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SPANISH (REGIONAL) DECENTRALIZATION

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Abstract

This paper evaluates marginal excess burdens and their distributional patterns in the context of Spain. This is done for the most relevant tax categories in this economy taking into account the structure of the Spanish tax system before and after the major tax reforms undertaken in this economy since 2010 i.e. the value added and personal income tax reforms. In doing so we use a static applied general equilibrium model featured with heterogeneous households classified according to their taxable income. With this objective we have constructed a novel dataset that consists of a Spanish Microeconomic SAM for the year 2010. The comparison of the results obtained before and after controlling for the impacts that these reforms had on the Spanish tax system offer useful insides about how the rise in the inefficiency levels of the current Spanish tax system could and still can be mitigated.Introduzione

1. Introduction

Fiscal and more generally political decentralization have been a trend in both developed and developing countries in recent decades (Lago Peñas et al., 2011). Spain represents the best example of this evolution since it became one of the most decentralized countries in the world in only three decades, departing for a highly centralized institutional framework. Those lessons from Spain can be very useful for centralized or low decentralized countries involved in designing institutional reforms to become more decentralized (Lago-Peñas et al., 2018).

The process of decentralization of the state that has taken place in Spain during the last twenty years has been very important from multiple points of view. With the approval of the Constitution in 1978, the Spanish citizens freely decided to acquire a decentralized State, structured at the basic levels of Central Administration, Autonomous Administration and Local Administration. Thus, the CCAA, in 2003, for example, already managed more than one third (34.8%) of the total expenditure of Public Administrations (49% if Social Security is excluded), which makes them in the most important level of the set of Public Administrations. The predominance of the Autonomous Communities is even more evident when attending to public employment figures: they concentrate almost half (47%) of total employment (68% if Social Security is excluded), far above the rest of the levels.

Apart from that, its greatest relevance has undoubtedly been politics, because an intense review of the mechanisms of public decision and collective action in our country has been developed around it, so it is not an exaggeration to say that the current Spanish democracy is the State of Autonomies. The relevance of decentralization from the economic point of view is not so substantial, although it has deserved and still deserves great attention at least for three reasons. The first is instrumental, since economic and financial tools allow, facilitate or impede the effective development of the political objectives of the decentralization process. The second reason is that the evaluation of the economic aspects of decentralization facilitates a certain objectification of political assessments, as a result of which the conceptual schemes of the economy are designed to quantify the phenomena analyzed and this has also happened in this case. The third, and probably the most important for citizens, is that the Autonomous Communities have been co-protagonists of the expansion of public spending that has taken place during these years and have directly influenced decisions about the allocation of resources to very important public services in developed societies. For this last reason, analyzing the economic and financial aspects of the decentralization of the Spanish public sector allows studying the conditions in which the provision of public services in Spain and its regions has been carried out in recent times, a matter of great importance politics.

However, knowledge about the potential economic and political consequences of policy reform and institutional redesign in decentralization is limited. Thus, this issue challenges the capacity of countries to design detailed decentralization strategies (Martinez-Vazquez et al., 2017).

2. The Spanish case: structure

Following De la Fuente (2017), the basic structure of the Spanish system of regional financing is based on four fundamental components. The first one is the distribution of tax resources and competencies between the different levels of administration and the different territories that determine the potential tax revenues or fiscal capacity of each administration and their level of income autonomy. The second one is a formula that determines spending needs or leveling objectives. This formula tells us how the resources available between the regions should ideally be distributed so that all of them could offer the same standard basket of public goods and services. This rule is implemented through an adjusted population variable that replaces the real population of each territory for the purposes of many of the calculations required by the financing system to distribute the available resources among the regions ("autonomous communities" in Spanish). The last two elements are a series of transfers that flow horizontally (between regions) and vertically (from the central administration to the regions). Its main objective is to equalize the resources of territories with different levels of income to provide the services of its competence, that is, to reduce the discrepancies between the fiscal capacity of each territory and their spending needs.

2.1 Regional revenues

The distribution of tax resources between the different levels of public administration in Spain is carried out to approximately equal proportions in the case of the collection of the main taxes, after leaving in some cases a small participation for the municipalities. In addition, the regions have full regulatory capacity in certain minor taxes. Thus, income tax and VAT are shared taxes, while property tax, inheritance tax, gambling taxes and property transfer tax are assigned to the regions. On the other hand, special taxes correspond to the central government. This distribution in the main shared taxes across the Spanish regions is made according to a residence criterion. In the case of personal income tax, the residence of the declarant is taken into account, while the income from corporate tax is territorialized based on the regional distribution of the payroll of the companies. For its part, the regional section of VAT is distributed in proportion to domestic consumption. Table 1 describe the fiscal autonomy existing among the regions under the common regime, excluding the foral regions (Navarre and Basque country) due to their low contribution to fiscal equalization.

Table 1
TAX AUTONOMY PROVIDED BY COMMON REGIME IN SPAIN

Common System	Regulatory capacity	Management capacity	Collection (%)
Own taxes	YES. full	YES	100
Tax on heritances and donations	YES: tariff, deductions and rebates	YES	100
Property transfer tax and stamp duty	YES: rates of taxation, deductions and rebates, except for corporate operations	YES	100
Tax on gambling	YES: exemptions, tax base, rates of taxations, fixed charges, rebates	YES	100
Special tax on transport vehicles	YES: rates of taxation	YES	100
PIT	YES: tariff and deductions	NO	50
Net wealth tax	YES: threshold, tariff, deductions and rebates	NO	100
Charges on gambling	Increment (20%) on rates of taxation	NO	100
VAT	NO	NO	58
Excise duties on alcoholic beverages, energy products, and manufactured tobacco	NO	NO	58
Special tax on electricity	NO	NO	100

Source: Lago-Peñas et al. (2018)

The regulatory capacity over the main taxes is enormously decentralized. In Spain, the regions (CCAA) can set, with few restrictions, the scales of taxation of the taxes that have been fully assigned to them, as well as that of the autonomic section of the IRPF, thus guaranteeing a high fiscal autonomy. Nevertheless, the distribution of collection tasks between the central and regional administrations is limited. The CCAA only directly manage a part of the minor taxes that are fully assigned and it is the State Tax Agency that collects the large shared taxes as well as the Corporation Tax that is the exclusive administration of the central government. The characteristics of tax collection in Spain ensures that regional administrations fully support the consequences of their revenue decisions linked to both tax collection practices and the setting of tax rates, as it avoids that none of these decisions generates partially compensatory changes in transfers between regions. This is due to two fundamental reasons. First, tax collection is the responsibility of the Central Government, which faces very low marginal rates of loss. Second, and more important, the use of standardized or normative tax revenues in the leveling calculations. Given that the contributions of the CCAA to the leveling depends on their standardized income and not on their real income, they retain 100% of any increase in income derived from improvements in their collection practices. This mechanism prevents that any increase in income derived from an improvement in the efficiency of the regional tax agencies or from a greater inspectorate pressure on citizens tends to be diverted to the central government or to other regions through an increase in outgoing transfers or a fall in the incoming transfers.

2.2 Regional Expenditures

According to the share of sub-national expenditure over the total, Spain ranks fifth in the OECD. The relevance of regional expenditure is particularly strong, topping the ranking for the European Union (EU), in line with other countries such as Canada and Switzerland. This result is somewhat surprising as barely three decades ago the central government was responsible for 91% of expenditure and local authorities for a mere 8.9% (López Laborda et al., 2007), whereas today the subnational governments account for 50% of expenditure, three-quarters at the regional level. The decentralisation of expenditure has been particularly swift. The regional level of government has been assuming powers and resources transferred by the central administration. It has specialised in the provision of basic welfare-state services (health, education, social protection and housing), as well as in certain economic matters and infrastructures. At the end of the 90s, in contrast with the slow evolution at the lowest layer of government (local government), regional expenditure outstripped central expenditure, and a short time later, even that of Social Security (Lago Peñas et al., 2018).

The theory of fiscal federalism offers general guidelines regarding the division of public sector functions between different levels of government, which can be summarized as follows: public services with national benefits should be assigned to the central government, while that those whose benefits are territorially limited must be supplied by the lower levels of government. On the other hand, within a territory with a high degree of mobility, the distribution function should fall essentially at the central level, as well as the stabilization function. Therefore, the allocative function is based on the classic theory of fiscal decentralization. It can be said that this academic interpretation of the division of public sector functions is the one that has been followed in the process of transferring expenditure competencies in our country from the central government to the regional ones, since the latter ones (regional governments) have not formally assumed basic skills in stabilizing or redistributive functions.

The assumption of powers by the various Autonomous Communities has been conditioned directly by the access way to the autonomous status, which has determined a clear distinction in the temporal development, which has prevailed until 2002: on the one hand, the CCAA of article 143, initially, they were classified as having a reduced competence ceiling, classified into two subgroups, the first constituted by the pluriprovincial CCAA or the "common competences" (Aragón, Castilla-La Mancha, Extremadura, and Castilla y León), while the second group included the Communities that, due to their uniprovincial character, have also attributed the powers of the Provincial Councils (Asturias, Cantabria, Rioja, Murcia, Baleares and Madrid); on the other hand, in the section of the Autonomous Regions of article 151, or of high competence ceiling, the Basque Country, Navarre, Catalonia, Galicia, Andalusia, Valencian Community and Canary Islands were included.

However, this differentiation of the CCAA into two groups, depending on the lower or higher level of competence, should only have lasted, in principle, until 1983, since the Constitution provided, in Article 148.2, a five-year term for equalization competence. As is well known, reality has not been like this. The Organic Law 9/1992, of December 23, of Transfers of Competencies to the Autonomous Communities that acceded to the autonomy by means of the article 143 of the Constitution favored the transfer of competences that already managed the CCAA of article 151, leaving aside the transfer of powers over the health care service of the Social Security (INSALUD) and of a large part of the competencies in matters of justice and public order. In short, from 1978 to 2005 the pace of the transfer of competences has been different for each Autonomous Community. Throughout this period, the Community with the highest number of transfers received was Catalonia (163), followed by Galicia (142), Andalucía (135) and Comunidad Valenciana (128). On the other hand, the most fruitful year in transfers was the year 1983 (253), followed by 1984 (204).

Currently, all the Autonomous Regions have, in general terms, the same competencies regarding their responsibilities in the provision of public goods and services and transfers. Article 148 of the Constitution lists the competences that, in a total of twenty-two sections, can be adopted by the regions, while article 149 indicates the exclusive competencies of the Central Administration. In addition, it is expected that, through a statutory reform, the CCAA may successively expand their powers within the framework established in the aforementioned article 149.

In order to provide a synthetic view of the role and weight of the Autonomous Communities and, specifically, in terms of exhaustive expenditure, the Autonomous Communities absorbed 58.2% of the total remuneration of salaried employees in 2003, 41.9% of intermediate consumption and 39.0% of the total gross capital formation. It highlights, on the other hand, the almost exclusive role of the CCAA within social transfers in kind and the realization of more than half of the global amount of capital transfers.

In relation to functional classification, it highlights, in the first place, the role of the regional administrations in the **health and education** functions, in which they channel almost 90% of the total expenditure. It is also appreciable its participation in the rubrics of **economic affairs** (40.5%) and of **recreational, cultural and religious activities** (30.9%) and, to a lesser extent, in **housing and community services, and environmental protection**, in both cases above 20% (Domínguez Martínez et al., 2006).

Overall, regional financing must be based on a criterion of equity: for a same fiscal effort and the same needs, a rich region must have the same resources as a poor region, as well as the same public services. That is, the final resources that the regional financing system makes available to the regions must be aligned with their spending needs and be independent of their fiscal capacity. This idea is especially revealing if we are talking about access to public services within the same State, where the regions have the responsibility to provide such important services as health, education and social services. It seems reasonable therefore that within a State citizens, wherever they live, have access to the same public services both in terms of volume and quality, that is, a leveling mechanism that, regardless of the different fiscal capacity, allows the same provision of public services throughout a country (Zabalza, 2017).

Thus, before performing some of the calculations required by the financing system, the real population is adjusted through the following procedure. These adjustments are made to take into account cost differences between territories when setting the leveling objectives and also can be seen as a way of calculating the spending needs of the different regions, understood as the volume of resources would be necessary in each of them to offer a uniform level of public services throughout the country. The function of the leveling mechanisms included in the Spanish system is to bring the funding of each region closer to this equal distribution or, equivalently, to reduce the differences in resources between rich and poor when we consider only their potential tax revenues.

In the Spanish case, the formula of expenditure needs incorporates the main demographic and geographic variables that affect the demand for public services managed by the autonomous communities (including health, education and social services) or their unit costs. Table 2 shows the variables included in the currently valid formula and their weights, that is, the fraction of available resources that is distributed in proportion to each of these variables to estimate regional spending needs. Thus, 30% of the total resources of the system are distributed in proportion to the unadjusted regional population and 1.8% in proportion to the regional area, while 0.6% of the total is reserved for the two island regions, Balearic and Canary Islands. The dispersion of the population is measured by the number of nuclei (singular entities) of population that exist in each autonomous community. The educational expenditure needs are assumed proportional to a measure of the school-age population (the population between 0 and 16 years old) and the needs for health expenditure are approximated by a weighted population indicator that weights different age segments in proportion to their average annual health expenditure (population equivalent to health effects)[1]. Therefore, the total volume of available resources of the system is taken as given and the formula tells us how to distribute it to ensure that all regional administrations can provide similar services with the same fiscal effort, that is, without modifying the standard scales of tax.

Table 2
VARIABLES IN THE SPANISH FORMULA OF EXPENDITURE NEEDS AND THEIR WEIGHTS

Variables	Weights
Equivalent protected population	38%
Population	30%
School-age population (0-16 years old)	20.5%
Population +65 years old	8.5%
Area	1.8%
Population dispersion	0.6%
Insularity	0.6%

The formula described in Table 2 is also used to calculate the adjusted population of each region, a variable that measures expenditure needs in an especially convenient way. In this case, what is distributed according to the criteria summarized in the table are not the total resources of the system but the total

[1] It is important to note that the system does not attempt to quantify the cost in absolute terms of providing public services managed by the autonomous communities at some level of quality considered desirable, but does attempt to establish a distribution criterion that ensures that the needs of all regions are met in the same proportion.

population of the Spanish regions of the common system (except for the provincial ones, which enjoy a special fiscal system). What is achieved with this exercise is to weight regional populations by a factor that captures (the estimation made by the system) the relative cost per inhabitant of providing the main public services of autonomous ownership at a uniform level of quality in all regions. By dividing the financing of each region by its adjusted population, an indicator of financing per unit of need or adjusted per capita is obtained, which is usually used to assess the equity of the distribution of resources between regions. This indicator also offers an operational leveling criterion: if the objective is to ensure that all citizens, regardless of their residence, have equal access to public services managed by the CCAA, what we have to do is equalize the per capita financing adjusted of all of them.

Thus, once the tax revenues have been allocated to the regions and the spending needs have been calculated, the Spanish system tries to reduce the differences that may exist between both variables through a series of transfers that flow horizontally between regions and vertically between the central government and the regions.

a) Horizontal leveling

One of the main novelties of the current Spanish financing model has been the creation of an essentially horizontal leveling mechanism, the so-called Guarantee Fund (FG), which did not exist in previous models. This fund, which channels the bulk of the system's resources, functions as a kind of common fund that is distributed among the regions in proportion to their estimated expenditure or adjusted population needs, which is updated every year. The FG is fed with 75% of the standardized tax revenues of the autonomous communities and with an additional contribution from the State[2]. The distribution of this important volume of resources according to a need criterion generates important financial flows that go from the rich regions and the State to the poor regions, substantially reducing the regional disparities in terms of financing per adjusted inhabitant.

b) Vertical leveling

The last element of the Spanish financing system is composed of a complicated system of vertical transfers from the State to the Autonomous Communities and vice versa. These transfers are channeled through three Funds, the so-called Sufficiency, Cooperation and Competitiveness Funds. These Funds are distributed with very diverse and often contradictory criteria. Among them, the status quo (that is, the situation of each region at the time of the last model change), which the system tends to perpetuate indefinitely, also includes the level of per capita income, the density of the population and its growth rate, the existence of a second co-official language and the results of the rest of the system in relation to the average or the fiscal capacity of each territory. The Sufficiency Fund also includes funding for the so-called non-homogeneous competences, that is, those that until now have only been assumed by some regions.

[2] In 2014, the total resources of the Fund amounted to 76 billion euros (including a contribution from the Central Government of 8.3 billion), which represented 80% of the system's ordinary resources (excluding the specific transfers that finance skills that have only been assumed by some Autonomous Communities).

3. Summary about the new model from 2009

The current model started on January 1, 2009, in full recession, but with a generous endowment -which was financed through indebtedness-. The model is based on the whole territory of the common system, including Ceuta and Melilla, except in the Basque Country and Navarre, which have their own systems for the protection of the Constitution. And it was born with 11,000 million to ensure the sufficiency of the system. Something that, only in part, has been achieved.

The new model sought greater fiscal co-responsibility, for which the percentages of the transfer of taxes were increased, the rights of the autonomous communities, the time that increased their regulatory powers for financial capacity. In this way, if we have the previous model, 70%, all the resources of the regions, the procedures of the taxes partially or totally ceded by the State, the new system, this time was around 90%.

The CCAA, as is known, fully manage the following taxes: property transfers and documented legal acts, inheritances and donations and taxes on the game and the fees charged to the services transferred. But, in addition, they participate in the collection of the rest of tributes. Specifically, collection of the tax on hydrocarbons and the special tax on certain means of transport; in addition to 50% of the regional income tax rate; 50% of the net VAT collection (without regulatory capacity) and 58% of the liquid collection for the special taxes levied on beer, wine, fermented beverages, alcohol, hydrocarbons and tobacco products. Also 100% of the liquid collection for the tax on electricity.

That money, however, is not distributed evenly. On the contrary, various criteria are used. In this way, the CCAA can meet their spending needs in health, education or social services.

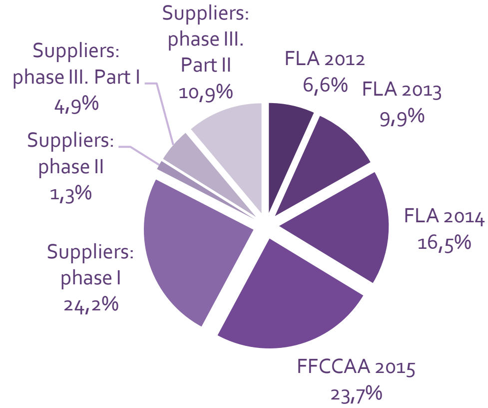
Table 3
DATA FOR THE PURPOSE OF EXPENDITURE

Autonomous Communities	Health	Education	Social Services	Other
Andalucia	63,3%	9,0%	9,0%	18,7%
Aragon	93,3%	0,3%	0,9%	5,6%
Asturias	70,3%	1,0%	3,7%	25,0%
C. Valenciana	60,4%	7,7%	6,3%	25,5%
Canarias	87,4%	0,9%	0,2%	11,5%
Cantabria	64,8%	5,7%	6,5%	23,1%
Castilla-Leon	75,7%	0,7%	3,1%	20,4%
Castilla-Manch	54,5%	2,9%	9,5%	33,0%
Cataluna	61,3%	3,0%	4,8%	30,9%
Extremadura	81,6%	2,6%	0,7%	15,1%
Galicia	100,0%	0,0%	0,0%	0,0%
Illes Balears	65,9%	3,5%	4,1%	26,6%
Madrid	82,8%	3,4%	4,6%	9,1%
Murcia	80,0%	1,3%	1,9%	16,8%
Rioja	68,5%	1,0%	6,2%	24,3%
General Total	**65,0%**	**4,9%**	**5,8%**	**24,3%**

3.1 Distribution criteria

The criteria are the following. Equivalent protected population: 38%; population: 30%; school-age population (between zero and 16 years old): 20.5%; population over 65 years: 8.5%; surface: 1.8%; population dispersion: 0.6%, and insularity: 0.6%.
By dividing the financing of each region by its adjusted population, an indicator of financing per unit of need or adjusted per capita is obtained, which is usually used to assess the equity of the distribution of resources between regions.
As De la Fuente maintains in a paper published by BBVA Research, the system -which should have been evaluated every five years- does not attempt to quantify the absolute cost of providing public services managed by the autonomous communities at some level of quality considered desirable, but it does try to establish a distribution criterion that ensures that the needs of all regions are met in the same proportion.
The leveling instrument is the so-called Guarantee Fund (FG) (en español, Fondo de Garantía), which did not exist in previous models. This Fundamental Public Services Guarantee Fund intended that all the Autonomous Regions receive the same resources per capita in terms of adjusted population, not only in the first year of application but also in the future. It is the fund that channels the bulk of the system's resources, and functions as a kind of single box that is distributed among the regions in proportion to their estimated spending needs. The FG is fed with 75% of the standardized tax revenues of the autonomous communities and with an additional contribution from the State. In 2014, the total resources of the fund amounted to 76,000 million euros (including a contribution from the central government), which represented 80% of the system's ordinary resources. It also has other funds designed on demand to meet the unique needs of each region. Like the Global Sufficiency Fund, the Convergence Fund, the Competitiveness Fund, the Cooperation Fund or the old Interterritorial Compensation Fund, the only one that has a constitutional guarantee, but that has been losing weight over time (en español, Fondo de Suficiencia Global, el Fondo de Convergencia, el Fondo de Competitividad, el Fondo de Cooperación y el Fondo de Compensación Interterritorial).

Chart 1
MECHANISMS OF FINANCING TO SUPPLIERS OF AUTONOMOUS COMMUNITIES IN 2012-2015



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