

Tensions between Centralization and Decentralization in the Argentine Federation

Lucas González

CONICET/UCA-UNSAM

Introduction

Argentina is a federation that went through times of relatively rigid centralization and others characterized by profound decentralization, not only politically, but fundamentally in fiscal and administrative terms. How is it possible for a federation to experience these sharp changes when there are institutional structures that should, in principle, give stability to federal relations and regulate tensions among units of government? In this paper, I explore the main characteristics of these centralizing and decentralizing tensions across time and analyze some of the main reasons for their occurrence.

The main argument in this paper is that changes in the distribution of funds and functions have historically depended on the fiscal incentives and the fiscal pressures presidents and governors faced across time. In this sense, centralization and decentralization processes are not understood here as “policies.” They are the political consequences of power struggles among units the federation over the distribution of funds and functions. Hence, populist policies that expanded welfare provisions (and not a welfare “state”) during the 1950s or the neo-liberal reforms during the late-1970s and early 1990s had very different policy prescriptions and outcomes, but similar implications for federal relations. The former centralized functions and fiscal revenue while the latter decentralized functions without revenue to stabilize the federal budget; but both of these policies had the same impact in terms of federal relations: to advance centralizing reforms and limit the power of sub-national units. A further implication of this argument is that these changes were not driven either by programmatic issues or ethnic cleavages.

The paper is organized as follows. In the first section, I provide some background information on the Argentine federation. In the second, I present some historical trends in the evolution of the struggles among units of government over the distribution of funds and functions. In this section, I explore the reasons of the tensions between centralization and decentralization based on the main argument of the paper. In the final part of the paper, I discuss the utility of Loughlin's (2009) notion of hybridity to understand these changes in the Argentine case.

The Argentine Federation

The Argentine Republic is a federation of 23 provinces and the autonomous city of Buenos Aires, constituting the eighth-largest country in the world by land area. Its population reaches about 40 million people, mostly descendants from colonial-era settlers and 19th and 20th century European immigrants. Population density is low: 15 persons per km². There are no relevant ethnic and linguistic cleavages, and over ninety per cent of Argentines are Christians, mostly Roman Catholic. This emerging economy has a GDP per capita of €7.390.¹ Its abundant natural resources have contributed to its traditionally export-oriented agricultural sector. More than one fifth of exports come from unprocessed agricultural primary goods, mainly soybeans. There is a growing services sector in the Buenos Aires metropolitan district and an increasingly diversified industrial sector in major urban areas.

Following the independence war from Spanish colonial rule, and after a series of bloody civil wars, Argentina had been governed by an alternation of democratic and nondemocratic regimes. From 1983, it is a constitutional federal democracy, organized into executive, legislative, and judicial branches. Since the last constitutional reform in 1994, the President is directly elected by the people for a 4 year term, with one immediate reelection. Argentina has a bicameral National

¹ Author's calculation from IMF World Economic Outlook Database and INDEC.

Congress, where each one of the 24 districts has three senators and a number of deputies proportional to its population. The uneven distribution of the population (concentrated mainly in the central pampas) and a floor of 5 deputies for each district, makes the Argentine federation, and particularly the Argentine senate, one of the most overrepresented in the world (Samuels and Snyder, 2001). There are no reelection restrictions for legislators.

Provincial elites have substantial leverage over the composition of party lists used to elect representatives to the national Congress and remain prominent players in running local electoral campaigns (Jones et al., 2002). Despite this, presidential influence is strong especially under contexts of popular presidents and economic bonanza (Calvo, 2007).

Argentina's federal system allows provincial governors to exercise substantial electoral, policy, and relative fiscal autonomy (especially in terms of spending), although most districts are fairly dependent on federal funding (see below). Every province has its own constitution, leading to a large variety of institutional systems. Provincial governments retain all powers not delegated to the federal government in the National Constitution, including the creation of municipalities. Some functions are the exclusive responsibility of the federal government (such as defense, foreign affairs, immigration, and international trade, currency, and banking regulations). Other functions are shared between the federal, provincial or state, and even municipal governments, such as health care, education, and social plans. The functions delegated by the provinces to the federal government have not been subject to many conflicts with states (or municipalities) regarding their distribution. On the contrary, most of the shared functions have been subject to historical struggles over their distribution and the sources of revenues to finance them.

In relation to tax authority, the Argentine 1853 constitution established that the federal government had exclusive and permanent authority over import and export taxes and postal

services (art. 4, 9, and 67), and that it shared authority over indirect taxes with the provinces (art. 4 and 17).² The provinces, in turn, had exclusive and permanent authority over direct taxes (art. 67) and concurrent authority over indirect taxes.³ Persistent struggles among units of government have modified this (in theory, simple) distribution of tax authority over time.

Argentine provinces have three main sources of revenues: their own tax revenues, transfers from the central government (regulated through the so-called Co-participation Law,⁴ and other transfers,⁵ legally mandated or discretionary, distributed by the federal government), and the revenue they can access through debt. These three sources of revenue have been at the heart of the struggles between the central government and sub-national units. In the next section, I briefly describe some of the key conflicts over the distribution of tax authority, administrative functions, and federal transfers.

Pendular Federal Relations in Argentina

This section does not intend to be an exhaustive historical analysis but rather to explore how the distribution of administrative functions and fiscal revenue has oscillated (sometimes drastically) from periods of relative centralization to others in which a larger share of funds and more administrative transfers were decentralized at the sub-national level.

² The main federal taxes are the income tax (impuesto a las ganancias; which represents about 18 percent of total tax collection), the tax on personal wealth, the VAT (the most important tax, representing about one third of total tax collection), and taxes on foreign trade (on exports and tariffs), on fuels, and on bank accounts. According to the co-participation law (23,548, article 2) the federal government is compelled to transfer to the provinces a percentage of the total tax collection, except for the taxes on exports and imports (article 4 of the constitution), other taxes distributed to the provinces by specific regimes, and those funds earmarked at the time the law was sanctioned.

³ The main provincial taxes are the gross income tax (ingresos brutos), property tax, and automobiles' tax. In addition, through co-participation, provinces receive daily automatic transfers from the central government. Municipalities are in charge of those taxes granted by provincial constitutions and laws (Pírez, 1986, p.12).

⁴ Co-participation transfers are crucial for most provinces, as they represent an average of 69 percent of all federal transfers (for the period 1983-2004), 42 percent of the total provincial tax revenue, and 35 percent of the total provincial revenues (the partial exception to this is the Federal Capital and to a lesser extent districts from the more developed central region). The less developed provinces (such as Formosa, La Rioja, Catamarca, Corrientes, Santiago del Estero, Jujuy, and Chaco) received between 80 and 90 percent of their total revenue from federal transfers between 1983 and 2004.

⁵ On average, other legally mandated transfers that are different from those allocated through the co-participation regime represent a bit more than a third of the total federal transfers (1983-2004).

Tensions between the central and sub-national units over the distribution of resources and functions can be traced back to the formation of the Argentine federation in the early nineteenth century. Since the emergence of the center-periphery cleavage (Lipset and Rokkan, 1967), struggles between presidents and governors have been permanent and, although they have been more or less salient in different periods, they recurrently modified relations among units in this federation.

In the nineteenth century, tensions between Buenos Aires and the interior provinces were mainly focused on the distribution of revenues from the port (the most important source of income for the country), the free navigation of internal rivers (as a key source of revenues from trade that would put an end to the monopoly of the port of Buenos Aires in getting these resources), and the free trade versus protectionist economic policy (representing the interest of political elites linked to the port versus those of the interior, respectively) (Burguin, 1975; Saguir, 2007). These tensions translated into struggles and clashes (several of them fierce and bloody) over the distribution of resources in the federation. In this work, I concentrate on these struggles over the distribution of revenue and functions, claiming that they were crucial in influencing the institutional configuration of the federal structure.

A period of dissolution and anarchy shortly after the independence (the “*anarquía del año 20*”) was followed by strong disputes and internal wars over the control of the main sources of revenue (customs from the port). During this period, provinces functioned as *de facto* quasi-states (Chiaromonte, 1993), with immense autonomy from the dissolved central government. Making use of this situation, many of them got their own constitutions and legal frameworks. This substantial provincial autonomy has, at times, been curtailed by the central government.

During other moments, provincial leaders regained part of it. I describe these tensions in the following lines.

When provinces joined the federation and agreed to sign the 1853 federal constitution (Buenos Aires joined them in 1860), federal relations were characterized by two basic facts: first, a large provincial autonomy and a clear fiscal preeminence of the central government over sub-national units; and second, huge disparities among provinces without significant redistributive transfers among them. The first fact was the consequence of each district depending mostly on its own resources⁶ and a relatively clear separation of taxing authority: the central government had exclusive authority over foreign trade taxes and the provinces over local and national (also called “internal”) taxes. As a result, the central government had a position of dominance in relation to the provinces as it controlled a larger amount of resources coming from overseas trade. The disparities between the more and less developed provinces was the consequence of each province having to adjust spending according to its own resources, as the transfers from the national government were basically insignificant (Porto, 2003: 7).

This centralized distribution of taxing authority and resources lasted as long as the central government had guaranteed the privileged source of income coming from foreign trade. When this revenue diminished substantially mainly due to external shocks that reduced foreign trade, central authorities changed the federal distribution of revenue, centralizing it even further.

The federal revenue sharing regime was created by the central government as a reaction to a large crisis in 1930 (in fact, the largest in the history of the country). As trade shrank, the amount of resources collected through tariffs, the main source of income of the central government,

⁶ The only mechanism of transfers was regulated by the 1853 federal constitution (art. 67), which allowed Congress to grant subsidies from the national treasury to provinces that did not have enough resources to guarantee their current levels of spending. These funds were not substantive, as they only represented 1.4 percent of total expenditures of the central government in 1886, 1.9 percent in 1887, reaching 2 percent in 1902-03 (Porto, 2003, p.6).

suffered a huge collapse. This, in turn, impacted severely on the revenues of the central government (See Table 1).

Table 1: Resources of the National Government, 1865-1939 (in percentages)

	1865	1870-80	1895	1920	1930	1932	1937	1939
1.Foreign Trade	94.6	89.3	74.3	60.2	59.3	46	43	33.7
2. Others	5.4	10.7	25.7	39.8	40.7	54	57	66.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Based on data from Pérez, 1986: 124; and Porto 2003: 6.

The authoritarian government of Uriburu (1930-1932) reacted to the crisis and the sharp reduction in revenues by creating new taxes (to financial transactions in 1931 and an income tax in 1932), following similar decisions of increasing taxes taken already in 1890, but these changes only partially compensated for the abrupt collapse in the central government's resources. The Justo government (1932-1938), who accessed to power relying on systematic fraud and the proscription of the Radical Party, passed three laws (12,139; 12,143; and 12,147) in 1935, establishing the "unification" (i.e., centralization) and "co-participation" of taxes. The core of the agreement consisted in a delegation made by provinces to the national government of exclusive rights over crucial taxes in exchange for an automatic share in the collected revenues (Cetrángolo and Jiménez, 1995: 2; Eaton 2004: 68).

Provinces lost an important part of their tax authority, but they negotiated compensations from the central government. The largest crisis in the history of the country and the huge impact it had on fiscal resources at the central and sub-national level moved the president to make profound changes in federal relations among units, especially in the distribution of resources. A powerful president (whose legitimacy and democratic credentials were seriously challenged, to say the least) was able to guide the negotiations that led to changes in the system that distributed taxing authority and resources. For Eaton (2004: 68), "[c]oercion, as well as the fundamentally non-

democratic context of the late 1930s, are important factors in understanding how co-participation arose". The federal executive was able to re-organize fiscal relations and centralize most fiscal resources in the federation (national and provincial), strengthening the central government (Pírez, 1986: 17). As a consequence of this centralizing trend inaugurated during the 1930s, provinces received a decreasing share of the co-participated taxes: the central government transferred 30.6 percent when the system was created and they got 19.6 percent in 1946, the year in which the system was modified (Pírez, 1986b: 176).

Governors resisted, but they faced a decision taken by a powerful (authoritarian) central government. They did not have many other options apart from accepting it and negotiating some compensation. Moreover, the fiscal context induced provinces to negotiate: being under an unfavorable fiscal context, they accepted compensations offers made by the federal executive. The central government arranged different deals with governors, granting them some rewards after ceding part of their resources to central authorities. For instance, it compensated provinces for the decrease in the amount of funds they received by absorbing portions of their debts (through bailouts) (Pírez, 1986: 14) and, through these means, it pushed them to sign on to co-participation (Eaton, 2004: 68). At the same time, governors found some devices of co-participation attractive, especially in the short-term. They were guaranteed transfers from the central government by law and they delegated the costs of collecting resources to national authorities.

This scheme has regulated federal fiscal relations between the central government and the provinces in Argentina since 1935. During the twentieth century, struggles over the distribution of resources continued, but mainly focused on the 1935 revenue sharing system, its rules for the distribution of revenues and the taxes to be included into the regime. The results of these

tensions have been an oscillating distribution of resources, with periods of (sometimes profound) centralization and others of (often equally sharp) decentralization of funds and functions.

The original co-participation regime had an expiration date (in 1954) fixed by law, after which negotiations between president and governors would take place once again. But it was modified several times before that. The military governments passed a series of centralizing reforms between 1930 and 1945, decreeing a tax on profits in 1943 but declining to share the proceeds with the provinces, despite their constitutional authority over direct taxes. And in 1945, the military centralized resources even further, by freezing scheduled increases in provincial transfers established by the 1934 law (Eaton, 2004: 69). Military rule represented the extreme situation under which a powerful central government (to the point that it intended to monopolize political power in the federation) nominated governors (eliminating the possibility to elect them) as well as centralized revenue and functions to dominate federal relations.

As a reaction to those centralizing trends, after the transition to democracy and the return to provincial elections in 1946, governors pressed the central government to modify federal relations. In the first meeting between provincial finance ministers and the federal government in November of that year, representatives from the provinces demanded an increase in revenue shares for the provinces. The Perón administration agreed to raise provincial shares, but the president maintained the centralization of revenues, necessary for consolidating his power base and the industrialization projects under way. With large support in both chambers, Perón passed a series of laws (12,956; 14,060; and 14,390) between 1947 and 1954, modifying the co-participation system and concentrating functions and resources at the central level (Pírez, 1986: 22-24).

The central government had a large fiscal surplus from a favorable international context after World War II, and Perón used these resources to consolidate his populist alliance (Pérez 1986b: 176-177). The populist policies under the Perón administration expanded welfare provisions but Argentina was far from being a welfare “state” ((or a social democratic welfare state in terms of Esping-Andersen, 1990). The main result during the period was a centralization of functions and fiscal revenue, which impacted federal relations by restraining the power of sub-national units.

Major changes in federal relations (especially in the co-participation regime) took place once again during the Radical administrations of Frondizi (1958-1962) and Illia (1963-1966). Both presidents were relatively weak and faced strong and coordinated governors, who pressed them for more resources. “In both periods, governors forced a weak federal executive to decentralize, and in both periods Congress played an intermediary role as broker between the provinces and the president” (Eaton, 2004: 72-73). Governors coordinated and organized gatherings during both presidencies,⁷ demanding co-participation revenues to be divided equally between the federal and provincial governments. During Frondizi’s term in office, governors pressed Congress, which passed decentralizing laws increasing transfers in a 100 percent relative to the previous period. During the Illia administration, their share of total revenues reached 46 percent (including transfers to the city of Buenos Aires). Both decentralizing changes were approved in Congress, which was controlled by strong and coordinated governors. The success of these governors and regional delegations to Congress depended on their ability to effectively coordinate and the weakness of both presidents: their legitimacy was fragile as Peronism faced proscription, the Radical party was deeply divided, and none of them were the strong party

⁷ Out of a conference organized by governors in September 1958, provincial executives created the Federal Investment Council (Consejo Federal de Inversiones, CFI), and important arena for coordination among provinces.

leaders Yrigoyen and Perón were. Under those conditions, governors made bolder attempts to grab more resources (Eaton, 2004: 73).

During Frondizi and Illia administrations governors regularly coordinated and counted on legislators to represent their provinces in the federal Congress to support decentralizing measures. In the post-Perón years, governors were increasingly bold and successful in their demands to relatively weak presidents. But during this period, they preferred devoting time and energy to lobbying for larger transfers rather than transferring taxing authority or strengthening their provinces' autonomy (Eaton, 2004: 73).

A substantial reversion in federal relations with a new centralizing trend took place during the military governments in 1967 and later during the period between 1976 and 1983. The military drastically reduced the amount of funds transferred to the provinces in an attempt to stabilize national accounts. The economy minister Krieger Vasena made drastic attempts to control the budget deficit by sharply reducing the automatic transfers to provincial governments in 1967 (Pírez, 1986: 44-46; Núñez Miñana and Porto, 1983: 13).⁸

A partial, and relatively short-term, reversion in this centralizing trend took place in 1973, during the Lanusse government. The military dramatically lost power and support after the failed government of Onganía and decided to politically liberalize and initiate the transition to democracy. In a similar move to that made by Vargas in 1934 and the Brazilian military in 1983, the armed forces decentralized resources as a way to strengthen conservative districts in the interior. As the military were expecting a Peronist triumph in the elections, they also passed these reforms as a way to limit the scope of action of the incoming president.

⁸ Krieger Vasena reduced transfers to the provinces from 40 percent in 1964 to 35.46 percent and to the city of Buenos Aires, from 6 to 5.32 percent. The national government increased its share from 54 to 59.22 percent. Provinces lost 11.35 percent of their resources while the national government increased them by 14.6 percent (Pírez, 1986, pp.44-45).

The 1973 reform put in place some important changes: first, it compelled the federal government to share 48.5 percent of the collected taxes with the provinces and left another 48.5 percent for the central administration.⁹ This was an historical claim made by the governors. Second, out of the new rules any new tax imposed by the incoming president would have to be shared with the provinces. Third, the law incorporated re-distributive criteria such as income per capita in the division of revenues among the provinces, a decision which favored more conservative and traditional districts, where the military enjoyed more support (See Table 2) (Eaton, 2004: 134). Re-distributive criteria were imposed mainly because it favored the outgoing military. The share of co-participation transferred to the provinces was increased even more by the end of 1973, during the second presidency of Juan Perón. Law 20,633 increased transfers to the provinces up to 60.8 percent of the collected revenues, continuing the trend of favoring less developed regions (See Table 2).

Table: Regional Effects of the 1973 Revenue-Sharing Reform in Argentina

Regions	Revenue Shares by Type of Province		% Change	% of Total Population	Revenue Shares Per Capita by Type of Province		% Change
	1971	1973			1971	1973	
Advanced	59.4	52.5	-11.6	72.4	82	73	-11.0
Low Density	7.7	9.1	+18.02	3.8	203	239	+17.7
Intermediate	14.9	16.5	+10.7	11.4	131	145	+10.7
Underdeveloped	18.0	21.9	+21.7	12.4	145	177	+22.1

Source: Based on Data from Nuñez Miñana and Porto, 1983: 7; quoted in Eaton, 2004: 134.

As we could expect, the decentralizing trend in federal relations was abruptly reversed after the 1976 military coup, which brought dramatic effects for the provinces. The military junta of the Proceso de Reorganización Nacional (1976-1983) reduced transfers to provincial governments

⁹ Law 20,221 established that the national government and the provinces received 48.5 percent of the revenues collected under the co-participation scheme, and a 3 percent was assigned to create a regional development fund (Fondo de Desarrollo Regional). Under the new scheme, the city of Buenos Aires received from the national government 1.8 percent of the total revenues collected (Pírez, 1986, p.50).

in 44 percent and removed the city of Buenos Aires from the revenue sharing system (FIEL, 1993: 147). Despite clear signs of fiscal centralization, the 1976-1983 Junta also decentralized health and education services to the provinces. This can be interpreted as a contradictory move but it was not. The military transferred health and education as a way to diminish the responsibilities of the national government (and, hence, cut down spending) and reduce its large fiscal deficit.¹⁰ In a significant political move, the military did not transfer any revenue or tax authority to finance the new services. This reform represented a cut of 207 billion pesos in national expenditures, approximately 20 percent of the total amount that the provinces received in revenue transfers from the national government (FIEL 1993: 148).¹¹

By all these means, the military made sub-national units more dependent on the national government: it not only nominated governors and majors but also centralized resources, decentralized functions, and kept tax authority at the central level. The military had little to fear from sub-national authorities by delegating functions to them as they were appointees designed by them.

Federal Relations in the Post-Transition to Democracy

Raúl Alfonsín, member of the UCR, got democratically elected and accessed to power in 1983. Once the 1973 revenue-sharing law expired in 1984, both the president and governors pressed members of Congress to pass a new law. However, there was a lack of agreement between the federal executive and governors (especially Peronists and those from provincial parties) on the co-participation law that was to regulate transfers to sub-national governments. Neither the president, nor the opposition, representing the interests of the majority of Peronist governors, had

¹⁰ According to data provided by Falletti (2003), 6,564 primary schools, with 64,619 public employees (teaching and administrative appointments), 897,400 students and an approximate cost of \$207 billion were transferred to the provinces (Ministerio de Cultura y Educación, 1980, Vol. 2, 224: quoted in Falletti, 2003, pp.123-124).

¹¹ Overall, and during the entire period of military rule (1976-1983), the provincial share of tax revenues dropped from 48.5 percent to 29 percent (FIEL 1993, p.151).

enough political resources to pass (or impose) a new legal framework to regulate federal relations.¹²

Fiscal decentralization policies during the Alfonsín administration were not the result of a planned process driven by the central government to strengthen provincial or local units. It was rather the result of strong pressures on the central government from governors. Peronist governors instructed federal legislators to send a bill to Congress during 1985, increasing fiscal transfers to the provinces. The PJ controlled Senate approved the bill during June of that year, but the Radicals vetoed it in the Chamber of Deputies. Thus, no revenue-sharing system regulated transfers from the central government to sub-national units after 1984. For the first time in fifty years, Argentina did not have a revenue-sharing system to regulate fiscal relations between the central government and sub-national units (Porto, 2003: 43).

In the absence of a co-participation law to distribute transfers between 1984 and 1987, the federal government distributed tax revenues to the provinces according to three different criteria: first, ad hoc political negotiations that did not reflect automatic procedures or transparent criteria; second, contingent factors such as budget deficits and financial needs of the provinces;¹³ and third, previous transfers made by co-participation law 20,221 (Pírez, 1986: 64-65; Eaton, 2004: 146).

The political gridlock since 1983 came to an end after the legislative and gubernatorial elections in 1987. The PJ gained more representatives in the Chamber of Deputies as well as additional provincial governments, controlling 16 governorships (the UCR and provincial parties won only in 3 each). The remarkable political weakness of the president after 1987 was

¹² Raúl Alfonsín won the 1983 election with 51.75 percent of the vote. However, the Radicals had a slight majority in the Chamber of Deputies and they were in a very weak position in the Senate, controlled by the PJ. Besides, the PJ controlled twelve out of twenty-two provincial governorships.

¹³ The procedures were neither very clear nor easy to determine because by the first semester of 1985, inflation reached around 300 percent (Pírez, 1986, p. 65).

combined with a severe fiscal crisis. Under those conditions, opposition governors articulated in partisan terms and coordinated against the central government to get more resources, encouraging Congress to approve a new revenue-sharing law in 1988. The approval of the original co-participation bill was effectively postponed for more than two years, as no opposition party could overcome the UCR veto. After the 1987 elections, the PJ could pass the bill in the Chamber of Deputies with the support of provincial and other parties. Through this law (23,548), governors substantially altered federal relations by including new taxes in the revenue pool (VAT, on profits, excise, on fuels and lubricants, financial operations, lotteries and sporting events) and increasing the provincial share of federal revenues to 56.66 percent, the highest since the co-participation was created in 1935. No new functions were transferred to the provinces during this period.

As a result of the new law, the total revenue share of the sub-national units almost doubled between 1987 and 1988, increasing from 21 percent to 42 percent during this period. Sub-national revenues as a percentage of GDP almost doubled after the 1988 reforms, from 3.37 in 1986 (3.68 percent in 1987) to 6.60 in 1988. Their expenditure share increased from 39 percent in 1987 to 44 in 1988, and 46.7 percent in 1989 (IMF, 2001; Ministry of Economy, 2000).

Alfonsín could have vetoed the law, but he could not resist pressures from the PJ and provincial parties, especially after the electoral defeat in 1987 and his decreasing public support. Despite being unfavorable for him, the president signed the reform to co-participation to avoid further conflict (and perhaps further losses), and exchanged his support for Peronist collaboration in some immediate tax increases needed by the federal government (Clarín, 1988). Some of these changes were debated in the Senate in the same session as the one in which the new co-participation bill was sanctioned.

The law was negotiated as a temporary regime to regulate fiscal relations between provinces and the central government for 1988 and 1989, until the new administration could reach a new deal with governors. This is a further indication that it was not a result of planned policy decisions from the central government but rather the result of some form of agreement among units of government. The president, governors, and legislators were conscious of the difficulties of approving a law and the perils of not having a revenue sharing scheme. To avoid this, they included an article by which the approved law would be automatically renewed after the initial expiration date. In fact, this clause made the transitional law effective until today.

Which were the main factors driving the reforms? In Argentina, federalist claims or discourses of inter-governmental economic efficiency (or central control over sub-national spending) tended to be just rhetorical claims behind power struggles between political actors fighting for resources and political survival.

Governors got a significant load of fiscal revenue and increased their electoral strength in the face of the upcoming elections, deteriorating the fiscal situation of the federal government and the electoral prospects of the incumbent party. Their actions also had longer-term implications. In a typical case of the “tragedy of the commons” (Hardin, 1968; Ostrom, 1999), governors overgrazed collective resources following a short-term strategy, but adversely affecting the fiscal and economic stability of the entire federation in the longer run. In a chaotic economic and political situation, Alfonsín abandoned government six months before the end of the legal mandate. Fiscal over-spending at the sub-national level was one of the several causes contributing to skyrocketing levels of inflation. The 1988 co-participation law, favorable to sub-national units, was one of the key factors to understanding this process.

The “Neoliberal” Centralization

Menem was a relatively powerful president in political terms,¹⁴ who got to office in a critical economic and fiscal context.¹⁵ He could not pass a new law reverting some of the decentralizing reforms of the previous presidency by reforming the co-participation regime. But he was powerful enough to negotiate important changes that affected federal relations with the provinces in fiscal and administrative terms. More specifically, Menem transferred health and education services to the provinces. This again may seem a decentralizing reform to favor sub-national units as in 1978 during military rule. But it was not: the president (and his Minister of Economy) obligated the provinces to pay for those services, and by these means he reduced pressures on the national deficit (Dillinger and Webb, 1999: 16-17; Porto, 2003a: 53), profoundly affecting provincial autonomy (Eaton, 2004; Falletti, 2005). The total cost of the transferred services was \$1.2 billion per year (Deputy Baglini, *Diario de Sesiones de la Cámara de Diputados*, December 5 and 6, 1991: 5310; Deputy Clerici, *op.cit.*: 5320) and, as established by law 24,049 (Article 14), they were to be financed with a share of provincial co-participation funds.

In another move that substantially altered federal relations, the central government withdrew 15 percent of the total co-participation funds to finance the pension system and a fixed amount per month (\$43.8 million) to distribute among provinces with financial problems (Porto, 2003a: 53) (these issues were negotiated during the first fiscal pact, signed on August 12, 1992). The president also eliminated some provincial and local taxes (tax on the transport of fuels, natural gas, and electric energy, impuesto a los sellos, and on bank accounts), modified others (such as the tax on net benefits and real estate, increasing exemptions to them), and set limits to

¹⁴ His party had a majority in the Senate and controlled the largest delegation in the Lower Chamber (he was able to form majorities with the support of the UCeDe and provincial parties). He also got special powers out of the economic emergency and state reform laws in 1989.

¹⁵ Characterized by hyper-inflation, large deficits, as well as a pension and debt crisis.

provincial tax bases and rates (Articles 1-5, Decree 1807/93; Porto, 2003a: 53-54, 57) (this was negotiated during the second fiscal pact, signed on August 12, 1993). For Porto (2003a: 54), “the already weakened provincial and municipal tax system was further constrained” after these reforms. He also recalls that the central government compelled provinces to abolish some taxes through the pact (such as those on bank withdrawals), which lapsed for a period but were later on reinstated by the federal administration.

As part of this centralizing move, the central government encouraged provinces to transfer provincial pension schemes to the national system, a decision designed to control the deficits they generated (Cetrángolo and Jiménez, 2004: 35; Eaton, 2001: 13). The central government also promoted the privatization of provincial banks and state-owned companies. By 1998, as a consequence of the pact, eighteen out of twenty-six provincial banks were privatized (Eaton, 2003: 150) in addition to water and electric provincial companies in most of the 24 districts.

Menem broke governors’ resistance by taking advantage of the critical fiscal situation they were in after the late-1980s and early-1990s hyperinflation and by distributing compensation and selective incentives. He used different kinds of selective incentives, such as compensations, financial assistance programs and bailouts, special funds, discretionary transfers, and resources from the central government to build up coalitions and encourage the implementation of the reforms he endorsed (González, forthcoming). The president exchanged short-term compensations for structural changes in the relations between units of government. This appeared to be a rational deal for governors: most of them were going through a difficult fiscal situation, and they all faced a powerful president who most expected to pass the reforms. Instead of clashing, the core of their strategy was based on extracting side-payments from the federal

executive to consolidate themselves in power, while differing the costs of the reforms for the future (González, 2011).

Total transfers to the provinces increased due to economic growth and higher tax collection after the 1991 stabilization program¹⁶ and the federal government used that during the negotiations for transferring social services. But the decentralization of education and health services demanded a substantial increase in provincial spending and no new legally mandated transfers to the provinces helped them financing these functions. These centralizing reforms had shattering consequences for the provinces: total provincial spending increased almost 70 percent, from \$39.3 billion in 1991, before the decentralization of new functions, to \$57 billion in 1994 after the fiscal pacts. The total provincial deficit increased 220 percent (from \$1.2 billion to \$6.4 billion between 1992 and 1995) and the provincial debt 316 percent (from \$3.1 billion to \$9.8 billion between 1993 and 1995). In 1991, the provinces could finance 42 percent of their total spending with co-participation transfers; this share dropped 27 percent in 1995 (a 15 point drop).¹⁷

In relation to changes in the revenue sharing system, the original 57/43 percent formula to divide provincial and national shared taxes contained in the 1988 co-participation law was de facto changed to represent the opposite: in 1994, the central government received 57.7 percent of shared taxes and the provinces 42.3 (Porto, 2003a: 58; Cetrángolo and Jiménez, 1995: 8-9). The aforementioned reforms were followed by changes in the value-added tax (VAT) in March 1995 (its bases were broadened and its rates increased from 18 to 21 percent) and corporate income taxes. These changes in the tax system increased the revenue shares of the national government relative to the provinces, which lost about 28 percent of shared revenues in 1994.

¹⁶ Total federal transfers to the provinces increased from \$14.7 billion in 1990 to \$25.1 in 1992; co-participation grew from \$11.6 billion in 1990 to \$17.6 billion in 1992.

¹⁷ If we consider total federal transfers, this share dropped from 53 percent in 1992 to 45 percent in 1995.

The main goal driving the reforms in the relations between central and sub-national units was not improving the quality of service delivery and enhancing local accountability (as claimed by IADB, 1997a, 1997b, and World Bank, 1998, or the main supporters of the reforms). Debates on the transfers in both chambers of Congress took only ten days, despite arguably being among the most substantive reforms during the 1990s. These changes were accomplished at the expense of provincial autonomy and generated important shortages in service delivery at the provincial (and local) level. Provinces (and some municipalities¹⁸) could not afford paying minimum salaries for teachers and physicians or nurses as well as for supplies and basic infrastructure. The transferred functions were then accompanied by demonstrations, violent protests led by unions, and some popular uprisings (especially during 1995-1996, and 1999-2002). Protests moved from the doorways of national ministries to provincial palaces of government and the governors' residencies. This led some analysts to claim that the fiscal crisis had been decentralized and protests provincialized.

The reforms Menem promoted were fundamentally a strategy for political survival: by making governors more dependent on the central government he could, on the one hand, appease them and prevent another 1988, and on the other, he could count on provincial support for critical reforms (including his re-election plans through a constitutional reform). Provincial fiscal dependency and vulnerability is a potential source for economic and social instability in the federation (as the events in 1989-1991 and 2001-2002 revealed) but also a political asset for the president.

The 1994 constitutional reform had mixed effects on federal relations and no substantive changes to co-participation were passed, although clauses on the conditions for reforming it were

¹⁸ In some provinces, such as Córdoba, the governor Ramón Mestre (1995-1999) initiated a similar decentralization process as that between the federal government and the provinces but in this case between the provincial administration and municipalities.

introduced in the constitutional text. Some constitutional changes benefited the governors: changes in laws governing revenue-sharing or in the division of responsibilities among units had to be approved by an absolute majority of the members of each chamber (the Senate was the chamber in charge of introducing the reform bill) and by all the provincial legislatures. Provincial representatives effectively negotiated that further transfers of services would only be possible if the provinces accepted them and they were accompanied by federal funds or new revenue sources to finance them. These gains for the provinces could also be interpreted as a relative triumph for the central government: it institutionalized its achievements after 1992, making it more difficult for the governors to change the co-participation regime as they had in 1988.¹⁹ Changes in the distribution of resources and reforms in the co-participation system were postponed until the president, governors, and legislators called for a new round of negotiations.²⁰

Other reforms encouraged centralization and control by the federal government, such as the abolition of the Electoral College and the direct election of senators.²¹ In sum, despite some substantive changes to the constitution, neither the president nor the governors ended up being clear winners after the reforms.

Fernando De la Rúa got to power in 1999. He was a relatively weak president who faced strong but divided governors under a context of economic recession and severe fiscal pressures. Both the president and the governors had huge incentives to alter federal relations, but neither of them concentrated enough political resources to do so.

¹⁹ The new constitution also instituted the direct election of the mayor of the city of Buenos Aires, who was previously appointed by the president. This represented an important loss for the federal executive in terms of her capacity to control a key district with large economic and fiscal resources as well as bureaucratic positions to reward partisan supporters.

²⁰ A transitory clause in the 1994 constitution (the transitory clause No. 6) stated that a new law should be approved by 1996. This constitutional clause has been systematically violated, as no new co-participation regime has been sanctioned since 1988.

²¹ The new constitution established that the president was elected in a direct election with a run-off. Similarly, senators were not to be elected by the provincial legislatures but by direct elections. It also increased the number of senators for each province from two to three.

De la Rúa made serious efforts to cut transfers from the central government to the provinces and control provincial spending, but they were strongly resisted by governors (especially those from the PJ, although Alianza's governors gradually increased their opposition to the president as their fiscal situation worsened). The president, gradually weakened and without capacity to either alter the federal balance or resist gubernatorial pressures, feared PJ governors would coordinate against him (as during Alfonsín's times) and agreed to increase automatic transfers to the provinces, refinance their debts, and transfer social programs to the provinces (Cetrángolo and Jiménez, 2004: 35). In exchange, governors committed to freezing public spending until 2005.

To make things even more complicated for the president, De la Rúa was defeated in the midterm elections on October 14, 2001, giving up its plurality in the Chamber of Deputies and consolidating the strength of Peronism in the Senate. Following the elections, tensions between the president and the governors augmented. The situation seemed very similar to the one Alfonsín faced after the 1987 electoral defeat. However, it was different in some crucial aspects: Peronism was divided and struggles inside the party prevented them to coordinate and take action against the federal government.

Governors began to issue local bonds as a way to pay for their debts and salaries (a form of issuing money). These decisions severely impacted the federal government, in fiscal and political terms. The crisis broke with a run on private sector deposits, which fell by more than \$3.6 billion (6 percent of the deposit base) during November 28–30 (IMF, 2003: 58-63). Demonstrators in Buenos Aires and major cities took to the streets demanding their savings, while poorer neighborhoods in the main urban areas across the country suffered looting and unrest few days later. Violence caused the death more than 30 people during revolts. After declaring the state of

siege and the resignation of the whole cabinet on December 19, De la Rúa called for a government of national unity: a desperate call to put an end to deadlock and regain some political leverage to deal with the crisis. Peronism and even the UCR refused the offer. Absolutely isolated, he resigned on December 20. A Brazilian newspaper asked Cavallo what his biggest mistake was in commanding the economy during those years. He replied “I should have been more emphatic in denouncing the governors as responsible for the Argentine debacle.” (FSP, 2005).

After De la Rúa resigned in December 2001, four presidents followed him in ten days. All of them were Peronists designated by a legislative assembly, but with the consensus of the governors. The economic situation during the period was dramatic. In this critical context, the federal government was able to eliminate guarantees on minimum co-participation levels and to reduce them by about 20 percent to refinance their debt. But governors’ pressures on the central government resulted in significant concessions for sub-national leaders.²²

During this period, neither the president nor the governors could impose profound changes to the federal balance. After a series of protests that produced the death of two demonstrators and having arranged who was going to be the man he and his Peronist machine in Buenos Aires province supported, Duhalde called for elections in April 2003.

Argentina began the XXI century with a profoundly weak president, very strong but uncoordinated governors, and the deepest economic crisis since the 1930s. The economic and fiscal crisis was partially reversed in 2003, and the president was able to concentrate power in

²² Thirty percent of the total amount collected by the tax on credits and debits of checking bank accounts was incorporated to the total co-participation fund (the other 70 percent of the revenues collected from this tax was allocated to the central government). Furthermore, the central government agreed to re-finance and rollover provincial debts in favorable terms for the provinces. Provincial debts were refinanced into a 16-year term, three years without payment, and an interest rate of 4 percent (Cetrángolo and Jiménez, 2004, p.35; Porto, 2003a, pp.55, 58; La Nación, 2002).

relation to the governors, who remained deeply divided and fiscally dependent on the central government. That meant a new cycle of a relatively powerful president under a more benign fiscal context and no significant changes in the federal balance. Under these conditions, the president used the fiscal surplus to build up political support and consolidate power for himself, increasing federal spending in the provinces.

In 2009, the president lost significant amount of political power after a bitter conflict with the farmers, the fiscal context deteriorated dramatically (nationally and internationally) and, as we could expect, gubernatorial pressures on the federal government began to gain renewed strength. In 2010, governors exerted renewed pressures on the federal government demanding the sharing of revenues from export taxes and the tax on checks and financial transactions. As the economy recovered part of its strength and the president gained more support from public opinion, tensions among units partially eased during 2011.

Argentina, An Hybrid State?

According to Loughlin (2009: 5), one of the key dimensions that defines a hybrid state is “the co-existence within the same country of traditional social or Christian-democratic forms of welfare state policies and provisions and of new neo-liberal features.” We can call this as a programmatic or ideological dimension in the definition of the hybrid state. In Argentina, there has never been a “traditional social welfare state” (or the social democratic welfare state in terms of Esping-Andersen, 1990). Populist policies that expanded welfare provisions (and not a welfare “state”), implemented during the 1940s and 1950s and to some extent after 2003, and the neoliberal reforms adopted after 1978 and during the 1990s, have to be analyzed in the context of the struggles between units of government over the distribution of funds and functions. In spite of the discussion related to whether there was a welfare state or not, the effects where similar than

in most developed countries after the 1930s: the expansion of policy programs, the federal administration, and the overall strengthening of the federal government.

To the abovementioned dimension in the definition of a hybrid state, we can add another one represented by tensions over the legitimacy of national versus regional or local politicians (especially acute in cases where there are ethnic or identity cleavages) (Loughlin, 2009: 8). As mentioned before, there are no significant ethnic or identity cleavages in Argentina and even when we can identify some, they have not been activated politically. Most tensions between units in Argentina, as analyzed, were not driven by these type of cleavages.

Finally, we can add a third dimension based on administrative or policy tensions, between the top-down command model and the bottom-up market-type model (Loughlin, 2009: 10), or between centralization and decentralization of functions. I mainly focused on this dimension in this paper. As I intended to show in this broad analysis of the Argentine case, centralization and decentralization reforms have been conditioned by struggles between powerful actors, presidents and governors, clashing over the distribution of functions and resources. Changes in the distribution of funds and functions have historically depended on the fiscal pressures and fiscal incentives presidents and governors faced across time and on their ability to concentrate political power (González, 2010). Therefore, centralization and decentralization processes are not merely “policies” designed and implemented by policy makers. They are the political consequences of power relations among units the federation.

Populist reforms centralized functions and fiscal revenue while those that were part of the neoliberal agenda decentralized functions without revenue to stabilize the federal budget. Despite these sharp differences, both of these policies had the same impact in terms of federal relations: to foster centralizing reforms and limit the power of sub-national units.

In sum, tensions between centralization and decentralization have been a permanent feature of the Argentine federation. These struggles among units were not much the consequence of ideological tensions between centralist welfare and state expanding or neoliberal state downsizing reforms driven by programmatic parties. Ethnic or identity cleavages have not played an important role either. These were struggles mainly focused over the distribution of funds and functions among units in the federation. These conflicts have historically defined the hybrid characteristics of the Argentine federation.

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