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Intergovernmental Fiscal Relations, 'Argentine Style'[1]

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ABSTRACT

This study assesses the explanatory power of two competing views about intergovernmental fiscal transfers; one emphasizing the traditional neo-classical 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. These models are tested 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. Over-represented provinces ruled by governors who belong to parties different to that controlling the national executive can bring into play their representational advantages to attract shares of federal transfers beyond social welfare criteria. This finding suggests that decision makers in federal countries must pay close heed to the need to synchronize institutional reforms and fiscal adjustment.

'*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 (2002).

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 limited authority of the centre to rein in fiscal discipline lurked underneath Argentina's foreign debt default – the world's largest – and the premature fall of De La Rua's elected government in December 2001. As

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Remmer and Wibbels (2000: 445) claim, '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'.

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. 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.

However, in a country where the national constitution grants the federal government the authority to intervene, be it through the cancellation of electoral results or imposing the martial law, in the provinces, this apparent empowerment of subnational actors seems paradoxical. For instance, a seminal theorist of federalism such as Daniel Elazar argues that, given the centralisation of political power and concentration of activity in the national capital, federal arrangements are facade institutions (Elazar 1987: 75). In the same vein, Weingast (1995: 28) claims that the degree of discretion exercised by the Argentinean national government not only has hindered economic development but also 'compromises the independence of local political authority'. More recently, it is shown that the administrative character of the processes of decentralization in Argentina bolsters national interests and inhibits any meaningful redistribution of power to the subnational authorities (Falleti 2000).

In trying to resolve this empirical puzzle, we also address a general theoretical question. What actions in fulfilling the economic reform agenda might either be facilitated or thwarted by particular constellations of institutional rules and political dynamics? The underlying hypothesis explored in this study is that the interplay of territorial legislative over-representation of smaller subnational units and powerful governorships underlies asymmetric bargaining powers, enhancing the role of

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subnational actors representing more votes per capita. In other words, some provinces are more institutionally-endowed than others to play a pivotal role in the intergovernmental fiscal arena. This thesis represents a useful step in systematically addressing the important but heretofore neglected role of inter-provincial conflict in federal systems. While this deficiency is not entirely overlooked (e.g. Gibson and Falleti 2000; Wibbels 2005), Riker's seminal theory of federalism and empirical work on federal systems such as Australia, where politics is increasingly dominated by nationally articulated distributional issues (Painter 1998), fall short of assessing subnational diversity. Accordingly, identifying the political conditions that make some provinces more capable than others in distributive policymaking may shed new light on the putative (economic) costs of federal governance.

Argentina should provide a particularly useful case for analysing the effects of partisanship and representation on the geographical allocation of fiscal resources. Akin to other presidential regimes with bicameral legislatures such as the United States (Schlesinger 1965), it possesses governorships endowed with scores of formal powers such as patronage, provincial-level veto, administration of programs in districts, and others. These gubernatorial prerogatives are further reinforced by the organization of the main political parties with national appeal, the Peronist and Radical parties, which replicates the federal structure of the state granting significant power to provincial party bosses. Hence, governors are also equipped with informal powers such as controlling the nomination and career paths of legislators representing the provinces in national institutions with significant policy-making powers (i.e. the Senate) and, possibly, they amount to veto players in the passing of federal legislative initiatives. On the other hand, unlike more established federations, the Argentinean polity looms large as a work in progress. Since the last democratization process, '32 constitutional reforms and 34 electoral reforms reshaped the subnational electoral map of Argentina, leading to one of the most diverse, and arguably, complex political systems in the world' (Calvo and Micozzi 2005: 1051). These transformations not only highlight constitutional malleability but, more importantly from the vantage point of this study, also they allow us to assess how institutional complexity rendered by federalism comes to determine distributive fiscal policies and the resulting success (or sabotage) of reforms intended to advance social welfare criteria rather than fiscally unsustainable pork-barrel imperatives.

This article's central analytical objective, then, 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

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financial resources and fiscal authority in Argentina. Our discussion should provide an understanding of what type of political interferences affects 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. After conducting panel-corrected standard errors regression analyses with pooled data, cross-sectional analysis is conducted to explain the inter-provincial distribution of transfers in 1995, a year of extreme fiscal distress in Argentina. We then offer some general conclusions in the final section.

'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, 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 (Rodden 2002; Wibbels 2005: 17–32).

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) over-represented in the Senate. As Rodden (2002, 2006) cogently

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shows, this arrangement has substantial effects on public policy because state representatives are well aware of the distributional consequences of intergovernmental bargains, particularly when the centre is beholden to certain fiscally-troubled over-represented subnational governments and thus unable to change the political institutions that create bad incentives. In sum, 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), 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, authorizing 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 of 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 at al 1998), it ranks in the 12th position among the twenty most-malapportioned lower chambers compared to the Senate's top position in its respective ranking (Samuels and Snyder 2001: 661–62). Additionally, 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 Money 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).

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TABLE 1: *Senate overrepresentation*

Gini index of inequality		Percentage of seats of best represented decile	
Belgium	0.015	Belgium	10.8
Austria	0.05	Austria	11.9
India	0.10	India	15.4
Spain	0.31	Spain	23.7
Germany	0.32	Germany	24.0
Canada	0.34	Australia	28.7
Australia	0.36	Canada	33.4
Russia	0.43	Russia	35.0
Switzerland	0.45	Switzerland	38.4
USA	0.49	USA	39.7
Brazil	0.52	Brazil	41.3
Argentina	0.61	Argentina	44.8
MEAN	0.33	MEAN	28.3

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

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'. This explanation concurs with social choice accounts showing that local governments with more bargaining (i.e. representational) power may be favoured in the intergovernmental political game by receiving more grants (Borck and Owings 2003; Feld and Schaltegger 2005).

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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. This apparent moral hazard becomes further exacerbated by the fact that the Argentina Senate over-represents rural, mostly transfer-dependent provinces. Consequently, malapportionment forecloses policy reforms to temper the patronage-financed debt spending of Argentine provinces.

Electoral designs do not only affect Senate representation but they also reduce the number of effective parties in gubernatorial elections, minimizing the risk of electoral defeat and hence working to the advantage of governors in Argentina (Calvo and Micozzi 2005). In fact, the country's electoral rules moves the senators re-election decision away from the voters' influence and closer to the whims of the governors, considering the province-based nature of Argentine political careers (Jones et al. 2002). As noted earlier, governors possesses a wide array of formal powers; consistent with evidence from the US, Argentine governors are endowed with important tools to play a dominant role in the budgetary process and are something of chief legislators in policies that affect the intergovernmental distributive game (Lee Bernick 1979). However, the interplay between malapportionment and gubernatorial influence is clearly illustrated by the territorial variation in the number of effective parties. Using data from 1983 to 2003, Calvo and Escolar (2005: 111) show that the mean for that period is of 2.60. A closer look at the figures corresponding to the most over-represented provinces indicates that they all rank well bellow such mean: La Rioja (1.81), Catamarca (2.37), Santa Cruz (1.97), and Formosa (2.23). In other words, governors from over-represented provinces are more shielded from local challengers and hence better equipped, all else equal, than under-represented jurisdictions to influence the moves of the national senators, who until recently were appointed through a binomial election system by the provincial legislatures, which are conspicuously controlled by governors. The above having been said, it still remains an open question whether the partisan colour of governors ruling over-represented provinces has a significant effect on the apportionment of federal grants, a matter that we seek to sort out in the cross-sectional analysis.

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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 per cent 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.

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 above all 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 three intergovernmental transfers programs, FONAVI (*Fondo Nacional de la Vivienda*, National Housing Fund), FEDEI (*Fondo de Desarrollo Eléctrico del Interior*, Electricity Investment Development 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 and FEDEI are ideally allocated with the purpose of financing housing construction and electricity provision infrastructure respectively,

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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. In this analysis, we exclude FEDEI because it has been subjected to numerous changes since its creation, affecting the consistency of its time-series. However, FEDEI provides the most appropriate empirical indicator to analyse the cross-section distribution in the 1995 crisis, as it was put through intense media and oversight scrutiny based on its salient capital-intensive character. Accordingly, one explanation emphasizes the traditional neoclassical approach to federal-subnational fiscal relations and the alternative model suggests that transfers are contingent on the political fortunes and current political vulnerability of each level of government. For that purpose, time-series analysis is used to account for cross-subnational and diachronic variation in the distribution of intergovernmental transfers, using macroeconomic, socio-demographic and political indicators as explanatory factors.

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.

Competing hypotheses

The economic context

The traditional economic policy view of intergovernmental transfers is that such grants are made to enhance macroeconomic efficiency and

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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 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.

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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 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 reduce 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 capture 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 from 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

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TABLE 2: *Determinants of Fondo Nacional de la Vivienda transfers*

Independent variables	*z*	$p<0.05$
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 Panel-corrected standard errors regression 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. $N = 333$. $R^2 = 0.59$. Wald Chi2 = 130.53 (prob > chi2 = 0.000). Entries are panel-corrected standardized coefficients.
Source: The data come from the Ministry of Economy (Buenos Aires, Argentina), Molinelli et al. (1999), and own calculations.

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 channelling 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.

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

TABLE 3: *Determinants of Aportes del Tesoro Nacional transfers*

Independent variables	*z*	$p<0.05$
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 Panel-corrected standard errors regression 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. $N = 215$. $R^2 = 0.23$. Wald Chi2 = 63.70 (prob > chi2 = 0.000). Entries are panel-corrected standardized coefficients.
Source: As in Table 1.

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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 blocks. The major stylized fact emerging from this analysis is that economic imperatives are necessary but *not sufficient* conditions to account for variation in FONAVI and ATN transfers at the light of the consistent and significant effect of the partisan disharmony 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 first to our partisan disharmony variable, 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. This 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. Adding to this, the federal government coalition is often confronted with a majority of provincial governments composed of opposition parties in the Senate. As the President Alfonsin's administration, particularly since 1987, evidently highlights, the incumbent federal government may be forced to buy political support of provinces governed by the Peronist Party in the upper house. Further, 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. 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.

Regarding the political influence of a governorship controlled by a provincial party, we found no support for the hypothesized effect in Argentina, as this variable is statistically insignificant for FONAVI and ATN transfers. One possible explanation for this finding stems from the

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ideological orientation of Argentine provincial parties, mostly clustered at the center-right and thus closer to the Peronist Party. In the last 10 years covered in this study, provincial parties have massively supported the candidacy of Carlos Menem and his subsequent attempt to cut down 15 per cent in the primary distribution of FTSA to the provinces to finance the proposed nationalization of the social security system. An additional cause of this seemingly minor role played by the provincial parties' czars stems from their progressive ambitions, insofar as provincial governorships in Argentina are strategic springboards to attain national leverage, buttressing their prospects to run in subsequent presidential elections as candidates. In this light, governors from provincial parties seek to cast a fiscally-responsible image and conceal, to the extent possible, their clientelist and opportunistic streak.[6]

The inter-provincial distribution of intergovernmental transfers

1995: An illustrative case-study

The preceding results for FONAVI and ATN apportionment are consistent with the so-called politico-economic 'partisan model' of elected officials from competing parties, who safeguard their political destiny through public provision. Having revealed that the political determination of transfers is consistently high, it is necessary now to examine whether over-represented provinces are rewarded compared to provinces with higher fiscal capacity. For that purpose, we will use cross-section analysis of transfers to provinces in 1995. This year epitomizes the beginning of a period in which provincial administrations were pushed to modernize their public administrations systems, reform the structure of provincial taxes, and, more importantly, improve their own-resource mobilization.

The analysis of the inter-provincial distribution of federal funds in 1995 offers an interesting case to examine the extent to which over-represented (mostly economically disadvantaged) provinces can tilt their share of transfers at a time when financial imperatives were expected to reduce subnational fiscal autonomy. This year amounts to a 'critical juncture' that was expected to reduce the manoeuvring margin of poor provinces to retain a lion's share of federal transfers, providing a useful testing ground of extreme fiscal conditions. More specifically, this year represents a crossroad of the beginning of the demise of the Convertibility Plan, the Mexican Crisis in late 1994, and the lagging effects of the 1992 and 1993 Fiscal Pacts.

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The convertibility plan

Seen as the only remedy to curb hyperinflation, the 1991 Convertibility law forbade the Central Bank from using the money supply to finance the public deficit, and money creation was permitted only to the extent that international (i.e. US dollars) reserves were increased. While this plan helped to increase provincial revenue, expenditures quickly accommodated and provincial deficits grew from 0.2 per cent of GPD in 1992 to 1.2 per cent in 1995 (World Bank 1996: 2). This overall unsustainable level of debt has not swayed provinces' attempts to resort to financing operations such as borrowing from their official banks and issuing 'coupons' in lieu of wage payments.

The 'tequila' effect

The above-mentioned weaknesses of the new monetary regime were underscored after the Mexican crisis in late 1994. Following the collapse of the Mexican currency, Argentina's monetary base shrank sharply (almost 20 per cent, a reduction comparable to that experienced by the United States in the 1929 crisis). This resulted in numerous deposit losses that threatened to bankrupt the provincial banks. To avoid massive defaults, many provincial banks, mostly from peripheral provinces, were privatised, amounting to a (re) centralisation of intergovernmental fiscal relations (Eaton and Dickovick 2003: 97).

The 1992 and 1993 Fiscal Pacts

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 per cent 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. Defiant provinces (e.g. Entre Ríos, Chaco, Jujuy) 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.

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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 strengthen their own patronage networks.

Cross-sectional analysis

Based on this sketch of the fiscal scene in 1995, and its concomitant constraints on inter-provincial capacity to join ranks and oppose the federal executive's moves, what kind of provinces succeeded in attracting a larger share of federal transfers? In order to answer this question, we investigate the distribution of FEDEI transfers to provinces in that year. As argued previously, a cross-section model is more appropriate to zoom in on the context set out above. Unlike the previous empirical analysis, malapportionment is employed here as an explanatory factor. Based on our previous claim linking malapportionment and gubernatorial influence, this independent variable consists in the interaction term of provincial over-representation and governorships held by parties that oppose the incumbent national executive. This, in turn, will be our approach to uncover the extent of politicisation in the distribution of transfers and our main independent variable. Drawing on Porto and Sanguinetti (2001), we calculate malapportionment by dividing the fixed number of senators per province (which during the period analyzed here is equal to two) by population. Based on the qualitative evidence presented above, we expect this factor to be positively associated with federal transfers, which is to say, over-represented provinces will receive a higher share of funds. To control for the impact of transfer dependency, we will use an indicator of provincial financial capacity, which is the revenue/expenditure flexibility variable and operationalised as the provincially-generated revenue as a percentage of total revenue.

Thus we estimate the following model:[7]

$$\begin{aligned} \text{FEDEI} = B_o + {}_{b1}\text{Population} + {}_{b2}\text{Unemployment} + \\ {}_{b3}\text{Revenue/Expenditure Flexibility} + {}_{b4}\text{Partisan Disharmony} + \\ {}_{b5}\text{Over-represented Provinces ruled by Opposition Governor} + \\ {}_{b6}\text{ Provincial Party Governor} + e \end{aligned}$$

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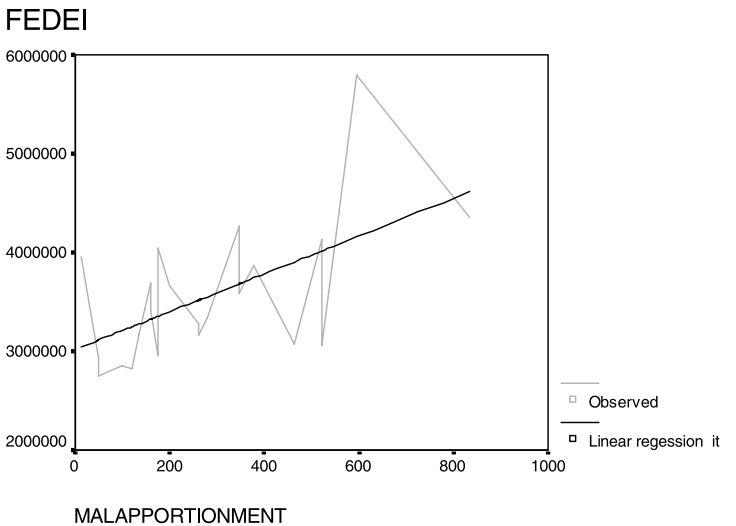


FIGURE 1: *Malappropriament and expenditure*
Source: The data come from the Ministry of Economy (Buenos Aires, Argentina), Molinelli et al (1999), and own calculations.

The results are reported in Table 4. The support in favour of the malapportionment variable is strong and its coefficient is robust and carries the expected sign. This trend is further illustrated in Figure 1, where it becomes apparent that the actual inter-provincial distribution fits the regression line. Figure 2 presents a scatter plot where it is clear that La Rioja looms large as the outlier.[8] This province not only ranks as

TABLE 4: *Determinants of Fondo de Desarrollo Eléctrico del Interior transfers*

Independent variables	Coefficient	*t*
Intercept	1.458	4.988
Population	0.376	1.636
Unemployment	− 0.076	− 0.289
Revenue/Expenditure Flexibility	− 0.301	− 1.241
Partisan Disharmony	0.091	0.247
Over-represented (Opposition) Province	0.560**	2.159
Provincial Party Governor	0.206	0.486

Note: Analysis is by OLS regression analysis. The dependent variable is yearly changes in the distribution of FEDEI transfers to provinces in 1995. $N = 24$.
$R^2 = 0.47$. Entries are standardized coefficients.
**Significant at the 0.05 level (2-tailed test).
Source: As in Table 1.

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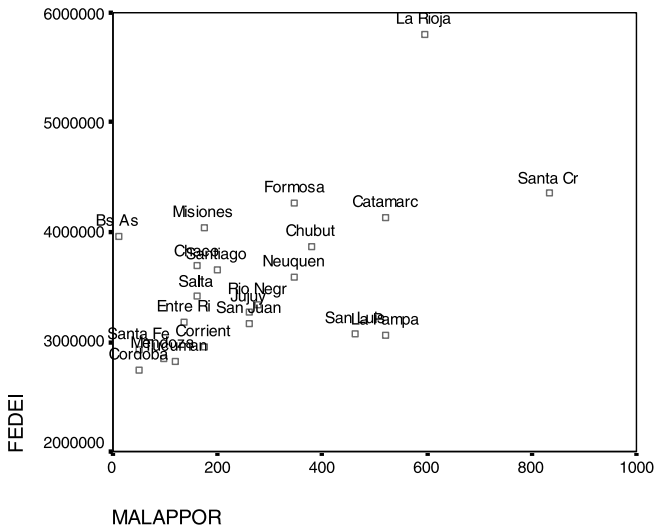


FIGURE 2: *Relationship between Fondo de Desarrollo Eléctrico del Interior allocations and malapportionment*
Source: As in Figure 1.

one of the most over-represented provinces in Argentina but also its political dynamics stands out as a crucial parameter. The political trajectory of Carlos Menem, its three times governor from the main opposition party and subsequently elected president in 1989 and re-elected to the presidency in 1995, accounts for the sheer increase in grant apportionment to this province. This patronage-ridden context was increasingly gaining institutional sustainability since the 1987 electoral reform that introduced a PR-D'Hont formula and increased the number of seats distributed in the rural districts of La Rioja, which were mostly Peronist strongholds (Calvo and Micozzi 2005: 1061).

These preliminary findings are consistent with historical records about the secondary distribution of intergovernmental transfers. Rezk (1998: 225, 231) shows that ever since revenue-sharing was implemented for the first time in 1935 a gradual trend in favor of over-represented, mostly poor provinces, with the singular exception of oil-producing Santa Cruz, is conspicuous. While under-represented and high-revenue provinces like Buenos Aires, Santa Fé, and Córdoba experienced a decrease of 24 per cent, low-revenue provinces were benefited with an increase of 21 per cent. Likewise, Sawers (1996: 245) argues that 'in 1900, when federal assistance was minimal, the most advanced provinces (Buenos Aires, Córdoba, Santa Fé, and Mendoza) spent five times per capita what the most backward provinces spent (La Rioja, Catamarca, Corrientes, Jujuy, Misiones, Chaco, Santiago, and Formosa). By 1960, they were spending

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roughly the same amount per capita. By the mid-1980s, the poorest provinces were spending almost twice what the most prosperous provinces spent on each citizen'. The political correlate of this redirecting of economic resources toward the development of backward provinces is the historical alliance among elites from poor provinces and a strong and autonomous central government to prevent one province's (i.e. Buenos Aires) dominating the others in Argentina. This intersection of interests was formalized through the creation of institutions such as the Senate and the Electoral College that elected the president. Provincial governments moved to the center stage, playing an important role in deciding who gets sent to Congress. National senators until recently were chosen by provincial legislatures, not by popular vote. Thus, control over provincial governments means control over the national senate and veto power over fiscal decentralisation legislation (Botana 1993: 243).

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. Inter-regional 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. The effect of regional power asymmetries on the allocation of revenue and revenue authority is mediated by a major influence: extreme levels of overrepresentation and policy scope of the Senate. 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. 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.

In focusing on the tension between the territorial distribution of political resources and the territorial distribution of economic structure,

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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 with, or even precede, fiscal decentralisation reforms.

NOTES

1. Alberta Sbragia, B. Guy Peters, William Keech and Louis Picard provided many helpful comments on an earlier version of this article. Likewise, I wish to thank James Alt for clarifying my thoughts on many issues raised in this work. For comments and suggestions, I am also grateful to the participants of the workshop 'Elections and Democracy in Latin America' at the ECPR Joint Sessions of Workshops, Granada, Spain, April 14–19, 2005. Any opinion, findings, or conclusions expressed in this article are those of the author.

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2. By the mid-1980s, subnational administrations (including the municipal level) collected less than 15 per cent of the total taxes collected in Argentina (Piffano in Sawers 1996: 218).
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.
5. For instance, the unemployment rate (average for the observed period) in Mendoza is 6.7 per cent compared to a 19.2 per cent in Tucuman (INDEC).
6. Throughout these years, the incumbent UCR only held a majority in the Chamber of Deputies, and only until 1987, when Peronism assumed the majority of this chamber. Peronists exploited a constitutional clause that all revenue-sharing bills must originate in the National Senate and blocked the passing of badly needed revenue-sharing law reforms. Alfonsin manipulated this legislative vacuum by resorting to ATN transfers to compensate for provincial fiscal shortfalls.
7. We exclude geographical GDP because it is strongly correlated (about 60 per cent and statistically significant) with the revenue/expenditure factor and thus induces to multicollinearity.
8. To test whether the OLS results in Table 4, which are based on a relatively limited *N*, are biased due to the presence of outliers, we run the same OLS regression including La Rioja as dummy variable and got similar results with regards to significance and sign direction. Put differently, omitting the extreme case of La Rioja does not change the overall results and the substantive findings.

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APPENDIX

Data and Sources

Dependent variables	*Source*
FONAVI (National Housing Fund)	MECON, *Ejecución Presupuestaria*
FEDEI (Electricity Dependent Fund)	MECON, *Ejecución Presupuestaria*
ATN (Federal Treasury Contribution)	MECON, *Ejecución Presupuestaria*
Independent variables	
Population	INDEC, *Censo*
Unemployment	INDEC, *Anuario Estadístico*
Geographical GDP	Elías (1996)
Malapportionment	Porto and Sanguinetti (2001)
Partisan Disharmony	Fraga (1995), Molinelli, Palanza, and Sin (1999)
Provincial Party Governor	Fraga (1995), Molinelli, Palanza, and Sin (1999)

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