

Fiscal decentralization and economic growth in Ecuador: Panel data on provincial council and municipalities since a heterodox vision

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Abstract

The objective of the present investigation tries to determine the nature of relationship between fiscal decentralization and economic growth for Ecuadorian case from heterodox perspective. A panel data model is used, where the dependent variable being GDP pc (proxy for economic growth), and variables of interest and control (proxies of fiscal decentralization) are public investment, public consumption, the export ratio, poverty and inflation. The results indicate that greater fiscal decentralization affects economic growth, in which the public investment of the Decentralized Autonomous Governments (GADs) from the application of Organic Code of Territorial Organization, Autonomy and Decentralization (COOTAD) since 2010 has allowed its impact on the provincial GDP per capita to be stronger.

1. Introduction

The relationship between fiscal decentralization and economic growth has always been manifested from the neoclassical perspective, where, representative agent and the stimulus of taxes on economic activity have been the ruler to determine this relationship. In addition, private income has been considered as a fundamental variable in relation to economic growth. From Tiebout (1956), Musgrave (1959) and Oates (1972), was presented the relationship between fiscal decentralization and economic growth as the conditionality of the inverse relationship, and how the level of economic growth is affected for fiscal decentralization.

In the present study, we analyze this relationship between economic growth and fiscal decentralization by a heterodox vision of measurement from public spending, the field of public investment and consumption, as determinants of economic growth. This different approach should review the actions of the state through public policy, to promote the conditions of economic growth, based on a decentralization process that allows the state (from the GAD's) to generate through investment and public consumption, the conditions necessary for the relationship between economic growth and fiscal decentralization to have an influence on investment and public consumption.

This alternative approach seeks to present the role of the state as the dynamizer of the economy, hence the importance of measuring the relationship of economic growth and fiscal decentralization from the definition of investment and public consumption, as determining variables in a process of fiscal decentralization. Defining for this also the existence of fiscal decentralization or not, a dummy variable, in a dynamic of change of economic growth measured from investment and public consumption, before and after decentralization.

Furthermore, this approach aims to capture the role of the state, not only as an engine of the economy in a process of fiscal decentralization, but as a determinant of social improvements. Considering since 1980, Latin

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