailed information about that in (López López and Utrilla, 2000: pp. 165-191, Suárez Pandiello: 1999, pp. 222-254, Brosio, 1997: pp. 221-233, Paniagua Soto and Alvarado Pérez, 1997, Tamames, 1995)

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

The first group is named *the slow way in Article 143* of the Spanish Constitution or A.C. with *low level of responsibilities*. These regions (with clearly shorter historical backgrounds as independent regions) would not assume the competencies from Article 148

immediately, but only after five years (even longer in practice) Ten regions used the slow way: *Castilla-La Mancha, Castilla y León, Aragón, Extremadura, Cantabria, Asturias, La Rioja, Islas Baleares, Murcia and Madrid.*

The summary of the competencies for this group of A.C. (called "common competencies") is included below. Some references about competencies for this group of A.C., and also L.C., are (Monasterio Escudero and Suárez Pandiello, 1998, Torres Cobo, 1995, López Guerra, 1987 –Spanish Constitution of 1978, Article 148-)

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

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

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

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

With respect to the competencies described in the previous paragraphs, and according to Article 148.2 of the Spanish Constitution, the first group of A.C. would assume "full competencies" in five years, which would have been in 1983. But, even after law 9 of December 23, 1992, called "transfer of competencies to the regions that became A.C. through the Article 143 of the Constitution", the process has been slower. For more information about that process, I recommend (Aranzadi, 1993-2000, Dirección General de Coordinación con las Haciendas Territoriales, 2000: p. 30, Molero, 1998: pp. 115-119) In this sense, nowadays the situation is:

- Communities included in the first group still have not received competencies in *medical care* and *justice and public order*.
- All of them have received the *social assistance* competence - non contribute pensions- and other competencies of minor importance.
- Also education (11) in all its branches has been transferred to these A.C.

According to their financing system (see Suárez Pandiello, 1999: p. 204), there are two *Foral regime* communities (*Navarra* and *País Vasco*), which have a special and more autonomous regime of finance. The rest of A.C. -15- have a *Common regime* of finance, with a general (but fundamentally dependent on the central government) system.

According to the number of provinces in their territory (see Suárez Pandiello, 1999: p. 204), one finds 6 one-province communities where provincial governments do not exist and regional governments have assumed their responsibilities (*Asturias, Cantabria, Madrid, Murcia, Navarra* and *La Rioja*) The rest of A.C. -11- are multi-province communities where provincial governments exist and assume their own responsibilities.

In Spain Local Corporations (also known as "Local Entities" or "Local Public Sector") (12) include the following entities: towns (about 8.063), provinces -50-, (13) islands, metropolitan areas, districts, autonomous cities (14) (*Ceuta* and *Melilla*), and other local

entities (associations, towns grouping, and minor local entities) According to the available information and because of their large amount of spending (see Dirección General de Coordinación con las Haciendas Territoriales, 1999: p. 9), only some of them will be included in the study on local public spending: towns, provinces, islands, and autonomous cities (until 1996) (15) Therefore, the paper refers only to these four entities in the statistics.

Before a brief description of the competencies given to the main entities that compose the L.C. (towns and provinces), (16) some explanation is needed (some important references about the competencies for the L.C. are Ballesteros Fernández, 1994, Font I Llovet, 1992, Cosculluela Montaner and others, 1992, Mir I Bago, 1991, Ortega, 1988, Sosa Wagner and De Miguel García, 1985) First, an important difference to consider is that the A.C. have political autonomy and can issue laws for their self-government; this is not so for the L.C., which have only a role of administrative management. Furthermore, neither the Constitution of 1978, nor the Statutes of Autonomy were very specific with respect to the competencies of the L.C. For instance, the Constitution established just a general "guideline" for them (Sosa Wagner and De Miguel García, 1985: p. 10) Lastly, there are different kinds of competencies that can be assumed for the L.C.: proper, attributed, or shared competencies (there is a good summary of the competencies for the L.C. in Molero, 1998: pp. 123-124)

According to Articles 31.2 and 36.1 of the Spanish Constitution and the "Regulating Local Regime Law" (RLRL), the competencies of the province are: (17)

- Those that guarantee the principles of solidarity and equilibrium for the towns, within a framework of economic and social policy.
- The ones attributed by laws from the central government or the A.C.:
 - 1) Co-ordination of municipal services to guarantee an adequate level of services.
 - 2) Legal, economic and technical aid to municipalities, particularly to those with reduced economic and management capacity.
 - 3) The provision of supra-municipal public services.

- 4) The fostering and administering of the specific interest of the province.

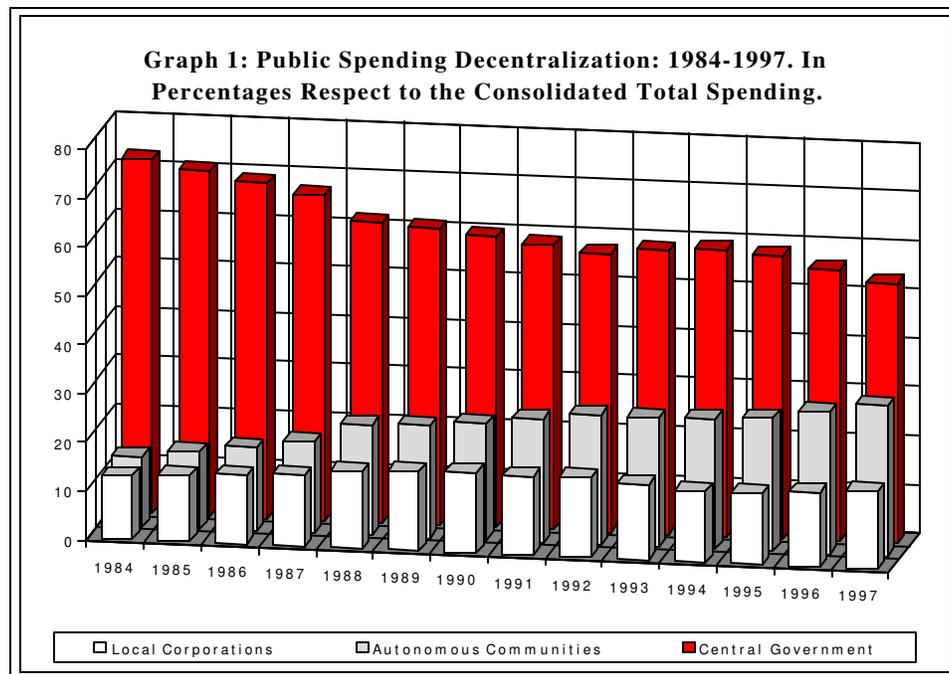
Article 25.1 of the Spanish Constitution says: "The town, in order to manage its own interests and within the area of its competencies, can promote any sort of activities and provide any public services, which contribute to satisfy the necessities and aspirations of the community". That means a concrete group of competencies, which will depend on the level of population of the town. That group consists of:

- Security in public places.
- Traffic.
- Citizen protection and fire extinction.
- City plan and public ways.
- Historical-artistic patrimony.
- Environmental protection.
- Slaughterhouse, markets, and customer protection.
- Public health.
- Cemeteries.
- Social services.
- Water, electricity, trash collection, and residues.
- Public transportation.
- Culture and sports.
- Some participation in education.

4. Objective of the study and methodology

The decentralization of Spanish public spending from the central level of government to the lower ones (regional and local) started in 1978 with the proclamation of the Spanish Constitution. There is in Spain a important reference that studies the decentralization process from the period 1979-1994 (see Braña Pino and Serna de los Mozos, 1999), analyzing the problems that this issue presents. Given the importance of this process, and trying to solve the mentioned problems, the main objective of the present article is to show how that decentralization has worked so far, using the new regrouping of functions included below. In other words, *how has this process influenced the functions in which each level of government is spending money?* The article tries to answer this question in section 5, but first the author must address some important preliminaries.

First of all, the period of study will be from 1984 to 1997. The study starts in 1984 because, although the first Statutes of Autonomy were approved in 1979 for two of the seventeen Autonomous Communities (*País Vasco* and *Cataluña*), 1984 was "the first year in which all the Autonomous Communities started to develop their complex activity" (Dirección General de Coordinación con las Haciendas Territoriales, 1986: p. I) Moreover, the last Statutes of Autonomy (to get information about the "Statutes of Autonomy" in Spain see García de Enterría, 1985, Bassols Coma, 1983) were approved in 1983. Furthermore, "1984 is the first year in which all the regional governments had a budget for the entire budgetary period" (Dirección General de Coordinación con las Haciendas Territoriales, 1999: p. 9) The author finishes with 1997, because it is the last year for which the needed statistics are available in all levels of government.



Second, the evolution of public spending in Spain (some references are González-Páramo and López Casasnovas, 1996, González-Páramo and Utrilla, 1992, Valle, 1988, 1989, 1990, Barea Tejeiro, 1988, 1989, González-Páramo and Raymond Bara, 1988,

Borrell, 1988) has had different periods (the statistical information that I have included in this paragraph can be obtained from different sources of information: Dirección General de Coordinación con las Haciendas Territoriales, 1999, Informe Anual del Banco de España, several years, Perspectives Économiques de L'OCDE, 1997, Boletín Económico de Información Comercial Española, 1996, Comin, 1988) The most important period took place between 1976 and 1985, when public spending as a percentage of GIP passed from 27.51% to 44.10%. That period is called the "welfare state". From 1986 until now, growth has continued, but at a slower pace (in 1997 the spending was 52.50% of GIP) In this context, one of the most important events to note is that spending has been decentralized from the Central level of government to the lower ones. Graph 1 (see also appendix 1) above shows a general evolution of this decentralization process. The paper will present in this section some general comments with respect to this graph, after which it will present a deeper analysis in section 5.

Graph 1 above shows clearly that the Central level of government has lost importance with respect to total public spending between 1984 and 1997, and the A.C. and the L.C. have gradually increased their share of public spending. The percentages for the three government levels (Central, A.C. and L.C.) went respectively from 72.6%, 14.4% and 13.0% in 1984, to 53.2%, 30.9% and 15.9% in 1997.

In section number 1, the author pointed out that developing countries and others in transition in eastern and central Europe have tried to use decentralization for economic reasons. On the other hand, developed countries have searched through decentralization for a closer provision of goods and services for their citizens within the new «post-welfare state». Recent works (Besley and Oates, 1999, Bolton and Roland, 1997) have studied political economy questions concerning decentralized systems. The question in this case would be: *What "moves" decentralization in Spain? In other words, what reason explains or justifies, in relative terms, why public spending decreases in central government and increases in regional and local governments?*

As one of the developed countries, the new «post-welfare state» is, without doubt, the answer of this question in Spain. In this sense, lower levels of government, with greater sensibility for their

citizens' preferences (Pérez Blanco, 1995: p. 21, Borrell Fontelles, 1988: p. 181), were demanding wider competencies during Franco's dictatorship (1939-1975), but the centralization was practically absolute during that period and recoveries of decentralization did not find any way of performance until democracy started to work (basically the eighties decade) In this sense, nowadays, most of the authors explaining the decentralization process in Spain (mainly, and among others, Monasterio, 1988, Dizy, 1996, Suárez-Pandiello, 1996, 1999), argue political motives in trying to justify this process. According to (Suárez-Pandiello, 1999: p. 229), "if we are to label the origin of our fiscal decentralization process, I think that 'political' is the correct adjective".

Performing a general analysis of the different levels of government, in 1984, after the transition period from the dictatorship to democracy (1975-1983), the Central level started to decrease its share of public spending with respect to A.C. and L.C. (remember percentages included in graph 1 above) every single year: the decentralization recoveries are working. The only exception were years 1993 and 1994, when the economic crisis in Spain required the implementation of certain centralized decisions. Basically services of social security and social assistance were more needed at national level.

The great "winners" in the whole decentralization process were the Autonomous Communities -see again graph 1-. (Dizy, 1996: p. 69) points out that "the origin of the strong increase of regional spending is not a bigger demand of public services from citizens, or the spending policy adopted by each regional government, but it is the consequence of the political process of construction of the State of the Autonomies". And here, the author has to remark that this process is a political one, because it clearly depends on the political party sign handling the Central level of government. In this sense, the political change from PSOE to PP in 1996 was very important: the percentages of A.C. spending included in graph 1 were from 27.3% in 1995 to almost 31% in 1997. This increase was greater than the one of the period 1990-1995. Again the author remarks here that always "political variables are significant factors in determining the degree of decentralization" (Giertz, 1976, page 205)

In some sense, the "losers" of the decentralization process in Spain were the Local Corporations. The percentages of L.C. spending

included in graph 1 were only from 13% in 1984 to almost 16% in 1997, moreover the tendency of increase was not as regular as the A.C. The main justification of this evolution is that decentralization follows different steps and Spain has finished not even the first one, since the transference of spending competencies from the Central level of government to the A.C. ought to be completed with more income competencies. Moreover, a second step is needed: L.C. receiving more spending competencies from the A.C.; in a real decentralized State, the towns' role must grow (Suárez Pandiello, 1996) The explanation about the role of L.C. in decentralization process will go further in section 5 of this paper.

If, as it has been showed, mainly political motives could justify the spending decentralization in Spain, the following question could be: *what is behind those political motives?* In other words, *why are there no real economic reasons that justify decentralization?* Following (Angelet, 1997: p. 140), the answer is that the democratic development (at the same time, the main cause of the decentralization) did not incorporate so far (at least for our period of study: 1984-1997) relevant levels of rationality and economic efficiency with respect to decisions about functional and territorial allocation of public spending. For instance, important decisions of public investment were taken without objective bases or explicit criteria, which justify rationally their priority and quantity.

After a description of the preliminaries needed, the author has to point out that the main objective of this article is to examine how the decentralization process, generally described above, has influenced the final destination (or functions) of public spending in the different government levels. The methodology chosen for reaching this goal is the study of the statistics of public spending between 1984 and 1997 in each single level of government, taking into account the functional classification of spending. (18) This classification shows the destination of the spending. The sources are:

- *Classification of the Public Administration Functions (C.P.A.F. system)*, approved from 1984 and also called *United Nations System*. It was assumed also for the European Community, but in Spain only the Central Government has used this system for a few years.

- Another classification arose from the *Ministerial Order of November 14, 1979* and was applied in 1980: this is usually called the *old classification*. Mainly the Local Corporations used it, although some towns are still using it.

- The *new functional classification*, also called *programmatic*, appeared with the *Ministerial Order of September 20, 1989*. Nowadays, most of the administrations are using this classification.

The main problem in comparing statistics is the heterogeneous use of the classification of expenditures between the different levels of government. The "functional problems", among others, were the following (see Molero, 1998: pp. 235-237, 268-274, 302-312):

- For the Central Government the statistics between 1984 and 1997 involve a *new functional classification*. The information is also consolidated, (19) and the author was able to obtain statistics on real levels of spending, (20) not just the budgetary levels. It is the only level where the author did not find any statistical problems.

- For the Autonomous Communities there was no information regarding real spending according to the *new functional classification* since 1984. Therefore, only the statistics of the budgeted spending (21) were available from 1988 to 1997 according to that classification. At least, it was consolidated information.

- With respect to the Local Corporations, there were data on real spending between 1984 and 1989 according to the *old functional classification* (not consolidated information for those years), and there was no global functional information for 1990 and 1991. (22) Between 1992 and 1997 the statistics were consolidated and most of the local administrations were using the *new functional classification*.

In short, it is not possible to follow just one of these classifications, since not all government levels use the same one between 1984 and 1997. Then, for the purpose of this research, the

methodological solution this paper proposes involves a new re-grouping of spending functions.

The relationship between that re-grouping and the three different functional classifications is included in the tables below. Numbers in brackets refer to the number of the *functional group* for the *new classification*, and to the number of the *function* for the *old classification* and the "C.P.A.F. system". (23) Moreover, the author has to point out that sometimes the re-grouping was easier than others. For instance, it was more difficult for groups like: "housing and relative services" (table 2) or "spending on others services" (table 3) In both cases there was much heterogeneity among the three different functional classifications.

Table1

C.P.A.F. SYSTEM	MINISTERIAL ORDER OF NOVEMBER 14, 1979 (Old classification)	MINISTERIAL ORDER OF SEPTEMBER 20, 1989 (New classification)	SUGGESTED RE-GROUPING
			GENERAL EXPENDITURES
Defense (2)		Defense, civil protection	National defense
Public order and security. (3)		and citizen security (2)	Public order
General services of the Public Administration (1)	General services (1)	Services of general sort (1)	General services

Table 2

C.P.A.F. SYSTEM	MINISTERIAL ORDER OF NOVEMBER 14, 1979 (Old classification)	MINISTERIAL ORDER OF SEPTEMBER 20, 1989 (New classification)	SUGGESTED RE-GROUPING
Services of social security and social assistance (6)	Pensions, social security and social assistance (5)	Security, protection and social promotion (3)	SOCIAL ASSISTANCE
		Production of social public goods (4)	SOCIAL GOODS
Education services (4)	Education (3)	Education	Education
Medical care services (5)	Medical care (4)	Medical care	Medical care
Dwelling and city and rural planning services (7)	Dwelling and community welfare (6)	Dwelling and city planning	Housing and related services
Entertainment, cultural and religious services (8)	Other social and community services (7)	Community welfare	
		Culture Other social and community services	

Table 3

C.P.A.F. SYSTEM	MINISTERIAL ORDER OF NOVEMBER 14, 1979 (Old classification)	MINISTERIAL ORDER OF SEPTEMBER 20, 1989 (New classification)	SUGGESTED RE-GROUPING
Fuels and energy services (9) Services of agriculture, forestry, fishing and hunting (10) Mining services, except fuel for manufacture and construction (11) Transportation and communication services (12) Other issues and economic services (13)	Economic services (8)	Production of economic public goods (5) (Communications, transportation, agrarian structures, scientific research, etc.) General economic regulation (6) (Economic and financial regulation) Economic regulation of productive sectors (7) (Agriculture, stockbreeding, fishing, industry, energy, mining, tourism, etc.)	SPENDING ON OTHER SERVICES
Non-classified spending (14)	Non-classified (9)		NON-CLASSIFIED
		Grants to other public administrations, national or international (9)	Grants to other public administrations
		Public debt (1) (0)	Public debt (1)

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

5. Statistical results

This section will show the main results of the research for the three levels of government. The author will use the suggested "re-grouping" of the different expenditures according to tables 1, 2, and 3. Data will be presented in percentages (24) of total public spending at the respective level of government for each year, because this will be the clearest way to present comparisons among the different government levels.

5.1. Central Government

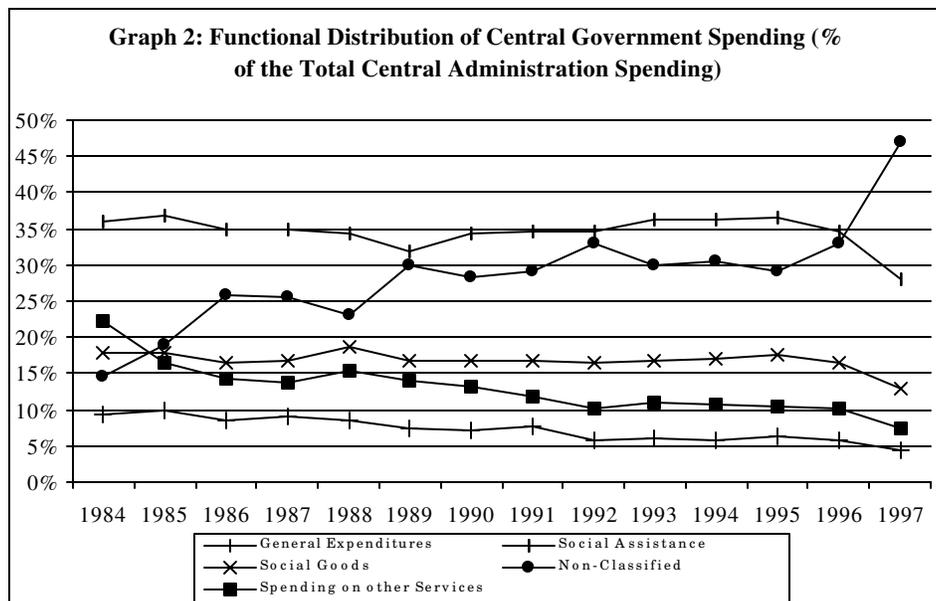
Through decentralization process, as it was shown in graph 1, Central Administration has decreased the quantity of spending from 1984 to 1997. The objective now is to analyze how its composition has changed. The evolution of the performed spending in the Central Administration is shown in graph 2 below (and appendix 2) Since the percentages for 1997 are distorted, (25) one has to pay attention to the period 1984-1996.

Looking at that period, one could say that, in spite of the decentralization, the percentage of *social assistance* with respect to total central government spending changed insignificantly between 1984 and 1996: from 35.97% to 34.59% respectively. The justification of this evolution is that *pensions* (basically retirement and unemployment pensions), which are the main component of the social assistance, remain centralized at the Central Administration. This happens because of political interests which maintain control over this spending category, since social assistance spending has also a clear distribution component of incomes all over the country, there are also economic reasons that determine its centralization. At the same time, and partially following (Borrell Fontelles, 1988), one can not associate pensions to only one level of government, because there is a spending of all administrations, which should be handled by the central one.

In the same way, spending on *social goods* practically maintain their percentage importance: they went from 17.73% in 1984 to 16.48% in 1996. Within this spending category, the decrease of *education* was caused, among other reasons, by the decrease of the birthrate which let lower quantity of spending on education. The decrease of *housing and related services* was determined by economic reasons: Central level is not efficient in the allocation of this service, because it does not have a good knowledge about the

preferences of citizens. *Medical care* increases since the Central level is still handling this service in ten A.C. and because during the period of analysis there was remarkable increase of senior citizens.

In contrast, the share of *general expenditures* (*national defense, public order and general services*) decreased between 1984 and 1996. They went from 9.36% of total central government spending to 5.80%. Expenditure on *national defense* decreased the most. The reason for this is a new international framework at the European Union where the protection of Spain is guaranteed (IGAE, 1998: p. 123) This also makes sense the increase of *external relations* spending -within *general services* category- (IGAE, 1997: p. 120)



However, the spending group that really lost importance during our period of study was *spending on other services*. The

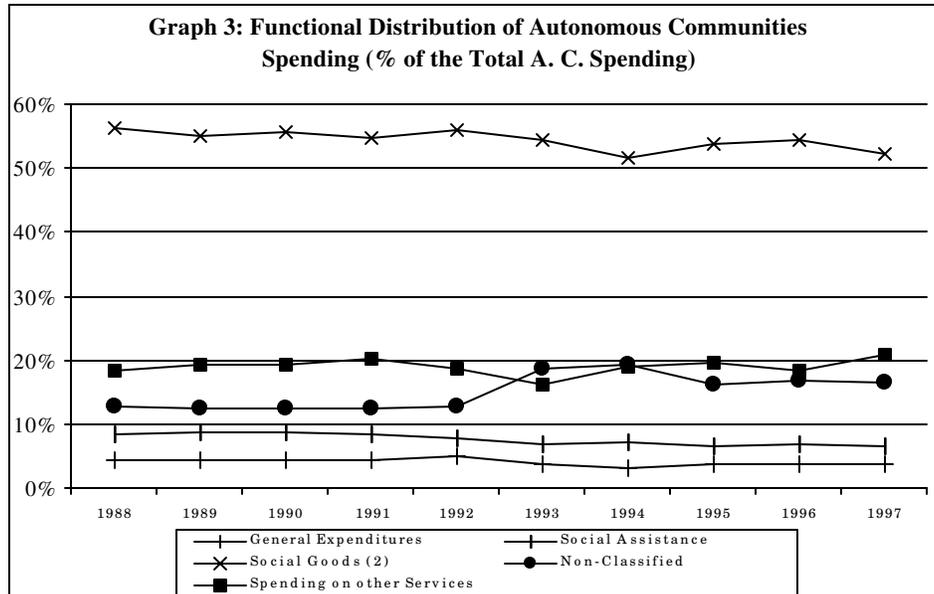
statistics show that central government level lost most of its control over this group of expenditures (mainly *production of economic public goods* and spending on *economic regulation of productive sectors*) In 1984 the percentage of total central government spending was 22.26%, and in 1996 it fell to 10.28%, almost 12 points. According to IGAE (1987: p. 206; and 1991: p. 140), the determinants -mainly economics- of this decrease are many and difficult to list. Among others, the better results and financial situation of the entrepreneurial sector and the assumption of competencies from A.C. Moreover, fewer resources have been assigned to the sub-function *agriculture, stockbreeding and fishing*.

Finally, decentralization took place within the Central Government, and this tendency continues today, an increase in the *non-classified* group of expenditures, that went from 14.69% over the total central government spending in 1984 to almost 33% in 1996. Basically, both of its components increased in this period. The *grants to other public administrations* subgroup had a continuing increase, caused by the special financing system working at the regional and local levels of government (IGAE, 1987: p. 161; and 1991: p. 140) These grants were even bigger than the grants to the European Community, see (IGAE, several years) The increase of the *public debt* was another great effect of the decentralization; the percentages went from 7.84% of total central government spending in 1984 to almost 20% in 1996. This happened because until 1997 Central level had less control over deficits, (26) which were mainly financed by debt. The situation changed since June 1997, where European Union's Council approved the Stability and Growth Pact (27) (see Ruiz Álvarez, 1999: p. 5) In this sense, Central government decided to pay off in advance a bigger quantity of public debt that year, and here is the distortion of the statistics mentioned above.

5.2. Autonomous Communities (A.C.)

It was showed in graph 1 how, by virtue of the decentralization process, the A.C. have acquired an increased spending capacity. Their expenditures went from 14.4% with respect to the consolidated spending of the Public Administrations in 1984, to 30.9% in 1997, with the political determinants being very important in this process. However, looking at graph 3 (and appendix 3), the first impression is that the composition of this spending did not change much during those years. This is only partially true, because

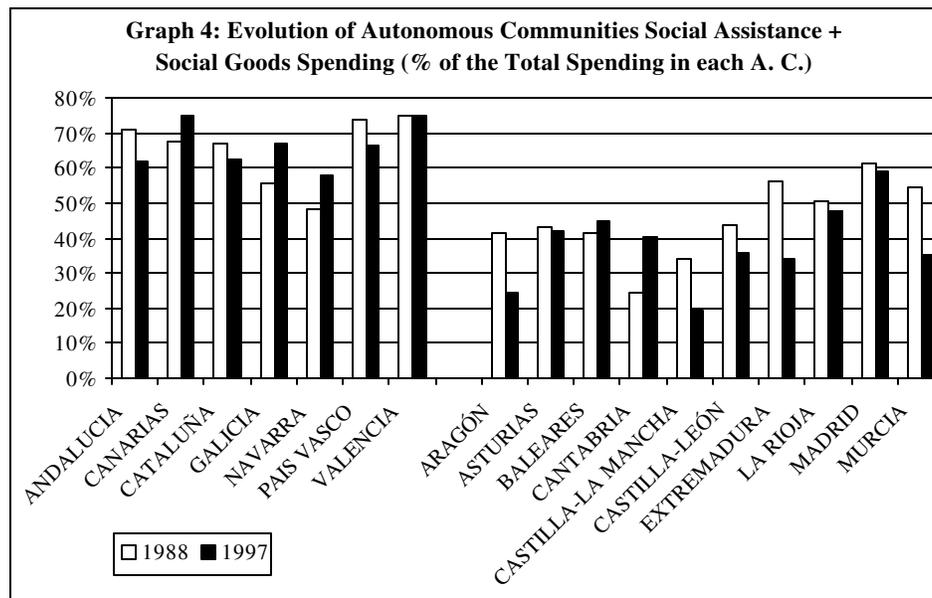
one needs to distinguish what happened in the two different kinds of A.C., that is, the A.C. with "high level of competencies" and those with "low level of competencies" (see appendix 4) The author will try to analyze what has determined the spending behavior in these two different kinds of regions.



Expenditure on *social goods* (see graph 3) in the A.C. was 56.30% of the total A.C. expenditure in 1988, and 52.34% in 1997. In the same way, spending on *social assistance* decreased less than two points between these years. The key point behind these data is that A.C. with "high level of competencies" absorbed most of the spending on *social goods* and *social assistance* (see graph 4), because of their higher level of competencies (basically on *medical care* and *education*) Expenditures on these groups started growing between 1984 and 1988 (28) (when they received most of their competencies, although statistics are not available for this period) and the tendency continues from 1988 to 1997 in most of them. The contrary happened in the regions with "low level of competencies", where spending percentages on *social assistance* and *social goods* (see graph 4) were clearly lower, and decreased in most of these A.C. between 1988 and 1997. The influence of this group of regions caused the decrease of

global percentages on *social assistance* and *social goods* referred to the beginning of this paragraph.

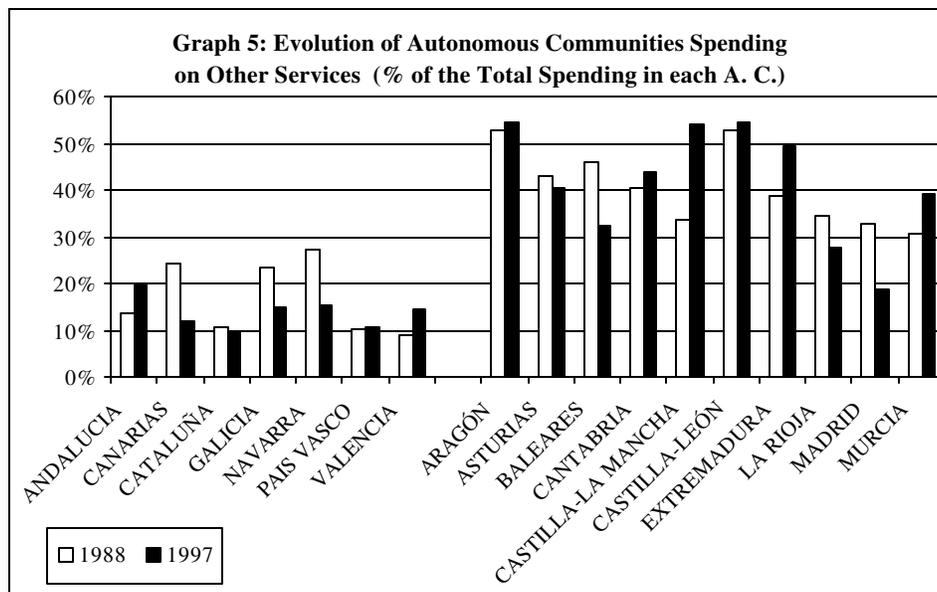
The statistics for the period 1998-2001 will reflect the influence of the A.C. with "low level of competencies", which are receive during these years more competencies for *social goods*, basically *non-university education*. (29)



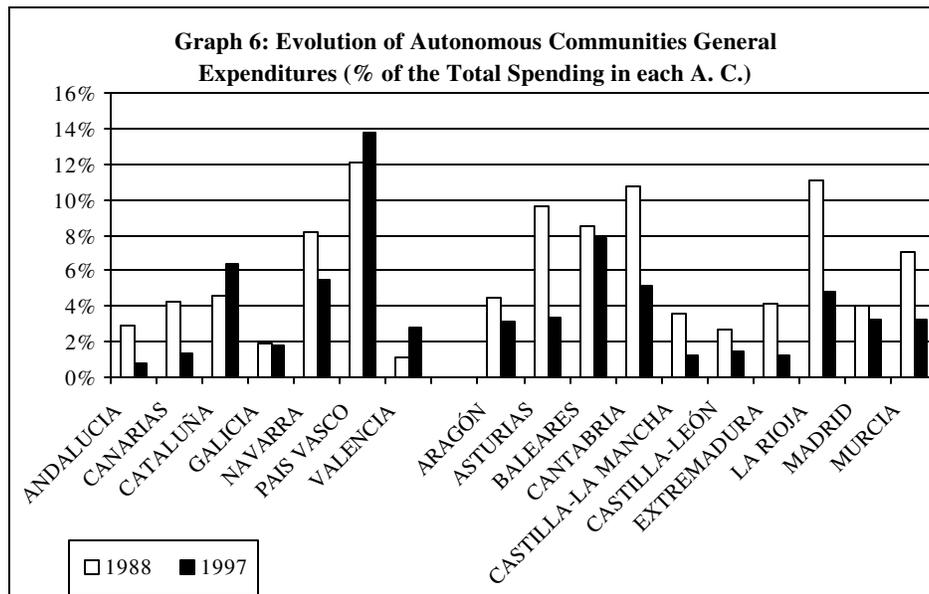
This is the situation, but *what is the cause?* According to (Brosio, 1997: p. 214), "the reasons behind the creation of the hybrid Spanish system -often referred to as a "multispeed regional system"- are to be found..., in the linguistic differences..., and in the separatist tendencies of some regions".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

Second, the big percentages that *social assistance* and *social goods*, as categories of spending, represent over their total spending in these regions: for instance, 75% in the Autonomous Community of *Valencia* (see graph 4)

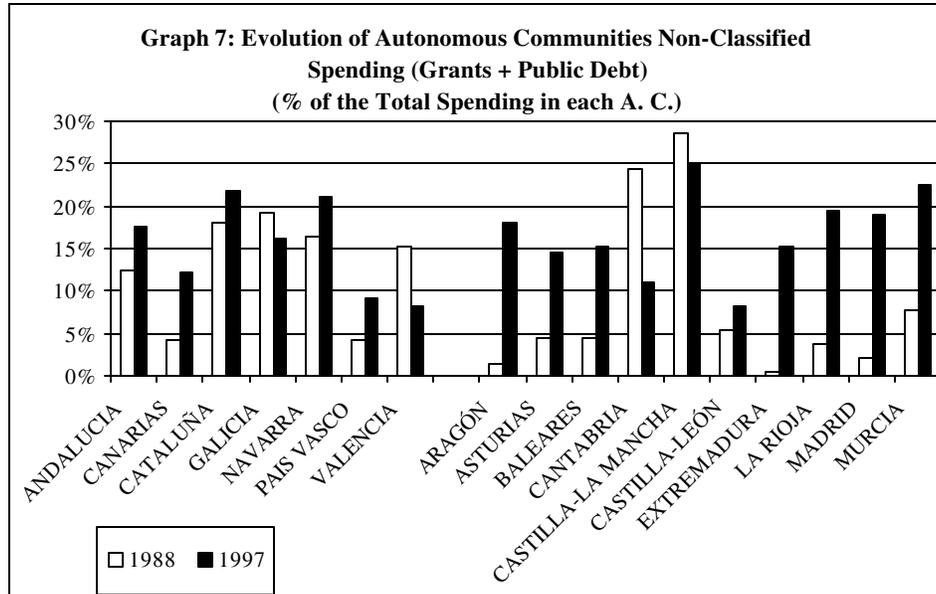
Something similar, but in the opposite direction, happened with the expenditure group called in this article *spending on other services* -mainly production of *economic public goods* and expenditures on *economic regulation of productive sectors*- (see graph 5) In this case, most of the A.C. with "low level of competencies" increased their percentages on this spending group between 1988 and 1997. On the other hand, only three of the A.C. with "high level of competencies" followed this pattern; moreover, all of them had, for that same period, smaller percentages of these expenditures with respect to those with "low level of competencies". Taking into account this explanation, it is easier to understand that the global *spending on others services* percentages in all A.C. increased: from 18.30% respect to the total A.C. spending in 1988 to 20.90% in 1997 (see graph 4)



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



As it was analyzed in section 5.1, *general expenditures* did not increase for the Central Government during the period 1984-1997, and neither did they increase for the Autonomous Communities (see graph 3); rather they did not change too much, going from 4.47% over the total A.C. spending in 1988 to 3.65% in 1997. Graph 6 above show that, due to decentralization process, these expenditures lost importance in most of the A.C.: both with high or low level of competencies. During our period of analysis the region of *País Vasco* shows bigger percentages on *general expenditures*, see (Dirección General de Coordinación con las Haciendas Territoriales, 1998: p. 303) for more information. The justification here is that this Autonomous Community has a special problem to solve (the terrorism), which is causing bigger spending on *public order*, and three provinces with a special *Foral regime* of financing, which need more coordination from the regional level, causing bigger spending on *general services*.



Looking again at graph 3 above, the *non-classified* group of expenditures had a clear growth for the A.C.: from 12.65% of the total spending in 1998 to 16.43% in 1997. However, the components of this group showed different evolutions. The *grants to other public administrations* subgroups had an irregular tendency to fluctuate among the different years of the period. In contrast, the *public debt* subgroup went from 1.97% in 1988 to almost 7% in 1997, with a regular growth during the whole period. The debt levels were higher in the A.C. with "low level of competencies" than in the ones with "high level" -see graph 7 above- (see for that information Dirección General de Acción Económica Territorial, 1996: p. 285, Dirección General de Coordinación con las Haciendas Territoriales, 1999: pp. 77-333)

The justification of the general growth of the debt in all the A.C. can be explained by the fact that most of the communities suddenly found that they had to increase their spending (thanks to the decentralization process), with a lack of experience in that matter and, in many cases, without the right means to finance it. This problem is greater in the regions (15 over the total of 17) with a *Common regime* of financing, (31) because there is a lack of "fiscal co-responsibility" among incomes and spending: the financing system is mainly based on grants coming from the Central government, instead of on the taxing power of the regions. The study of A.C. financing system is a really interesting topic, but one can not go further in this paper. Two authors who make great contributions are (Rubio and Sanz, 2000, Monasterio Escudero, 1997) Other important works about the financing means for the A.C. are, for instance (Monasterio Escudero and Zubiri, 1996, Martínez García-Moncó, 1996, Ezquiaga, 1996, Utrilla de La Hoz, 1995, several authors, 1995, Ruíz-Huerta Carbonell and López Laborda, 1995, Carpio, 1994, Monasterio Escudero, 1988)

As a summary, through the decentralization process, A.C. in Spain are spending basically more on *social assistance*, *social goods*, *economic public goods* and *economic regulation of productive sectors*. In all these spending categories, citizens can better observe the behavior of the government and how it provides goods and services. Likewise, the regional government can know better the citizens'

preferences. In this instance, one can think that decentralization makes sense, and, generally speaking in the context of *traditional fiscal federalism theory*, it can bring us closer to the *theory of optimal jurisdictional size* and to the *principle of "fiscal equivalence"*. (32) But, the problem is that, from an economic point of view, it is hard to explain why there are so many differences among regions. According to (Rosselló Villalonga, 2001: p. 20), "it seems that the level of population, the size of the territory or even historical arguments, cannot explain how regions were created. Although most of the theories related to the creation of new jurisdictional units assume that regions are created on an economic basis, the present territorial division in Spain is largely culturally and politically determined", what is conditioning, at the same time, A.C.'s financing system, which is not based on the volume of assumed responsibilities, bringing us further off the *principle of "fiscal equivalence"*. Moreover, "the lack of an explicit agreement about the ceiling of responsibilities to be reached by A.C....has produced a series of juridical conflicts and inefficient duplicities of bureaucratic organisms" (Suárez-Pandiello, 1999: p. 232)

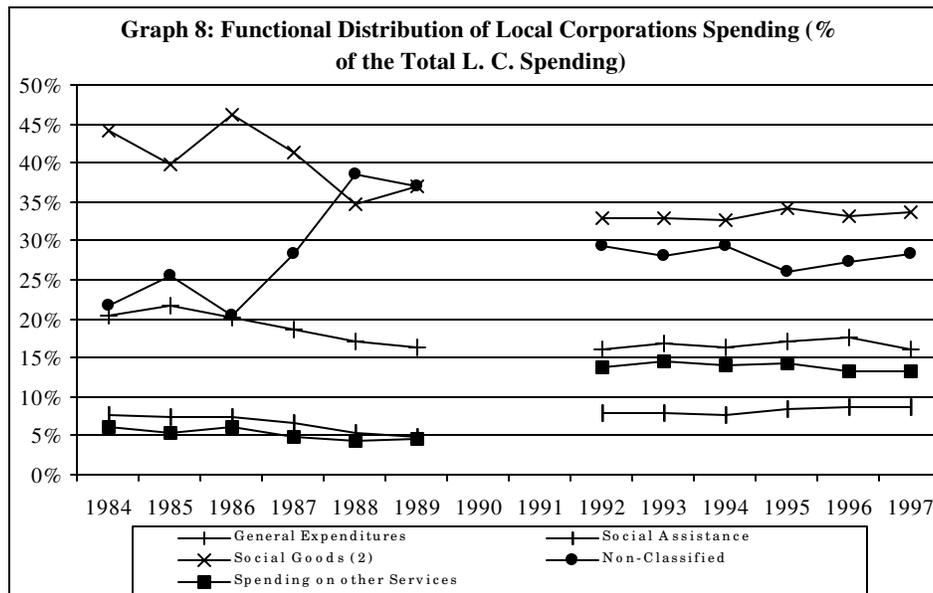
Because decentralization is caused largely by political reasons, it is therefore difficult to justify it through the *fiscal federalism theory*, which is based mainly on economic arguments. (for a wider information in this sense, see Suárez-Pandiello, 1999: pp. 229-232, 250-251) From the spending point of view, regions are carrying out significant redistribution and stabilization activity. In this case, the economic arguments for the centralization of redistribution and stabilization functions does not work. In general, *economic federalism* (33) seems too be biased in favor of centralization, while *cooperative federalism* (the case of Spain) seems to favor the fiscal constitution too in the other direction (Inman and Rubinfeld, 1997: p. 50) On the other hand, and from the point of view of income (although going further from the objective of this article), "fiscal decentralization in Spain...respects to a high degree fiscal federalism theory guidelines..., because taxes more closely related to redistributive or stabilising activities (income tax or corporation tax for example) were not decentralised with the exception of *Foral regimes*" (Suárez-Pandiello, 1999: p. 250)

5.3. Local Corporations (L.C.)

As it has been already showed (remember graph 1), Local Corporations have not received many advantages from the decentralization process this paper is analyzing. Their spending only increased from 13% of total spending of Public Administrations in 1984 to almost 16% in 1997. Therefore, the interest of this section is to study if at least the spending composition has changed.

Looking at graph 8 below, one observes that spending percentages on *social assistance* did not change too much for L.C. during the period of 1984-1997. One can also see that expenditures on *social goods (education, medical care and housing and related services)* accounted for every single year of that period, the largest fraction of total spending of L.C. However, these expenditures decreased from 44.16% in 1984 to 33.58% in 1997.

The determinant of the evolution of *social goods* spending is that the local level of government was not the one that received competencies like *education* or *medical care* through the first step of the decentralization process; rather it was the regional level that received them. For this reason, L.C. lost "power" in these spending groups between 1984 and 1997. In this sense, one could argue again political reasons driving this evolution.



But, Local Corporations increased its percentages of spending on *housing and related services* with respect to the total spending on *social goods*: they went from 73% in 1984 to 84% in 1997 (see appendix 5), even though this expenditure decreased with respect to total spending of L.C. This implies that, in some sense, the internal change within the category of *social goods* spending has also been driven by economic determinants, because L.C. are more efficient and possess a greater knowledge of citizens' preferences for the provision of *housing and related services* spending (Ahmad et al., 1995)

The *general expenditures* group decreased at the central level, but neither of the lower governments offset this reduction (see again graph 8) As it happened at the regional level, in the L.C. the percentages of this spending group also decreased. As can be seen, they went from 20.48% with respect to total spending in this government level in 1984, to 16.13% in 1997. In this case, The author believes that the Local Corporations, through the decentralization process, should have increased spending in this group: that is, expenditure on goods and services where L.C. have most of their competencies, as it has been seen in section three. Examples of these competencies are: security in public places, traffic, citizen protection and fire extinction, city plan and public ways, cemeteries, water, public lighting, trash collection, public transportation, etc. As for the case of *housing and related services*, there was sufficient economic determinants for hoping the increase of *general expenditures* category.

With respect to *spending on other services* group, which decreased in the Central government, one sees that it clearly increased in the L.C., where the percentages went from 6.15% in 1984 to 13.29% in 1997. In this case, the local level received the "power" over this spending group through decentralization.

There are different reasons that could explain this evolution (FEMP, 1999) On one hand, political determinants, because some times A.C. entrust to Local Governments the provision of a set of expenditures that they are not really included within the legal competencies for L.C. (34) This is the case, for instance, of spending on: agrarian structures, scientific research, economic and financial regulation, stock breeding, fishing, industry, energy, mining, tourism, etc.; all of them included on *spending on other services* group. On the

other hand, there are some economic reasons, because citizens are nowadays demanding to the L.C. newer kinds of services belonging to this spending category.

Finally, the percentages on *non-classified* expenditures (*grants to other public administrations* and *public debt*) increased in the period of study; they went from 21.67% of total L.C. spending in 1984, to 28.34% in 1997.

The importance of the subgroup *grants to other public administrations* was basically due to one of the local governments called "Foral deputations" (35) of the Autonomous Community *País Vasco*, that have special competencies in this Community. In fact, the financing of *País Vasco* is performed through grants coming from "Foral Deputations".

In this government level, the *public debt* reached important percentages during all the years of the period, but without high differences between 1984 and 1997. The justification of this persistent debt is that L.C. do not have the right means for financing their competencies, by not having sufficient grants coming from Central Government and A.C. Literature presents some papers (see Pérez García, 1995, Suárez-Pandiello, 1997, 2000, Ezquiaga, 2000) explaining the incomes' aspect for local government. In this sense, (Ezquiaga, 2000: p. 232) consider *rachitic* the tributary incomes L.C. are handling. (Pérez García, 1995: p. 16) says that L.C. need a firm horizon of stability in both aspects: competencies and financing incomes.

As a summary, through decentralization process, L.C. in Spain are spending basically on *housing and related services* (relating to the total of *social goods*) and *economic regulation of productive sectors*. Although the author has pointed out above some economic reasons, again mainly political determinants have driven that process. Because of that, the study about how the decentralization process to L.C. in Spain has followed the general *guidelines* of the *fiscal federalism theory* is as unclear as the one that the author did for regions. Moreover, here one more difficulty appears: L.C. are still waiting for a second step of decentralization process, receiving competencies from A.C., where the period 1984-1997 have been not a significant one.

In this sense, the author thinks some tendencies seems to bring us closer to those general *guidelines*. First, as in A.C., the taxes which are more closely related to redistribution or stabilization activities were not decentralized to L.C. Second, the increase of *housing and related services* spending category shows a greater search of the coincidence between the geographic area of public good benefits and the jurisdictional area where the government provides that public good (*the principle of "fiscal equivalence"*) and also a maximization of benefits and a minimization of cost in its provision (*the theory of optimal jurisdictional size*)

But, other tendencies seems to bring us further off the general *guidelines* of the *fiscal federalism theory*. First, L.C. are carrying out redistribution and stabilization activity. Second, L.C.'s financing system, is not based on the volume of assumed responsibilities (against the *principle of "fiscal equivalence"*)

6. Concluding observations

The most challenging task in this research was to find the statistics and, after that, to classify them in the most useful way in order to study how public spending decentralization takes place in Spain. In spite of the complexity of this enterprise, the paper provides a general picture of the evolution of spending among the different levels of government.

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

In the case of L.C., they have reached greater percentages on stabilization spending, but here the process has just begun and nothing is really done. Again here, a greater means to finance the competencies transferred is needed in the local government.

The study about how that decentralization process in Spain has followed the general *guidelines* of the *fiscal federalism theory*,

mainly based on economic arguments, is not a clear issue. It will depend of the kind of aspects from what the process is seen.

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

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

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

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

(1) Unemployment and Social Security pensions are not included.

(2) The spending in financial liabilities variation is not included.

(3) A.C.= Autonomous Communities.

(4) L.C.= Local Corporations.

Bibliography: Self elaboration from: Dirección General de Coordinación con las Haciendas Territoriales. *La descentralización del gasto público en España*. Periods: 1984-1994, 1985-1996 and 1986-1997.

Bibliography: Self elaboration from: Intervención General de la Administración del Estado. *Actuación Económica y Financiera de las Administraciones Públicas*, several years.

APPENDIX 3: Evolution of the functional distribution of the budgeted spending in the Autonomous Communities. Period 1988-1997. In percentages respect to the total A.C. spending.

	1988	1989	1990	1991	1992	1993
General Expenditures	4.47%	4.44%	4.23%	4.41%	4.83%	3.66%
<i>Public Order (1)</i>	0.89%	0.96%	0.99%	1.05%	1.10%	1.04%
<i>General Services</i>	3.58%	3.48%	3.24%	3.36%	3.73%	2.61%
Social Assistance	8.28%	8.68%	8.72%	8.27%	7.65%	6.99%
Social Goods (2)	56.30%	55.17%	55.51%	54.84%	56.03%	54.50%
<i>Education</i>	-	-	-	-	-	18.89%
<i>Medical Care</i>	-	-	-	-	-	28.43%
<i>Housing and related Services</i>	-	-	-	-	-	7.17%
Spending on other Services	18.30%	19.13%	19.18%	20.09%	18.78%	16.27%
Non-Classified	12.65%	12.59%	12.36%	12.39%	12.71%	18.60%
<i>Grants to other Public Administrations</i>	10.68%	10.18%	9.20%	8.78%	8.30%	12.41%
<i>Public Debt</i>	1.97%	2.40%	3.16%	3.62%	4.41%	6.18%
TOTAL SPENDING	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
	1994	1995	1996	1997		
General Expenditures	3.25%	3.66%	3.63%	3.65%		
<i>Public Order (1)</i>	1.01%	1.14%	1.15%	1.10%		
<i>General Services</i>	2.24%	2.52%	2.47%	2.55%		
Social Assistance	7.01%	6.65%	6.91%	6.68%		
Social Goods	51.49%	53.87%	54.50%	52.34%		
<i>Education</i>	17.70%	18.92%	19.96%	19.53%		
<i>Medical Care</i>	27.32%	27.33%	27.00%	25.96%		
<i>Housing and related Services</i>	6.47%	7.62%	7.54%	6.85%		
Spending on other Services	19.04%	19.60%	18.20%	20.90%		
Non-Classified	19.20%	16.23%	16.77%	16.43%		
<i>Grants to other Public Administrations</i>	12.20%	9.31%	9.42%	9.54%		
<i>Public Debt</i>	7.00%	6.92%	7.35%	6.90%		
TOTAL SPENDING	100.00%	100.00%	100.00%	100.00%		

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

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

Bibliography: Self elaboration from: Dirección General de Coordinación con las Haciendas Territoriales. *Presupuestos de las Comunidades Autónomas*, several years.

APPENDIX 4: Functional budgets of the Autonomous Communities. Years 1988 and 1997. Data in percentages respect to the total budget in each Autonomous Community for each year.

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

Bibliography: Self elaboration from: Dirección General de Coordinación con las Haciendas Territoriales. *Presupuestos de las Comunidades Autónomas*, years 1988 and 1997. *Las Haciendas Territoriales en cifras. Ejercicios 1997 y 1998.*

APPENDIX 5: Evolution of the functional distribution of the performed spending in the Local Corporations. Period 1984-1997. In percentages respect to the total L.C. spending.

	1984	1985	1986	1987	1988	1989
General Expenditures	20.48%	21.68%	20.14%	18.74%	17.03%	16.35%
<i>Public Order (1)</i>						
<i>General Services</i>	20.48%	21.68%	20.14%	18.74%	17.03%	16.35%
Social Assistance	7.55%	7.41%	7.32%	6.75%	5.48%	4.97%
Social Goods	44.16%	39.88%	46.10%	41.30%	34.65%	36.99%
<i>Education</i>	4.88%	4.15%	4.45%	3.79%	2.99%	3.60%
<i>Medical Care</i>	7.02%	6.20%	6.21%	4.99%	3.54%	3.06%
<i>Housing and related Services</i>	32.25%	29.54%	35.44%	32.52%	28.12%	30.33%
Spending on other Services	6.15%	5.41%	6.03%	4.94%	4.29%	4.57%
Non-Classified (2)	21.67%	25.61%	20.41%	28.28%	38.55%	37.11%
<i>Grants to other Public Administrations</i>	4.52%	7.31%	1.98%	8.95%	17.92%	16.34%
<i>Public Debt</i>	13.23%	15.11%	15.08%	17.73%	18.71%	18.43%
<i>Remainder</i>	3.92%	3.19%	3.35%	1.60%	1.93%	2.35%
TOTAL SPENDING	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
	1992	1993	1994	1995	1996	1997
General Expenditures	16.02%	16.76%	16.21%	17.05%	17.52%	16.13%
<i>Public Order (1)</i>	4.78%	4.96%	4.96%	5.45%	5.47%	5.35%
<i>General Services</i>	11.23%	11.80%	11.26%	11.60%	12.06%	10.77%
Social Assistance	7.94%	7.96%	7.71%	8.48%	8.80%	8.66%
Social Goods	32.96%	32.82%	32.75%	34.14%	33.09%	33.58%
<i>Education</i>	3.51%	3.36%	3.52%	3.57%	3.23%	3.23%
<i>Medical Care</i>	3.09%	2.72%	2.45%	2.32%	1.85%	2.14%
<i>Housing and related Services</i>	26.36%	26.73%	26.78%	28.25%	28.01%	28.22%
Spending on other Services	13.86%	14.47%	13.93%	14.40%	13.38%	13.29%
Non-Classified	29.22%	27.98%	29.40%	25.93%	27.21%	28.34%
<i>Grants to other Public Administrations</i>	13.72%	13.31%	12.89%	13.18%	13.91%	15.48%
<i>Public Debt</i>	15.51%	14.67%	16.51%	12.75%	13.29%	12.86%
TOTAL SPENDING	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

(1) It does not make much sense to speak about "National Defense" for the L.C. On the other hand, there are available statistics for "public order" only since 1992; until that year, information about "public order" is within "general services". (2) There are not available statistics for "grants to other Public Administrations" and "public debt" until 1992. I synthesized the information from both: the *functional classification of the spending* and the *economic classification of the spending* from 1984 to 1989; for that reason, a new group called "remainder" emerged for this period.

Bibliography: Self elaboration from: Dirección General de Coordinación con las Haciendas Territoriales. *Liquidación de Presupuestos de las Corporaciones Locales*, period 1984-1997.

Notes

1. There are useful works explaining the tandem centralization-decentralization in (Vallés Giménez and Zárata Marco, 2000: pp. 118-131) and (Begg *et al.*, 1993: pp. 40-47) Moreover, and among others, one could mention here some additional researches on this topic. (Fearon , 2000) analyzes the impact of budget size on a government's choice to centralize or decentralize the budgetary process. (Costrell, 1997) analyzes the relationship among decentralization, centralization, and welfare. (Domínguez, 1974) gives a really good historical overview about decentralization versus centralization. Of course, also (Oates, 1993 and 1997) presents interesting studies on this matter.
2. In this sense, (Panniza, 1998: pp. 263-264) points out that with the end of the Cold War, "strong pressures for a more decentralized system have been at the center of the political scene in many Western European countries". Another interesting work about decentralization in Europe is: (Begg *et al.*, 1993)
3. It is not the objective of this research to perform a wide study on fiscal federalism. A good description of this issue is, for instance, in (Albi *et al.*, 2000: pp. 159-219, and Musgrave and Musgrave, 1992: pp. 557-620)
4. (King, 1984) revised and updated this theory and a recently review is in (Oates, 1999)
5. Moreover last Oates' article on fiscal federalism, worthy summaries describing these functions among the different government levels are in (Vallés Giménez and Zárata Marco, 2000: pp. 118-131, Molero, 1998: pp. 19-39, Jaén García and Molina Morales, 1996, and Musgrave and Musgrave, 1992: pp. 557-620)
6. According to (Oates, 1999: pp. 1122), two useful treatments of the assignment of specific public services to the appropriate level of government are (McKinnon and Nechyba, 1997, and Shah, 1994)

7. The "theory of the optimal jurisdictional size" has its roots in the Buchanan's "economic theory of clubs". For more information see (Buchanan, 1965)
8. In Spain there are three basic levels of government: central (or state), regional (or autonomous) and local. In the U.S.A., for instance, these government levels are respectively: federal, state and local.
9. This kind of federalism is explained in title number 2 of this paper, referring to *the principle of cooperative federalism, or decentralized federalism* (Inman and Rubinfeld, 1997 and 1998)
10. Two important laws in the regulation of Spanish A.C. are: the law 8/1980, September 22, for the regulation of the financing of A.C. And the law 9/1992, December 23, with which the competencies equalization process between the different A.C. started.
11. Non university studies have been transferred in recent years, after 1997. Therefore, they are not included in the statistics of this research.
12. Important laws in the regulation of Spanish L.C. are: the "Local Regime Regulations" (LRR), April 2, 1985. And the "Local Governmental Regulations" (LGR), December 28, 1988.
13. In Spain the provinces role is today more difficult to determine, because, basically from the beginning of the decentralization of the Spanish public administration, they are situated between two strengthened entities: the Autonomous Communities and the towns. In the U.S.A. the equivalent entity for the provinces could be the counties.
14. The autonomous cities are included within the L.C. statistics only until 1996, because they acquired a special status through laws 1 and 2/1995, May 13. See for more information: Boletín Oficial Del Estado, May 14, 1995.
15. Since 1997 budgets of Ceuta and Melilla are included within statistics of the A.C. See (Dirección General De Coordinación Con Las Haciendas Territoriales, 1998)

16. A brief summary about the competencies for the rest of entities that compose the L.C. is offered in (Molero, 1998: pp. 130-131) See also the "Regulating Local Regime Law" (RLRL), April 2, 1985.
17. Basically, the problem is that they are general statements rather than specific rules.
18. In Spain there are many ways to classify the public spending, but the four most important are: The organic classification responds to the question: who spends? Through the *economic classification* one can answer the question: what is the spending on? The *territorial classification* is not exactly a specific classification; rather that it is a detailed way to present the spending budget. The *functional classification* is the most recent method to classify the public spending and through it one can respond to the question: *what is the spending for?* This classification, according to the opinion from several authors, see (Dizy Menéndez, 1996, Barea Tejeiro, 1971, 1989), is the best way to classify the public spending, because it is the only one that shows the real and final destination (or objective) of the different spending concepts. For a wider explanation about the different ways to classify the public spending see (López López and Utrilla, 2000, Molero, 1998: pp. 183-214, Boletín Oficial del Estado, 1997, Corona and Diaz Álvarez, 1994)
19. The grants between the different institutions within this level of government have been taken away.
20. I have tried to use in this article, whenever it has been possible, statistics on real levels of spending in stead of the budgeted ones, because in Spain there is, mainly in the Central level of government, an important difference, at least until 1997, between these two statistical sources (some times, in this level of government, the final budget is around 20% bigger than the initial one) So, it is possible to reach a bigger accuracy in the outcomes using statistics on real levels of spending. To get more information about the differences between real and budgeted spending in Spain, see (Edo

Hernández, Pablos Escobar and Valiño Castro, 1996, González-Páramo, 1995, Barea and Dizy, 1995, Barea, 1995)

21. In the regional level does not exist an important difference between real and budgeted spending, see, for instance (Dirección General de Coordinación con las Haciendas Territoriales, 1998: p. VII)
22. These years are called "transition years", because some local administrations used the old classification and others the new one, so there was not global and consolidated information for the whole local level.
23. The terms "functional group" and "function" refer to different steps in the presentation of the information in each of the functional classifications of spending. Tables 1, 2, and 3 show the lack of a direct relationship of these terms among the different classifications.
24. In my thesis I also analyzed, for all government levels, the evolution of: "constant" pesetas, "current" pesetas, the inter-yearly growth rate, and the cumulative yearly average growth rate. This article would be too long including all this information.
25. The explanation is that year the Central Government decided to pay off in advance a bigger quantity of public debt, saving money for coming years. For this reason, spending on "public debt" was 35.13% respect to the total.
26. These deficits was, at the same time, caused by the bigger grants to regional and local governments, mentioned above.
27. Following this Pact, in Spain was presented in the Congress a General Law Project of Budgetary Stability (see BOE, February 9, 2001), trying to avoid deficits since year 2001.
28. During these years the central level did not decrease its percentages on these expenditures, probably because of duplication of spending and the incapacity of the central government to reduce its expenditures on areas already transferred to the A.C.

29. See section three of this article for more information about the transference of competencies to this group of A.C.
30. For the period 1989-1999: Asturias, Cantabria, Castilla-La Mancha, Castilla y León, Extremadura and Murcia. For the period 2000-2006: the same regions, with the exception of Cantabria. For more informatio, see (Comisión de las Comunidades Europeas, 1991, Fondo Europeo de Desarrollo Regional y Fondo de Cohesión, 2001)
31. This regime is not a fixed one, but it changes every five years after the negotiation among the A.C. and the Central government. Nowadays the regime is for the period 1997-2001, and negotiations for the next one (2002-2006) are actively working.
32. These theories were analyzed in section number 2 of this paper.
33. The section number 2 of this paper showed how Musgrave's (1959) and Oates's (1972) classic *Fiscal Federalism Theory* still provides the most complete description of economic federalism.
34. See section 3 of this paper.
35. There is statistical information for "Foral diputations" since 1988. Due of the inclusion of these local corporations, percentages on *grants to other public administrations* started to increase precisely that year (see appendix 5)

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