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Fiscal Decentralization and Economic Growth: Evidence from Regional-Level Panel Data for Colombia

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This paper provides evidence on the positive role of fiscal decentralization on regional economic growth in Colombia since the promulgation of the Political Constitution of 1991. The empirical strategy involved the choice of a suitable estimator for the panel data approach, the Augmented Mean Group Estimator, which allows adding unobserved determinants suggested by literature to traditional long term explanatory factors. The strategy was complemented with exercises that helped us to support the results coming from (i) cross-section models for different periods and various control variables, (ii) test on the complementarity hypothesis between public goods provided by different jurisdictions (spillover effects), and (iii) an assessment of unconditional convergence in regional income differences.

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