Bringing the Legislators Back In: 
The Political Determinants of Intergovernmental Transfers in Argentina, 1983-2001

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Abstract

Argentina’s federation has gained a reputation for its high level of centralization and for the clientelistic practices of its politicians. Especially during Menem’s governments (1989-1999), the president has used centralized decision-making power through executive decrees. Resorting to decrees has led Argentine observers to conclude that the presidency took control over the entire political apparatus. In this paper, we explore different models to explain the distribution of federal transfers across provinces. Our analysis shows that normative, electoral and political factors influence how much money each province receives from the central government. We conclude by observing that national legislators seemingly have more influence over the process than recent scholarship has led us to believe.
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Extant literature on the distribution of intergovernmental transfers suggests that normative motivations such as efficiency and geographical equity are not the only factors determining the allocation of federal transfers among subnational jurisdictions. Rather, recent scholarship has argued that federal grants are influenced by distortions in the electoral system. Accordingly, scholars have suggested that the over-representation of subnational jurisdictions, and coincidentally, the under-representation of others, has produced alterations in the normatively-motivated federal grant distribution system.

This paper explores the politics of federal transfers in the Argentine context. More precisely, it tests a series of hypotheses designed to verify why some Argentine provinces receive more transfers from the central government than others, after controlling for population size, development level, and electoral distortions. Just like recent scholarship on federal transfers in the Brazilian context (Rodden and Arretche 2004), we suggest that transfer levels are not just determined by socio-demographics and electoral representation. Rather we argue that the political representation of subnational jurisdictions in the national lower house positively biases transfers toward “partisan-friendly” provinces. As will be discussed below, we claim that Argentina represents an interesting and highly pertinent case in which to study this question. We also argue that the exploration of this single case study provides us with the opportunity to draw inferences that can be generalized beyond Argentina.
Federalism, Decentralization, and Hyperpresidentialism

Federal transfers are not necessarily linked to decentralization policies. In fact, transfers can sometimes serve to consolidate political power and foster the central government’s popularity among the electorate. Decentralization policies are a means rather than an end for politicians (Gordin 2004: 4). We believe that this postulate is true whether the state is federal or unitary, highly or slightly centralized. However, federal transfers somehow obey to the same logic as decentralization. Four political theories of decentralization can explain the transfer of powers from the central government to the subnational entities (Gordin 2004). Since decentralization cannot be realized without a certain level of grants transferred to subnational jurisdictions, especially when most revenues are raised by the central government, these theories should also help explain the overall level of transfers conceded by the central government.

First, decentralization policies can be fostered by the desire to bolster greater equity between the various regions of a country (Horowitz 1985). Following this principle, we should expect to observe that countries marked by major cross-regional differences in their level of development are relatively more decentralized. Second, decentralization can be implemented as a way to counterbalance the lack of legitimacy/popularity of the central government. This is why, according to Panizza (1999), recent democracies embark decentralization processes. Third, decentralization can be explained by the desire to gain efficiency, by moving decision-making powers closer to the people, especially in large and culturally heterogeneous countries (Oates 1972). Finally, external pressures, notably from the major international financial institutions, also contribute to explain the adoption of decentralization policies (see
Manor 1999). Along this line, decentralization policies would come as conditions to aid packages, with the intention of increasing administrative transparency.

When considering the preceding claims, one would easily conclude that Argentina should be a highly decentralized country. Argentina is marked by high socio-demographic and economic differences among its provinces. It recently experienced a democratic transition. It is a fairly large nation. And, finally, it has been economically pressured by the IMF and the World Bank during many years to reform its economy to foster both efficiency and transparency. Yet, claims of Argentina’s highly centralized politics remain.

By definition, a federal political entity has a decentralized, or at least divided, executive authority since different levels of power manage different domains of activities as determined by the constitution. To comply with their respective obligations, each level of government usually relies on a power of taxation to raise the revenues needed to fulfill autonomously their commitment. Although Watts (1999) describes the subnational entities of a federation as politically and financially autonomous under an institution meant to settle the disputes between them, political reality reveals that some federations may not fit exactly the characteristics depicted by the author. In fact, a federal regime such as Argentina has been cited more for its centralized authority than for its level of decentralization. A good illustration of this phenomenon is Nino’s (1996) claim that Argentina is in fact “hyperpresidentialist”.

Nino points to a list of constitutional prerogatives to illustrate the many opportunities the President has to intervene in Argentina’s political system. Among these, the author mentions the power of its national executive to intervene in provincial
governments, its power of veto over congressional bills, its power over agencies such as the Central Bank, its capacity to rule by decrees, to grant pardons and to name judges (p. 166-7). He also identifies the electoral system as a source of major concentration of power into the hands of the Argentine President. He argues that the proportional electoral formula used to elect the representatives at the lower chamber of the Congress encourages party discipline, thus granting party leaders in general, and the President in particular, enormous leverage on the decision-making dynamics inside their party (p. 167). Although it is not clear that this concentration of power really is the result of institutions such as the electoral system – the Canadian Prime Minister also enjoys the same kind of powers enumerated by Nino even though Canada has a parliamentary system and a majoritarian electoral formula – the high levels of power concentrated into the hands of the President, both horizontally and vertically, are unequivocal.

Nino’s hyperpresidentialism implies that presidents can basically rule as they wish, without a need to negotiate and foster agreements with the opposition or with their own party. It also suggests that presidents rule as dictators within democratic institutions, even when they simply use the constitutional prerogatives granted to them. According to Nino, hyperpresidentialism undermines Argentina’s democratic viability since, he argues, it contributes to “deteriorate the rule of law” and to “concentrate economic and social power” (1996: 165).

In this paper, we argue that despite this concentration of power, Argentine presidents still need to obtain the support of legislators to govern. Concretely, we argue that although the concentration of power into the hands of the President undoubtedly favors partisan influences in the patterns of federal transfers to provinces, it is not enough
in itself. Accordingly, a populist president who was elected as the leader of a ad hoc personalistic movement, without the support of an institutionalized political party, can not effectively control the distribution of federal funds to the provinces. Political parties are an essential part of the equation; they cannot be left out.

**Some explanations of intergovernmental transfer inequality**

What principles and considerations guide the distribution of federal transfers to subnational governments in Argentina? Beyond normative principles, are there political and strategic factors that contribute to explain the unequal distribution of intergovernmental transfers? Ultimately, is Argentina’s decentralization simply the product of very imaginative politicians, or is it rooted in normative principles?

The literature on the political economy of federal transfers has traditionally been dominated by case studies in the U.S. context. Atlas et al. (1995) suggested that over-represented states get more transfers because of their greater per capita resources in the national legislature (i.e., Congress), especially given that legislators have a clear incentive to accrue benefits for their local constituents. Other scholars have explored the level of transfers introducing a partisan variable. Also exploring the U.S. case, Cox and McCubbins (1986) demonstrated that presidents concede more transfers to the states in which they have stronger popular support. According to this hypothesis, federal authorities would concede more grants to the regions where they perform best at the polls in a way to reward their supporters and/or to raise their support for the following elections. In the same vein, other scholars have posited the idea that levels of transfers are
influenced by the party affiliation of subnational executives, mainly state governors (REFERENCE).

Only recently have authors started to explore these questions outside of the U.S. context. Building on the Argentine experience, Porto and Sanguinetti (2001) have found that “overrepresented provinces, both at the senate and at the lower chamber, have on average higher resources from the national government compared to more populous and less represented states” (p. 253). Also on the basis of the Argentine context, Gordin (2004) found that divided government has a significant effect on the distribution of federal transfers, but that the governor’s partisan affiliation and partisan disharmony have no influence.

The most comprehensive effort at measuring the effect of political factors on federal grants in the Latin American context is Rodden and Arretche’s analysis of the Brazilian case (2004). Although the authors do not directly test the extent to which presidents favour subnational constituencies where they have higher electoral support, their results point in that direction. Their findings also show that party affiliation is significant for legislative representation at the national level but not at the state level, i.e., the governors’ party affiliation is not a significant part of the equation (p. 23-25). Their main contribution is to show that both the electoral system and partisan cues have an effect on the distribution of federal transfers. More precisely, they suggest “overrepresentation and coalition membership are interactive rather than additive” (p. 20).

While these endeavors have produced highly interesting conclusions, we believe that revisiting the Argentine case is necessary. First, prior attempts in exploring these questions have either failed to address partisan considerations (Porto and Sanguinetti
(2001) or omitted to test the hypotheses on a significant proportion of the federal transfers (Gordin 2004). While Gordin’s findings are highly instructive, they are solely based on discretionary programs. We believe, just like Porto and Sanguinetti, that the negotiation process leading to the agreement guiding these “automatic” transfers is highly influenced by politics. Our intuition is reinforced by the fact that Argentina is well known for the clientelistic character of its political system (Auyero 2001, Brusco et al. 2002).

Case Selection

This paper explores the political determinants of federal transfers on the basis of the Argentine case since the return to democratic rule in 1983. Argentina not only represents an interesting candidate for this type of case study because of the availability of data, but also because it has one of Latin America’s most stable party system (Mainwaring and Scully 1995). What is more, Argentina experienced two turnovers at the presidency level during the period under study, having the Radical Raul Alfonsin for president from the transition from authoritarian rule in 1983 till 1989, then the Peronist Carlos Menem until 1999, and Fernando de la Rua, a Radical, from 1999 to 2001. Another interesting characteristic of Argentina is that this federation is composed of economic and socially diverse provinces. According to Ministry of Economics’ data, the city of Buenos Aires had a per capita income of about $18,000, while the four poorest provinces all had per capita income below $3,000 (Porto and Sanguinetti 2001: 244).
Model, Data, and Methods

On the basis of the extant literature, we develop a model to explore the following hypotheses:

H1: Federal transfers will vary positively with the number of elected representative per capita;

H2: Federal transfers will vary positively with electoral support for the president’s party;

H3: The greater the number of national legislators elected under the president’s party label in one province, the more federal transfers this province will receive;

H4: Federal transfers will vary positively with control of the governorship by the president’s party

The first hypothesis explores the effect of electoral distortion on transfers. More precisely, it tests the extent to which Argentine malapportionment has any effect on the redistribution of federal transfers. Along this logic, it is assumed that provinces with more representatives per capita will be in a better position to negotiate additional transfers to be directed to their province.

Hypotheses two to four explore the effect of party politics on Argentine federal transfers. The second hypothesis assesses whether the president’s personal base of support has any impact on federal transfers. The expectation is that higher transfers will accrue to provinces in which the president has a stronger support. Accordingly, presidents would reward voters directly.

Hypothesis three measures the influence of national legislators in negotiating increased transfers for their province. Given that the distribution of federal transfers is
strongly influenced by the national legislature (Porto and Sanguinetti 2001), we expect that provinces with more national deputies affiliated to the president’s party will proportionately receive a greater part of the pie. Here, legislators act as intermediates between the president and the central government, and the citizens of the provinces.

Finally, hypothesis four tests the idea that governors act as representatives of the president as the subnational level. Accordingly, provinces with a governor from the president’s party should receive more federal transfers than those with a governor from one of the opposition parties.

More specifically, our model will take the following form (see Appendix for details on the operationalization of the variables):

\[ Y_t = b_0 + b_1 Y_{t-1} + b_2 X_1 + b_3 X_2 + b_4 X_3 + b_5 X_4 + b_6 X_5 + b_7 X_6 + b_8 X_7 \]

where,

\[ Y_t \] = total annual per capita federal transfers;
\[ Y_{t-1} \] = first-order lag of the dependent variable
\[ X_1 \] = annual provincial unemployment rate;
\[ X_2 \] = population share;
\[ X_3 \] = seats per million population (Lower House);
\[ X_4 \] = votes of president in last election;
\[ X_5 \] = ratio of provincial seats controlled by the president’s party;
\[ X_6 \] = in-party governor;
\[ X_7 \] = presidential election year.
Our research design is pooled cross-sectional, time-series analysis. In doing so, we are able to analyze data across provinces and over time, thus maximizing the number of observations. The unit of analysis is each of the 24 Argentine provinces, observed annually for the 1983-2001 period [FOOTNOTE ABOUT MISSING DATA ABOUT HERE]. The analysis relies upon ordinary least squares (OLS) regression with panel corrected standard errors to address problems of heteroskedasticity (Beck and Katz 1995). Given the lack of clear statistical conventions for the analysis of cross-sectional time series data, we have cross-checked our results utilizing robust standard errors clustered by province. The results of this alternative estimation are virtually identical to those reported below.

Results

Consistent with prior analyses of the Argentine context as well as with the results obtained in the analysis of other federations, our results provide support for the expectation that the distribution of federal transfers in Argentina are partly explained by normative motivations. As Table 1 (Model 1) suggests, less economically performing provinces receive comparatively more transfers. This is indicated by the positive coefficient for provincial unemployment. Transfers increase as unemployment reaches higher levels. Similarly, more populated provinces receive less federal transfer money per capita, as indicated by the negative coefficient for the variable “population share”. More populated provinces are those that are the most economically active. The delivery of public goods is also relatively cheaper in the aggregate because of economies of scale. Also consistent with extant work on federal transfers, the Argentine pattern of
redistribution is affected by distortions caused by the electoral system. Provinces that have more legislative seats per million inhabitants receive more transfer money (see Model 2).

The analysis of the partisan determinants of federal transfers (Models 3 through 5) reveals a very interesting pattern of allocation of resources from the federal to provincial governments. The results suggest that transfers are mainly influenced by partisan politics through the national legislature (H4), and not through the governor (H5) nor directly by the president (H3).

Because “votes for presidents” and “the ratio of national legislators elected under the president’s party banner” are closely related, especially in year in which presidential and legislative elections are concurrent, the variables are first introduced individually (Models 3 and 4), and then jointly (Model 5). When individually introduced in the model, both variables appear to have a significant effect on transfers. However, when, introduced jointly, the analysis reveals that only “the ratio of seats controlled by the president’s party” has a significant effect on transfers. This finding suggests that the pattern of partisan influence over the redistribution of federal monies may not be as centralized into the president’s hands as many have claimed. Finally, our analysis finds no relationship between the governors’ party affiliation and federal transfers. These results also tend to confirm Cox and McCubbins’ (1986) majoritarian hypothesis that predicts rational leaders to spend more money in the regions they where they gain more support.
**Conclusion**

In this paper, we developed a model to account for the distribution of federal transfers in Argentina that combines normative, electoral, and political factors. Using both discretionary and automatic transfers, we have shown that to understand intergovernmental relations, we needed to move beyond normative consideration.

During his administration, Carlos Menem governed with a strong hand on the public affairs and recurred frequently to decree procedures to push along his policies. Combined with a long tradition of political clientelism, this way of governing produced a broadly shared impression that Argentina’s presidents have total control over the political system and could impose their views quite easily by spending money where they wanted. Interestingly, our findings suggest that the reality may be quite different. In fact, the importance of the national legislators’ influence over the process suggests that some kind of bargaining exist between the head of the state and the individual legislators. This means that the President is not alone at governing. Legislators do seem to matter as well.

Nonetheless, party politics are a real factor when it comes to intergovernmental transfers. Our findings clearly show that the overrepresentation is not enough to explain the variance in the level of funds the provinces do receive from the central government. If not backed by non-partisan methods of management, decentralization won’t be enough to overcome the influence of clientelist maneuvers that affected many Latin American countries and that are often pointed to as a major obstacle to development.
Appendix – Description of variables used in the analysis

**Dependent variable**

*Total transfers per capita* (automatic and discretionary). Source: annual provincial budgets, Ministerio de Economía, Argentina. We have tested our hypotheses on a reduced dataset with only the discretionary transfers as the dependent variable. The results were merely identical to those obtained with total transfers.

**Independent variables**

*Annual provincial unemployment.* Source: INDEC, Encuesta permanente de hogares: total aglomerados urbanos, Serie Información de Prensa, Buenos Aires, Argentina, 1983-2000). Unemployment is used as a proxy for the relative economic well being of the provinces. Although more direct measures of this concept exist (i.e., provincial GDP, income per capita, etc.), none of the available data varies over time and province.


*Seats per million inhabitants.* Number of national legislative seats per million inhabitants per province. Source: Ministerio del Interior, Dirección Nacional Electoral, Elecciones Nacionales, Escrutino Definitivo (Buenos Aires: unpublished data).

*Votes for president in last election.* Share of the vote received by the president’s party per province. Source: Ministerio del Interior, Dirección Nacional Electoral, Elecciones Nacionales, Escrutino Definitivo (Buenos Aires: unpublished data).

*Ratio of provincial seats controlled by the president.* Ratio of national legislators elected under the president’s party banner to total number of national legislators elected per province. Source: Ministerio del Interior, Dirección Nacional Electoral, Elecciones Nacionales, Escrutino Definitivo (Buenos Aires: unpublished data).

*In-party governor.* Governors elected under the president’s political party banner.
References


### Table 1 The Political Determinants of Federal Transfers in Argentina, 1983-2001

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<tr>
<th></th>
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<th>Model 2</th>
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Note: Panel-corrected standard errors in parentheses.
* significant at .1; ** significant at .05; *** significant at .01.