The role of Sub-National Governments in creating frameworks for growth: Self Reliance and Prosperity

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State of Art

- The regional states are now an important unit of analysis and management for creating public policies. In practice, the national governments are no longer the main source of development.

- The responsibilities of sub-national government are growing (correlated with the decentralization process in public services, tax regime, property rights, economic and social infrastructure)

- “The process of development of some regions are more related to the development process of other countries than their own nation”

- There are new tools to analyze and study the role of sub-national governments.

- There are 16,000 sub-national governments in Latin-America.

- There is a huge economic divergence between regions of the same country.
Economical Context
Wealth divergence between Sub-Nations

2008
- Argentina: 8.0
- Canada: 4.1
- USA: 2.4
- Mexico: 6.2
- Chile: 7.7

2012
- España: 1.88
- Italia: 2.03
- USA: 2.23
- Canada: 2.95
- Peru: 7.83
- Brasil: 8.43
- Chile: 8.85
- Mexico: 16.01
Objetives

- To discuss the importance of the sub-national approach in economic theory.
- To identify the ability to create a sub-national economic policy.
- To analyze wealth asymmetries – measured in GDP per Capita - between regions in Argentina, Brazil and Spain considering the wealthiest and the poorest regions in the period 1995-2010.
- To evaluate the fiscal and financial performance of those selected regions as well as the level of dependence on their national states.
- To establish if there is a connection between the gap in wealth and financial behavior and find an explanation for it.

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Regions</th>
<th>Level of Asymmetry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>24</td>
<td>8,0*</td>
</tr>
<tr>
<td>Braszil</td>
<td>27</td>
<td>8,43</td>
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<tr>
<td>Spain</td>
<td>17 + (2)</td>
<td>1,88</td>
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</tbody>
</table>
Methodology (Sub-National Financial Behavior Index - SFBI)

**Sub-national Public Sector Size (0,10)**
- Total non financial expenditure over gross domestic product of the territory.

**Public expenditure fundraising (0,30)**
- Total own income over total non financial income.
- Current income over gross domestic product of the territory.
- Current receive transfers over current income.
- Current expenditure over current income.

**Direct state investment (0,20)**
- Direct state investment over total non financial expenditure.
- Direct state investment over total own income.
- Direct state investment over gross domestic product of the territory.

**Labor market situation (0,10)**
- Expenditure on state employees over current expenditure.
- Expenditure on state employees over gross domestic product of the territory.

**Debt (0,30)**
- Debt over total non financial income.
- Debt over gross domestic product of the territory.
- Debt services over current own income.
## Evaluation of wealth and selection of regions

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<tbody>
<tr>
<td><strong>Spain</strong></td>
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</tr>
<tr>
<td>GDP Per Capita - Highest</td>
<td>14,755</td>
<td>16,488</td>
<td>19,056</td>
<td>21,393</td>
<td>23,573</td>
<td>26,333</td>
<td>27,879</td>
<td>27,034</td>
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<tr>
<td>GDP Per Capita - Lowest</td>
<td>7,669</td>
<td>8,529</td>
<td>9,957</td>
<td>11,409</td>
<td>13,077</td>
<td>15,146</td>
<td>16,834</td>
<td>16,816</td>
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<tr>
<td>Region - Highest Wealth</td>
<td>Cataluña</td>
<td>Balears, Illes</td>
<td>Balears, Illes</td>
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<td>Region - Lowest Wealth</td>
<td>Extremadura</td>
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<td><strong>Brazil</strong></td>
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<tr>
<td>GDP Per Capita - Highest</td>
<td>9,016</td>
<td>10,007</td>
<td>11,473</td>
<td>13,404</td>
<td>16,158</td>
<td>19,550</td>
<td>24,457</td>
<td>30,243</td>
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<tr>
<td>GDP Per Capita - Lowest</td>
<td>1,579</td>
<td>1,751</td>
<td>2,110</td>
<td>2,562</td>
<td>3,297</td>
<td>4,212</td>
<td>5,372</td>
<td>6,889</td>
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<tr>
<td>Region - Lowest Wealth</td>
<td>Piauí</td>
<td>Maranhão</td>
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<tr>
<td><strong>Argentina</strong></td>
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<tr>
<td>GDP Per Capita - Highest</td>
<td>5,225</td>
<td>4,996</td>
<td>6,296</td>
<td>9,822</td>
<td>16,158</td>
<td>35,570</td>
<td>46,284</td>
<td>56,406</td>
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<tr>
<td>GDP Per Capita - Lowest</td>
<td>1,462</td>
<td>1,621</td>
<td>1,572</td>
<td>1,580</td>
<td>3,297</td>
<td>6,264</td>
<td>9,463</td>
<td>12,843</td>
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<tr>
<td>Region - Highest Wealth</td>
<td>Neuquén</td>
<td>Neuquén</td>
<td>Neuquén</td>
<td>T. del Fuego</td>
<td>Neuquén</td>
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<tr>
<td>Region - Lowest Wealth</td>
<td>Formosa</td>
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Financial Behavior Gap through SFBI

Below zero the poorest regions perform better than the wealthiest

[Graph showing SFBI Gap from 1995 to 2010 for Argentina, Spain, and Brazil]
Comparative evolution of The Financial Behavior Gap Index and The Regional Wealth Gap Index
Score from zero (worst) to ten (best)*

Argentina

Brazil

Spain

*For the Financial Behavior gap, the high score is related to a better financial performance of the poorest region.

*For the Regional Wealth gap, the high score is related to a lower divergence in wealth measured in GPD per Capita.
The Financial Behavior Gap Index and The Regional Wealth Gap Index Scatter Plots

Average – 1995-2010

All Countries – 1995 - 2002

All Countries – 2003 - 2010
Conclusions

- The SFBI is a good predictor of the wealth gap between sub-nations.

- A good financial performance and a good fiscal management (at least in the five points that we have analyzed) could be one part of the key to reduce the wealth disparity between regions of the same nation.

- A balanced territorial development could be a necessary condition to a sustainable economic development.
Muchas Gracias

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