

Territory and Administration in Europe

edited by
Robert Bennett

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Contents

Preface	vii
List of contributors	ix
Part 1: Society and administration: the European context	
1 Territory and administration <i>Robert Bennett</i>	3
2 European economy, society, politics and administration: symmetry and disjuncture <i>Robert Bennett</i>	8
Part 2: Territory and function: an overview	
3 Stimuli to administrative reform <i>Robert Bennett</i>	33
4 Assignment of competency and resources <i>Robert Bennett</i>	54
5 Management by territory and the study of administrative geography <i>Adriaan Bours</i>	72
Part 3: Present and futures: case studies of socialist democracies	
6 An overview of east European developments <i>Éva Perger</i>	93
7 Administrative reforms in eastern Europe: an overview <i>Marie-Claude Maurel</i>	111
8 The USSR: territorial and administrative structure <i>Igor Ushkalov and Boris Khorev</i>	124
9 Poland: searching for increasing economic effectiveness <i>Maria Ciechocińska</i>	138
10 Hungary: developments in local administration <i>Zoltán Hajdú</i>	154
11 Czechoslovakia: the development of public administration <i>Olga Vidláková and Pavel Zářecký</i>	168

vi Contents

12 Bulgaria: administrative division and territorial management <i>P. Popov and Z. Demerdjiev</i>	180
13 The German Democratic Republic <i>Joachim Bräuniger</i>	191
Part 4: Present and futures: case studies in liberal democracies	
14 Spain: regional and local government <i>J. Solé-Vilanova</i>	205
15 The Netherlands: changing administrative structures <i>Hans Blaas and Petr Dostál</i>	230
16 France: shifts in local authority finance <i>Guy Gilbert and Alain Guengant</i>	242
17 West Germany: from decentralization in theory to centralization in practice <i>Gerhard Bahrenberg</i>	255
18 Finland: present and futures in local government <i>Eero Nurminen</i>	271
19 Belgium <i>Robert Seurin</i>	284
Part 5: Future agendas	
20 Territory and administration: towards a future research agenda <i>Robert Bennett</i>	303
Index	314

14 Spain: developments in regional and local government

Joaquim Solé-Vilanova *

Introduction -

In the last thirty years, economic and social changes have significantly affected the territorial structure of government and public administration in Spain. However, it is political factors and, in particular, the approval of a new democratic constitution in 1978, that have generated the major transformations of Spanish subcentral government. The aim of this chapter is to describe the recent developments of the Spanish territorial governments, with particular attention to those derived from constitutional reform, and to analyse the economic and social factors which have caused the different changes, or have obstructed or delayed what the author believes would be the necessary reforms.

Background

Spain has traditionally been a monarchy, but in 1931 when the majority of Spaniards revealed a preference for the republican idea in municipal elections, King Alfonso XIII abandoned the country. A republican regime was immediately proclaimed, but in 1936 a *coup d'état* led by General Franco meant a three-year civil war and the burial of the republican system. The victory of General Franco involved a dictatorial regime that lasted till his death in 1975. His successor, King Juan Carlos I — grandson of Alfonso XIII — rapidly proved to be a man firmly committed to leading the country to a parliamentary monarchy. This goal was achieved in 1978 with the approval of a new democratic constitution, which defines the powers of the king as head of state, the legislative body (congress and senate), the executive government and the judiciary.¹

After twenty years of autarky, Spain enjoyed a period of rapid economic growth during the 1960's and 1970's. This growth was accompanied by

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strong migration from most rural regions to the traditional industrial regions (Catalonia and the Basque Country) to the new industrial areas of Madrid and Valencia and to European countries like Germany, France and Switzerland. Simultaneously, the production of the agricultural sector declined from generating 18.4 per cent of total GDP in 1964 to 10.1 per cent in 1974, and 6.1 per cent in 1986. During the same years, the production of the industrial sector was 37.4 per cent, 40.8 per cent and 35.5 per cent, and the production of the service sector was 44.2 per cent, 49.1 per cent and 58.4 per cent, respectively. Economic disparities between regions have always been significant and the economic growth of the sixties and seventies has tended to reduce them slightly but not sufficiently.²

The dimension of the public sector has increased significantly in the last fifteen years. Public expenditure represented 24.7 per cent of GDP in 1975 (the year General Franco died), but rose to 37.2 per cent in 1982 and to about 42 per cent in 1987. On the one hand, the rapid growth of the public sector was caused by an increasing demand for public services, redistributive territorial policies, unemployment and industrial subsidies and interest payments. This demand for public services was particularly high at the time when political parties, trade unions and local associations were legalized and began their lobbying activities. On the other hand, the financing of the expenditure generated was made possible thanks to two successful tax reforms (the reform of personal and corporation income taxes in 1978, and the substitution of a value-added tax for a turnover tax in January 1986 at the time of Spain joining the European Community) and by incurring in large deficits (up to 6.7 per cent of GDP in 1985) which have recently been reduced (to 3.3 per cent of GDP in 1988).

Spain is outstanding in the variety of its regions, despite the fact that its effective political unification took place nearly three hundred years ago. Besides the traditional differences in income and economic activity, there is strong diversity in culture between regions. The different languages spoken by the Basques, Catalans and Galicians, the political institutions that some regions (Catalonia, Aragon, Valencia and Mallorca) retained till the eighteenth century or the fiscal charters the Basque Country and Navarre benefited from till the twentieth century have always induced in their citizens a special sense of political identity.³

Regional and local government before 1978

Regional and provincial governments

Since the beginning of the eighteenth century, Spain had not had any regional government, though there was one significant exception. During the Second Republic (1931-9), Catalonia in 1932 and the Basque Country in 1936 were granted a regional statute of political autonomy. Galicia was also in the legal process of receiving a statute, but the civil war made its final approval impossible and the actual outcome of the war put an end to the whole experience of regional government.

Table 14.1 Levels of government in Spain

Before 1978 constitution	After 1978 constitution
Central government	<ul style="list-style-type: none"> - Central government - Regional government^a: <ul style="list-style-type: none"> Autonomous communities: 17 <ul style="list-style-type: none"> ● AC with 'high' responsibilities <ul style="list-style-type: none"> multi-province: 6 single-province: 1 ● AC with 'low' responsibilities <ul style="list-style-type: none"> multi-province: 4 single-province: 6
Local government ^a : <ul style="list-style-type: none"> ● Provinces: 50; Island Councils^b: 7 ● Municipalities: 8,022 ● Metropolitan Counties^d: 1 ● <i>Mancomunidades</i>^f: 124 ● Parishes and other sub-units: 3,486 	<ul style="list-style-type: none"> - Local government:^a <ul style="list-style-type: none"> ● Provinces 43; Island Councils^c: 10 ● Municipalities: 8,022 ● Metropolitan Counties^d: 2; Counties^e: 41 ● <i>Mancomunidades</i>^f: 287 ● Parishes and other sub-units: 3,486

- Notes: a. Autonomous Communities, provinces and municipalities cover the whole Spanish territory. However, since the approval of the constitution seven provincial governments have become regional governments, undertaking the provincial responsibilities as well.
- b. In the Canary Isles, seven island councils replace the two formal provincial units.
- c. In the Canary Isles and the Balearic Isles, seven and three island councils replace the provincial units, respectively.
- d. One metropolitan county is in the area of Barcelona and was created in 1974 and reformed in 1987. Another metropolitan county was created in the area of Valencia in 1987.
- e. All forty-one counties or *comarcas* were established as a new tier in the region of Catalonia in 1987.
- f. *Mancomunidades* are multipurpose associations of municipalities. In other countries they are known as *syndicats* (France), *consortia* (Italy), *Zweckverbände* (Germany), or councils of government (USA).

Provincial administration was established throughout Spanish territory in 1823, under the influence of French territorial reform. In 1833 Spain was divided into forty-nine provinces, rising to fifty in 1927. The division was easily accepted in many areas, but was found rather artificial in regions like Catalonia, Valencia and Aragon. For about one hundred years, provinces acted as agents of central government and the controllers of municipalities. However in 1925 provincial administration was reformed.

Provinces, though with very limited autonomy, strengthened their local government profile and changed their dominating relations with the municipalities. Since then, provincial governments have been responsible, in conjunction with central government, for highways, hospitals, cultural and social activities and technical and economic assistance to municipalities.

All provincial governments (*Diputaciones*) had equal powers and responsibilities. The exceptions were the three provinces of the Basque Country and the province of Navarre. These provinces retained advantageous historical charters on fiscal and economic matters, though only one Basque province (Alava) and Navarre retained the historical charters during Franco's regime. Another exception was made in the 1970s, when the government of the two provinces of the Canary Isles was replaced by seven island councils. (Table 14.1 offers a full picture of the structure of government as it was just before the approval of the constitution in 1978.)

Municipal government

The present structure and conception of the Spanish municipalities date back to 1812. The prevailing political philosophy was that each village, no matter what size, should have its municipal government (*Ayuntamiento*). The outcome of that policy was that more than 9,200 came into being. The municipal division was well accepted in most parts of the country, but was not necessarily the best political solution in regions like Galicia and Asturias where the population was, and still is, extremely scattered.

During the nineteenth century, municipalities were tightly controlled by provincial governments, but in 1924 municipal governments gained some degree of autonomy, although they continued being aided by provincial governments. In later years, municipal governments had progressively taken responsibility for town planning and urban development, sanitation and recreation activities. Some large municipalities also found themselves involved in educational activities, urban transport and in the provision of health and social services. Financial resources have always been scarce at local level, but political life and interest in local affairs have usually been significant.

Spain had 9,267 municipalities in 1900. The number of municipalities did not drop till the mid-60's when a realistic but timid policy of merging or amalgamating municipalities was implemented. By 1975, when this policy was interrupted, more than one thousand municipalities had disappeared (mainly because many villages which had lost most of their population were forced to amalgamate) and the total number of municipalities had dropped to 8,194. Nevertheless, almost 6,000 municipalities (73 per cent) still had fewer than 2,000 inhabitants and only 523 (6.4 per cent) had more than 10,000 inhabitants. Ten years later the number of municipalities tended to increase slightly (8,056 in 1986), after falling to 8,022 municipalities in 1981.

Before 1978, the level of responsibilities of municipal government was

the same throughout the country. A consequence of this was that the large municipalities wanted more responsibilities, whereas the small municipalities were unable to provide a minimum level of services. This situation worsened in the 1960's and 1970's.

In 1975 the number of *mancomunidades* or multi-purpose voluntary municipal associations (joint boards) was only 124. This is quite in accordance with the low intermunicipal relation or co-operation that has always prevailed among Spanish municipalities. Parishes and other submunicipal units of government number 3,486. They are common in the northwest of Spain (Galicia, Asturias, Cantabria and Castile-Leon) where population is scattered, and are more scarce in the rest of the country.

In 1960 the municipality of Barcelona and in 1963 the municipality of Madrid were given special charters which meant additional fiscal powers and responsibilities. In 1974, the first multi-purpose metropolitan authority was created in the area of Barcelona. This metropolitan authority was a new tier over twenty-seven municipalities, and its government had responsibilities for urban planning, transport, water and sanitation. In the area of Madrid a metropolitan government was not created because a different policy had been applied. Between 1947 and 1954 Madrid absorbed thirteen neighbouring municipalities. This merger provided the municipal government of Madrid with a much larger area in which to act.⁴ Moreover, in 1963 an autonomous agency (COPLACO) with the responsibility of urban planning in the conurbation of Madrid (twenty-three municipalities) was created by central government and kept under the control of the ministries.⁵ Hence the metropolitan government became unnecessary for the conurbation of Madrid.

Regional government after 1978⁶

The approval of a new constitution in 1978 meant not only the restoration of parliamentary democracy, but also the viability of regional government in Spain. However, the constitution does not list the regional jurisdictions, nor does it state that this new level of government has to be established throughout the country. The constitution simply offers two procedures by which the parliamentary representatives of a single province or a group of provinces can initiate the process of the creation of a regional government or autonomous community.

The first procedure was intended for those historical regions (Catalonia, the Basque Country and Galicia) that had been in the legal process of devolution in the 1930s. The procedure was also open to other regions or provinces provided that they went through a more complicated legal process. The second procedure was much easier to follow for any province or group of provinces that wanted to form a regional government. The final result was, in many cases, similar because both procedures ended with the approval of a regional statute and the creation of an autonomous community, but it was not equal, because the level of responsibilities that the autonomous community can exercise is different. Those statutes that

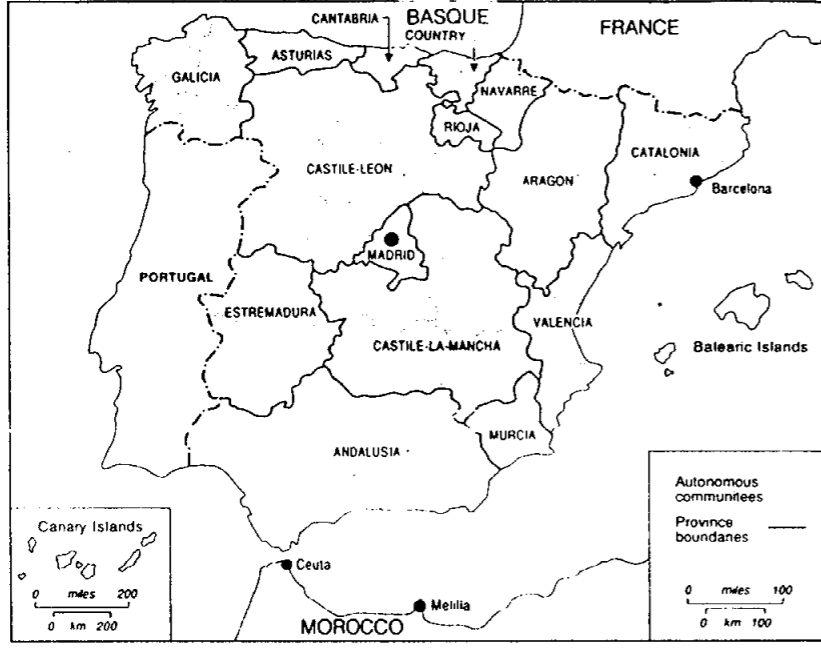


Figure 14.1 The Regions (Autonomous Communities) and Provinces.

were achieved by some autonomous communities through the final procedure — via Article 151 of the constitution — contained a 'high' level of responsibilities. Those statutes obtained through the second procedure — via Article 143 — entitled them to a 'low' level of responsibilities, at least for several years.⁷

In 1978, when the constitution was being written, the regions which were expected to claim political autonomy were the more conflictive nationalist regions of the Basque Country and Catalonia, and Galicia. It was also supposed that a further two or three regions would demand some degree of autonomy. However, when the statutes of the Basque Country and Catalonia received their final approval in 1979, a kind of 'demonstration effect', as economists would call it, took place, and the claims for autonomy proliferated. Between 1981 and 1983 fifteen new statutes were approved and the same number of autonomous communities were created.⁸ At the end of the process of devolution the entire Spanish territory had a new level of government. The only exceptions were the two towns situated in northern Africa. See Figure 14.1 and Tables 14.2 and 14.3 for details of the seventeen autonomous communities that now constitute the new regional level of government in Spain.⁹

Table 14.2 Regional government in Spain: general and economic factors

Autonomous Community	Population (1986)		Area		Income per capita (1985) ^b US\$	Net migration ^c People (thousands)		
	People	%	Km ²	%		1961-75	1976-80	1981-5
Andalusia	6,789,772	17.6	87,268	17.3	4.5	-1,041.6	-53.9	162.9
Aragon	1,184,295	3.1	47,669	9.4	6.6	-48.1	9.9	7.4
Asturias	1,112,186	2.9	10,565	2.1	6.5	-17.4	-4.0	-23.3
Balearic I.	680,933	1.8	5,014	1.0	8.2	-28.3	28.3	90.1
Canary I.	1,466,391	3.8	7,273	1.4	5.2	137.4	-39.6	108.9
Cantabria	522,664	1.4	5,289	1.0	6.3	-12.7	-1.9	0.6
Castile-Leon	2,582,327	6.7	94,147	18.6	5.8	-627.2	-25.4	-15.7
Castile-La Mancha	1,675,715	4.4	79,226	15.7	4.6	-904.6	-57.9	-15.8
Catalonia	5,978,638	15.5	31,930	6.3	6.7	947.1	39.2	-72.9
Extremadura	1,086,420	2.8	41,602	8.2	4.0	-494.1	-45.3	1.7
Galacia	2,844,472	7.4	29,434	5.8	5.0	-220.1	-12.7	-56.1
Madrid	4,780,572	12.4	7,995	1.6	6.8	996.7	31.9	8.6
Murcia	1,006,788	2.6	11,317	2.2	4.9	-109.1	17.4	18.9
Rioja	260,024	0.7	5,034	1.0	7.6	-14.9	4.6	3.3
Valencia	3,732,682	9.7	23,305	4.6	5.8	476.9	72.7	40.5
Navarre	515,900	1.3	10,421	2.1	7.0	120.3	15.8	-4.4
Basque Country	2,136,100	5.6	7,261	1.4	7.2	320.3	-40.8	-53.9
Ceuta and Melilla ^a	117,539	0.3	32	0.0	4.0	n.a.	n.a.	n.a.
Spain	38,473,418	100.0	504,782	100.0	5.8	-623.9	-72.7	200.8

Notes: a. Ceuta and Melilla are territories in northern Africa

b. 1 US\$ = 115 pta

c. The Spanish totals represent net migration with respect to foreign countries

Sources: Instituto Nacional de Estadística and Ministerio de Economía y Hacienda

Table 14.3 Regional government in Spain: political indicators

Autonomous community	Self-government statute Year	Expenditure functions ^b		System of finance ^c	Regional taxes ^e	Senators in central parliament/ Direct Reg. parl.		Provinces Municipalities		Other local tiers (potential) ^g
		Level	Education Health Police			No.	No. (1986)	No.	No. (1986)	
Andalusia	1981	H	D	C	LT	32	7	8	764	CO
Aragon	1982	L	D	C		12	2	3	727	CO
Asturias	1981	L		C-P		4	2	1	78	CO, MET, PA
Balearic I.	1983	L		C ^d		5	1	1	66	IC ^h
Canary I.	1982	H	D	C	OT	11	2	2	87	IC ^h
Cantabria	1981	L		C-P		4	1	1	102	CO
Castile-Leon	1983	L		C		36	3	9	2,248	CO
Castile-La Mancha	1982	L		C		20	2	5	916	CO
Catalonia	1979	H	D	C	GT, GS	16	6	4	940	CO, MET ^h
Extremadura	1983	L	D	C		8	2	2	380	CO
Galacia	1981	H	D	C		16	3	4	312	CO, PA
Madrid	1983	L		C-P		4	5	1	178	SM
Murcia	1982	L		C-P	GT, GS	4	2	1	45	CO, MET
Rioja	1982	L		C-P		4	1	1	174	CO
Valencia	1982	H	D	C	GT, GS	12	4	3	536	CO, MET
Navarre	1982	H	D	S-P		4	1	1	265	
Basque Country	1979	H	D	S	IS	12	3	3	236	
Ceuta and Melilla ^a	-	-	-	-	-	4	-	-	2	SM
Spain	-	-	-	-	-	208	47	50	8,056	-

Notes: a. Ceuta and Melilla are territories in northern Africa.

b. H = High; L = Low; D = Decentralized; E = Expected in the near future. Regional police concurs with central police.

c. C = Common; S = Special; P = Provincial revenues.

d. Formally, the Balearic Isles constitute one province, but provincial revenues are used to finance insular councils and not the regional government.

e. LT = Land Tax; OT = Oil Tax; GT = Gambling tax; GS = Gambling Surcharge; IS = Income Surcharge (levied in the Basque Country in 1984 only).

f. Senators are elected by direct voting of people of each province, or by the regional parliaments.

g. CO = Counties; MET = Metropolitan councils; PA = Parishes; IC = Insular Councils; SM = Supra-municipalities (not specified).

h. These tiers have already been created by the regional parliament.

Local government after 1978

The 1978 constitution did not lay down any specific reform of the existing system of local government. It merely stated that provinces and municipalities will be the two tiers of local government that will have to be retained throughout Spain.

From a political perspective, the changes in the system of local government that have taken place since the approval of the constitution are due to several different factors: first, the creation of the regional level of government that inevitably affected the allocation of responsibilities to the different territorial governments; second, the approval of the 1985 Local Government Act by central parliament which regulates basic aspects of provincial and municipal government; third, the power possessed by regional parliaments to reform local administration which some

Each statute defines the regional institutions including the president, the parliament and the executive government of the autonomous community.¹⁰ The statute also lays down the responsibilities and the taxing powers devolved to the autonomous community. Seven communities have a 'high' level of responsibilities and the other ten have a 'low' level of responsibilities. In terms of expenditure the main differences between the communities with a 'high' level and the communities with a 'low' level can be found in the areas of education and health. The power to tax is the same in fifteen autonomous communities, and conspicuously different in the Basque Country and Navarre.¹¹ Finally, seven autonomous communities have formed from only one province. This means that the old provincial institutions and resources are now integrated in the new regional statutory institutions and budgets, respectively.¹² (See Tables 14.1 and 14.3.)

Regional parliaments can pass laws and their level of political autonomy is quite considerable. However, the power of the government of an autonomous community is subordinated in many ways to the power of the central government, despite the faculties guaranteed to the regional governments by the statutes and the constitution. The senate, for instance, is known as the house of territorial representation, but its role as protector of the interests of the autonomous communities has been nil. The first explanation of this is the prevailing role — stated in the constitution — of the congress over the senate on any subject, which results on an upper house performing a subsidiary and not very active role as a legislative power. A second explanation is the way senators are elected: four by direct election for each province (not for the autonomous community!),¹³ and one elected by the regional parliament of each autonomous community, plus one for each million of the population elected in the same way. The result is that less than a fifth of the senators have a regional basis, a situation that is clearly reflected in the present attitudes expressed in the Spanish senate. (See Table 14.3 for the distribution of senators among the autonomous communities.)

autonomous communities have already exercised. Finally, one has to stress that the rapid economic and social transformation of the country required important reforms in local administration that would have been undertaken whatever the political circumstances because they were urgently needed, irrespective of any future constitutional change.

Local government has a double dependence and relationship. Both central and regional governments can regulate different aspects of local administration, and also both levels of government are supposed to provide local authorities with tax power and financial resources.¹⁴

Provincial government

The provincial division is well rooted in most autonomous communities, so that provincial governments are likely to have an important role in most parts of Spain even with the new presence of the regional government. However, regions like Catalonia, which has never completely accepted the provincial division, would have preferred the provincial level to be optional. Technically, this stance is quite correct once the regional tier has been created.

Formally the number of provincial authorities (*Diputaciones*) has been reduced by seven since the approval of the constitution. This is so because those single provinces which became autonomous communities had their provincial institutions absorbed by the regional government.

Municipal government

According to the constitution and the statutes, most regional governments are vested with the power to alter municipal boundaries and create new municipalities or amalgamate others. In recent years, some regional governments have had difficulties in containing the demands of some localities which have sought separation from their municipality so as to form a new and independent municipality of their own. The result of this has been that the tendency in the last thirty years for the total number of Spanish municipalities to decrease has now been reversed. A minimum of 8,022 municipalities was reached in 1981, but by 1986 the number of municipalities had already risen to 8,056.

Since the first democratic municipal elections of April 1979, co-operation between municipalities has improved considerably. The number of *man-comunidades* or multi-purpose voluntary associations of municipalities (joint boards) rose from 124 in 1975 to 287 in 1987.

The parliaments of most autonomous communities have the power to create supramunicipal units of government (counties and metropolitan councils) or inframunicipal jurisdictions (parishes). (See Table 14.3.) The government of Catalonia, for example, has been the first to undertake an important territorial reform with the creation of a new supramunicipal level of government. In 1987 forty-one counties or *comarcas* were created,

covering the whole Catalan territory. Their responsibility is to provide the small municipalities with the supramunicipal services and basic municipal services that they cannot provide themselves. The intention of the present government of Catalonia is to substitute the county tier for the provincial tier in the medium term.

The metropolitan county of Barcelona, created in 1974 by the central government and covering an area of twenty-seven municipalities, has recently been transformed by the regional government of Catalonia into two single-purpose metropolitan districts. One metropolitan district, which covers eighteen municipalities, is now responsible for transport and the other metropolitan district, which covers thirty-two municipalities, is responsible for water and refuse disposal. The real causes of the reform have been political and not technical, and one can see some parallel between the transformation of the metropolitan county of Barcelona and the abolition of the Greater London Council in 1986. A return to a multi-purpose metropolitan authority can be expected in the future.

Madrid — with a very large municipality since 1954 — has, with the creation of the single-province autonomous community, virtually rejected the creation of a metropolitan county. Since the 1960s there has been an autonomous agency (COPLACO) responsible for urban planning and developments which was initially dependent on the ministry of highways but which in 1983 shifted its responsibilities to the new autonomous community. However, the so-called 'metropolitan area' of Madrid now covers an area of twenty-six municipalities.

In the area of Valencia, a new multi-purpose metropolitan county covering forty-four municipalities was created by its regional government in 1987. However, in the Basque Country in 1980 the regional government abolished the inactive autonomous agency created in 1946 without bringing in any alternative to the nineteen municipalities that it covered.¹⁵

Assignment of responsibilities between levels of government

During the dictatorship of General Franco, Spanish public administration was highly centralized. Education, health services and public housing, for instance, were mainly provided by central government. Provincial governments provided some minor health and educational services, and shared the responsibility for highways with central government. The main concern of municipalities was town planning and urban development.

In the mid-seventies there was increasing pressure for decentralization. It is quite likely that, even without constitutional reform, sooner or later the provision of some services would have been transferred to lower levels of administration. Thus one is inclined to believe that the claims for devolution from most parts of Spain would have been less vociferous or even non-existent if a much higher degree of decentralization and participation had already been in operation at the time of approval of the constitution.¹⁶ This does not apply to the Basque Country and Catalonia which had persistently claimed self-government in addition to administrative decentralization.

The approval of the constitution (1978), the regional statutes (1979–83), and the Local Government Act (1985) have brought about the reallocation of expenditure responsibilities between the different levels of government. Defence, foreign affairs, economic stabilization, and pensions and unemployment subsidies are functions of central government. Law and order are also a responsibility of central government, but policing is shared with the regional government in the Basque Country, and to some extent in Catalonia.

Education and health services are provided regionally in those autonomous communities with a 'high' level of responsibilities, and provided centrally in the autonomous communities with a 'low' level of responsibilities. Highways and transport, housing and social services and development incentives are provided by central and regional governments, and to a certain extent by provincial and municipal governments. Community services, sports facilities and cultural activities are the responsibility of regional, provincial and municipal administrations. Town planning and urban development, parks and recreation activities, sanitation and water are the task of municipal governments. Large towns are also involved in minor educational activities and in welfare services.

The allocation of responsibilities between levels of government is not clear-cut. Some are duplicated particularly at regional and provincial level. Large municipalities are also involved in activities which are normally allocated to higher levels of government.¹⁷ The 1985 Local Government Act was quite flexible about the allocation of responsibilities to the municipalities. The level of compulsory responsibilities depends now on the size of the municipality. Beginning with a minimum of responsibilities for all municipalities including those with fewer than 5,000 inhabitants, the larger the municipality the higher the level of compulsory responsibilities. However, the law was intentionally ambiguous about the additional areas in which municipalities could become involved. This ambiguity possibly meant the loss of a good opportunity to reduce the present overlap between some municipal activities and provincial and regional activities.

The degree of decentralization generated by the constitutional reform is quite significant and it is expected to increase in the coming years. In terms of public expenditure, central government dropped from 90.2 per cent in 1978 to 76.3 per cent in 1986; regional government rose from nil in 1978 to 12.0 per cent in 1986; and local government has increased from 9.8 per cent in 1978 to 11.7 per cent in 1986. These variations took place while the Spanish public sector was rising from 27.5 per cent of GDP in 1978 to 42.0 per cent of GDP in 1987.¹⁸

Nevertheless, the allocation of expenditure responsibilities and the degree of decentralization do not reflect the effective distribution of power between levels of government. The distribution of power depends on multiple legal, financial and administrative factors. Central and regional parliaments can approve ordinary laws, which are of equal rank. However, central government has the right to set the 'basic legislation', which ranks higher, in areas like education, health, law and order, the civil service, etc., and also on any topic that may be of 'general concern', or may affect basic rights

such as liberty and equality or the unity of the economic market.¹⁹

Other factors which determine the effective distribution of power are the allocation of taxes among levels of government and the resulting financial dependencies or autonomy of each of them. It will be seen below that the autonomous communities depend, to a great extent, on granted revenue because the regionally collected taxes are not very significant and the actual capacity to levy new taxes is very limited. This situation is aggravated by the network of specific grants, set by central government when the public administration was highly centralized, and which has not been completely dismantled.

Regional and local finance²⁰

Before the 1978 constitution local government had a very limited tax power. After the constitutional reform and establishment of regional government, most of the taxing power has remained in the hands of central government. This is so because the constitution states that the power to tax is initially vested in central government. Customs duties are the only taxes which are specifically allocated to central government by the constitution, and any other tax field could be assigned to other levels of government. However, any regional or local power to levy a tax on a particular tax base has to be transferred by central government. Therefore, any specific tax assignment depends on central parliament's decision.

Central government has so far retained the most important tax bases, and levies personal income tax, corporation income tax, payroll tax, value-added tax, excise taxes and customs duties. Table 14.4 shows the relative weight of each tax in the financing of central government and other levels of government.

Regional finance

The main sources of regional finance are regulated by the statutes and the Basic Financial Act of the Autonomous Communities (LOFCA, 1980). However, there are two systems of finance operating in Spain: the common regime and the special regime. The common regime applies to fifteen autonomous communities, while the special regime operates only in the Basque Country and Navarre.²¹

In the common regime the main sources of revenue are a tax-sharing grant, ceded taxes and several specific grants. Ceded taxes are death and gift duties, wealth (net worth) tax, immovable property transfer tax, stamp duties (since 1988) and gambling taxes. These taxes are collected by regional governments but are entirely regulated by central government. However, regional governments can levy a surcharge on every ceded tax and also on central personal income tax. Besides this, regions can levy their own taxes on areas not used by central government. Table 14.4 shows the taxes levied by regional governments in recent years.

Table 14.4 The structure of government revenue in Spain, 1987 (in percentages)

Revenue item	Central government ^a	Autonomous communities ^b		Provinces ^c	Municipalities (1986)	
		'High' level	'Low' level		20,000-50,000 pop.	50,000-100,000 pop.
Own revenues	95.92	23.07 ^d	28.33	15.75	61.28	61.08
Taxes	86.00	18.03	20.48	6.22	29.67	33.91
Personal income tax	17.45	—	—	—	—	—
Corporation income tax	5.14	—	—	—	—	—
Payroll taxes	34.71	—	—	—	—	—
Other income taxes	0.66	0.01	—	—	—	—
Custom duties	2.17	—	—	—	—	—
Value-added tax	16.85	—	—	—	—	—
Alcohol, beverages & sugar t.	0.62	—	—	—	—	—
Motor fuel & oil products t.	5.20	1.84	—	—	—	—
Other excise taxes	1.75	0.21 ^e	0.07 ^e	—	—	0.28 ^f
Death & gift duties	0.06	2.07 ^e	4.09 ^e	—	—	—
Stamp duties	0.73	—	—	—	—	—
Property transfer tax	0.27	5.06 ^e	6.94 ^e	—	—	—
Wealth (net worth) tax	0.09	1.58 ^e	1.93 ^e	—	—	—
Property taxes	—	—	—	—	17.87 ^f	19.27 ^f
Vehicle tax	—	—	—	—	4.70 ^f	5.14 ^f
Business taxes	—	—	—	6.22 ^e	6.48 ^f	9.22 ^f
Gambling taxes	0.28	7.26	7.45	—	—	—
Fees, charges & fines	3.19	3.97	4.43	5.45	28.90	24.52
Other own revenues	6.73	1.07	3.42	4.08	2.71	2.65
Grants	4.07	76.93 ^d	71.67	84.25	38.72	38.91
Current grants	2.86	66.33	44.31	84.14	29.80	34.63
Unconditional grants	—	49.68	35.15	78.95	—	—
Specific grants	—	14.73	9.16	5.20	—	—
Capital grants	1.21	10.60	27.36	0.11	8.92	4.28
Total revenue	100.00	100.00	100.00	100.00	100.00	100.00

Notes: a. Includes autonomous agencies and Social Security funds.

b. Only ACs of the common financial regime are considered. 'High' level multiprovincial ACs contain data from the 5 ACs with a high level of responsibilities. 'Low' level multiprovincial ACs contain the data from the 5 ACs with a low level of responsibilities and with no provincial revenues because provincial governments have independent budgets. 'Low' level uniprovincial contains data from the remaining 5 uniprovincial ACs who possess regional and provincial revenues in one single budget. Pass-through grants from central to local government have been discounted.

c. Sample of the four provinces of the region of Catalonia.

d. In 1987 health services had only been decentralized to Catalonia and Andalusia. In order to standardize data, the health grant has been discounted. However, its inclusion would increase the grant revenue percentage to up to 83.49%, and reduce own revenue down to 16.51%. If the health grant were to be received by all five ACs the grant revenue might rise to 86% and revenue might drop to 14%. See Table 4 for an estimation of this.

e. These taxes are entirely regulated by central government.

f. Tax bases are regulated by central government, but tax rates, with limits, are a local decision.

Sources: Calculated by the author from budget estimates, except municipal figures which are derived from statistics from the Banco de Crédito Local de España.

The tax-sharing grant transferred annually to every autonomous community depends on some objective parameters (population, area, per capita income, income tax effort, etc.) and on the potential collection of ceded taxes. This regional tax-sharing is based on the whole set of central taxes, and in order to calculate each grant a sharing rate is previously calculated for each autonomous community. The tax-sharing grant rises when central tax receipts increase. However, for the period 1987-91 certain limits, based on the variation of GDP and 'relevant' central expenditure, have been established to restrain the increase or decrease of the tax-sharing grant.²²

A block grant for health and social services is transferred to those autonomous communities (Catalonia, Andalusia and Valencia) that have the responsibility for their provision. The grant is distributed according to population and represents between 35 per cent and 45 per cent of total revenue in each community.

Another important grant comes from the Interterritorial Compensation Fund, the only source of revenue specifically regulated by the constitution. The original objective of this fund was to compensate for territorial economic imbalance, but, since its implementation in 1982, it has also been used to finance 'new' regional capital expenditure because no other specific resources were available for this purpose till 1987. For this reason, all autonomous communities receive the capital grant. The fund is distributed according to some objective parameters (population, per capita income, size, net migration, and unemployment) and the grant received by each community has to be spent in capital projects in agreement with central government.²³

The two autonomous communities with a special regime of finance receive no tax-sharing grant. They finance their own services with the revenue raised from so-called 'contracted taxes'. The 'contracted taxes' are personal income tax, corporation tax, value-added tax (the Basque Country only), and the above mentioned ceded taxes.²⁴ In compensation for the services provided by central government, each autonomous community pays an annual quota to central government. In the case of the Basque Country the annual quota, agreed in 1981 and revised in 1987, is calculated according to the value of central services to be financed and regional income in relation to national income. In the case of Navarre the annual quota is a fixed amount, agreed in 1969, and for an indefinite number of years! The two special regimes are archaic, fiscally advantageous, and very unsatisfactory from the perspective of horizontal equalization, which the other fifteen autonomous communities do attempt to achieve. Moreover, since 1988 the Basque Country is also responsible for the provision of health and social services. Surprisingly, these services are financed with a block grant related to regional income and not to population as in the regions of Catalonia, Andalusia and Valencia.

Provincial finance

Provincial finance is in transition: first, because provincial governments are still in the process of adapting to the new regional government. This adaptation differs significantly among the single-province autonomous communities which have absorbed the provincial administration, the Basque Country where provinces have a predominant role, Catalonia where the regional government is attempting to reduce the level of responsibilities of the provincial administration to a minimum, the island autonomous communities where provincial administration is run by the island councils, and the remaining six autonomous communities where, in some cases, provincial governments rival their regional government.

A second cause of the transitional situation of provincial finance is that for many years provincial governments were mainly financed by a share of a turnover tax. This tax was abolished in 1986 at the time of implementing the value-added tax, and the provincial share was provisionally replaced by an unconditional grant. Provinces receive another unconditional grant also from central government which is distributed according to population. In 1989 the two unconditional grants will be reduced to one, according to the Local Finance Bill, which parliament passed in December 1988. Provinces also receive capital grants which are distributed among municipalities as project grants.

The only tax assigned to provincial governments is a surcharge on the municipal business tax. The rate of the surcharge is fixed by central government, but from 1990 onwards it will be left to provincial discretion.

Municipal finance

The main sources of municipal finance are taxes on immovable property and on business, fees and charges, an unconditional grant and project grants. The Local Finance Act approved by central parliament at the end of 1988 is not expected to vary the basic structure of finance. Taxes on immovable property are on urban and rural property. Since 1988, municipal governments have been able to fix the property tax rates freely between certain limits. A local business tax is levied on all types of business activity. Central government fixes its tax base and the tax rates, and municipal governments can levy a surcharge of up to 100 per cent, which will be increased to 300 per cent from 1990. Other municipal taxes are vehicle tax, land value increment tax (to be optional in 1990), vacant site tax, business location tax, luxury consumption tax and outdoor publicity tax. The last four will be abolished at the end of 1989.

Fees and charges have traditionally been very important at municipal level in Spain. They provided the minimum fiscal autonomy when taxes used to have fixed rates. The main fees and charges are on refuse collection, water, sewerage and building permission. Some fees are, in some respects, concealed taxes. This is possibly the reason why the fees on building permission will be converted into an optional tax in 1990.

Betterment levies (or special assessments) have often been used in Spain, particularly in the 1960's and 1970's, to finance urban development.

Municipalities get an annual unconditional grant from central government through the regional government. The total grant is decided annually by central parliament, but from 1990 onwards it will be indexed in the same way that the regional tax-sharing grant is now indexed. The total grant is distributed according to (adjusted) population (70 per cent), municipal tax effort (25 per cent) and number of public school units (5 per cent). Project grants are also very important, particularly among municipalities with fewer than 20,000 inhabitants. They are usually transferred by provincial governments, but also by regional governments.

The metropolitan county of Barcelona is financed by an unconditional grant from central government and a share in the revenues of the municipalities which it comprises and the province to which it belongs. Specific grants are received from the regional government. The metropolitan county can levy a surcharge on the municipal urban property tax.

Economic assessment

Tax power is centralized and the financial dependence of regional and provincial governments is very high. Table 14.4 shows that the financial dependence of autonomous communities is more than 70 per cent of total revenue, and the dependence of provinces is more than 80 per cent. However, at municipal level granted money is less than 40 per cent of total revenue. Paradoxically, municipal governments with less political power than regional governments are less dependent in financial terms. As discussed in a previous article²⁵ financial dependence is one of the main economic problems of regional finance, and implies a lack of accountability and fiscal responsibility and, consequently, less efficient decisions on public spending.

At municipal level, one of the main problems is the lack of horizontal equity, simply because the unconditional grant is wrongly designed. This situation contrasts with the high level of equalization that exists at regional level, with the exception of the Basque Country and Navarre which enjoy separate special regimes, fiscally advantageous only for rich regions. These special systems of finance have no equalizing mechanisms connected to the other fifteen autonomous communities.

Another important problem at municipal level is the lack of efficiency in financial management in most of the 7,000 municipalities (82.2 per cent) that have fewer than 5,000 inhabitants. This makes the transfer of additional responsibilities and tax power to *all* municipal governments very debatable. Moreover, the traditional and persistent claims of Spanish municipalities for more financial aid are difficult to meet unless a policy of discrimination or one of comprehensive amalgamation has not previously been implemented, as will be discussed below.

Causes of change in regional and local government

Changes in territorial government may be of different types. Some of the most significant are those relating to the number of tiers and territorial boundaries, the allocation of responsibilities with varying forms of autonomy or control and the assignment of tax powers and other financial resources. In the last decade, the developments of the Spanish territorial administration have been to some extent generated by constitutional factors, but economic, political and social influences should not be ignored.

The two main constitutional factors affecting territorial government were the approval of the new Spanish constitution in 1978, and the signing of the Rome Agreement whereby Spain joined the European Community in 1986. The first of these implied the creation of a regional level of government and the consequent reallocation of responsibilities and tax power. The second meant the acceptance of certain rules on tax harmonization and the opening of the Spanish economy to the European market. These two conditions have negatively affected the potential degree of decentralization of tax power to regional governments.

Some economic factors have produced changes in territorial administration and others have prevented changes taking place. On the one hand, the rapid economic growth of the 1960's and 1970's increased the level of personal income and the demand for public services, particularly those that now are provided at regional and local levels. This 'income effect' has obviously affected the degree of decentralization of public expenditure. Moreover, the large concentration of population in industrial areas has increased the demand for some local services (urban development, public transport, community services) and has brought about the implementation of new forms of administration (for example the metropolitan government of Barcelona and Valencia, and the municipal amalgamation of Madrid).

On the other hand, economic disparities between territories have clearly prevented central government from transferring more tax power to the newly created autonomous communities.²⁶ Nevertheless, this central attitude is in sharp contrast to the one adopted towards municipal governments which, having traditionally relied on local resources, differ enormously at the level of fiscal capacity and revenues — a situation which is aggravated by the present grant scheme and causes undesirable disparities in the level of provision of basic services.

Some of the developments or rigidities in territorial government have been caused by social and political factors. In the last thirty years, the formation of a large, more wealthy and better educated Spanish middle class has increased the interest in participating in public affairs and, therefore, has also increased the demand for public decisions being taken more at grass-roots level. This implies that there has been and there will continue to be pressure to move towards the decentralization of additional public responsibilities to regional and local levels.

However, this desire for participation in local affairs plus the strong identification of people with their localities and the relatively low geographical mobility of the Spanish population have prevented any serious

consideration of a comprehensive policy of amalgamating municipalities. The absence of any strong tradition of co-operation among municipal governments for the collective provision of services makes any proposal for amalgamation even more problematical. The consequences are that the managerial capacity of the majority of the 7,000 Spanish municipalities with fewer than 5,000 inhabitants is quite inadequate. Obviously, additional transfers of responsibilities to municipal governments are not feasible, unless further discrimination is introduced in favour of large municipalities.

Politicians are obviously the makers of any move towards decentralization or towards centralization. Moreover, politicians always find decentralization more popular than centralization. In Spain, where a solution to the small municipalities is needed in most autonomous communities, regional politicians, whose parliaments are now responsible for policies of amalgamation, seem to find it easy to campaign for decentralization when central-regional relations are under discussion, but seem less prepared to propose that some 'centralization' is needed at municipal level, if a more efficient provision of services has to be made for the citizens of the autonomous community.

Future developments

In the last ten years the move towards decentralization has been very significant in Spain. In the next decade, additional changes in territorial government are expected to take place not only as a final development of constitutional reform, but also because some of the problems of local administration — now that regional government is a reality — will need to be solved.

Negotiations started in 1988 between central government and the autonomous communities with a 'low' level of expenditure responsibilities in order to raise their responsibilities to as 'high' a level as the rest of the communities. However, for at least some years, differences are likely to persist between the autonomous communities, particularly with the Basque Country and Catalonia.

Suggestions for decentralizing additional taxing power have also been made from both the centre and the regions in order to increase the fiscal responsibility of the autonomous communities. In this connection, central government could in the near future reduce the rates of its personal income tax and press regional governments to levy a regional surcharge on the central income tax.

Since the approval of the constitution in 1978 the role of the senate as the house of territorial representation has been insignificant. In future years it is likely that attempts will be made to improve its credibility on issues related to regional government.

Provincial administration needs to have its responsibilities clarified to avoid overlapping of functions. Its future is going to be different in every autonomous community. Some regional governments may employ

provincial administrations as territorial agents and others may attempt to reduce their activity to that of assisting municipalities. The double dependence that provinces have on central and regional governments make predictions for any autonomous community very difficult.

The Local Finance Act approved at the end of 1988 will imply a simplification of municipal taxes and an increase in aid from central government. The latter will help to reduce the recurrent financial deficits of some large municipalities, though these deficits are, to some extent, due to the involvement of their governments in all manner of expenditure responsibilities not specifically allocated to the municipal tier.

One of the problems that sooner or later will have to be faced together by central and regional governments is related to the municipal structure. The extreme variety of municipalities and the large number of them with fewer than 5,000 inhabitants in most autonomous communities make decentralization of service provision and managerial efficiency difficult goals to achieve. There are three main alternatives for resolving this problem. One alternative is to adopt the policy of discriminating in the allocation of tax and expenditure responsibilities between large and small municipalities. Large municipalities would provide many services for which they would receive financial support, whereas small municipalities would have some of these services provided by the higher tiers of government. A second alternative would be to implement a policy of amalgamation of small municipalities in order for there to be a minimum number of people in each municipal jurisdiction. A third alternative would be to create a supramunicipal level of government to which municipal responsibilities would be progressively transferred, especially from small municipalities but also from larger ones.²⁷

The first and third alternatives seem to have a lower political cost than the second one, but in order to be successful they need to be accompanied by a reasonable policy of financial assistance. The possible formation of metropolitan governments in different autonomous communities and the recent creation of counties in Catalonia could be interpreted as policies in the direction of the first and third alternatives.²⁸ Different regions are likely to adopt different solutions. The variety of regional experiences that are expected to emerge in the next decade will help each regional government to find the most appropriate solution to a problem which is common to all autonomous communities.

A final conclusion must be that the process of decentralization implemented in Spain in the last ten years has been very positive and significant, but new and important developments should be expected in the next decade, during which policies of decentralization and centralization are likely to be combined.

Notes

1. See Carr and Fusi (1979) and Preston (1986) for a description of the political transition. See also McDonough, *et al.*, (1986) for an analysis of the change in

- popular attitudes towards dictatorship and democracy in Spain.
2. See Alcaide-Inchausti (1988) who analyses the economic and demographic tendencies of what he defines as the four different Spains. See also Hebbert (1982) and Table 14.2.
 3. See Carr (1980), Díaz-López (1986) and Hebbert (1987) for an analysis of the history of regional nationalism in Spain.
 4. The size of the new municipality of Madrid happens to be larger than the metropolitan jurisdiction of Barcelona. In 1986, the municipality of Madrid with an area of 607 square kilometres had a population of 3,058,182 inhabitants. In the same year, the municipality of Barcelona with an area of ninety-one square kilometres registered a population of 1,701,812, whereas the metropolitan county with an area of 478 square kilometres had a population of 3,025,666 inhabitants.
 5. Less powerful institutions with similar functions were created for the area of Bilbao (1946) and for the area of Valencia (1949), but both were very inactive until their abolition thirty years later.
 6. For a more detailed description of the process of devolution and the so-called 'State of the Autonomies' see Tamames and Clegg (1984), Díaz-López (1986), Monreal (1986), Vallès and Cuchillo-Foix (1988) and Brassloff (1989).
 7. The statutes of the first type were passed by referendum by the people in the region and had to be ratified in full by central parliament. The statutes of the second type were not approved by referendum, but were discussed in detail by central parliament. A statute is like an internal constitution, but it is less powerful than the constitution of any of the states of a classical federal country.
 8. In February 1981 a *coup d'état* carried out by a group of the military failed. However that event affected the process of decentralization. First, central parliament passed a basic law (LOAPA) in July 1982 which attempted to harmonize and reduce the political powers of the autonomous communities already created, but it was considered *ultra vires* by the Constitutional Court in August 1983. Second, all regional statutes approved after the attempted *coup d'état* were standardized or levelled down according to the spirit of the unsuccessful and strongly opposed LOAPA.
 9. See Alvira-Martin and García-López (1988) for an interesting analysis of the changing attitudes and expectations of citizens in relation to self-government, and of how the autonomous communities operate.
 10. See Bayona (1987) and Hebbert (1985).
 11. The political life of the Basque Country and Navarre and their relations with the central government have been strongly affected by terrorism. Some of the solutions provided for some political and financial claims can only be understood bearing in mind the special situation of violence that has existed in those regions since the beginning of the 1970's.
 12. The Balearic Isles which were formed by one province and the Canary Isles which were made up of two provinces have had their provincial responsibilities and resources transferred to three and seven insular councils, respectively.
 13. At the time of writing the constitution it was not expected that the regional tier would be established throughout the Spanish territory. This explains why the province is the electoral district for the direct election of senators. One expects this issue to be one of the most likely to be considered for reform in any future amendment of the constitution.
 14. See Clegg (1987) for a comprehensive alternative analysis of Spanish local government.
 15. See Martín-Mateo (1987) for a useful description of the existing

- supramunicipal authorities and a critical comment on the recent transformation of the metropolitan government of Barcelona.
16. At the time of discussion of the constitution and the first statutes in Spain, the United Kingdom was also debating devolution for Scotland and Wales. The devolution proposal might have had more chance of success if the degree of decentralization of the British public sector had been as low as it was in Spain.
 17. Such involvement began in the 1970's when grave deficits in public services were not covered by other administrations and municipal governments decided to intervene, often without sufficient financial resources to implement their projects.
 18. See Castells (1988) who offers a quantitative and rigorous analysis on the degree of decentralization of the public sector in Spain in comparison with other federal countries.
 19. Martín Mateo (1985) offers a serious and illuminating discussion of the criteria that have been followed in the distribution of responsibilities at the time of interpreting the constitution. For some services the legislative power and the executive power are vested either in central government or in regional government, but for certain matters legislative power is central and executive power is regional. However, in other services, legislative power which may affect basic principles is vested in central government and the enactment of detailed legislation and executive powers is vested in regional government. Moreover, in some areas, like housing, tourism, and culture, both central and regional governments have legislative and executive powers that can be exercised co-operatively or independently. It is obvious that most responsibilities are concurrent and few are exclusive to regional government.
 20. See Solé-Vilanova (1989) for a more detailed analysis of regional and local finance in Spain.
 21. Strictly speaking, the special regime of finance is regulated by the 'Economic Contracts' pacted between central government and each of the two governments of the Basque Country and Navarre. This system of finance is an adaptation of the historical fiscal charters kept by both regions since the nineteenth century.
 22. There was a transitional period of regional finance between 1981 and 1986. During this period the tax-sharing grant was based on the 'effective cost' of the services which had been devolved to the autonomous communities. See a more detailed explanation in Solé-Vilanova (1989) and Castells (1987, 1988).
 23. Much attention has been paid by some Spanish economists to the Inter-territorial Compensation Fund as if it was the only instrument of horizontal equalization at regional level. This fund is specially mentioned by the constitution (art. 158.2), as an instrument of regional development, but it would be wrong to believe that is the only resource that brings horizontal equity to the system because the present tax-sharing grant is by far the most important mechanism of territorial redistribution between autonomous communities.
 24. In strict terms, in the Basque Country the 'contracted taxes' are raised by each of the three provinces. A share of their tax collection is then transferred to the regional government, which administrates no tax.
 25. See Solé-Vilanova (1989).
 26. The existing 'regional divorce of economic and political power' — that is economic power at the periphery and political power at the centre — is interpreted by Lasuen (1987) as an unusual inverted centre-periphery that reduces the possibilities for economic growth in the country. Lasuen suggests greater decentralized powers to the regions, 'but with more effective integration of the

- nationalist parties of the Autonomous Communities into national policies'.
27. Another alternative would be to promote the voluntary association of municipalities for the provision of services. Historically, policies of this kind have not been very successful in Spain. Moreover, they solve only a small part of the problem.
 28. Catalonia's reasons for creating the county tier were historical and political, although this new tier may prove also to be technically satisfactory in the future.

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