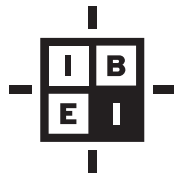


THE POLITICS OF INTERGOVERNMENTAL FISCAL RELATIONS IN ARGENTINA

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THE POLITICS OF INTERGOVERNMENTAL FISCAL RELATIONS IN ARGENTINA

Jorge P. Gordin

Abstract: The search for political determinants of intergovernmental fiscal relations has shaped much of the recent literature on the economic viability of federalism. This study assesses the explanatory power of two competing views about intergovernmental transfers; one emphasizing the traditional neoclassical approach to federal-subnational fiscal relations and the other suggesting that transfers are contingent on the political fortunes and current political vulnerability of each level of government. The author tests these models using data from Argentina, a federation exhibiting one of the most decentralised fiscal systems in the world and severe imbalances in the territorial distribution of legislative and economic resources. It is shown that overrepresented provinces ruled by governors who belong to opposition parties can bring into play their political overrepresentation to attract shares of federal transfers beyond social welfare criteria and to shield themselves from unwanted reforms to increase fiscal co-responsibility. This finding suggests that decision makers in federal countries must pay close heed to the need to synchronize institutional reforms and fiscal adjustment.

Key words: decentralization, intergovernmental transfers, fiscal federalism, territorial politics, Argentina

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“We are hoping that Argentina will make the necessary reforms, the tough decisions necessary to earn the confidence of some of these international financial institutions. The country itself is going to have to make some tough calls, starting with reforming the relationship between the provinces and their budgets and the central governments” (President George W. Bush quoted in *The Financial Times*, March 21, 2002, p.1).

This cautionary note expressed by President Bush suggesting the presence and persistence of strong rent-seeking distributional coalitions at the subnational level is in one important sense correct. Argentina, a country whose policies of economic adjustment in the early 1990s have won it international acclaim, has proved unable to restructure its federal system to address severe imbalances in the intergovernmental fiscal relations. The overall unsustainable level of subnational debt and the limiting authority of the center to rein in fiscal discipline lurked underneath Argentina’s foreign debt default - the world’s largest – and the premature fall of De La Rúa’s elected government in December 2001. Federalism and its concomitant institutional protection of the autonomy of subnational units can at times, as transpires from the Argentine experience, have perverse effects on fiscal performance. Despite federalism’s ostensible “market-preserving” quality (Weingast 1995), deadlocked and malfunctioning federal institutions can lead to economic catastrophes.

Argentina in the early years of the twentieth century was one of the most affluent nations in the world. The per capita income was on a par with West European countries such as France and Germany and matched those of Australia and Canada. In contrast, while many economies experienced exceptional growth after the World War II, Argentina has grown erratically, with long periods of stagnation and recession. This economic decay has been attributed to the pursuit of populist macroeconomic policies, which dwindled fiscal imperatives and prioritized the expansion of state capacities (Dornbusch and Edwards 1991).

Despite these gloomy circumstances, Argentina got through several economic crises and managed to overcome unprecedented hyperinflation in the early 1990s by means of policies of economic adjustment that restored Argentina’s credibility in world markets. These accomplishments notwithstanding, the financial crisis in 1995 had a profound impact on the evolution of the public provincial sector. Out of 24 provinces, only 4 generated savings to finance investment; the few capital investitures made were financed partly by earmarked transfers (43 percent) and partly by borrowing (World Bank 1996: i). However, and reversing the direction of causality, Argentina presents an interesting case where the imbalances in the intergovernmental relations have contributed directly to macroeconomic collapse. Insulated from international pressures and institutionally powerful, “subnational politicians in Argentina have thus demonstrated a capacity not only to mire their own governmental units in debt and mismanagement, but collectively to threaten the adjustment policies of the nation as a whole “ (Remmer and Wibbels 2000: 445).

Under the Argentine Constitution, provinces have the right to borrow and set up their own official banks, thus making the provinces the main locus of spending decisions. While in theory federalism is conducive to fiscal prudence in countries such as the United States (Weingast 1995), it is difficult to ignore that the political sway of Argentine provinces fostered macroeconomic volatility rather than fiscal discipline. Amounting to veto players in economic adjustment policies, regional politicians are institutionally endowed to extract resources from the center with little concern for the potential impact of their economic decisions

on the federation as a whole. More specifically, observers of Argentina's political economy have shown that its regime of federal transfers induces an over-spending bias across jurisdictions as each province tries to overuse the national common source of funds (Jones et al. 2000). Adding to the expansionary bias that is being generated by the system of intergovernmental grants are soft budget constraints that manifest themselves in national government's bail outs of regional borrowing and debts. The result is a critically weakened center that resorts to federal transfers to buy off political support but unable to pursue intergovernmental reforms aimed at improving its capacity to provide national public goods.

This article's central analytical objective is to analyse the role of subnational politics on the "enigma" of Argentine economic development. The precise field of empirical problems on which we focus to test the conceptual framework is that of politics in the territorial determination of financial resources and fiscal authority in Argentina. Our discussion should provide an understanding of what type of political interferences affect the policy of transferring revenue to subnational governments, and why we should expect to see spatial and temporal variation in the distribution of revenue to lower levels of government. The study proceeds in the following way: First, we conduct institutional analysis on the effects of malapportionment on fiscal policy to unravel the political framework in which federal transfers takes place, aiming to contextualise the political consequences of territorial representation in Argentina and the concomitant role of provincial governors. Subsequently, we lay out several hypotheses to explain variation, both spatial and temporal, in the allocation of federal/central government grants to subnational governments in Argentina and provide a brief qualitative account of the decisive role of governors in federal fiscal policy. The last section concludes.

1. "Patronage-Preserving Federalism?": Malapportionment and its Effects

Barry Weingast (1995) developed the concept of market-preserving federalism to connote systems in which decentralized control over the economy by subnational governments within a common market precludes the central government from encroaching on the political and economic rights of its citizens. This arrangement underpins fiscal responsibility, providing no incentives for the constituent parts to overuse the common pool of federal economic resources. While acknowledging that this notion is insightful to explain the political economy of the United States, the world's oldest federation, we offer an alternative scenario whereby fiscal decentralisation under particular institutional conditions does not bear out Weingast and associates' predictions. Drawing on previous work questioning the validity of the market-preserving federalism model for explaining the politics of developing countries (Rodden and Ackerman 1997; Wibbels 2005: 17-32), we argue that asymmetries of representation do not only influence the "costs" of cajoling support in the legislature but also they may have a decisive effect on the coalition-building efforts of executives at the central and subnational level.

It is already well documented that in federal systems, where territorial representation is juxtaposed to population representation, unequal representation of subnational units is commonplace. Partly as a "built-in" feature of federalism aimed at redressing economic and demographic vulnerability of smaller jurisdictions, these are deliberately (i.e. constitutionally) overrepresented in the

Senate. While this contention holds for most federations, we will argue that, given its egregious nature and based on the significant policy-making powers of the senate, legislative overrepresentation in Argentina stands out as a decisive independent variable to explain the ability of transfer-dependent provinces to thwart fiscal co-responsibility and thus the paucity of fiscal decentralisation reforms.

What difference does malapportionment make with respect to the apportionment of federal transfers? Argentina in theory follows the US constitutional formula of bicameral “symmetry of policy scope” (Stepan 2001: 345). While symmetry denotes that both houses are equally important and that the consent of both houses is necessary for most important decisions (Tsebelis and Money 1997: 54-55),¹ there are some policy areas in which they have greater prerogatives. The lower house has greater authority in originating money bills, general tax laws, troop recruitment and others. The senate, on the other hand, is in charge of approving presidential nominees and advisors, authorize the president to declare a coup d’etat in case of foreign military attack and appoint judges that assess federal expenditures. More crucially from the perspective our study, all revenue-sharing bills (including federal transfers) must originate in the senate. Additional senatorial prerogatives can be cited at length, but the encapsulation of fiscal decentralization issues at the Senate level suffice to highlight why this house is the institutional point of reference to uncover the politicization of these issues. While we concur with scholars showing that Argentina has a highly malapportioned lower chamber as well (Gibson et al 1998; Samuels and Snyder 2001), our focusing on the Senate stems from the fact the Argentine Congress resorts to the *navette* system, which gives the originating house the upper hand in case of inter-house discrepancy (Tsebelis and Monet 1997: 54-55). This perception of the policy-making scope of the Senate is confirmed by a recent cross-national survey of bicameralism in nine Latin American countries, concluding that Argentina ranks as the most symmetrical bicameral system in the region and thus “the senate is constitutionally equipped to act as an actual ‘veto player’ insofar as it can delay lower house legislation at ease and eventually generate legislative paralysis” (Llanos 2002: 21).

Further, cross-national evidence suggests that senate’s unequal representation of subnational units shapes legislators’ strategies for pursuing distributive policy agendas. However obvious this argument may appear, a large part of the scholarly work on US legislative politics has downplayed the effect of senate apportionment on coalition building. For instance, Riker’s seminal notion of *minimum-winning* coalitions tells us more about the rules of the game than about asymmetries in the composition of winning coalitions. Drawing on this thesis, formal theory scholars have not paid sufficient heed to the pervasive small-state advantages in the distribution of federal funds (Atlas et al. 1995). Lee and Oppenheimer (in Lee 2000: 59) provide a convincing explanation for this legislative outcome: “Apportionment shapes Senate distributive policy-making for two reasons. First, senators representing small states have more to gain from procuring a given amount of federal dollars than do senators who represent larger states. A federal grant of \$5 million, for example, has a far greater effect in Wyoming than in California. Such a grant yields greater electoral benefits for senators who represent small states, both in terms of their statewide visibility and the percentage of residents benefited....Second, Senate apportionment affects the incentives of coalition builders in distributive policymaking. The tremendous differences in state population create a unique coalition-building dynamics: All senators’ votes are of equal value to the coalition builder, but they are not equal in price”.

¹ However, when disagreement between houses persists, the Argentine Congress resorts to the *navette* system to resolve it. If after several rounds of intercameral exchanges of bill proposals discrepancies cannot be bridged, the originating house has the upper hand and makes the final decision.

Table 1.
Senate overrepresentation (Stepan/Swenden data)

Sources: Stepan (1999) and own calculations. Higher values denote higher malapportionment

Gini index of inequality		Percentage of seats of best represented decile	
Belgium	.015	Belgium	10.8
Austria	.05	Austria	11.9
India	.10	India	15.4
Spain	.31	Spain	23.7
Germany	.32	Germany	24.0
Canada	.34	Australia	28.7
Australia	.36	Canada	33.4
Russia	.43	Russia	35.0
Switzerland	.45	Switzerland	38.4
USA	.49	USA	39.7
Brazil	.52	Brazil	41.3
Argentina	.61	Argentina	44.8
MEAN	.33	MEAN	28.3

As Table 1 succinctly shows, senate malapportionment manifests itself in Argentina more than elsewhere in the world. And its effects are highly axiomatic: virtually no policy coalition can be put together without the support of the regional structures of power of sparsely-populated and economically-underdeveloped provinces. As Remmer and Wibbels (2000) demonstrate, subnational interests in Argentina are in a pivotal position to offer resistance to national policies of economic adjustment because provinces can make adroit use of territorial representational advantages. We will argue that malapportionment forecloses policy reforms to temper the patronage-financed debt spending of Argentine provinces, particularly the small ones.

2. The Politics of Intergovernmental Transfers in Argentina: Time-Series and Cross-Sectional Analysis

At first glance, Argentina appears to have one of the most decentralised fiscal systems in the world. According to an Inter-American Development Bank Report (1997), provinces spend more than 50 percent of total national and provincial expenditures. Yet, since the 1930s, subnational governments in Argentina have delegated fiscal authority to the federal level, which collects most taxes. This structural imbalance between expenditure and revenue assignments is common among federal systems, inasmuch as revenue-sharing arrangements are commonplace. However, Argentine provinces receive transfers that are, for the most part, substantially larger than own-tax revenues.² These transfers are drawn from the revenue-sharing system (*coparticipación* or Federal Tax-Sharing Agreement, henceforth FTSA) and other automatic transfers that are earmarked for specific purposes. The levels and parameters of these transfers have varied substantially over time, constituting an ongoing source of political strife between federal and provincial levels authorities and, as we will demonstrate in this paper, among the provinces themselves.

² By the mid-1980s, subnational administrations (including the municipal level) collected less than 15 percent of the total taxes collected in Argentina (Piffano in Sawers 1996: 218).

Despite fiscal federalism theory's emphasis on efficiency and equity imperatives of the policy of transferring revenue to subnational governments (Tiebout 1956; Oates 1972), we claim that the distribution of intergovernmental transfer is by all means a political issue, because the amount of resources granted to subnational governments will determine their viability and success. In turn, this case study shows that the political tinkering behind fiscal decentralisation policies can be grasped more precisely when we examine the distribution of seemingly small-scale grants. Previous studies have used the history of Argentine FTSA to explore for evidence of the relative effect of economic and political factors on fiscal decentralisation (Eaton 2001). However, while FTSA funds are not earmarked and local politicians can use them to build independent patronage networks, the bulk of money was given out on a formula or fixed coefficients basis. Further, after the 1973 restructuring of revenue sharing, FTSA increasingly lost ground (in relative terms) to other revenue-sharing funds that target specific purposes (Gordin 2004). In this vein, this case study will focus on two intergovernmental transfers programs, FONAVI (*Fondo Nacional de la Vivienda*, National Housing Fund) and ATN (*Aportes del Tesoro Nacional*, National Treasury Contributions). This case selection is based on the fact that these funds are based on discretionary transfers, as opposed to automatic ones that are less vulnerable to political influence. However, while FONAVI is ideally allocated with the purpose of financing housing construction and electricity provision infrastructure respectively, ATN is used to fill financing gaps, thus is based on discretionary criteria both in the determination of the total amount to be transferred and unconditional with respect to allocation. Focusing on these funds, therefore, allows us to analyze the effect of explanatory political and economic factors on subnational funds apportionment under diverse transfer regimes. In turn, we will examine the extent to which FONAVI and ATN allocations are politically determined, confronting two competing views about intergovernmental transfers.

The theoretical framework for this analysis consists of a set of hypotheses positing relationships among these independent variables and the subnational allocations of FONAVI and ATN grants. This dependent variable measures the yearly changes in the distribution of these funds to provincial administrations from 1972 to 1975 and from 1984 to 2000. Note that we use change proportions rather than monetary changes to avoid cumbersome adjustments due to frequent currency reforms adopted in Argentina. As we use pooled data, the unit of analysis is province/year. This time frame conforms with the interruption of democratic rule between 1976 and 1983, a period in which the military shut down the legislature and banned all political parties. That having been said, this is the longest time-series ever used to study the unfolding of fiscal decentralisation in Argentina.³ Following Beck and Katz (2004)'s recommendation for PCSE analysis that includes some relatively time-invariant independent variables, all models include an AR1 correction.⁴ The appendix provides a list of data sources used to compile all variables.

³ Previous studies use small data sets with cross-section averages for only 5 years (Stein 1998) or time-series for a period of only 12 years (Rezk 1998).

⁴ I am grateful to an anonymous reviewer for suggesting this approach to the analysis

3. Competing Hypotheses

3.1 The Economic Context

The traditional economic policy view of intergovernmental transfers is that such grants are made to enhance macroeconomic efficiency and fiscal equalisation among provinces (Oates 1972). This approach sees central government agents as “benevolent” insofar as they prioritize the advancement of public welfare over their private (i.e. political and utility-maximizing) interest. In principle, government seeks to offset externalities and other market imperfections, thus it aims to match grants to jurisdictional needs and capabilities.

The distribution of funds across provinces is determined using various indicators reflecting the evolution of the demand for public services. Population is then a critical consideration in this regard. Basically a demand-driven program, FONAVI is directly affected by population figures. While there is apparently a linear and positive relationship between FONAVI allocations and housing needs, it can be argued that other macroeconomic conditions affect this relationship. For instance, provincial unemployment levels are relevant because individuals who have no income are unlikely to take on mortgage commitments and would probably reside in rented housing. Hence, we should control for the impact of unemployment, which it will be subsequently analyzed in the next hypothesis. This variable is measured using population figures based on available census data. As indicated above, unemployment is included to control for the existence of an active counter-cyclical fiscal policy, which might be at the core of demands for greater intergovernmental transfers. Considering that levels of unemployment tend to diverge dramatically across Argentine provinces,⁵ it is important to see whether they demarcate the manner in which FONAVI and ATN transfers are doled out. Unemployment is measured as the provincial unemployment rate in percentages.

Provincial own revenue is usually positively related to the value of the regional economic capacity, generally measured in terms of gross domestic product (GDP). The availability of relatively reliable data on regional GDP allows us to test the impact of this variable on the distribution of intergovernmental transfers. Previous work on fiscal performance of Argentine provinces shows that energy consumption, a factor often used as a proxy for economic development, does not have any significant effect on provincial public sector spending (Jones et al. 2000). However, provincial economic capacity bolsters demand for housing and certainly affects the need of financial assistance, thus we expect a significant relationship between provincial GDP and the selected federal transfers. Geographical GDP is measured as the per capita provincial GDP converted into Pesos, June 1995.

3.2 The Political Context

Arguments under this rubric hold that utility-maximizing politicians will use intergovernmental transfers to advance their own private (political) interests, thus questions of efficiency and social welfare are surface phenomena. Instead, one must understand the incentives politicians at all levels of

⁵ For instance, the unemployment rate (average for the observed period) in Mendoza is 6.7 percent compared to a 19.2 percent in Tucuman (INDEC).

government face and the resulting political relationships between national and subnational politicians. These incentives stem from electoral institutions, party competition, and most fundamentally, coalition-building. That is, intergovernmental bargaining in the political market takes the center stage.

In a widely cited study, Riker and Schaps (1957) argued that if the executive officials of the central and constituent governments are controlled by the same party, then they might be expected to attenuate the level of conflict within a federation by enhancing centralising moves. In turn, whether governors belong to a political party which is similar or different to that of the president is a major influence in the unfolding of intergovernmental fiscal relations. In the Argentine context, governorships are by far the most important office at the provincial level and the way in which negotiations between the national and provincial executives evolves is seen as determinant of decentralising policies (Falletti 2000; Jones et al. 2000). Further, considering that many policies of the central government that require legislation to give them effect involve a coalition that is broader than the members of the incumbent party alone, presidents seek to captivate the other parties' governors support. The latter, largely unaffected by incumbent's intra-party rules and the effect of legislative party discipline, are likely to behave in an opportunistic manner, trying to extract higher transfer payments from the national government than governors from the president's party would. Partisan disharmony is assessed using a dummy variable indicating whether the provincial governor belongs to a party that is different of that of the president.

While two-party presidentialism has been the hallmark of Argentine national politics throughout the last century, provincial parties became meaningful actors at the subnational level. This development is crucial for understanding the evolution of intergovernmental transfers given the fact that some regions have regional-party dominant systems providing them advantages over regions with higher levels of electoral volatility. Previous research has shown that, with few exceptions, national politicians have used fiscal transfers to strengthen the allegiance of provincial party leaders (Gibson 1996; Remmer and Wibbels 2000). This patronage-driven mechanism derives from provincial parties' fewer opportunities to obtain discretionary resources than their mainstream challengers at the regional level. In many respects, it is not too far-fetched to argue that long-standing dominance of provincial bosses on regional politics has translated into lavish transfers to their respective regions to the detriment of provinces more susceptible to electoral manipulation. In a country where governors act as agents of the president, such channeling of financial support to provincial parties-dominated regions seems to be a price worth being paid. This variable is measured using a dummy variable indicating whether the provincial executive is controlled by a provincial party

Table 2.
Determinants of FONAVI transfers

Independent Variables	z	p < .05
Intercept	1.18	0.236
Population	0.22	0.824
Unemployment	0.35	0.729
Geographical GDP	8.67	0.000
Provincial Party Governor	-1.61	0.106
Partisan Disharmony	3.52	0.000

Note: Analysis is by PCSE with an AR1 correction. The dependent variable is yearly changes in the distribution of FONAVI transfers to provinces from 1972 to 1975 and from 1984 to 2000. N= 333. R² = 0.59. Wald Chi2 = 130.53 (prob > chi2 = 0.000). Entries are panel-corrected standardized coefficients.

Table 3.
Determinants of ATN transfers: Panel-corrected regression results

Independent Variables	z	p < .05
Intercept	-3.84	0.000
Population	-3.82	0.000
Unemployment	1.72	0.085
Geographical GDP	- 6.58	0.000
Provincial Party Governor	-0.90	0.366
Partisan Disharmony	2.43	0.015

Note: Analysis is by PCSE with an AR1 correction. The dependent variable is yearly changes in the distribution of ATN transfers to provinces from 1972 to 1975 and from 1984 to 2000. N= 215. R² = 0.23. Wald Chi2 = 63.70 (prob > chi2 = 0.000). Entries are panel-corrected standardized coefficients.

Tables 2 and 3 present the coefficients of the equations estimating FONAVI and ATN transfers to provinces, respectively. Before we proceed to discuss the findings for each political factor, it becomes apparent that partisan considerations are major shaping influences in the unfolding of these transfers, as they withstand the inclusion of decisive socio-demographic and economic variables. If in fact grants are doled out to address equity and/or efficiency issues, political factors should not be so conspicuously present. Beyond providing preliminary evidence to advance a political theory of decentralisation, these general findings challenge the basic postulates of the normative theory of intergovernmental transfers and its emphasis on fiscal equity and efficiency as key building blocs. The major stylized fact emerging from this analysis is that economic imperatives are necessary but, by all means, *not sufficient* conditions to account for variation in FONAVI and ATN transfers at the light of the consistent and significant effect of the divided government factor. This strong and consistent relationship between partisan variables and the ability of provincial governments to increase their share of federal funds corresponds with preliminary evidence offered by Willis et al (1999), who argue that party system factors define levels of fiscal decentralization in Latin America.

Turning to our political variables, whether governorships are held by provincial parties does not seem to account for variations in the distribution of the analysed federal transfers. Conversely, Riker and Schaps' intuition does provide a solid ground to fully explain FONAVI and ATN transfers, at the light of its sign direction and statistical significance. Consistent with previous findings, it is shown that when governorships are ruled by opposition parties, the overall amount of (total) federal funds transferred to the provinces increases considerably (Gordin 2004). The overall amount of FONAVI

transfers hinges on bilateral bargaining between the central government and each province, enhancing the political clout of governors. Said bilateral bargaining generates a *zero-sum* game dynamics among governors and bolsters the territorial aspects of interest representation and bargaining *vis-à-vis* partisan interests. Moreover, the “catch-all” nature of Argentina’s mainstream parties, the Peronist Party and the UCR, leads to intra-party confrontations because these parties embrace quite distinct factions (Eaton 2002: 287). Confirming the theses of scholars who call attention to the “executive” nature of Argentine federalism (Pirez 1986), partisan disharmony between the national and provincial level captures the diversity of political interactions affecting the selected intergovernmental transfers programs.

4. The Provincial Governors And The Fiscal Pacts Of 1992 And 1993

Touted as potential watersheds in the reform of fiscal federalism in Argentina, the *Pactos Fiscales* were negotiated bilaterally with provincial governors to reduce provincial revenue shares and the transfer of key expenditures responsibilities (education, health, and housing) without the corresponding revenue resources. In a nutshell, President Menem sought to replace the automatic (i.e. decentralising) distribution criteria for FTSA funds legislated in 1987 with selectively induced benefits to compliant governors. In 1992, they negotiated to reroute 15 percent of the revenues slated to be transferred to provincial governments toward the national social security system, which was on the verge of bankruptcy. To offset this concession, provinces obtained transfers with a minimum amount guaranteed. With the exception of La Rioja, which was ruled by the Peronists, overrepresented provinces controlled by opposition parties were rewarded (e.g. Santa Cruz and Salta), whereas defiant provinces from less malapportioned jurisdictions (e.g. Entre Ríos and Chaco) were selectively punished with no payments, until they gave in. Echoing the political-ridden character of this pact, Menem signed a second fiscal pact in 1993 with governors aimed at deregulating and reducing/eliminating provincial taxes that affect enterprise and employment costs. This move was a “token of appreciation” to the business sector, to limit the autonomy of the governors to set their own tax bases and fine-tune the provincial tax systems to mirror the neoliberal reforms Menem had implemented at the national level. Facing seven governors refusing to sign, selective debt relief and, mostly, federal infrastructure investments were used by the national government to marshal subnational support. In summary, beyond the nature of the issues addressed in each fiscal pact, a recurrent thread in Menem’s moves has been to weaken coordination among provinces and deepen federal controls over subnational revenue to preclude provincial expansion of public spending and thus strengthening their own patronage networks.

5. Conclusion

This study makes the case that subnational fiscal relations are largely dictated by the tension between the territorial distribution of political resources and the territorial distribution of economic structure. Interregional economic asymmetries, which manifest themselves in the degree of transfer-dependency of subnational governments, intertwine with political asymmetries derived from legislative overrepresentation of territorial units and intergovernmental bargaining strategies. That is, poorly populated, mostly economically disadvantaged and thus transfer-dependent regions can bring into play their political overrepresentation to shield themselves from unwanted reforms to increase their fiscal autonomy. In Argentina, the sorting out of subnational fiscal relations is “locked-in” at the senate level, where peripheral provinces are overrepresented. This balance of power shields the latter from the political hurdles and fiscal responsibilities derived from own-revenue mobilisation, it perpetuates fiscal centralisation based on intergovernmental transfers, and, ultimately, it engenders a fiscal policy regime based on cooptation and patronage.

In focusing on the tension between the territorial distribution of political resources and the territorial distribution of economic structure, another implication also poses daunting challenges to the fiscal federalism scholarship. This tension exacerbates the politicisation of intergovernmental fiscal relations and, what is more, it becomes palpable in the mutually-reinforcing relationship between decentralisation and regionalised patronage. While the conventional wisdom in the subject that sees distributive politics as a mere residual issue, namely that it plays no role in the determination of fiscal decentralisation reforms or, ever worse, that patronage is doomed to wither away once fiscal decentralisation evolves, exactly the contrary is argued in this study. The policy of transferring revenue and revenue authority to subnational governments not only renders possible the entrenchment of patronage-ridden regional enclaves but, also, the latter can exploit institutional and political opportunities to sabotage fiscal decentralisation projects.

Last, this work shows that the presence of formal governmental structures to represent territorial interests does not necessarily mean they are effective in practice. A highly “institutionalised” senate in Argentina shields the political and economic interests of poorly-developed, yet politically powerful, provinces. As these provinces are co-opted in the legislative process at a more “convenient” price than metropolitan regions, regional asymmetries in the allocation of revenue and revenue authority are sustained over time. Therefore, any policy recommendation for fiscal reforms in decentralised polities should consider that the timing and sequencing of fiscal and political decentralisation reforms are of essence. For instance, the putative fiscal benefits of decentralisation to disadvantaged areas are rendered moot, when the amount of transfers to them is dictated by political influence beyond social welfare. In this regard, our study highlights the geographical uneven nature of fiscal reforms and how liberal, efficiency-enhancing decentralisation policies can be blocked by the concomitant entrenchment of patronage-ridden, politically-shielded regional enclaves. The Argentine experience suggests that the relationship between the provinces and their budgets and the central government cannot be sorted out from the effect of political institutions and their related regional power asymmetries. If this is correct, institutional reforms in areas such as electoral malapportionment should be contemporaneous, or even precede, fiscal decentralisation reforms.

Data and Sources

Variables	Source
<i>Dependent</i>	
FONAVI	MECON, <i>Ejecución Presupuestaria</i>
ATN	MECON, <i>Ejecución Presupuestaria</i>
<i>Independent</i>	
Population	INDEC, <i>Censo</i>
Unemployment	INDEC, <i>Anuario Estadístico</i>
Geographical GDP	Elías (1996)
Partisan Disharmony	Fraga (1995), Molinelli, Palanza, and Sin (1999)
Provincial Party Governor	Fraga (1995), Molinelli, Palanza, and Sin (1999)

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