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Patronage-Preserving Federalism? Legislative Malapportionment and Subnational Fiscal Policies in Argentina

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**Patronage-Preserving Federalism?
Legislative Malapportionment and
Subnational Fiscal Policies in Argentina**

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Patronage-Preserving Federalism? Legislative Malapportionment and Subnational Fiscal Policies in Argentina

Abstract

This paper builds on institutional analysis to generate new conclusions about the economic viability of federalism. It does so by suggesting that Weingast's seminal model of *market-preserving* federalism falls short of accounting for the poor fiscal performance of multitiered systems in the developing world. This theoretical deficiency stems to a large extent from the insufficient attention paid by this model to the institutional complexity of federal systems, particularly the public policy effects of legislative malapportionment. Subsequent to an analytical discussion of the potential public spending and distributive politics distortions resulting from overrepresentation, we offer preliminary empirical evidence from Argentina, a federation exhibiting one of the most decentralized fiscal systems in the world and severe imbalances in the territorial distribution of legislative and economic resources. The findings show not only that said imbalances lead to sub-optimal fiscal results but also that they have a mutually-reinforcing relationship with regionalized patronage.

Key words: Federalism, legislative malapportionment, subnational fiscal policies, patronage, Argentina.

JEL Code: A12, H30, J18.

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Zusammenfassung

Patronage erhaltender Föderalismus? Legislative Überrepräsentation und subnationale Fiskalpolitik in Argentinien

Der Autor dieses Beitrages fragt mit institutionenanalytischem Zugriff nach den ökonomischen Implikationen föderalistischer Systeme. Das grundlegende Modell des „markterhaltenden Föderalismus“ (nach Weingart) bietet keine adäquate Erklärung für die schlechte fiskalische Performance mehrstufiger Systeme in Entwicklungsländern. Dieses theoretische Defizit resultiert weitgehend aus der ungenügenden Aufmerksamkeit, die dieses Modell der institutionellen Komplexität föderaler Systeme widmet, insbesondere den Auswirkungen legislativer Überrepräsentation für die öffentliche Politikgestaltung. Nach einer Diskussion der potentiellen Verzerrungen in der öffentlichen Ausgaben- und Verteilungspolitik als Folge ungleicher legislativer Repräsentation folgt eine empirische Analyse des Falls Argentinien. Argentinien ist ein föderaler Staat mit einem der am weitesten dezentralisierten Fiskalsysteme weltweit und gravierenden Ungleichgewichten in der Verteilung legislativer und ökonomischer Ressourcen. Die Ergebnisse zeigen, dass die genannten Ungleichgewichte nicht nur zu suboptimalen fiskalischen Resultaten führen, sondern auch ein sich wechselseitig verstärkendes Verhältnis mit regionalisierten Patronagebeziehungen aufweisen.

Patronage-Preserving Federalism? Legislative Malapportionment and Subnational Fiscal Policies in Argentina

Jorge P. Gordin

Article Outline

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1. Introduction

What type of institutional designs are necessary to avoid economic catastrophes? As decentralization became more widespread in the world in the 1980s and 1990s, it ignited a great deal of scholarly attention concerning the economic viability of federalism. One of the most salient, mostly unchallenged, theses about this question traces the superiority of decentralization to normative economic thinking on federalism. Drawing on Charles Tiebout (1956)'s work, it is argued that decentralization limits the ability of government officials to supply local goods on political grounds. In this light, Barry Weingast (1995) developed the concept of market-preserving federalism to connote systems in which decentralized control over the economy by subnational governments within a common market precludes the central government from encroaching on the political and economic rights of its citizens. This arrangement, the argument goes, underpins fiscal responsibility, providing no incentives for the constituent parts to overuse the common pool of federal economic resources. In recent years,

however, as the 'desirability' of federalism has burst upon the scene as a subject of interest to scholars and policy-makers, Weingast's assumptions have come under criticism (Rodden and Ackerman 1997). Perhaps the most important common thread running through these works is that normative public choice theories largely ignore the role of bureaucracy and the political framework in which intergovernmental decisions are taken. Put bluntly, Weingast's theoretical roadmap fails to account for the poor fiscal performance of federal India or the large federal states of Latin America such as Argentina, Brazil and Mexico. Let alone that the Russian experience kindled a cacophony of epithets such as *market-distorting* federalism (Slider 1997) and *market-hampering* federalism (Zhuravskaya 2000).

The analytical challenge, then, is to develop a theory of comparative federal fiscal performance based on how the structure of federalism provides incentives for political officials at all levels of government. Surprisingly, few scholars have dealt with this central question in the study of comparative federalism. The first notable exception is the research undertaken by Wibbels (2005), showing that intergovernmental partisan harmony achieved via coattails is the most important factor to extend market reform to the subnational governments in the developing world. Another study addressing the subject matter even more directly is Braun et al (2002)'s analysis on the influence of federalism on fiscal policy making. They conclude that intergovernmental veto powers, namely whether the federal or subnational governments have the upper hand in the design of fiscal policies, are decisive to explain policy outputs such as budget deficits. Persuasive as these works are, they fall short of theorizing institutional complexity in federal systems and its concomitant asymmetries of representation based on geography. That is, the unequal representation of the population in at least one chamber of the legislature. Beyond the normative issue of whether this built-in overrepresentation in federal systems is necessary, an extensive empirical literature confirms that legislative malapportionment has not only a decisive effect on the coalition-building efforts of executives at the central and subnational level but also substantial and direct consequences on public policy (USA: Ansolabehere et al 2002, Atlas et al 1995; Argentina: Gibson and Calvo 2000; Germany: Pitlik et al 2005; European Union: Rodden 2002a). The logic is simple: because overrepresented sparsely populated, economically vulnerable jurisdictions can be co-opted in the legislative process at the least cost and hence offer more 'political bang for the buck', public spending and distributive politics will be biased in favour of said entities.

The above-cited studies yield valuable empirical evidence to establish that malapportionment 'matters'. However, this paper argues that the major challenge is to develop, or refine existing, theoretical tools to map out the precise institutional incentives at play. Above all, if malapportionment is to have a causal effect on fiscal policies, it is of essence to unravel its dynamic relationship with its most proximate correlates, namely socio-demographic and eco-

conomic conditions, electoral rules and party politics. How does malapportionment affect the regional disparities that politicise the federal budgetary process? By increasing the number of small, overrepresented jurisdictions, do malapportioned electoral rules induce federal partisan biases? In what follows, I discuss analytically these topics, hoping to highlight heretofore largely unforeseen and counter-intuitive aspects of the impact of legislative overrepresentation on intergovernmental fiscal relations. This discussion is complemented with preliminary evidence from Argentina, a federation exhibiting one of the most decentralized fiscal systems in the world and severe imbalances in the territorial distribution of legislative and economic resources.

2. 'When Effects Become Causes': Malapportionment¹ and its Consequences

It is already well documented that in federal systems, where territorial representation is juxtaposed to population representation, unequal representation of subnational units is commonplace. Partly as a 'built-in' feature of federalism aimed at redressing economic and demographic vulnerability of smaller jurisdictions, these are deliberately (i.e. constitutionally) over-represented in the Senate. As Rodden (2002, 2006) cogently shows, this arrangement has substantial effects on public policy because state representatives are well aware of the distributional consequences of intergovernmental bargains, particularly when the centre is beholden to certain fiscally-troubled over-represented subnational governments and thus unable to change the political institutions that create bad incentives.

We are not the first to argue that legislative overrepresentation is particularly ubiquitous in federations. While Malapportionment does affect lower chambers as well (Samuels and Snyder 2001)², there is a greater tendency for upper houses to be malapportioned; considering that all current federal systems are bicameral, it is within such systems where we shall find the critical opportunity structure for intergovernmental fiscal tensions. In this regard, Linz and Stepan (2000:13) employ an aggregate malapportionment index whose figure for federal systems is 4.5 times higher than unitary systems. Ideally, proportional representation in the lower chamber offsets the resulting malapportionment in bicameral systems. However, this still remains an open question to be sorted out.

¹ While malapportionment 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 later term, because the term malapportionment carries a more distinctive negative connotation (Gibson et al 1998: 2). We, however, will use both terms interchangeably.

² Further, Lower-chamber and Senate malapportionment may reinforce each other, exacerbating distributive biases in fiscal policies (Ansolabehere et al 2002).

What difference does malapportionment make with respect to the apportionment of federal transfers? While normally the lower house has greater authority in originating money bills, general tax laws, troop recruitment and others, revenue-sharing bills (including federal transfers) 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. Additionally, our focusing on the Senate stems from the fact federal systems resort to the navette system, which gives the originating house the upper hand in case of inter-house discrepancy (Tsebelis and Monet 1997: 54-55). Furthermore, Senate apportionment is central for distributive politics because

‘Senate coalitions are likely to prefer to distribute funds in ways that disproportionately benefit constituents in less populous states even in the absence of conflict between large and small states (Lee and Oppenheimer 1999: 161, italics in original).

This perception of the policy-making scope of the Senate is also 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).

From the standpoint of the structure of incentives of subnational governments, malapportionment decisively conditions the nature of intergovernmental exchanges. More concretely, when a highly institutionalised political structure of territorial representation is adjacent to exceedingly malapportioned rules, it will perpetuate existing pathologies in distributive policy. The experiences of Argentina, Russia, and Venezuela provide preliminary evidence to the connection between Senate overrepresentation and setbacks in fiscal decentralization policies. While windfall resources from oil in the latter case have to some extent offset fiscal distress, subnational assertiveness in the legislature amounted to cooptative, patronage-ridden intergovernmental relations in most cases (Gordin 2006; Treisman 1999). All else equal, peripheral, transfer-dependent jurisdictions in these countries have clearly signalled their preference for a centralized fiscal system mostly based on transfers from the central government. The resulting outcome is increasing potential for subnational overspending and fiscal crisis.

3. The Correlates of Malapportionment: Theoretical and Empirical Issues

So far, we have argued that the voting power of over-represented areas leads directly to their disproportionate influence over fiscal policy. However, what enables some overrepresented jurisdictions to exploit more effectively their influence than others? While overrepresentation is a relatively permanent feature in many federal polities, it is possible to point out some parameters that not only affect degrees of malapportionment but also the manner in which ostensible losers in fiscal decentralization can block policy changes. I address this question in this section by discussing the independent variables seen as crucial in extant research and zooming in on some complex issues related to the nature of said factors.

Socio-economic and Demographic Conditions

Typically, research on malapportionment and its effects analyses and estimates the impact of socio-economic and demographic influences separately (Mattila 2006; Rodden 2002a). This includes variables such as population, GDP per capita, geographical GDP, agricultural share of workforce, unemployment among others. Little attention, however, is paid to the mutually-reinforcing effect of these factors. For instance, in poorer jurisdictions (generally underpopulated) people move gradually to areas where they expect to earn higher wages, exacerbating the malapportionment gap. Likewise, indicators such as gross income or earnings should be used cautiously because they cannot be fully disentangled from the degree of malapportionment within a country. Namely, overrepresented areas do not only generate less revenue due to their economic disadvantages but also they can exploit their representational political power in the legislature to cut down their revenue contribution to the federation. This suggests that unless we incorporate these caveats into empirical analysis it is quite likely that our research would suffer from an endogenous bias problem. One important step in this direction is taken by Horiuchi (2004), who tackles the above-mentioned predicaments by using the Gini index of income inequality based on after-tax income data. Further, considering that the distribution of the data used to generate said index is highly skewed it is necessary to employ the natural log of the index values.

Second, considering that oftentimes overrepresented subnational units are favoured in the apportionment of federal transfers (Mattila 2006) or not penalized for incurring into hefty fiscal deficits (Rodden 2002b), it is plausible that they may subsequently improve their overall economic situation. That being the case, levels of malapportionment in said areas would decline gradually as people who left these jurisdictions would choose to return or, alternatively, people from others areas may 'vote with their feet' to said jurisdictions. As a result, a problem of reciprocal causality can be at play, hindering empirical inquiry unless the appropriate steps are taken (e.g. recurrent analysis).

Relatedly, if the above-mentioned putative connection between economic conditions and malapportionment is correct, federal countries experiencing economic stability and without significant regional development gaps will have a more predictable pattern of coalition politics in the Senate. Evidence to this scenario is provided by Lee and Oppenheimer (1999: 161-62), who illustrate this point by showing the quasi-structural advantage of small states in the US Senate. Beyond the effect of reapportionment, the resulting balance is very telling: the number of overrepresented states is almost 2.5 higher than underrepresented states. This means that the senators representing the former group form a 62 votes majority on their own without including any other senators. While admitting this is a fairly extreme case, partly due to the high number of states comprising the US polity compared to other federations, research on the effect of changes in economic conditions on territorial legislative representation may well be necessary to shed light on the political economy of federations in a more fine-grained manner than extant studies on the topic do.

Electoral and Party System Variables

In what perhaps amounts to the most systematic cross-national study on malapportionment to date, Samuels and Snyder (2001: 663-66) found that district magnitude has not significant effects on levels of upper-chamber malapportionment. This finding challenges conventional wisdom considering, as these authors claim, that single-member district (SMD) systems

‘should have more malapportionment than multi-member district (MMD) systems because, *ceteris paribus*, legislators in SMD systems have higher stakes as individuals in reapportionment decisions. Legislators in SMD systems face a far greater probability than legislators in MMD systems that “their” district will be targeted for elimination or redesign in reapportionment process’.

In the same vein, local leaders find it easier to form regional coalitions in legislature through SMD than through district or nationwide proportional representation.

Measurement errors notwithstanding, the major theoretical deficiency of focusing exclusively on electoral attributes such as district magnitude and structure is that it neglects Giovanni Sartori (1976; 1994)’s dictum that research on electoral systems cannot be separated from its consequences on, and influence from, party systems. Taking as our empirical point of departure Lijphart’s finding (1999: 168-69) that electoral malapportionment and the effective number of parliamentary parties are negatively correlated, we argue that there are several constellations whereby electoral designs affect the manner in which party competition exacerbates the impact of malapportionment on fiscal policy. To illustrate this point, let us briefly compare the effect of the structure of party ballot in Argentina and Brazil, both fed-

eral systems having significant population differences among subnational units and a PR system used for legislative elections. While there is evidence that the effect of senate malapportionment in Brazilian fiscal transfers is significant (Diaz Cayeros 2006: 225), its open-party list PR system makes the entrenchment of partisan enclaves at the subnational level less likely. Conversely, mainly as a result of the PR closed-party list in Argentina, the number of political parties with legislative representation ranges from 6 in the capital city of Buenos Aires to close to 1 in overrepresented provinces such as La Rioja and Santa Cruz (Gordin 2006: 261). Then, our argument goes, a smaller number of parties in the most overrepresented provinces receives far more seats per vote than a greater number of parties competing in underrepresented provinces. What is the policy implication of all this? Put simply, governors from overrepresented areas are more shielded from local challengers and hence better equipped, all else equal, than underrepresented jurisdictions to influence the moves of the national senators in Argentina, where until very recently senators were appointed through a binomial election system by the provincial-level legislatures, which are conspicuously controlled by the governors.

4. Malapportionment and the inter-provincial distribution of federal funds

To examine whether over-represented provinces are rewarded compared to provinces with higher fiscal capacity, we will use cross-section analysis of federal transfers to provinces in 1995. This year is chosen because it epitomizes the beginning of a period in which provincial administrations were pushed to modernize their public administrations systems, reform the structure of provincial taxes, and, more importantly, improve their own-resource mobilization.

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

What kind of provinces then succeeded in attracting a larger share of federal transfers? In order to respond this question, we investigate the distribution of FEDEI (*Fondo de Desarrollo Eléctrico del Interior*, Electricity Investment Development Fund) transfers to provinces in said year. This transfers program is chosen because it was put through intense media and over-

sight scrutiny based on its salient capital-intensive character throughout the selected time period. Malapportionment is employed here as an explanatory factor. Based on our previous claim linking malapportionment and gubernatorial influence, this independent variable consists in the interaction term of provincial over-representation and governorships held by parties that oppose the incumbent national executive. The rationale behind our looking at opposition governorships is that previous research shows that collation-building goals drive presidents in Argentina to reach out legislators of opposition parties by means of allocating larger shares of federal transfers to the provinces the latter belong to (Gordin 2004). This, in turn, will be our approach for uncovering the extent of politicisation in the distribution of transfers and our main independent variable. Drawing on Porto and Sanguinetti (2001), we calculate malapportionment by dividing the fixed number of senators per province (which during the period analyzed here is equal to two) by population. Based on the argument presented above, we expect this factor to be positively associated with federal transfers, which is to say, over-represented provinces will receive a higher share of funds. To control for the impact of transfer dependency, we will use an indicator of provincial financial capacity, which is the revenue/expenditure flexibility variable and operationalised as the provincially-generated revenue as a percentage of total revenue. As for socio-economic and demographic influences, we include population and provincial unemployment. The political variables are partisan disharmony (dummy variable indicating whether the provincial governor belongs to a party that is different of that of the president) and provincial party governor (dummy variable indicating whether the provincial executive is controlled by a provincial party).

Thus we estimate the following model³:

$$\text{FEDEI} = B_0 + b_1 \text{Population} + b_2 \text{Unemployment} + b_3 \text{Revenue/Expenditure Flexibility} + b_4 \text{Partisan Disharmony} + b_5 \text{Over-represented Provinces ruled by Opposition Governor} + b_6 \text{Provincial Party Governor} + e$$

The results are reported in Table 1. The support in favor of the malapportionment variable is strong and its coefficient is robust and carries the expected sign. This trend is further illustrated in Figure 1, where it becomes apparent that the actual inter-provincial distribution fits the regression line. Figure 2 presents a scatter plot where it is clear that La Rioja looms large as the outlier.⁴ This province not only ranks as one of the most over-represented provinces in Argentina but also its political dynamics stands out as a crucial parameter. The political tra-

³ We exclude geographical GDP because it is strongly correlated (about 60 percent and statistically significant) with the revenue/expenditure factor and thus induces multicollinearity.

⁴ To test whether the OLS results in table 1, which are based on a relatively limited N , are biased due to the presence of outliers, we run the same OLS regression including La Rioja as dummy variable and got similar results with regards to significance and sign direction. Put differently, omitting the extreme case of La Rioja does not change the overall results and the substantive findings.

jectory of Carlos Menem, its three times governor from the main opposition party and subsequently elected president in 1989 and re-elected to the presidency in 1995, accounts for the sheer increase in grant apportionment to this province. This patronage-ridden context was increasingly gaining institutional sustainability since the 1987 electoral reform that introduced a PR-d'Hont formula and increased the number of seats distributed in the rural districts of La Rioja, which were mostly Peronist strongholds (Calvo and Micozzi 2005).

Table 1: Determinants of Fondo de Desarrollo Eléctrico del Interior transfers

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

Note: Analysis is by OLS regression analysis. The dependent variable is allocation of FEDEI transfers to provinces in 1995. N=24. R² = 0.47. Entries are standardized coefficients.

** Significant at the 0.05 level (2-tailed test)

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

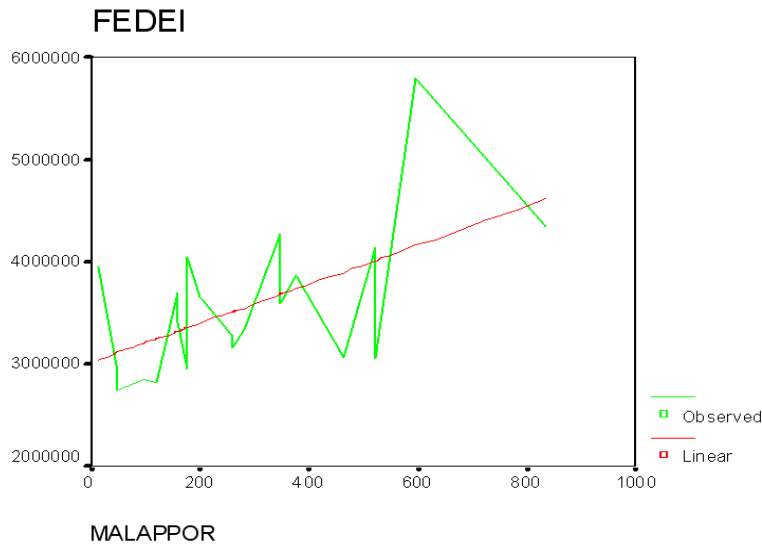
These preliminary findings are consistent with historical records about the secondary distribution of intergovernmental transfers. Rezk (1998: 225, 231) shows that ever since revenue-sharing was implemented for the first time in 1935 a gradual trend in favor of over-represented, mostly poor provinces, with the singular exception of oil-producing Santa Cruz, is conspicuous. While under-represented and high-revenue provinces such as Buenos Aires, Santa Fé, and Córdoba experienced a decrease of 24 %, low-revenue provinces benefited from an increase of 21 %. Likewise, Sawers (1996: 245) argues that

‘in 1900, when federal assistance was minimal, the most advanced provinces (Buenos Aires, Córdoba, Santa Fé, and Mendoza) spent five times per capita what the most backward provinces spent (La Rioja, Catamarca, Corrientes, Jujuy, Misiones, Chaco, Santiago, and Formosa). By 1960, they were spending roughly the same amount per capita. By the mid-1980s, the poorest provinces were spending almost twice what the most prosperous provinces spent on each citizen’.

The political correlate of this redirecting of economic resources toward the development of backward provinces is the historical alliance among elites from poor provinces and a strong and autonomous central government to prevent one province's (i.e. Buenos Aires) dominating the others in Argentina. This intersection of interests was formalized through the creation of

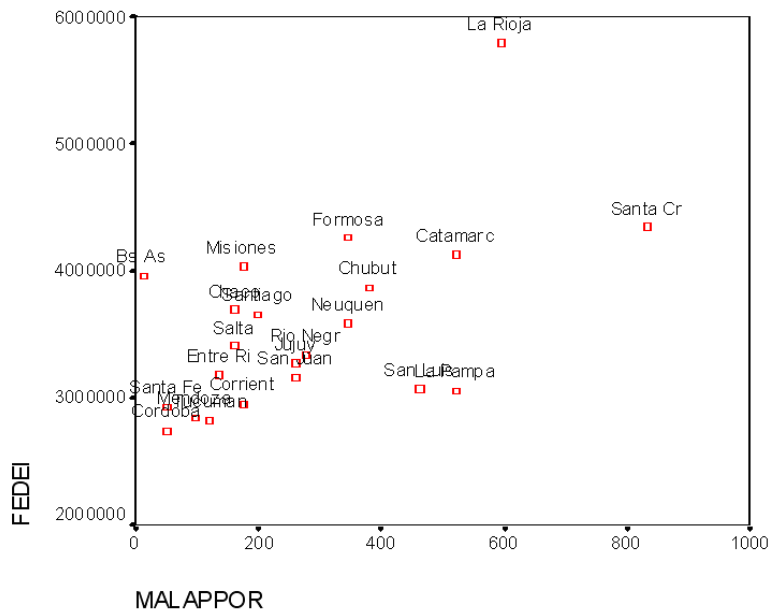
institutions such as the Senate and the Electoral College that elected the president. More crucially, provincial governments moved to the institutional center stage, playing an important role in deciding who gets sent to Congress. National senators are chosen by provincial legislatures, not by popular vote. Thus, control over provincial governments means control over the national senate and veto power over fiscal decentralisation legislation (Botana 1993: 243).

Figure 1: Regression-line fit



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

Figure 2: Relationship between Fondo de Desarrollo Eléctrico del Interior allocations and malapportionment



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

5. Conclusion

Our findings inform our understanding of the distributive and fiscal consequences of legislative malapportionment and its implications for the political economy of federal governance. The tension between the territorial distribution of political resources and the territorial distribution of fiscal costs is perhaps the aspect that poses more daunting challenges to the fiscal federalism literature. In this study, we seek to provide evidence that the political framework in which intergovernmental fiscal relations occur is an endogenous influence that may well account for subnational variation in fiscal decentralization policy outputs. Despite federalism's ostensible 'market-preserving' quality, malfunctioning institutions can lead to sub-optimal fiscal results and even to economic catastrophes, as the experience of several federal developing countries makes it apparent.

Our analysis rejoins the existing literature on federalism and decentralization. At the same time, it highlights more unforeseen and counter-intuitive aspects of the subject theme and thus provides more precise insights. Having established logically and empirically that executives prefer to co-opt the legislative support of overrepresented areas, we also show that opposition forces are co-opted to secure policy coalitions in legislature. However, favouring opposition forces over copartisan forces may have the unexpected effect of damaging partisan interests because targeting greater transfers to opposition bulwarks bolsters their political bases and their capacity to more effectively challenge the ruling party in future elections. This finding suggests that short-term policy coalitions based on territorial politics may hurt mid and long-term partisan concerns. At the same time, this conclusion indicates that an alternative model of 'rationality' for addressing intergovernmental partisan concerns may be at play, in which case we need to rethink theories of party systems in multitiered systems.

In closing, our overall argument implies that when the sorting out of subnational fiscal relations takes place in malapportioned legislative institutions we can see a mutually reinforcing relationship between decentralization and regionalized patronage, as transpires from the Argentine experience. That is, the policy of transferring revenue and revenue authority to subnational governments not only renders possible the entrenchment of patronage-ridden regional enclaves but, also, the latter can exploit institutional and political opportunities to sabotage fiscal decentralization projects. While this paper has not sought to offer policy advice, let us close by saying that some of the issues raised here may well serve as points of reference in future reapportionment and fiscal reforms.

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