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The Role of Sub - National governments in creating frameworks for growth: self-reliance and prosperity

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Abstract

The political economic theory increasingly emphasizes sub-national areas rather than a national approach. Thus, the provincial or regional state is now an important unit of analysis and management. In practice, the national governments are no longer the main source of development. This task has been transferred to subnational and supranational regions. In the 70's, provinces of Canada, US States and some regions of western Europe started to use the sub-national approach, leading to the development of theories during the 80's. The assumption that the development models from some regions are more related to the development of other countries than their own nation is amenable to the Economic Science. When a sub-nation is significantly less developed compared to the rest of the sub-national areas in the country, then different sub-national policies can explain different development paths. The sub-national policies, therefore, could be the starting point for internally and sustainable self-generated development. Also, it is an elemental source in the process of convergence or divergence of growth between regions of the same nation.

Our main purpose is to analyze extreme sub-national jurisdictions, measures in terms of GDP per capita, taking the two largest economies in South America (Brazil and Argentina) plus Spain during the period 1995-2010. We examine both fiscal and financial performances of their public treasuries and the degree of financial dependence on each respective nation. Subsequently, we

will discuss the degree of influence that a good financial behavior would have in order to generate economic prosperity. If we can prove the existence of a connection between the self-generation of resources and dependence on those resources, and that the self-sufficiency sub-national governance is linked to the regional economic growth, then we could infer what kind of policies would be necessary in order to reduce the large economic inequalities among sub-national territories within the country.
Each nation has different degrees of freedom to grant the ability to the sub-regions to raise fund and set their own rules. The sub-regional states with high debt levels often have to pay higher interest rates to take on more debt which limits their fiscal boundaries. Moreover, nations limit the sub-national macroeconomic boundaries (fiscal, monetary, exchange rate, industrial and even technological) through explicit and/or implicit rules (i.e.: golden rules like zero deficits). Therefore, given this centralized model, the degree of autonomy of the sub-national government will depend on their own ability to generate resources. Those regions with higher levels of internal resources are more able to generate a self-development path. A comparative study of changing settings and circumstances in each territory could help to create individual policy formulas and desired policies direction. This research reconsiders that the comparison of similar and complementary regional economies could encourage regional governments to advance together better policies and improve a defined policy framework.

Key Words—Public finance, sub-national government, regional development

Introduction

Recently it has been featured economic policy practice, and also in its theoretical counterpart, a growing emphasis about the importance of regional territories (sub-national) against a national theoretical approach (Riffo, 2011). The assumption that "the regions of some nations are more comparable to an abroad (but closely) development processes than their own" is not so far in economics or in development theories (Fry, 1996; Ward , 1988).

The national or federal state, as the name and type adopted in each country (Rosales & Valencia, 2008), as a unit of analysis is losing the main focus for "sub-national territories" (Snyder, 2001). The first cases of analysis arose from the '70s (Provinces of Canada, North America and Western Europe) and, in general, the theoretical approaches that talked about them starting in the '80s with authors like Duchacek, Stoddard, Fry, Kempner, Ward and Skinner (Diaz Bay et al, 2011).

Skinner, for example, stated that China could be better understood if it was subdivided into sub-territories, instead of considering a single macro region (Skinner, 1985). Later, Fry and Kempner

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established not only the need for an interdisciplinary analysis in order to better scope, but also, and primarily, to claim for a sub-national perspective (Fry, 1996). Decentralization characterized the alpha and omega of "subnational perspective." In this regard, the ECLAC (United Nations Economic Commission for Latin America and Caribbean) emphasized that decentralization was the main point of view in sub-national development policy. Decentralization was added with improving regional fiscal resources and democratization of local power. However, the dominant perspective on decentralization as regional policy was insufficient to trigger processes of self-development that overcome longstanding inequalities (Ramirez et al, 2009).

When a region is significantly less developed compared to the rest of the nation, sub-national policies explain different economic path (Carmona, 2006). In this case, regional comparisons may convincingly explain the initial diagnosis and the path dispersion. Therefore, it will be assumed in this paper the relevance of "subnation-subnation" instead of "country-country".

Sub-National Economic Policy In Latin America

In Latin America, much of the development responsibilities were transferred to sub-national government (Serrano, 2011), but for the most of the 16,000 local governments (provinces, regions, states, departments, municipalities) is still pending the capacity to achieve this task and to establish appropriate frameworks for development (Rosales & Valencia, 2008; Elizalde & Hevia, 2003). It is clear that not all the conditions for economic development are responsibility of regional governments (Elizalde & Hevia, 2003). However, sub-national policies influence local development in different ways complementing national policies. For example, they often have concern about the property rights, operating rules and regulations, tax issues and pricing, provision of basic social and economic infrastructure and other aspects that generate indirect costs for private business.

Moreover, Riffo emphasized that an increasing emphasis on policies promoting regional competitiveness, creation and promotion of clusters and regional innovation systems are concrete examples of the growing importance of sub-national dimension in the field of public policy, particularly in Latin America (Riffo, 2011)

As pointed out Elizalde and Hevia, focusing on Latin American case, SSGG can reduce regulatory barriers to private investment and create an enabling environment for a full utilization of local resources. They can, among other things, increase the capacity of their territories to

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compete with others and attract direct investment through, e.g.: local infrastructure, policies and regulations that enhance business efficiency, development services promotion in the local economy and improving cooperation between enterprises to achieve a more efficient supply of goods and services.

On the other hand, inequality in economic and social development for Latin American sub-national regions is a central issue in the public policy agenda in the region, as emphasized ECLAC and several institutions (Centro Latinoamericano para el Desarrollo, 2012; Ramírez et al., 2009). Recently, population concentration has not receded, economic structures showed a trend toward polarization in some regions and regional economic convergence stalled (Ramírez et al., 2009).

The analysis of traditional economic development indicators, such as GDP (Gross Domestic Product) and GDP *per capita*, shows strong differences between Latin America regions (Riffo, 2011). Such characterization will be our starting point.

Argentina is a federal country. 24 jurisdictions (23 provinces plus the city of Buenos Aires) constitute the Argentine Republic. (Rosales et al, 2008). According to the literature reviewed, one of the current problems facing Argentina is a great regional imbalance evidenced by the fact that the poorest province is contained 8.1 times into the richer ones (Carmona, 2006). Thus, the great heterogeneity in the territorial distribution of wealth and economic activity leads to significant differences in terms of the self tax revenues across provinces (Cetrángolo et al, 2002).

Brazil is a federal country, in that case composed by 27 federal “states” plus the City of Brasilia. Brazil is a country with great regional inequalities, says United Nations in 2010. Regional inequalities have remained stable in the long run (UNRISD, 2011). In 2006, for example, the difference between GDP *per capita* of the poorest sub-national "state" of Brazil and the richest ones was about 5.5 times (Carmona, 2006). By 2010 the difference was 8.4 times.

Fiscal analysis about sub-national governments will be our starting point. For example, tax asymmetries for sub-national governments are evident in Argentina and Brazil, and generate additional pressure on economic growth (Piffano, 2007). There is a persistent structural imbalance between revenue and expenditure for sub-national governments, which generates a dependence on intergovernmental fiscal transfers from the national government (Martin et al, 2004). Within this framework, it is clear that there is a sort of "wallet power" that a priori determines the fiscal policy for sub-national governments. That sets capabilities within sub-national policies to enhance economic growth and economic development level. Besides it also influences the structure of the sub-national democratic system (Giraudy, 2011).

Economic Policy For Spanish Regions

In order to analyze the Spanish case, we have to introduce some key aspects of its territorial division. Spain is constituted by 17 autonomous communities and two autonomous cities (Ceuta and Melilla). The economic literature has paid attention to regional phenomenon particularly on aspects relating to taxation and territorial imbalance, two of the topics that are of our concern.

The influence of public policies in Spain cannot be explained without addressing a regional policy studies, indicates Cao Fernandez. The regional policies are an important driver in Spanish economy (Cao Fernandez, 2005). Cao identifies the following stylized facts:

1. In relation to public expenditure, the participation of the autonomous communities (regions) has been growing due to the assumption of competences in matters that constitutes the welfare state.

2. In relation to public revenue, since 1993 has begun to advance models of fiscal co-responsibility for the regions.

3. Asymmetry between transfers in revenue capacity and expenditure functions have had perverse effects.

4. A transfer of competences has followed an erratic process associated with electoral opportunism and claims from autonomous communities with nationalist and/or historical prerogatives.

5. The autonomous communities have today a large number of functions and duties, with a large number of employees, with management skills and an own administrative and bureaucratic organization that determines a decisive influence in the regional political-economic process.

The economic crisis impacted in Spanish public accounts since 2008, breaking a trend of fiscal consolidation started 15 years before (Llera & Méndez, 2013). Communities increased their level of non-financial income since 2003 and until 2007. Starting from there, in a context of increased expenditure, they stagnated until 2009 after falling significantly (Llera & Méndez, 2013). Since 2010, the difference between the GDP per capita of the poorest region and the richest ones was 1.88 times (Extremadura vs País Vasco).

A need to introduce some features to perform analysis of the autonomous communities has been indicate by Spanish authors.

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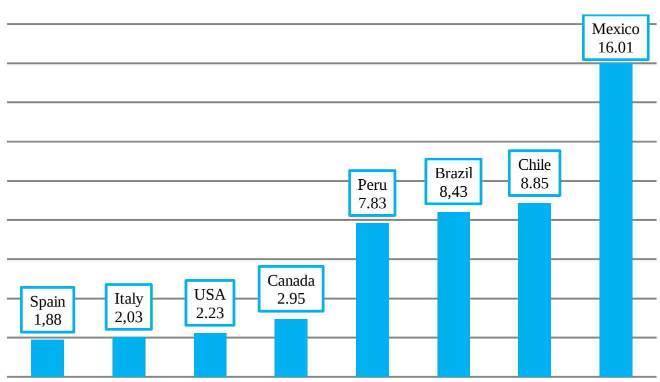
Regional Inequality, Implications For Economic Policy

Comparison between sub-national areas (in different countries) has been claimed in numerous essays about development (Gibson, 2004; Fry, 1996; Cao Fernandez, 2005). Regional development policy has a long history in Latin America. All of that help to highlight the importance of this analysis. Several authors identify the end of the ‘40s as the time which the countries of Latin America and the Caribbean started to create regional institutions. Those were part of central governments but they had varying degrees of autonomy. The general purpose was to initiate sustained development processes in national public investments (Ramírez et al., 2009). In Spain, the process was later, but it was more intense in last 30 years. During the Francoism (1939-1975) the 'regional' idea with administrative surveys was proscribed, indicates Cuadrado Roura. Even so, some economic plans initiated in the 60s by technocrats, included the need to promote the growth of the more disadvantage regions (Cuadrado Roura, 2006).

At a general level, regional economic gaps in Latin America are still very high and show no clear and conclusive signs of a significant reduction (Riffo, 2011). The persistence of inequality between the poorest and the richest regions confirms the importance of a regional development policy, not just in a theoretical level but in a pragmatic level.

Graph N ° 1: Regional differences (GDP per capita more and less rich regions)



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This work will consider those regions (provinces, states or autonomous communities) who are diametrically opposite in richness measured through the GDP per capita. From here we will try to empirically demonstrate that the relevance of fiscal and financial perspective in sub-national governments could help to achieve a self-reliance path to its own resources. Perhaps this would mean the beginning of a virtuous circle of growth.

If a considerable and recurring deficit in sub-national governments is financed with external resources or through domestic banking credit, monetary policy may be hindered and even if it is not financed by monetary expansion, can have an crowding out effect (Coronado Quintanilla, 2009).

For this reason, the core strategy relies on fiscal and financial sustainability. That able to a better provision of social, legal and economic infrastructure (in an self-generate process) (Gomez Sabaini et al, 2010). This has impact on the Government reputation and on its predictability and credibility. That would be important for attracting investment, growing export, consumption, etc. (Diaz Bay et al, 2009).

Subnational Financial Behavior Index (SFBI)

For this paper, we will consider the budget management as the financial behavior of the sub-national government. We will take into account several item as current and total income and expenditures, as well as direct investment expenditures in their own territories (González et al 2011). The budgetary imbalances faced by sub-national governments could derive in a raising the stock of debt that entails more financial stress.(Alvarez et al, 2011).

In order to establish a measuring method which determines the sub-national financial behavior and the influence in its territorial economic growth path, we have taken the most representative indicators proposed by Coronado Quintanilla (Coronado Quintanilla, 2009) and Velázquez (Velázquez, 2010). Thereafter, we propose a composite index called Sub-national financial behavior index (SBFI). We try to analyses and weight sub-national dynamic behavior in relation to five aspects of public finances:

- ✓ Sub-national Public Sector Size
- ✓ Public expenditure fundraising
- ✓ Direct state investment
- ✓ Market labor situation

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- ✓ Debt: liquidity, leverage and sustainability.

Subsequently, we will score the behavior through data homogenization with a Max-Min method (Martin & Martner, 2004) generating the SFBI. With that index we make feasible regional comparison. Taking into account paths lived by sub-national entities analyzed we try to analyze what decisions on financial and budgetary management should be better.

1. INDICATORS

As we mention before, the SFBI is trying to consolidate five aspects of the sub-national public finances. Each one of these aspects are made from sub-indicators that evaluate several sub-aspects of the financial situation. Finally, in order to obtain a synthetic index, we will weight each aspect following our own criteria to highlight the relevant behavior that we want to measure. Our main sources of information are the executed budgets from the public treasury, their regional GDP at current prices and their stock of debt excluding the floating debt (debt that mature within a year).

The five aspects and their sub-indicators are:

- Sub-national Public Sector Size (weight in SFBI: 10%): When the total no financial expenditure exceeds the basic expenditure related to the normal function of the government[1], it is highly probable that this generate a crowding out effect of the private sector. Therefore this aspect is showing that the excess of participation of the public sector in the economy could not be useful to attract private investment and to create a good economic ambience to promote a territorial development. This first aspect is compound just by one sub-indicator:
  - Total no financial expenditure over gross domestic product of the territory
- Public expenditure fundraising (weight in SFBI: 30%): Here we are evaluating the financial balance of the government treasury. On one hand we analyze the autonomy capacity over the government's current income and, on the other hand, their dependence in transfers from the central government. Finally we observe the balance between current expenditure and income. This second aspect is compound by four sub-indicator:
  - Total own income over total no financial income.
  - Current income over gross domestic product of the territory.

[1] For instance; basic protection and property right, basic juridical and social infrastructure, etc.

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- Current receive transfers over current income.
- Current expenditure over current income.

- Direct state investment (weight in SFBI: 20%): When the sub-national government administrations are making real investment[2] in the economy, they are creating infrastructure which in general the private actor do not have incentive to do. Then we consider this aspect as a good signal sent from local government to the private sector. This third aspect is compound by three sub-indicators:
  - Direct state investment over total no financial expenditure.
  - Direct state investment over total own income.
  - Direct state investment over gross domestic product of the territory.
- Labor market situation (weight in SFBI: 10%): This aspect wants to capture the participation of the local government in the labor market of its territory. High participation could generate a crowding out effect of the private sector in this market. Moreover, this imply more current expenditure and then more pressure over the public budget. This fourth aspect is compound by two sub-indicators
  - Expenditure on state employees over current expenditure.
  - Expenditure on state employees over gross domestic product of the territory.
- Debt (weight in SFBI: 30%): This is one of the main aspect because the majority of the budget imbalance will be reflected on the debt level. Then, all increase in the debt level would impact in the financial performance of the sub-national government because more budget will have to be for the debt services. (Alvarez et al., 2011; González et al., 2011). This situation could cause difficulties on the provision of services provided by the local government due to the lack of monetary resources. This last aspect is compound by three sub-indicators:
  - Debt over total no financial income: here we measure how many years would take to pay all the outstanding debt with just the total no financial income of the local government.
  - Debt over gross domestic product of the territory.: this measure the leverage of the government.
  - Debt services over current own income: here we measure the liquidity of the local government related only with their own income.

Evaluation Of The Regional Disparities And Region Selection

In this section we will choose those regions from the selected countries that show an opposite richness in term of GDP per capita. For this purpose we will evaluate which regions show the maximum and minimum GDP per capita through the period 1995-2010. In this evaluation, we do not consider those regions where the nation maintains their central government administration

[2] The qualitative aspect of this investment are beyond the scope of this work.

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due to their advantage condition over the other regions. Otherwise these particular regions could affect our analysis because of the distortion in the comparison basis.

Addressing the country analysis, Argentina is the one who demonstrate more volatility in the regional GDP (called in the academy geographic domestic product or *producto bruto geografico* in spanish) (Carmona, 2006) during the period due to several methodological problem. In spite of this, during the period of 1995 to 2010, the information tells us that the province of Neuquen and Tierra del Fuego (excluding the capital of Argentina, Buenos Aires City) are the richest ones in the country and Formosa and Chaco the poorest ones. Finally we will choose Neuquen and Formosa because they appears most of the time as the richest and the poorest region. (Table N° 1)

Table N° 1: Argentina(1) Series of regional GDP per capita (selected years)

for richest and poorest regions - In Argentine Peso

Year	**1996**	**1998**	**2000**	**2002**
GDP Per Capita Max	5.225	4.996	6.296	9.822
GDP Per Capita Min	1.462	1.621	1.572	1.580
Richest Region	Neuquén	Neuquén	Neuquén	Tierra del Fuego
Poorest Region	Formosa	Formosa	Formosa	Formosa
Year	**2004**	**2006**	**2008**	**2010**
GDP Per Capita Max	16.158	35.570	46.284	56.406
GDP Per Capita	3.297	6.264	9.463	12.843

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Min				
Richest Region	Neuquén	Neuquén	Neuquén	Neuquén
Poorest Region	Formosa	Formosa	Formosa (2)	Formosa (2)

(1) The GDP series at factor price.

(2) These years is base on own estimations.

In Brazil we use the GDP series at market price and, with the same criteria; we chose Sao Paulo as the richest one and Piaui as the poorest one. During the period, Sao Paulo is always the richest (excluding the Federal District of Brasilia) but in some year Piaui is displaced by Maranhao as the poorest one (just six years out of fifteen) (Table N° 2)

Table N° 2: Brazil - Series of regional GDP per capita (selected years) for richest and poorest regions - In Brazilian Real

Year	**1996**	**1998**	**2000**	**2002**
GDP Per Capita Max	9.016	10.007	11.473	13.404
GDP Per Capita Min	1.579	1.751	2.110	2.562
Richest Region	São Paulo	São Paulo	São Paulo	São Paulo
Poorest Region	Piauí	Maranhão	Maranhão	Piauí
Year	**2004**	**2006**	**2008**	**2010**
GDP Per Capita Max	16.158	19.550	24.457	30.243

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GDP Per Capita Min	3.297	4.212	5.372	6.889
Richest Region	São Paulo	São Paulo	São Paulo	São Paulo
Poorest Region	Piauí	Piauí	Piauí	Maranhão

Finally, in Spain we analyzed the series of GDP at market price from the autonomous community of general regime only, excluding the governmental capital of the country, Madrid, as we did with the other two countries. In addition we decided to leave out those regions which are in the *foral*[3] regime (Pais Vasco and Navarra) because these territories have special power to set their own rules on the fiscal space of their territories and moreover, they almost do not depend financially from the central government. Then, due to this exceptional freedom from the nation, they are not comparable to those regions in the general regime. Having said that, we choose to study the autonomous community of Cataluña as the richest one and the autonomous community of Extremadura as the poorest one.

During all the period, Extremadura stayed as the poorest one from Spain. The richest one was always Cataluña but just for a short period, between 1997 and 2000, it was Islas Baleares. (Table N° 3)

Table N° 3: Spain - Series of regional GDP per capita (selected years) for richest and poorest regions - In Euros

Año	**1996**	**1998**	**2000**	**2002**
GDP Per Capita Max	14.755	16.488	19.056	21.393
GDP Per Capita Min	7.669	8.529	9.957	11.409
Richest Region	Cataluña	Balears,	Balears,	Cataluña

[3] For further information of the economical and political structure of Spain please look at the annex.

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		Illes	Illes	
Poorest Region	Extremadura	Extremadura	Extremadura	Extremadura
Año	**2004**	**2006**	**2008**	**2010**
GDP Per Capita Max	23.573	26.333	27.879	27.034
GDP Per Capita Min	13.077	15.146	16.834	16.816
Richest Region	Cataluña	Cataluña	Cataluña	Cataluña
Poorest Region	Extremadura	Extremadura	Extremadura	Extremadura

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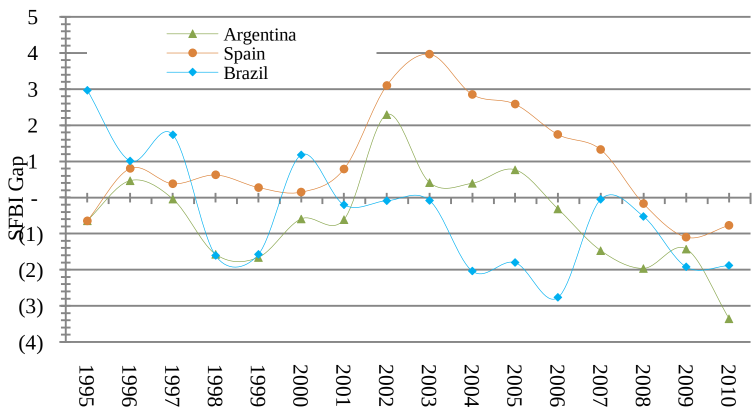
Subnational Performance Analysis

We reached excellent result that are concurrent with our initial suppositions. After we have calculate the current SFBI for each selected sub-national region, we proceeded to observe the divergence of behavior of the regions between themselves in each country. The main aim is to see if the financial behavior of the poorest region is better or not in relation to the richest one. The chart below is showing the gap of behavior between the poorest and the richest region in each country. As less positive or more negative is the gap, it is better the financial performance of the poorest region.

CHART N° 2: GAP OF BEHAVIOR BETWEEN THE POOREST AND RICHEST REGION BY COUNTRY - PERIOD 1995 - 2010



The overall behavior of the three countries are almost the same. All of them started the period with values above zero, meaning that the behavior of the richest region was better than the poorest one. This situation went deeper and reached a pick between 2002 and 2003 for Spain and Argentina. The case of Brazil is a little more irregular. Nevertheless, all three countries ended the period below zero. Then we can infer that the financial behavior of the poorest region got better since the middle of the period, surpassing the financial performance of the richest one.

The evolution of the variables in Spain has a correlation with the financing system of the autonomous communities established by the country. This system is quite different to other countries and during the analyzed period has received three modifications. These changes could be the reason that the poorest region, Extremadura, has had a deficient performance until 2003 in comparison with Cataluña. After the modification of the financing system in 2002 and after the transition path, we can observe that since 2004 the behavior gap between regions gets lower in favor to Extremadura. Finally, due to the international crisis, the last two years show a underperformance of the poorest country that increases the gap.

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In Argentina, we have to mention that the economic crisis that the country passed through during 2001-2002 created a division in the period. In those years we saw the bigger gap in the series in detriment to the poorest region, Formosa. Nevertheless, since 2003, there is a better performance behavior of Formosa than of Neuquen that generated a continuous reduction in the gap during the rest of the period, reaching the lower values of the series in 2010.

Finally, Brazil shows the less regular series with more peaks and dips. However we can see an improving performance of Piaui. We attribute this improvement to the lack of capacity of Piaui to raise debt (during the period, they reduced their outstanding debt over GDP 65%, while Sao Paulo just 5%). Due to this, we want to highlight that it is possible to perform better, not because of a good financial management but because the lack of possibilities to take certain financial decisions like raising debt. This generates a kind of immunity to raise more debt that the region is capable to tolerate. In addition, we have to consider that since 2000, Brazil started to apply a new fiscal rules that generated several changes in the financial management of the regional government.

Following the analysis of the sub-national financial behavior index for each region, we calculated the gap resulting of the different performing between regions. In order to compare the countries between themselves, we created an index from the resulting gap through the max-min technique. In this way we can quantify from one to ten how was the path of the regional behavior in each country in the terms of this work. When the index is low, the gap between the regions is large in detriment to the poorest region. When the index is high, the gap between regions is small (or even negative) in detriment to the richest region.

At the same time, we observed the evolution of the regional divergence of richness in term of GDP per capita. In order to analyze this, we created the Regional Ratio Index that measure, between from one to ten, the economic divergence between regions. As lower this index is, greater is the divergence between regions. As higher this index is, smaller is the divergence between regions.

In this way, we are able to use both indexes, the Financial Behavior Gap Index and the Regional Ratio Index, to prove the relation between a good financial behavior and a reduction of economic divergence between the poorest and the richest regions. Then, we understand that when there is a reduction in the financial behavior gap between regions, at the same time, there is a reduction of the richness divergence.

The chart[4] N° 3 is showing the evolution of both indexes in Spain. As we can see, there is a change in the behavior since 2003, where a better financial performance in favor to the poorest region, Extremadura, has a positive impact in reducing the regional economic disparity with Cataluña.

[4] All charts where smoothed by the smoother T4253 from SPSS Statistics 19.0.

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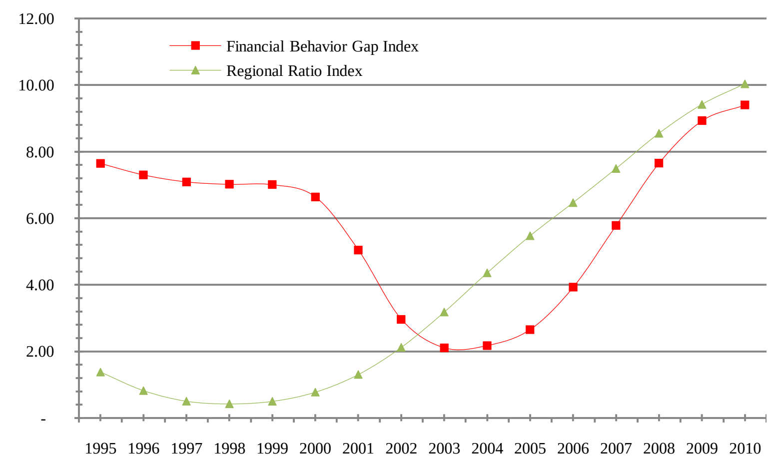
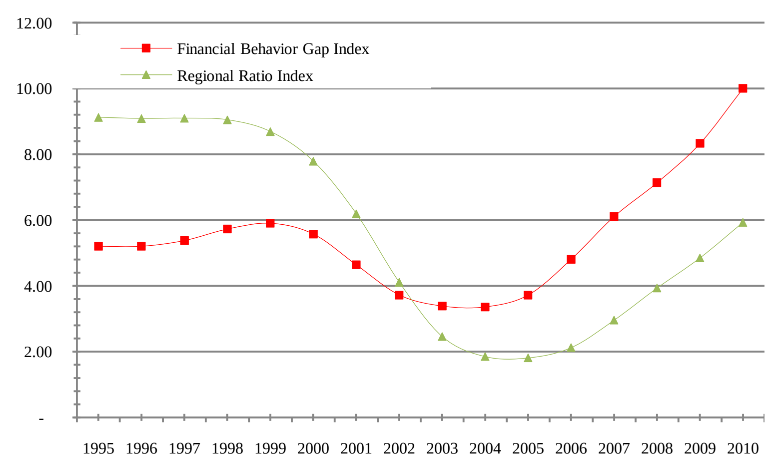
CHART N° 3: FINANCIAL BEHAVIOR GAP INDEX AND REGIONAL RATIO INDEX SPAIN - SMOOTHED SERIES - PERIOD 1995 - 2010



In Argentina (chart N° 4), we clearly see the impact of the economic crisis that increased the divergence between region in both indexes. Nevertheless, since 2004 both indexes show better performance in favor to the poorest region and there is a constant reduction of the richness divergence. Moreover, Formosa performed better than Neuquén financially speaking..

CHART N° 4: FINANCIAL BEHAVIOR GAP INDEX AND REGIONAL RATIO INDEX ARGENTINA - SMOOTHED SERIES - PERIOD 1995 - 2010



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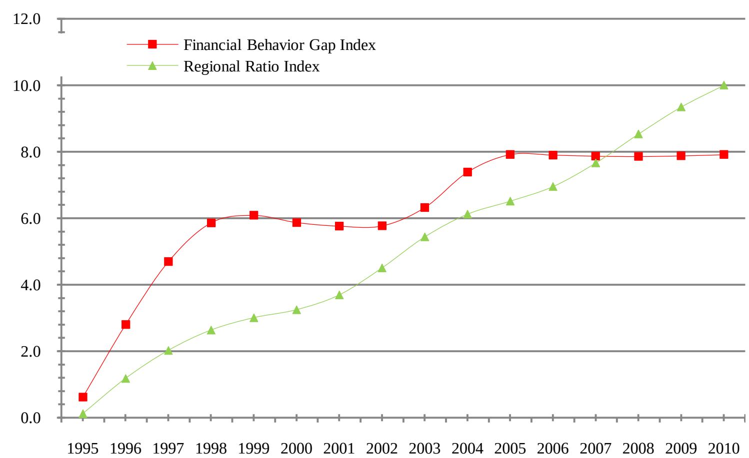
In overall terms, Brazil (chart N° 5) shows a constant improving of both indexes during the period. However, there are some stagnation moments (but not reduction) in the financial behavior gap, especially over the last years. In spite of this, the divergence in terms of GDP per capita is smaller each year. Due to this, the regional ratio index is always higher each year.

CHART N° 5: FINANCIAL BEHAVIOR GAP INDEX AND REGIONAL RATIO INDEX BRAZIL - SMOOTHED SERIES - PERIOD 1995 - 2010



Finally, we wanted to analyze the three countries together, therefore we made the average of both indexes. In the scatter plot below (chart N° 6) we see a clear uptrend since 2003/2004 in both indexes. While in the period between 1995 and 2000 there is a group of values that shows no trend (with the years 1998/99 and 2002 as outliers) Then we can distinguish two stages in the whole period, the first one between 1995-2001 and the following one between 2002-2010. Both indexes have significant positive correlation if we divide the period in that way.

CHART N° 6: SCATTER PLOT- FINANCIAL BEHAVIOR GAP INDEX (AVERAGE) AND REGIONAL RATIO INDEX (AVERAGE) - PERIOD 1995 - 2010

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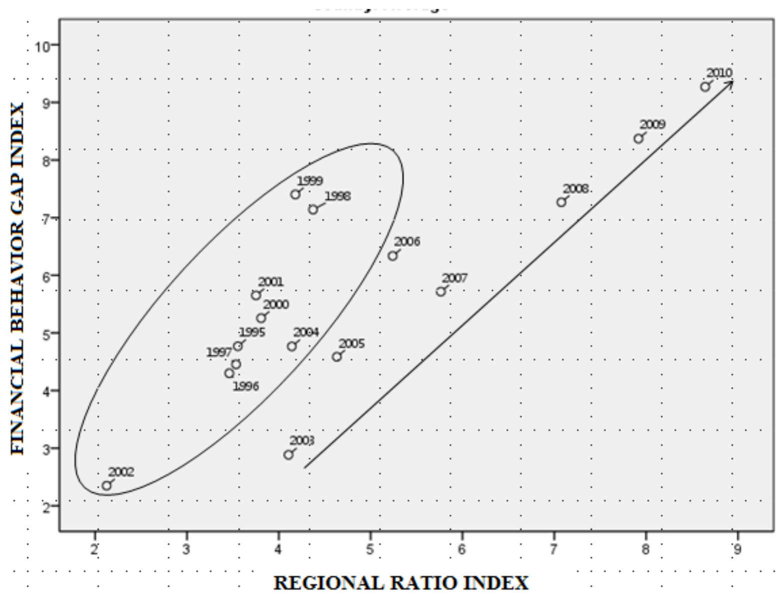

CONCLUSIONS

A good fiscal and financial management of the sub-national government appears to be one of the key to reduce the economic distance between the poorest and the richest regions in a country. There seems to be a high correlation between a good financial administration and a reduction of economic disparity between regions. There are positive effects of an harmonic and stable development that is highlights by several researches (Carmona, 2006; Alburquerque Llorens, 2004). If we believe that an harmonic development is one of the key to create more development, then the governmental administrations have a good reason to perform a good fiscal and financial management. A harmonic growing imply an strengthening of the competitive capacities of the productive system of a territory. Herewith, there are more probabilities to reduce the strong asymmetries related to economical and social development between regions. In addition, there would be a better territorial distribution of the industrial activity over the country.

A good economic and financial management appears to be a fundamental element. The sustainability of a balanced territory development implies a good management of the government in order to break the vicious circle of lack of social development and competitive abilities.

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