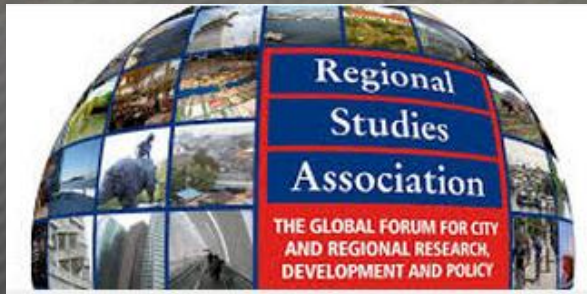


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Sub-national Economic Policy:
Fiscal self-dependence and economic growth
The cases of San Juan and Mendoza

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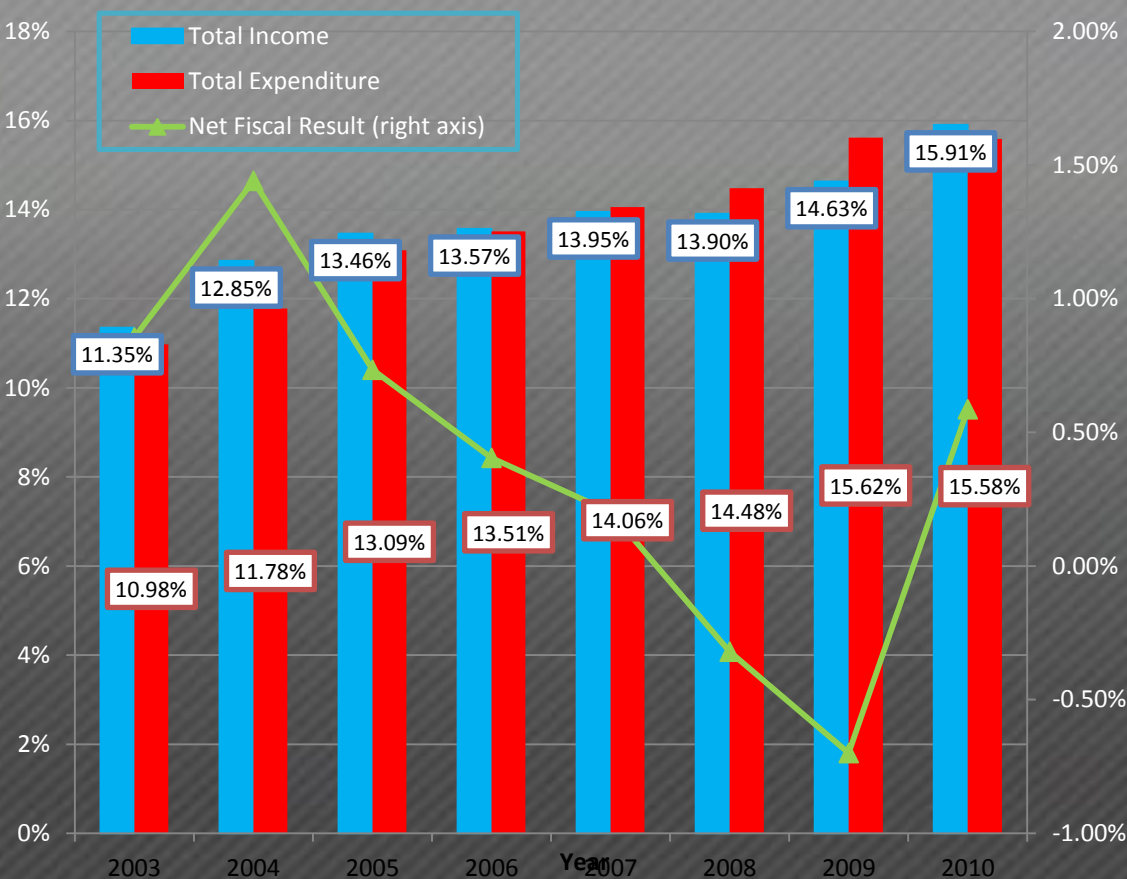
1 – State of Art

- Argentina is made up of 24 jurisdictions.
- There is a strong wealth gap between provinces (8,1 times)
- The decentralization process in two stages (1976-1983 and 1990-2001)

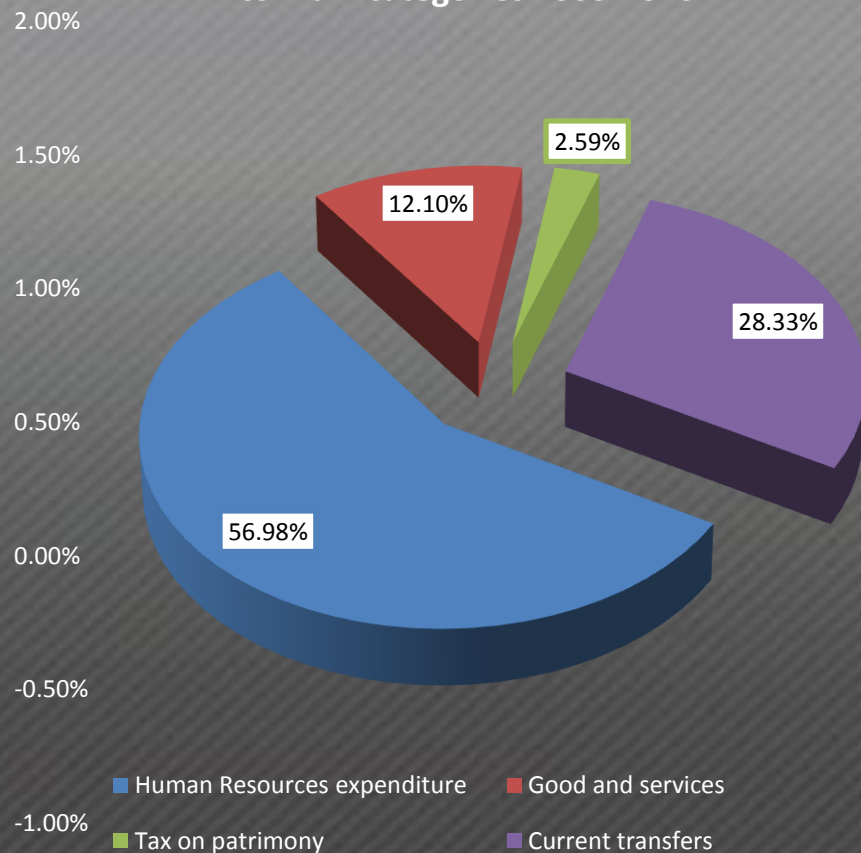
Government level	Functions and responsibilities
Federal/National	National Defense, Foreign Affairs, Foreign trade regulation, telecommunications and public services, higher education (although there are some provincial universities), Federal courts, national routes, health coordination and regulation, social security and coordination of primary education policies.
National and provinces together	Regional infrastructure and economic development, social protection.
Provinces	Primary schools, high school and non-University schools. Teacher training, provincial routes, provincial justice and social welfare.
Provinces and Local Governments together	Health and Civil Defense
Local Governments	Urban services, urban infrastructure, local social welfare, among others

2 - Taxation and economical structure of provinces in Argentina

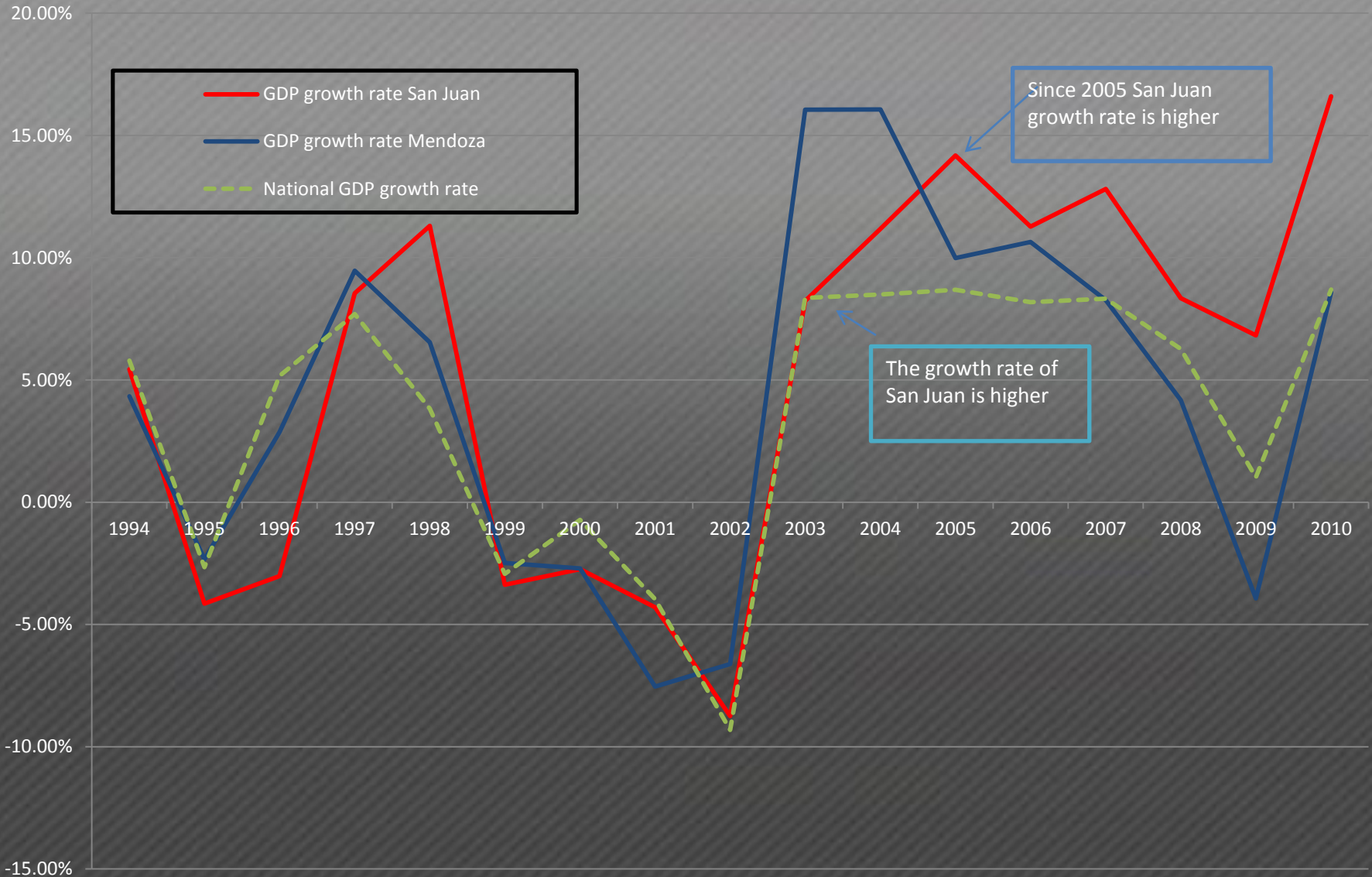
Evolution of expenditure and income for 24 Argentine provinces in terms of the current GDP. 2003-2010. (%)



Composition of the current provincial expenditure in 24 provinces according to main categories 2003-2010



3 – Growing Context: San Juan and Mendoza



4- Provincial Performance Index (PPI) Methodology and Results

Government Size (0,10)

- Total no financial expenditure over gross domestic product of the territory

Public expenditure financing (0,30)

- Own Tax Revenue over Total current revenue
- Own Tax Revenue over Provincial GDP
- Total current expenditure over Total current revenue

Direct state investment (0,20)

- Direct State investment over total income
- Direct State investment over total expenditure
- Direct State investment over regional GDP.

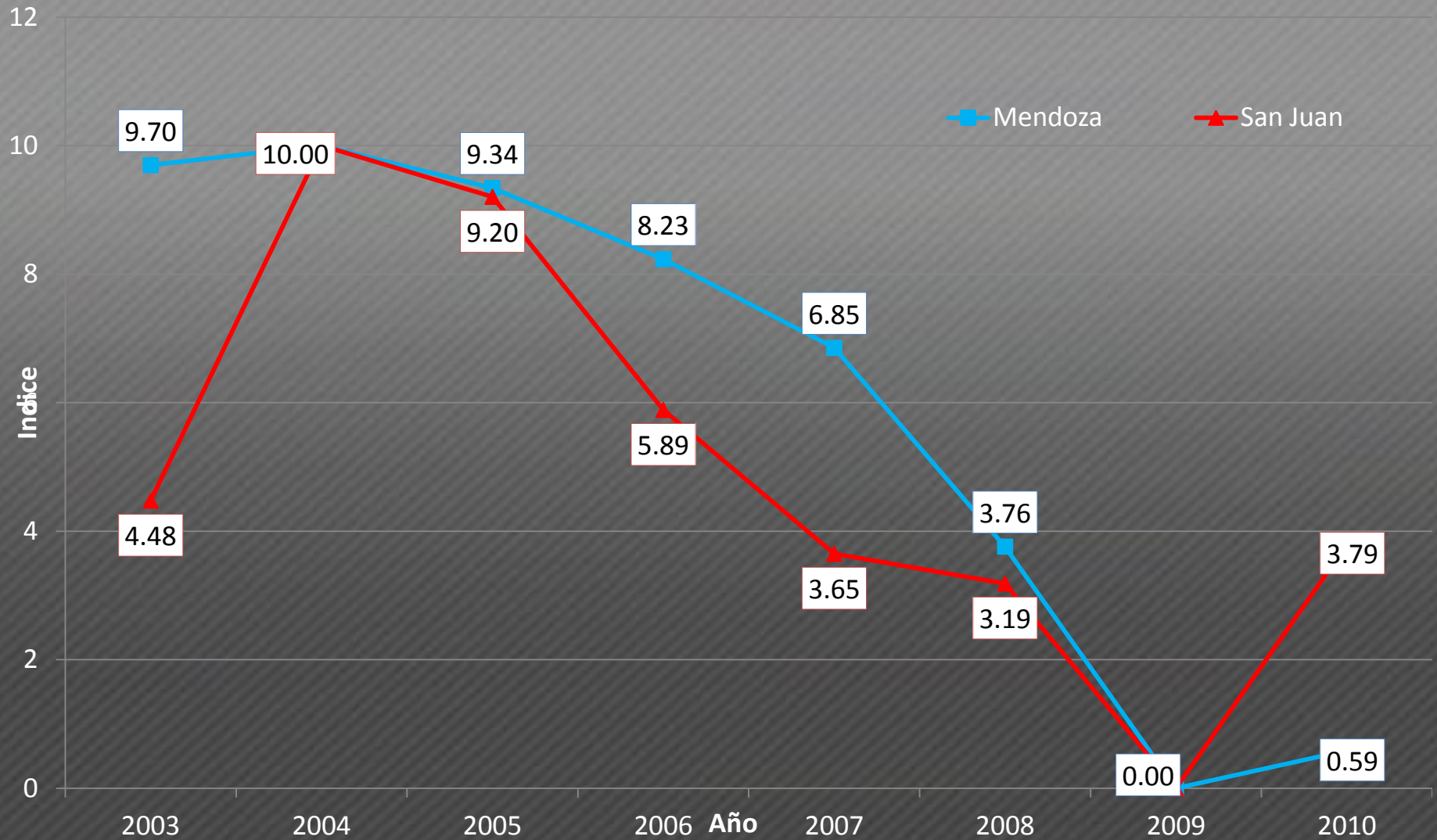
Labor market situation (0,10)

- Average Salary of public sector over GDP per capita of province
- Public employees over total population of province

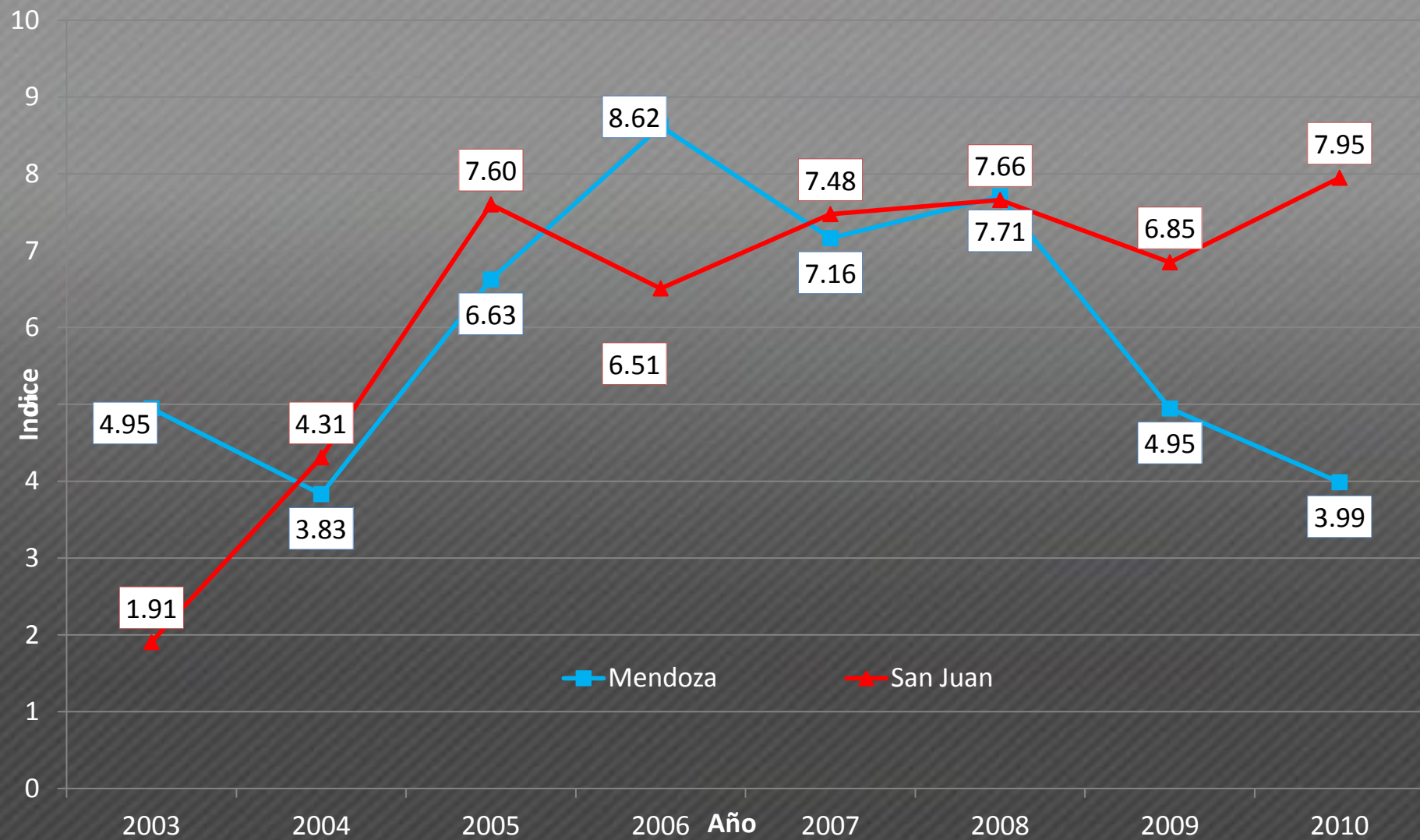
Debt (0,30)

- Liquidity: debt service over total own income.
- Sustainability: debt service over net current financial balance.
- Leverage: total long term debt over provincial gross product.
- Solvency: total long term debt over total own income

4- PPI Component: Government Size



4- PPI Component: Public expenditure financing



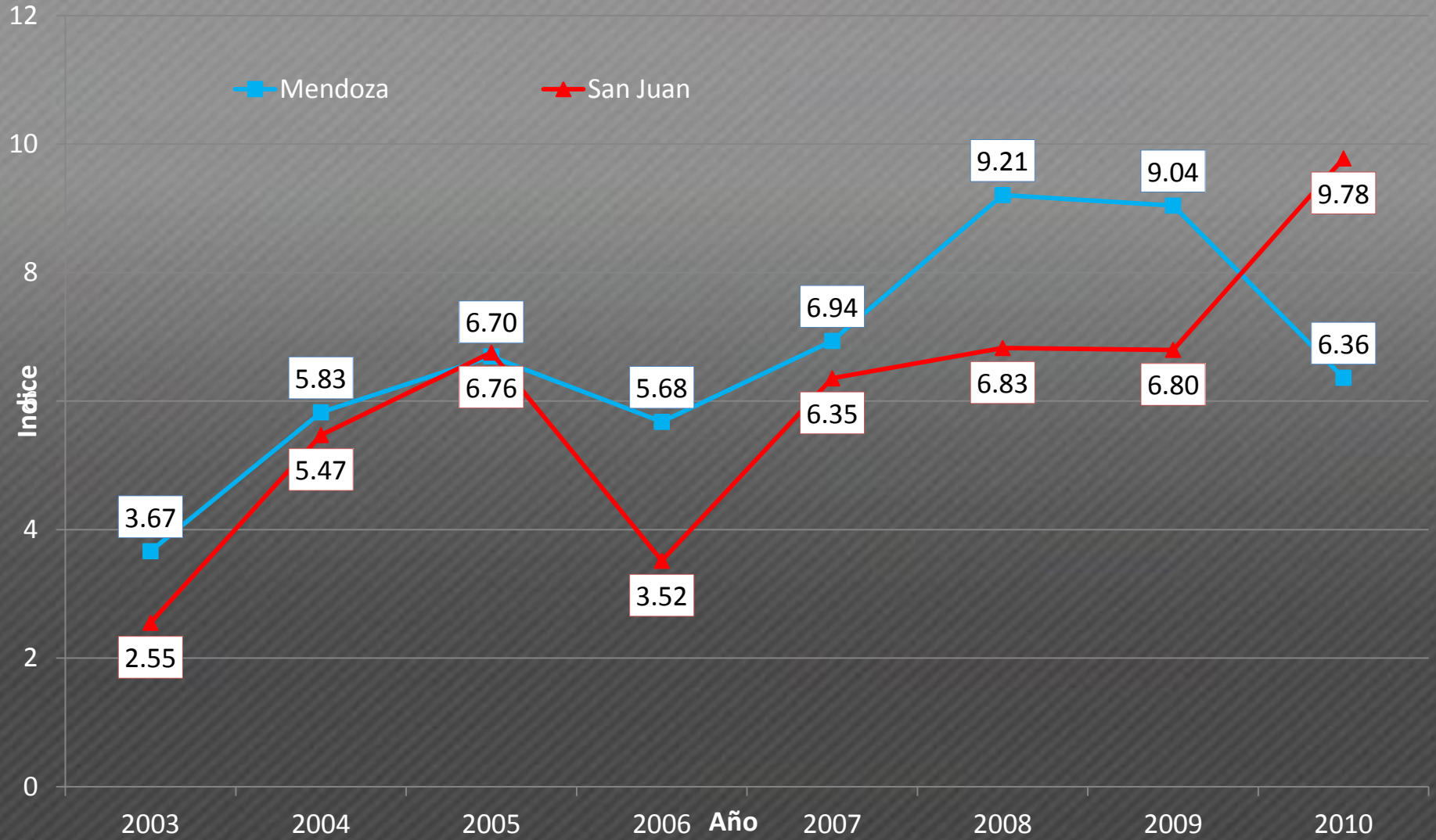
4- PPI Component: Direct public investment



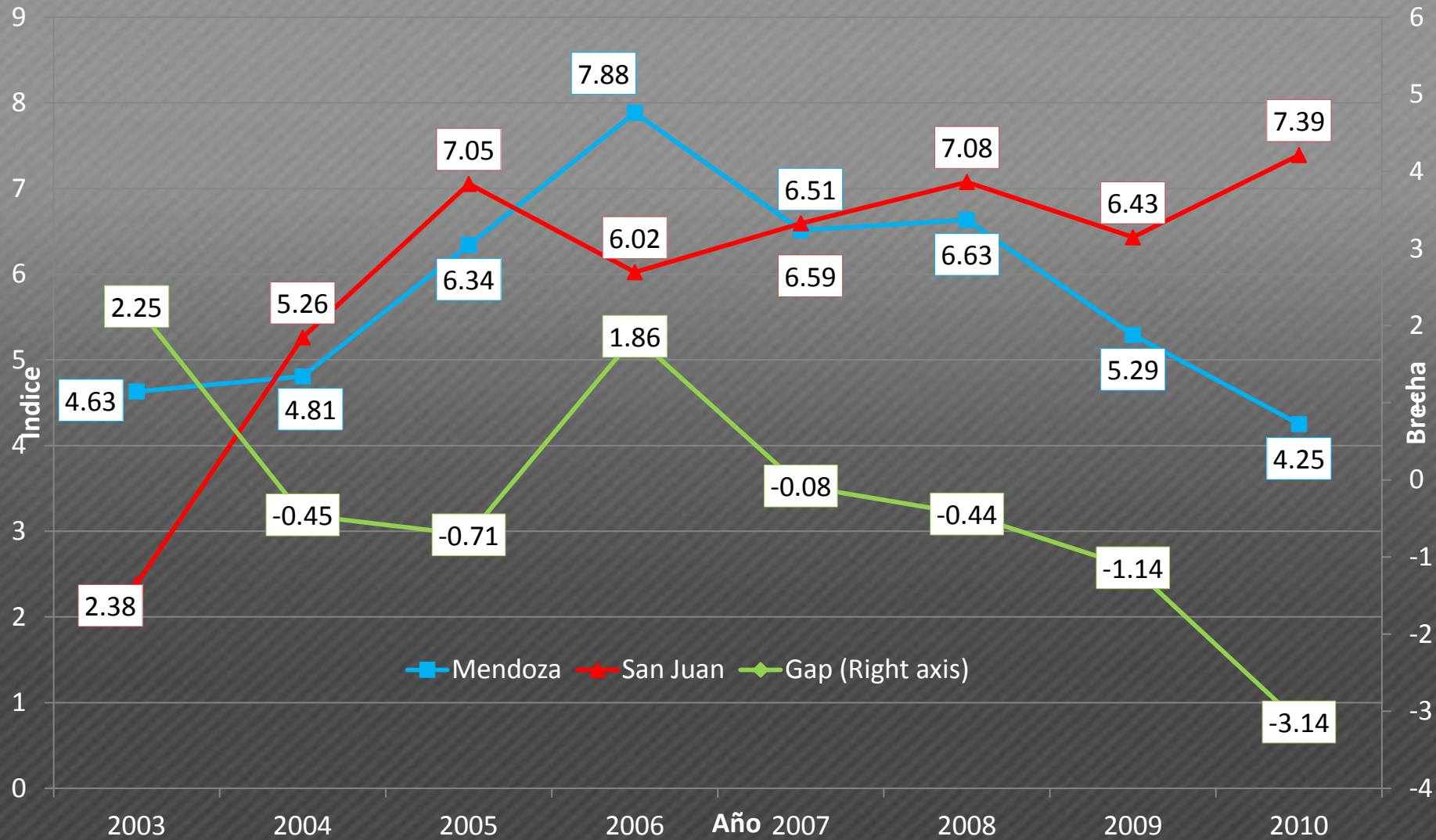
4- PPI Component: Labour Market



4- PPI Component: Debt



4- Provincial performance Index Results: Mendoza and San Juan



5- Conclusions

- We evaluated the financial behavior of San Juan and Mendoza through five structural components.
- We indexed those five components in order to make comparisons between them.
- During all the period we observed a huge improvement in San Juan along those five components.
- We could infer that the observed improvement in San Juan enables it to reduce the wealth gap with Mendoza.
- With a similar production matrix and same idiosyncratic identity, San Juan shows a better capacity of response than Mendoza. Moreover, the pro active role of San Juan enabled it to improve the public services in relative term to Mendoza.
- More economic freedom could be one of the reason for more growth.
- Further question for debate: With more financial dependence, is there less capacity for economic development?

Muchas Gracias
Thank you
Muito Obrigado

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