

The Institutional Determinants of Fiscal Decentralization: Argentina and Spain in Comparative Perspective

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Abstract:

This paper explores the politics of fiscal decentralization in comparative perspective. Case studies of Argentina and Spain are used to provide insights into the way that the distribution of institutional resources in multitiered polities shapes the extent to which the policy of transferring revenue to subnational governments can be exploited for political gain. It does so by using empirical institutional analysis and qualitative evidence to assess the effect of patterns of territorial representation on fiscal decentralization policies. It focuses first on legislative-level territorial representation and its effect on intergovernmental fiscal outcomes. Also, it explores the conditions leading to bilateral and multilateral intergovernmental bargaining, which, we will argue are part and parcel of the tension between territorial distribution of political influence and economic resources. The research suggests that whereas Argentine subnational interests are “locked-in” at the Senate level and intergovernmental negotiations are conducted bilaterally, open-ended institutional arrangements and a relatively impotent senate in Spain boosted the redressing of regional concerns through informal intergovernmental fora and increasing multilateral collaboration. Such differences in patterns of institutional representation and bargaining strategies account for the paucity of fiscal decentralization in Argentina and its relative progress in Spain.

In both developed and developing countries, there has been a contemporary debate on the nature and merits of decentralization. The collapse of communism and the “crisis” of the welfare state have rekindled serious thinking about the relationship between governance and the appropriate level of devolution of power away from the central state to lower levels of administrative and political authority. Moreover, the growing demand for public services and infrastructure in Third World countries has brought increasing calls for decentralization to develop tailor-made policies in congruence with varying national needs (Rondinelli, McCullough and Johnson 1989). However, and despite the fact that decentralization issues have been on the political front-burner in the last two decades, no single paradigm or theoretical model informs the study and practice of decentralization policies across nations.

On a very general level, decentralization is the transfer of responsibilities and revenue from national government to subnational offices (Rondinelli 1981). This definition suggests that power is being given away through a series of measures and steps meant to eliminate overload at the central level, in which case decentralization denotes a *process* rather than a final or pre-set goal. Despite most studies of decentralization accept a process-oriented perspective, there is no overarching agreement about its goals. This is basically due to the fact that students of decentralization oftentimes confound political and fiscal decentralization. In Europe, there has been a trend to encapsulate types of decentralization under the notion of regionalism and regionalization. Albeit useful to pin down the determinants of regional policy in a era of global political and economic change (i.e, Keating and Loughlin 1997; Le Gales and Lequesne 1998), this body of research uses indicators of political and fiscal decentralization interchangeably, diminishing their empirical usefulness. Also, frequent regime changes and a strong “centralist tradition” (Veliz 1980) have been long-standing factors inflating the political nature of decentralization in Latin America and downplaying the significance of fiscal power relations. Borrowing from Bird (1993: 208), widely recognized as a leading student of fiscal decentralization, “decentralization seems often to mean whatever the person using the term wants it to mean”.

The purpose of this paper is to draw on empirical institutional analysis and new insights from interest group theory to shed light on the mechanism linking the politico-institutional determination of fiscal decentralization. The first approach will allow us to compare systematically the representation of territorial interests in the Argentine and Spanish Senates, pinpointing how their respective levels of overrepresentation and policy authority shape coalition building in distributive politics. With regard to the latter approach, we draw on Ellen Immergut’s concept of “veto points” to explain why Argentine subnational interests are

“locked-in” at the formal legislative level, whereas open-ended institutional arrangements in Spain, unleashed by rapid federalization, made possible the sorting out of regional disputes through informal joint policy-making bodies.

The Territorial Role of Political Institutions: Representation and Policy Scope of the Senate

1) The “Puzzle”

In their study of bicameralism, Tsebelis and Money (1997: 33) argue that “in most federal systems the legitimacy of upper houses remains unquestioned and their power unconstrained”. While there is a large kernel of truth in this claim, this section will add some nuances to their statement by illustrating variation in the extent to which the Argentine and Spanish Senates represent subnational interests and in their ability to provide a forum for the different territorial units to debate policies. In the process of showing the formal structural differences of said bodies, attention is focused on the basis of their composition, how chosen, and their policy scope. These questions about institutional design do not only reflect the formal structure but they also illustrate why political decision-making follows characteristic patterns in different polities. As historical institutionalist approaches contend, “a nation’s electoral system and constitutional structure provide the institutional ‘rules of the game’ in which subsequent political battles are fought (Thelen and Steinmo 1992: 22). Subsequent to comparing these cases, we will show that the Argentine Senate exercises more influence than its Spanish counterpart, but the powerlessness and ostensible policy irrelevance of the latter rendered a “window of opportunity” for the articulation of subnational interests through informal territorial institutions. This point will be analyzed more carefully in the subsequent section addressing the issue of institutional interest representation. The puzzle, then, is to explain why the comparative strengths of the Argentine Senate amounted to a “double-edged sword” whereby, on the one hand, provincial-level actors have numerous opportunities to exert influence on the fate of intergovernmental transfers and, on the other, it locks in the existing politicization of decentralization policies and make the pursuit of fiscal accountability harder. And, why the weaknesses of the Spanish Senate amounted to an institutional facilitator that helped to create alternative fora for fiscal intergovernmental coordination and thus to advance the cause of fiscal federalism in Spain.

2) Representation: *Who and How?*

Unlike lower houses¹, which are elected directly by a nation’s citizens, with equal weight given to each eligible voter, representation in the senate varies in two main dimensions: *who* is represented (i.e. constituent groups) and *how* they are represented (i.e. method of selection). On the first dimension, it is normal to compose the senate in some way that is different from the way in which the low house is chosen (Patterson and Mughan 1999: 10-12). With the exceptions of Italy and Japan, where both houses are chosen on an equal basis, some differentiation between popular and territorial representation exists. The Argentine and Spanish Senates represent geographical constituent unit, which do not exclusively draw on population levels. However, while provinces are the relevant political unit in Argentina, the connection between territory and senate representation in Spain is less clear-cut. Based on a hybrid arrangement that somewhat resembles the German system, representation in the senate is primarily on the basis of sub-regional provinces² (electoral unit), which each have equal representation. These provincial representatives amount to 208 out of a total of 256 senators. The remaining seats are occupied by ACs representatives, with seats distributed on a population-based formula similar to that used in Germany and Austria (Flores Juberías 1999). Secondly, leaving aside those who are *ex-officio* members of a senate³, the basic choice is between election and appointment. The former method is the most frequently employed, particularly in federal systems like the United States, Australia, Switzerland and others. However, in some cases, indirect representation precedes the adoption of direct election. While direct elections for the US Senate were introduced in 1913, Argentina has only adopted direct election of senators after the Constitutional Reform in 1994. In Spain, like the pre-1994

¹ We will use the notions of lower house, lower chamber, and chamber of deputies interchangeably.

² Unlike Argentina, provinces in Spain are the political units positioned between the second-tier ACs and municipal government. For more details, see Appendix 1.

³ Apart from lifetime appointments in the British House of Lords, the Italian Senate includes a nominal number of Prime Ministerial appointees (Tsebelis and Money 1997: 47).

period in Argentina, senators representing ACs are designated by the Autonomous Parliaments, thus indirectly elected.

The above-mentioned differences between the Argentine and Spanish Senates notwithstanding, Lijphart (1999: 207; 211) claims that both countries have an *incongruent* bicameral structure because their respective houses are formally elected by different methods and represent different constituent units. Note that the degree of incongruence is positively associated with senate strength because the latter's capacity of contestation is bolstered when its composition does not mimic the composition of the other house. Nevertheless, it is more appropriate to talk about levels of congruence rather about its presence or absence. Lijphart's approach to congruence as a categorical trait masks important differences among cases. While it is something of a conventional wisdom in the literature about Argentine political institutions that a fully incongruent senate is causally related to this country's strong bicameral structure (Molinelli, Palanza and Sin 1999: 55-58), the same cannot be said of Spain, where almost 82 percent of the senators are elected on the same territorial basis as the members of the national parliament. What is more, and suggesting that the characterization of Spanish bicameralism as *incongruent* is questionable, while senatorial elections in Argentina are staggered, the vast majority of Spanish Senators are elected the same day as the *Diputados* in the lower house. As a result, the partisan composition of the Senate is unrepresentative of that of AC governments, as its electoral system encourages voters to cast a ballot for the same party of government in Madrid.⁴ In brief, Argentine senators are better equipped to represent subnational interests than their Spanish counterparts.

3) Policy Scope

Before we proceed to examine the level of policy authority of the senate in both countries, what difference does bicameralism make with respect to fiscal policy performance? Or, put differently, does the fact that revenue-sharing bills are dealt with, or alternatively blocked, at the senate level make any difference in terms of policy outputs? Extant research suggests that bicameralism induces greater fiscal deficits and, more indirectly, precludes economic adjustment. According to Heller (1997), who surveyed 17 unicameral and bicameral democracies from 1965 to 1990, "government budget deficits are higher when policy conflict is built into the budget process, specifically in the form of a bilateral veto game between legislative chambers". In a similar fashion, Remmer and Wibbels (2000) observe that 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. However, there is an alternative body of scholarship that explores the possibility of a positive effect of bicameralism on public finances. While this literature is somewhat eclectic in its analytical focus, its common thread is that senatorial intervention in the policy-making process is advantageous insofar as it offers an additional arena of deliberation and fine-tuning of public policies. For instance, Vatter (in Nolte 2002: 18) shows that bicameralism strengthens fiscal decentralization and precludes "over-fishing" at the subnational level. Likewise, Lane and Ersson (in Nolte 2002: 18) claim that "when there is a symmetrically composed two-chamber assembly, then public expenditures tend to be lower and surpluses higher". So, while the jury is still out to determine the effect of bicameralism on fiscal outputs, it becomes apparent that senates "matter" in the politics of fiscal federalism.

- The Senate as "Veto Player"

In formulating one of the most seminal analytical frameworks of rational choice theory, Tsebelis (1995: 293) defines veto players as "an individual or collective actor whose agreement is required for a policy decision". Veto players can be grouped into two major different categories: "partisan" veto players, namely the political parties in the legislature and "institutional" veto players, which include the executive, both legislative houses, and to some extent, the courts, constitutionally required super majorities and referendums. In a nutshell, veto player perspective assesses a problem of collective action, one in which selective incentives must be dispensed in order to guarantee political support for effective governance. More specifically, this approach seeks to pinpoint the conditions for co-opting supporters in the policy process.

So, to what extent are the Argentine and Spanish Senates "veto players"? To respond this question, we will focus on their respective (exclusive) policy competences and how disagreements between both houses are

⁴ In this regard, there is an ongoing tension between the miniscule role played by regionalist parties in Senate and their leading role in regional governments (Gunther, Montero and Botella 2004: 121).

resolved in each country. 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 decisions⁵, there are some policy areas in which they have greater prerogatives. The lower house has greater authority in originating money bills, general tax laws, troop recruitment and others. The senate, on the other hand, is in charge of approving presidential nominees and advisors, authorize the president to declare a coup d’etat in case of foreign military attack and appoint judges that assess federal expenditures. More crucially from the perspective our study, all revenue-sharing bills (including federal transfers) must originate in the senate. Additional senatorial prerogatives can be cited at length, but the encapsulation of fiscal decentralization issues at the Senate level suffice to highlight why this house is the institutional point of reference to uncover the politicization of these issues. 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).

We are not the first to point out that the Spanish Senate lacks significant policy-making powers.⁶ The Spanish constitution allows autonomic parliaments to propose bills to the national assembly. These bills may be introduced by representatives of the former bodies but, paradoxically, the alleged chamber of territorial representation is bypassed and plays no major role. Beyond scrutiny functions such convening special investigative commissions or forcing ministers to answer questions and pale legislative roles like the responding to bills already discussed and passed the parliament, “the senate has absolutely no voice in the selection and permanence in office of the executive” (Flores Juberías 1999: 287). More crucially, its footing in the territorial policy domain is quite limited as well. While the authorization of cooperation agreements between the ACs appears to be an issue that falls within the senate’s jurisdiction, its authority is limited to postponing the moment that the lower house is allowed to impose its will on the senate in this issue. In an attempt to revamp the role of the senate as a more territorial chamber, the *Comisión General de las Comunidades Autónomas*, General Committee for the Autonomous Communities, was established in 1994. Despite some positive moves such as opening its doors to representatives of AC governments and debating territorial issues, Eliseo Aja, a leading scholar of Spanish federalism, argues that this committee experiences the same structural limitations the senate does, amounting to a “small senate inside the senate” (Aja 1999: 146).

How does the Spanish Senate compare with its Argentine counterpart in terms of its “veto player” status? While based on the afore-mentioned policy-making powers it does not appear that the Spanish Senate is a “veto player” in its own right until far-reaching institutional reforms take place⁷, Stepan (2004: 328-329) claims that the senate can potentially become a “veto player” on the basis of the Article 155 of Spanish Constitution. This article establishes that the senate can adopt measures to force regional governments to fulfill their legal/constitutional obligations and prevent them from acting against the “general interest” of Spain. However, and citing Juan Linz’s authoritative opinion on Spanish politics, Stepan acknowledges that said article has never been applied because it could only become effective through a federal deposition of the government and military occupation of a recalcitrant AC, leading to an eventual subnational regime breakdown. Hence, we are more inclined to downplay the actual “veto player” potential of the Senate of Spain.

4) “When Effects Become Causes”: Malapportionment⁸ and Its Consequences

⁵ However, when disagreement between houses persists, the Argentine Congress resorts to the *navette* system to resolve it. If after several rounds of intercameral exchanges of bill proposals discrepancies cannot be bridged, the originating house has the upper hand and makes the final decision (Tsebelis and Money 1997: 54-55).

⁶ See, for instance, Aja (1999), Beramendi and Máiz (2004), Börzel (2002), Gunther, Montero and Botella (2004), Solozábal (1996).

⁷ On the difficulties to reform the Spanish Senate, see Roller (2002).

⁸ While the former concept is more commonly used at the micro level (i.e. the votes of some citizens weigh more than the votes of other citizens), overrepresentation is employed to denote institutional apportionment. Some scholars prefer the latter term, because the term malapportionment carries a more distinctive negative connotation (Gibson, Calvo and Falletti 1998: 2). We, however, will use both terms interchangeably.

In federal systems, where territorial representation is juxtaposed to population representation, unequal representation of subnational units is commonplace (Lijphart 1984). Partly as a “built-in” feature of federalism aimed at redressing economic and demographic vulnerability of smaller jurisdictions, these are deliberately (i.e. constitutionally) overrepresented in the Senate.⁹ Consequently, this should hold as well for the Argentine and Spanish upper chambers. Subsequent to illustrating the extent of malapportionment in these cases, we will elaborate analytically why institutional overrepresentation is inextricably linked with distributive policy outputs. While malapportionment in the Spanish Senate is not entirely inconsequential, 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 paucity of fiscal decentralization reforms.

How pervasive is Senate malapportionment in Argentina and Spain? According to the Stepan/Swenden Federal Databank, which uses the Gini Index of Inequality to measure malapportionment¹⁰, Argentina has the world’s highest level of senate overrepresentation.

TABLE 1: SENATE OVERREPRESENTATION (Stepan/Swenden data)

Gini Index of Inequality		Percentage of Seats of Best Represented Decile	
Belgium	.015	Belgium	10.8
Austria	.05	Austria	11.9
India	.10	India	15.4
Spain	.31	Spain	23.7
Germany	.32	Germany	24.0
Canada	.34	Australia	28.7
Australia	.36	Canada	33.4
Russia	.43	Russia	35.0
Switzerland	.45	Switzerland	38.4
USA	.49	USA	39.7
Brazil	.52	Brazil	41.3
Argentina	.61	Argentina	44.8
MEAN	.33	MEAN	28.3

Source: Stepan (1997) and own calculations. Higher values denote higher malapportionment.

Table 1, which uses the afore-mentioned databank, also shows how Argentina and Spain fare compared to other ten federal systems. It indicates that Argentina’s figures for the Gini Index and percentage of seats for best represented decile nearly double those of Spain. While Spain has relatively high level of senate overrepresentation compared to similar multinational federations like Belgium and India, its figures are much lower than those for ethnically-diverse Canada and Switzerland. Note that Spain ranks below the mean in both measures. To corroborate whether these results are a function of the dataset used for Table 1, we will triangulate them with data from Samuels and Snyder’s study of comparative malapportionment.¹¹ Table 2 shows the world’s twenty most overrepresented senates and, confirming the previous analysis, Argentina ranks first. Spain, on the other hand, appears to show a somewhat higher level of malapportionment because it is slightly above the mean value yet short of modifying the pattern of Table 1, as it only outdoes Germany but by a small margin.

⁹ Despite that senates are overly more overrepresented, lower chambers are sometimes subject to malapportionment. Both unitary Colombia and New Zealand, which reserve seats for indigenous people on a non-geographic basis, and federal India, where designated cast districts are overrepresented, share a high level of lower house malapportionment (Samuels and Snyder 2001: 658).

¹⁰ For a detailed explanation of the calculation of this index, see Stepan (2001: 344).

¹¹ This study uses the Loosemore-Hanby Index of Electoral Disproportionality (*D*), which takes the absolute value of the difference between each district’s seat and population shares. For a more complete explanation, see Samuels and Snyder (2001: 654-655).

TABLE 2: SENATE OVERREPRESENTATION (Samuels/Snyder data)

	<i>MAL_{UC}</i>	Federal		<i>MAL_{UC}</i>	Federal
Czech Rep.	0.0257		Chile	0.3106	
Italy	0.0292		Venezuela	0.3265	Yes
Austria	0.0301	Yes	Russia	0.3346	Yes
Romania	0.0592		Switzerland	0.3448	Yes
India	0.0747	Yes	USA	0.3642	Yes
Japan	0.1224		Bolivia	0.3805	
Poland	0.2029		Brazil	0.4039	Yes
S. Africa	0.2261	Yes	Argentina	0.4852	Yes
Mexico	0.2300	Yes			
Germany	0.2440	Yes			
Spain	0.2853	Yes			
Australia	0.2962	Yes			
MEAN	0.2388				

Source: Samuels and Snyder (2001) and own calculations. Higher values denote higher malapportionment.

Does senate overrepresentation matter? In essence, 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 interpretation is echoed in recent work on Brazilian politics, indicating that malapportionment and clientelism are “two sides of the same coin” (Ames 2001). Further, Mainwaring (1999: 270-271) claims that overrepresentation of poor states helps explain not only pork-barrel politics but also “the disjuncture between Brazil’s economic development and the underdevelopment of its political institutions”.

As the statistics presented above succinctly suggest, senate malapportionment manifests itself in Argentina more than elsewhere. 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. Alike Brazil, “strengthening the financial position” of small provinces affords incumbent national administrations significant political payoffs. Unlike Brazil, and taking aim with Mainwaring’s contention, we argue that this “devil’s pact” does not lead to institutional decay. On the contrary, it boosts predictability in the intergovernmental rules of the game and, thus, makes “increasing returns processes” more sustainable.¹² Such inducements, however, create an equilibrium that poses acute problems to feedback processes and consequently foreclose policy reforms to temper the patronage-financed debt spending of Argentine provinces, particularly the small ones.

The combined effect of the scant policymaking powers of the Spanish Senate and its comparatively lower malapportionment levels, which render a more limited “opportunity structure” for small ACs to cajole federal

¹² In a landmark essay, Pierson (2000) couched the notion of “political increasing returns” to underscore the strong status quo bias generally built into political institutions.

transfers, helps to explain why, in contrast, subnational actors in Spain had to generate alternative means of action and representation.¹³ As we will illustrate in the next section, the deficiencies of the Senate engendered a decisional vacuum to be filled by the creation of intergovernmental coordinating agencies like the CPPF and, to a lesser extent, the *Conferencias Sectoriales*, Sectoral Conferences, which are multilateral forums where ACs exchange information with the national administration and among them. The weak institutionalization of the senate and its lack of compensatory representational devices to redress inter-regional gaps have been counterbalanced by a gradual process of “experiential learning” (Olsen and Peters 1996). This open-endedness has imbued intergovernmental relations in Spain with a market-like character, where the fiscal accomplishments and steadfast regionalist leadership of ACs like Catalonia, Balears, Navarra, and the Basque Country hindered even further any attempt of economically-peripheral ACs to offset their fiscal misfortunes through federal *largesse*. Above and beyond the fiscal revamping of the weak, formal institutional vulnerability opened the door for policy innovation.¹⁴

The Relational Role of Political Institutions: “The Rules of the Game” and Intergovernmental Instruments of Cooperation

Painting in broad strokes, we can say that Ellen Immergut provides a very satisfying explanation of institutional malleability, which will be analytically applied to uncover differences between the Argentina’s predominantly stagnant regionalism and Spain’s drift to multilateral subnational collaboration. This contrast is the last building bloc in our explanation of the entrenchment of patronage-dependent provincial forces and fiscal decentralization stagnation in Argentina and Spain’s incremental progression to fiscal federalism.

In any political system, the adoption of a new policy deviating from the status quo (e.g. fiscal centralization) requires the agreement of certain political actors. Leaving aside whether a larger number of such political actors is normatively desirable¹⁵, policy change becomes more difficult when these actors proliferate. The necessity to decrease the number of such crucial actors is an issue that both “old” and “new” institutionalisms draw our attention to. From a state-society centered perspective, the notion of corporatism gives preferential treatment¹⁶ to state-sponsored societal organized interests, whereas neo-institutionalists (e.g. George Tsebelis) focus more compellingly on the institutional “black box” itself. Implicitly maintaining that these approaches are overly static or mechanistic, Immergut (1992) introduces the notion of “veto points”, which are basically areas of institutional vulnerability, namely, junctures in the policy process where opponents can frustrate policy change. Instead of seeing institutional representation as a rigid end point, the notion of “veto points” suggests that “electoral rules and constitutional structures provide the institutional ‘rules of the game’ in which subsequent political battles are fought” (Thelen and Steinmo 1992: 22). Moreover, this understanding of the policy-making process is also consonant with our previous analysis insofar as the relative differences in policy-making powers of their respective senates and the presence or absence of institutional facilitators for disadvantaged subnational units in Argentina and Spain shape political interactions. Last, this approach is valuable to analyze countries that undergo institutional transformation like Spain and its ongoing process of federalization. Likewise, Argentina has recently experience profound institutional reforms such as the constitutional reform of 1994.¹⁷

1) The “Puzzle”

¹³ This institutionalist view of the Spanish Senate is matched by ordinary citizens’ perception of the role of this body in the politics of their country. In his study of public opinion in Spain, Lancaster (1997) shows that the senate is the least popular institution.

¹⁴ For an analysis of policy innovation in Argentina, see Keech (1999).

¹⁵ While the modern literature in political science, with Lijphart (1999) as an exception, emphasizes the need of *effective* governance, there is no shortage of arguments on behalf of increasing the number of “veto players”, ranging from Baron de Montesquieu’s theory of separation of powers to John Stuart Mill’s praise of representative government.

¹⁶ Or, according to Schmitter (1974), exclusive.

¹⁷ This constitutional reform includes: the abolition of the Electoral College and adoption of direct presidential elections, the possibility of re-election for incumbent presidents, political decentralization of the capital city (Buenos Aires) and, more relevant to our subject of study, the introduction of socio-demographic and economic variables, in lieu of fixed coefficients, in the determination of revenue-sharing. Interestingly, from said list of reforms, the latter is the only one that still did not materialize.

In this section, we explore the explanatory value of the “veto points” perspective to understand why the mere existence of strong representative institutions of territorial interests does not necessarily mean that they are effective in advancing the horizontal division of powers between the central and regional governments. As shown above, a mighty senate may fall short of becoming an actual arena of intergovernmental exchanges, when subnational units are disproportionately overrepresented. Or put in “veto points” terms, when a highly institutionalized political structure of territorial representation such as the Argentine Senate is adjacent to exceedingly malapportioned electoral rules, it will perpetuate existing pathologies in distributive policy. At this juncture, some provinces (i.e. peripheral, transfer-dependent) are motivated to preserve the status quo and other provinces (i.e. metropolitan, more fiscally-proficient) prefer to move away from it. Because the former group of provinces affords the national government a legislative majority at a “convenient” price, distributive policy (i.e. fiscal decentralization) bears out cooptative and patronage-ridden undertones. Of necessity, the latter group of provinces seeks to level out their share and press their case with national authorities. The resulting outcome is bilateral fiscal agreements and incomplete decentralization. By the same token, feeble territorial representation at the senate level does not inevitably thwart subnational assertiveness. In Spain, regionalist-party dominance in fiscally-competent ACs, their increasing influence in the national parliament, and their concomitant acceptance in emerging joint policy-making mechanisms inhibited backward regions’ attempts to preserve the status quo (i.e. revenue centralization). Albeit not entirely keen yet “institutionally” unable to block the moves of richer regions, the latter follow suit. The resulting outcome is increasing multilateral fiscal collaboration and expanding decentralization. These arguments will be illustrated through the narrative of two contrasting experiences: The Argentine Fiscal Federal Pacts and the Spanish Council for Fiscal and Financing Policy of the ACs

2) Bilateral and “Uninstitutionalized” Bargaining: The 1992 and 1993 *Pactos Fiscales* in Argentina

Imagine the following picture: Nearly 100 provincial representatives (governors, vice governors, provincial economy ministers and economic advisors) gather in a dreary building in Buenos Aires city. The *raison d’être* of this gathering is to persuade said representatives to forsake 15 percent of their respective provinces’ coparticipated tax revenues to overhaul the then moribund national social security system. Not far from this building, caravans of annoyed pensioners march forcefully into the Congress amid threats of continuing their hunger strikes. Expectedly, and despite these representatives ostensible empathy with the cause of street demonstrators, no agreement can be hammered out.¹⁸

This chaotic background compounded the signature of the 1992 Fiscal Pact at the headquarters of the *Consejo Federal de Inversiones*, CFI, Federal Investment Council.¹⁹ How can said provincial actors be persuaded to cut a deal that would make them less popular in their respective jurisdictions? First, the national government guaranteed provincial transfers of a minimum of US\$ 725 per month. In order to make this arrangement even more “attractive”, Menem “sweetened” this unsettling gridlock through the creation of a special fund to finance fiscal disequilibria in the provinces, made up of revenues that would also be deducted from the automatic FTSA allocations. According to Eaton (2001: 110), “the amount that each province would receive from this fund was determined in one-to-one negotiations with the President. For example, the fact that the Radical governor of Chubut province offered early public support for the pact reflected Chubut’s position as one of the three provinces receiving the largest cut from the disequilibria fund.....Provincial governors who initially criticized the pact but eventually signed it (such as Mario Moine of Entre Ríos) received a smaller cut, and provincial governors who refused to sign (such as Rolando Tauguinas of Chaco) received none of the special funds”. Furthermore, the inter-provincial apportionment of this fiscal disequilibria fund does not deviate from the pattern described in Chapter 3: Santa Cruz, Tierra del Fuego and Chubut (nearly 1.8 percent of total national population) received US\$ 3 million each, whereas Córdoba and Santa Fé (nearly 18 percent of total population) only US\$ 0.5 million each (Falletti 2000: 12).

Encouraged by the apparent success of this deal, Menem arranged a second Fiscal Pact in August 1993. Unlike the previous pact, however, tax reform was the focus of this deal, enhancing its potential fiscally-

¹⁸ For a more complete account of these events, see Falletti (2000: 12).

¹⁹ Originally conceived as an inter-provincial consultative forum in regional development matters, the CFI has turned into a *de facto* branch of the Peronist Party, which typically controls a vast majority of governorships.

decentralizing impact. Nevertheless, the provinces did not rush to join this second pact because of its initial stipulation to abolish the provincial turnover tax (Schwartz and Liuskilla 1997: 408). Expectedly, some maneuvers were necessary to cajole reluctant governors. First, the minimum amount set on 1992 was increased to US\$ 745 million a month. Additionally, political guarantees to negotiate the offsetting of claims and debts between the provinces and the central governments were put forward. These benefit packages, however, were only applicable to provinces that agreed to implement the terms of the pact. To avoid further “penalties”, Chaco’s governor this time chose to sign the pact, for which his province had its outstanding debts bailed out (Eaton 2001: 111).²⁰

In brief, we can argue that Argentine bilateralism is a manifestation of cost-shifting tactics for the provinces and divide-and-conquer for the center. The institutional “veto points” in the decision-making process interact with regional economic differentiation, leading to a fiscal policy output that amounts to an “iron law” of the political economy of intergovernmental relations in Argentina: revenue centralization as a shielding mechanism for economically weak yet politically powerful provinces.

3) Emerging Multilateral Bargaining: The Spanish *Consejo de Política Fiscal y Financiera de las Comunidades Autónomas*

Created in 1980, the CPFF is composed of the national Minister of Economy and Finance and his counterpart in each region, and the Minister of Public Administration. It acts as a consultative and discussion body, which concerns itself with the coordination of policy with particular regard to the distribution of national resources to the regions, public investment, the costs of services and public debt. This is the intergovernmental coordination body of highest importance (Huerta Carbonell 1992: 215). The agreements reached within the CPFF, then, form the basis for developing the ACs financing arrangements.

The above having been said, there has been a tendency in the specialized literature to characterize the CPFF as merely symbolic, as a forum guided by a “hierarchical perception of intergovernmental relations, since the minister (i.e. the national Minister of Economy and Finance) calls the conference, chairs it and sets the agenda. This fosters the atmosphere of ‘institutional courtesy’ in the forum, as the ACs have only a very passive role in the discussions” (Grau i Creus 2000: 63). Other scholars have ironically suggested that these meetings amount to “*cooperación por teléfono*”, cooperation by phone (Albertí Rovira 1991: 214). Further, Aja (1999: 227) claims that the CPPF is a mirror image of party politics: When this forum recommended in 1993 the transfer of the 15 percent of the general income taxes to all ACs, Galicia, which is a PP bastion, voted against it and even appealed to the Constitutional Court. However, it voted in favor of a transfer of the 30 percent of the same tax in 1996 carried out by Aznar’s administration.

It is precisely party politics what rendered opportunities to expand the role of CPPF and its *modus operandum*. While admitting that the afore-mentioned tactical behavior of Galicia is very telling, it is noticeable that despite PSOE’s participation in the ruling coalitions in Navarra, Aragon, and Asturias did not impede these ACs to support the PP- sponsored 30 percentage reform. Moreover, regionalist party officials, by and large from Catalonia and the Basque Country, advocated deepening revenue decentralization on efficiency as well as on nationalist grounds. For that purpose, they encouraged the formation of mixed technical commission of autonomic and national officials known as *Comisiones Mixtas*, Mixed Commissions, whose multilateral character was somewhat daunting for more transfer-dependent ACs (Ramallo Massanet and Zornoza Pérez 2000). Nonetheless, regionalist party representatives from poorer ACs had a very hard time in articulating regional assertiveness amid hostility to fiscal decentralization moves, so that they gradually moved closer to their more nationalistically-minded counterparts. Exogenous factors such as Europeanization played a role, insofar as regions were endowed with significant resources, including know-how applicable to the sometimes highly technical content of discussions held in the Mixed Commissions.²¹

²⁰ To illustrate how this exchange of political favors interweaves with institutional prerogatives, Governor Tauguinas, who rules a relatively under-populated province, subsequently supported Menem’s campaign for the Constitutional Reform of 1994. It is noteworthy that the assembly charged with rewriting the constitution was even more skewed than is representation in the senate. Buenos Aires province had one representative for every 109,000 citizens and Tierra del Fuego had one for every 6,000 (Sawers 1996: 96).

²¹ We disagree, however, with monocausal explanations based on EU influences such as Tanja Börzel’s approach. She claims that “while the extension of multilateral intergovernmental cooperation may reflect a certain consolidation of Spanish intergovernmental relations, the functioning of the 16 Euro-effective conferences confirms that the major

In conclusion, in contrast with the cost-sharing strategy of Argentine provinces, Spanish ACs opted to increase collaborative patterns in policy-making, in which representatives of the different levels negotiate their major differences at the program design and implementation stages. Unlike Argentina, the increasing pivotal role played by regionalist parties in national formal and informal fora played a more critical role than the encapsulation of unequal territorial representation at the legislative level. Albeit not entirely stress-free, as some peripheral ACs resisted the pace and nature of reforms, fiscal decentralization in Spain expanded to levels comparable to those of Germany and closer to Switzerland.

Final Remarks

The findings of this paper have implications both for the political science literature on comparative federalism and for the literature on fiscal decentralization in these and other countries. Given research trends in the former literature, some of our findings are surprising. The concept of institutional vulnerability, a byproduct of “veto points” theory, appears to be more useful in explaining the stochastic nature of fiscal decentralization policies than notions of institutional embeddedness. More than the formal rules *per se*, the interaction between institutional structures (e.g. the senate) and political hurdles gives rise to the “rules of the game”. Put simply, overrepresented territories yield political payoffs that afford them “immunity” to revenue decentralization imperatives. In this vein, the “veto points” framework involves different opportunities for influencing political decisions.

In assessing how the politics of fiscal decentralization varies in Argentina and Spain, we are able to conclude that institutional “overdevelopment” and the ensuing “locking-in” of a lopsided connection between territorial overrepresentation and the non-proportional distribution of public funds in the former country propitiates the maintenance of a fiscally-ineffective but politically-desired status quo. Therefore, formal federal polities, which are normally based on strong bicameralism, can at times be less effective than more loose, yet decentralizing unitary systems in deepening fiscal decentralization. And we are also able to conclude that institutional malleability and open-endedness rendered opportunities to regionally-assertive entrepreneurs for claiming further competences, including revenue collection and administration. The policy of transferring revenue and revenue authority to subnational governments, then, can be sabotaged or advanced depending on the institutional incentives and capabilities of political actors.

In this regard, it is noteworthy that the same institutional problems that preclude the advancement of fiscal decentralization are also associated with national fiscal crises. Argentina, a country whose policies of economic adjustment in the early 1990s have won it international acclaim, has proved unable to restructure its federal system to address severe imbalances in the intergovernmental fiscal relations. The overall unsustainable level of subnational debt and the limiting authority of the center to rein in fiscal discipline lurked underneath Argentina’s foreign debt default – the world’s largest – and the premature fall of De La Rúa’s elected government in December 2001. Federalism and its concomitant institutional protection of the autonomy of subnational units can at times have perverse effects on macroeconomic performance. Despite federalism’s ostensible “market-preserving” quality, deadlocked and malfunctioning federal institutions can lead to economic catastrophes.

To conclude, this understanding of fiscal decentralization also speaks to a body of scholarship on fiscal federalism that focuses on incentives and goals (e.g. rent-seeking, fiscal performance) without explicitly and systematically identifying the political framework in which fiscal decentralization decisions are taken. Borrowing from a recent and enlightening study of federalism by Filippov, Ordeshook and Shvetsova (2004: 138), “fiscal allocations are biased toward certain states or groups of states almost everywhere, because the ability to cater to particular local needs is an essential characteristic and advantage of the federal form”.

proposition of this study that multilateral cooperation is the response to Europeanization rather than the result of the consolidation of the State of the Autonomies” (Börzel 2002: 146-47). In addition to supranational-level influences, scholarly discussions about the future of decentralization in Spain were deeply influenced by the German experience and concepts such *Bundestreue* (federal loyalty) are oftentimes made reference to (Aja 1999: 142-43).

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