Abstract

From 2000, public finances in Medellín have been showing a positive development that is reflected in the higher position occupied each year in the ranking that publishes National Planning Department (DNP). The outstanding performance of Medellín’s public finances has allowed that during 2005 and 2006, the city gets placed in the first position of the ranking among all main cities of Colombia. The aim of this paper is to evaluate Medellín’s public finances between 2000-2006 through the study of the available information and the econometric modeling of some variables of local finances. The investigation finds that the financial behavior of the city presents some peculiarities when compared with other municipalities and capital cities. Medellín’s GDP shows an enormous dependence from taxation incomes, there is no evidence of fiscal laziness from national transferences and non-taxation incomes are very important among total income. The exercises developed show an empiric regularity in the management of local finances that we have named "relaxation effect", and that talks about the trade-off between taxation and non-taxation incomes. The paper finally concludes that Medellín has to make bigger efforts in fiscal terms and has to limit the excessive expenditure and the reliance in the earnings made by decentralized enterprises, in order to obtain wealthy public finances.

Keywords
Territorial public finance, Fiscal Performance, public finance, fiscal laziness.