Decentralization, Democratization, and Liberalization: 
The History of Revenue Sharing in Argentina, 1934-1999

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Abstract

This paper critically evaluates two important hypotheses about the causes of decentralization in Latin America. The first explains decentralization as a response to the wave of democratization that began in the 1980s. The second attributes the adoption of decentralized practices to the broader liberalization of economic development strategies. I examine these hypotheses in historical perspective by looking at the experience over time with revenue decentralization and recentralization in Argentina, one of Latin America’s early decentralizers. Because neither the democratic election of subnational officials nor the pursuit of economic liberalization is unique to the contemporary period in Argentina, the Argentine case represents an opportunity to gain some analytical leverage on the theories that have emerged in the contemporary period. The paper presents qualified support for the argument that democratization drives decentralization. More specifically, the historical evidence from Argentina suggests that decentralization has most often resulted from “bottom-up” pressures rather than from “top-down” ones, and that the democratic election of subnational officials unleashes powerful pressures for functional decentralization. The democratization hypothesis is limited, however, in helping us understand whether and how these pressures result in decentralization. I argue that there is a direct relationship between the political strength of the chief executive – whether democratically elected or not – and his/her ability to resist decentralization pressures. The democratization thesis is also challenged by the reality that decentralization in Argentina has also occurred under non-elected, de facto governments. With respect to the liberalization hypothesis, I argue that the pursuit of liberal economic policies at the federal level has led not to the decentralization of revenue but rather to the clear centralization of authority over revenues.
In the closing decades of the 20th century, many developing countries experimented with the functional decentralization of revenue and expenditure to lower levels of government. For most of these countries, decentralization has been a fundamentally new experience, representing a historic break with the centralist past and setting into motion major changes in economic and political life. In Latin America, a particularly dynamic region for decentralization, not since the days of the caudillos in the 19th century have subnational officials enjoyed such authority relative to policymakers at the center.

The magnitude of these recent changes, and the fact that decentralization has taken hold at the same time in countries that are different in so many other respects, has encouraged scholars to theorize about the possible causes and consequences of decentralization. Two salient hypotheses about the causes of decentralization that I will focus on in this paper look to democratization and economic liberalization for answers. According to the first hypothesis, the return to or establishment of democracy in developing countries has unleashed pressures for decentralization that were either dormant under or resisted by non-democratic governments. According to the second hypothesis, politicians who want to shrink the role of the state in the economy and achieve fiscal stability at the center endorse decentralization as a policy that will further their liberal goals. In other words, if these hypotheses are correct, democrats and economic liberals are decentralizers.

One of the challenges facing these and other theories is the apparent newness of the phenomena. In most developing countries, since decentralizing changes are quite recent and ongoing, it will take some time before scholars can answer difficult questions about their consequences for democracy and economic performance. There is some sense that “decentralization” is still a moving target and, given the confusion and disarray that changes of such magnitude inevitably involve, will continue to be so for a number of years.

But decentralization – defined as increases in the policy authority of lower-level state officials relative to national-level state officials – is not everywhere a strictly new phenomenon. For example, Argentina is one of Latin America’s most decentralized countries due to a process of federal revenue sharing that began in the 1930s. The 1934 adoption of revenue sharing procedures, and the subsequent 65 year period in which the rules used to share revenues experienced numerous changes, offers an excellent opportunity to examine causal arguments about decentralization over a longer timeframe. This is particularly the case for the democratization and liberalization hypotheses since Argentina in these six decades experienced numerous swings between democratic and authoritarian government and between liberal and statist development models. Looking at changes in revenue sharing rules implemented by both democratic and authoritarian governments and by governments that endorsed statist and liberal development models makes it possible to evaluate both hypotheses.

As I argue below, changes in revenue sharing rules, typically involving attempts by successive political leaders to increase or decrease the set of taxes subject to revenue sharing and/or the percentage of revenues sent to lower levels of government, can be thought of as movement along a decentralization continuum. Overall, the period between 1934 and 1999 witnessed an expansion in the number of taxes subject to revenue sharing and significant
increases in the percentage of tax revenue automatically sent to subnational governments, but there were also significant periods of recentralization.

The question posed in this paper, then, is how well the democratization and liberalization hypotheses can account for this back and forth movement along the decentralization continuum. Rather than investigate the sources of cross-national variation (Willis 1999; Bland 1998; Faletti 1999), this paper holds constant the factors that may account for cross-national variation, including wealth disparities between regions within the same country, and the types of political parties and electoral rules employed in each. The focus instead is on the factors that might account for cross-temporal variation within a single country. Thus, in the attempt to contribute to emerging debates on the politics of decentralization in Latin America, this paper uses the historical record to evaluate some of the theories that have emerged in the contemporary period.

The Argentine experience with revenue sharing offers qualified support for the argument that democratization drives decentralization. Many of the increases in revenue sharing occurred in democratizing periods and many of the reversals took place under non-democratic government. However, a closer look at each of major changes in these rules reveals that decentralizing governments have been both democratic and authoritarian and that centralizing governments have also been both democratic and authoritarian. Distinguishing between the “top-down” and “bottom-up” variants of the democratization hypothesis, I find that revenue decentralization has been most often the result of pressures from democratically elected subnational officials rather than policy makers at the center. Democratically elected chief executives have usually had cause to resist these pressures, and the ability to do so successfully depended on their political strength. As I show in my discussion of these changes below, tenure insecurities, coalitional constraints and congressional opposition all constrain the ability of the federal chief executive to resist decentralization. Support for the democratization hypothesis is also qualified by the reality that one of Argentina’s most significant decentralization episodes was engineered by an authoritarian government.

The history of Argentine revenue sharing can also be mined for evidence with respect to the hypothesis that economic liberalization has led to decentralization. Here too the record is mixed. Liberalization and expenditure decentralization have gone together in Argentina. However, evaluating the nature of the changes introduced to revenue sharing rules through time suggests that liberalizers are not necessarily decentralizers across the board. The two governments in Argentina that pushed liberalizing, anti-statist agendas – one democratic and one authoritarian – supported the decentralization of some expenditures, but pushed the dramatic centralization of revenue. In contrast, governments that subscribed to statist development models are the ones responsible for most of the revenue decentralization that has occurred in Argentina in this 65-year period. As the Argentine experience makes clear, causal arguments about decentralization need to distinguish very clearly between the revenue and expenditure sides of the question.

I.
 II. The Establishment of Revenue Sharing (Coparticipación) in Argentina

The 1853 Constitution that has guided Argentina for much of its history endowed the provinces with important revenue raising powers. While the document assigned taxes on trade to the federal government alone, it gave the provinces exclusive authority over direct taxes and stipulated that both levels of government could raise domestic consumption taxes (Pírez 1986; 11). In the 19th and early 20th centuries, most provincial revenue came from taxes on
consumption and production that the provinces themselves collected, while trade taxes financed most expenditure by the federal government. This changed with the decline in trade during the Great Depression, which triggered attempts by the federal government to take seriously for the first time its right to collect internal consumption taxes along with the provinces (Sawers 1996).

The result was an agreement between the provinces and the federal government according to which the provinces would delegate to the national Congress exclusive rights over certain taxes in exchange for an automatic share in the revenues collected. This agreement took the form, in late 1934, of a series of new sales, excise, and income taxes passed by Congress, which voted to share the proceeds with the provinces on the condition that they repealed any overlapping provincial taxes. The laws also specified that how much individual provinces gave up in the way of locally collected tax revenue would be the central factor determining each province’s share of the taxes now collected by the federal government (i.e. distribution criteria were initially devolutive) (Nuñez Miñana and Porto 1983).

Thus was born the system of coparticipación (henceforth “coparticipation”). While the particular rules governing revenue sharing were subsequently changed many times, which is the dependent variable in this analysis, the institution of revenue sharing has proved to be remarkably enduring. Though there have been periods when coparticipation laws were allowed to lapse or were unilaterally altered by decree of the federal executive, policy makers at the center have always returned to the institution of automatic revenue sharing. The idea that federal revenue transfers should continue to substitute for the independent collection by the provinces of their own tax bases has proved remarkably resilient (FIEL 1993; 67-75, López Murphy 1995). Instead, as section two shows, nearly endemic conflict has taken place over the terms of coparticipation, including how much revenue should be channeled to the provincial governments, which taxes should be included in the revenue pool, and what criteria should be used to distribute revenue among the different provinces.

That revenue sharing would become so deeply institutionalized underlines the importance of the initial decision to adopt coparticipation. Why did the federal chief executive, national legislators and provincial officials support the centralization of tax authority in 1934? At one level, centralization reflects the ideas crystallizing in Argentina at the time about the proper, expanded role of the state. From its consolidation in 1880 to the onset of the depression in 1930, the Argentine state was a highly liberal one, committed to minimal intervention in the economy and financed by moderate taxation of the country’s buoyant trade relationship with more developed economies. Though the adoption of an explicitly statist development strategy took place only after Perón’s election in 1946, the 1930s witnessed many changes that expanded the authority of elites at the center. In addition to the 1934 decisions to impose an income tax and centralize tax authority, the federal government created a central bank empowered to regulate the money supply, stepped up regulation of foreign exchange markets, and embarked on an ambitious road building project in the interior (López Alonso 1982, 39; Rock 1985, 222, 227).

Apart from the gradual but undeniable ideational shift with respect to the central state’s role, the decision to centralize tax authority also reflects the short term political interests of key actors in the mid-1930s, a period of economic crisis and fraudulent elections (the so-called “Infamous Decade”). Elected in November 1931, President Agustín Justo did not, in fact, favor a fundamentally new role for the state. Instead, he supported both free trade and limited government, believing that “economic progress lay not in industrialization but in an expeditious return to the prederecession past” (Rock 1985, 237). Whatever his ideological preferences, however, the decline in receipts from trade taxes forced Justo to look to other revenue sources,
including what were until then provincial tax bases, in order to finance an expansion in public employment and respond to a severe unemployment crisis. Agreeing to share some of the proceeds with the provinces was the price Justo had to pay for getting access to new tax revenues.

As for national legislators and provincial officials, the establishment of revenue sharing had several short-term advantages as well. The 1931 elections restored to power groups that had been excluded during the preceding period of Radical government, including pampa exporting interests and lesser landowners in interior provinces. Justo’s *Concordancia* alliance of conservative and provincial parties held a majority of seats in the national Congress, thanks almost entirely to the proscription of the then most popular Radical party (Rock 1985). Dominated by traditional land-owning elites, these same parties governed most provinces in this period, though their electoral legitimacy was undermined by widespread electoral fraud and proscriptions. In this context, coparticipation offered incumbents in the provinces and in Congress several benefits. Because revenue sharing was linked to how much provinces had formerly collected from the taxes they agreed to delegate (Nuñez Miñana and Porto 1982), coparticipation meant that provincial governments could depend on the same revenue levels but save themselves the administrative and political costs associated with tax collection. Considering the nature of the economic crisis and the legitimacy concerns of incumbents at the time, this was an important advantage.

In hindsight, the decision to centralize tax authority represents something of a Faustian bargain. Surrendering most tax authority to the federal government in exchange for a cut of the revenues it would collect undermined the autonomy and strength of the provinces for years to come. Coparticipation obviated the need to exert much tax effort locally, but it also cut the ties between provincial governments and provincial taxpayers that could have sustained more dynamic provincial governments over time. With few exceptions though much variation, provinces became quite fiscally dependent on the center and therefore vulnerable to various sorts of manipulation. Also, while provincial representatives to the national legislature were able to increase their provinces’ shares in revenue in subsequent periods, there were serious constraints on the ability of legislators to protect the interests of their provinces in the coparticipation system. Their ability to do so was limited both by the frequency of *de facto* governments and by the disciplined nature of Argentine political parties (Pírez 1986). During many periods of both democratic and authoritarian government, provinces did not receive their legal revenue shares. Though, as I argue in section two, many of the subsequent changes in coparticipation can be taken as decentralizing changes, the establishment of revenue sharing in the 1930s is clearly a centralizing reform of enormous and lasting significance for Argentina.

*Why Sharing More Revenue with Subnational Governments is a Decentralizing Reform*

Once coparticipation was set up in the 1930s, I argue that subsequent increases in the provinces’ share of these revenues and concomitant decreases in the federal government’s share are best understood as decentralizing changes. Of course, the decentralization of tax raising capacity itself (i.e. the reversal of coparticipation) would offer a more secure route to decentralized governance (FIEL 1991 and 1993). Due to chronic problems with the rule of law and judicial independence from the federal executive, provinces have had little recourse to protest lapses in the automatic distribution of revenues by the federal government. In this
respect, recent proposals to have provinces collect a supplemental VAT rate on top of the national rate would be a significant change (World Bank 1993).

Nevertheless, for a number of reasons, it is appropriate to consider increases in the provincial share of coparticipation funds as a form of decentralization. First, Argentina’s status as one of Latin America’s most decentralized systems in terms of where revenues are spent (i.e. at the national or subnational level) is due largely to coparticipation (Sawers 1996; Webb and Dilinger 1998). Approximately 65% of revenues spent by subnational governments come from federal transfers, as opposed to 35% from tax revenues that provinces themselves collect (Saiegh and Tommasi 1999). In many provinces, the share that federal revenue transfers represent in overall spending is much higher than 65%.

Second, coparticipation funds are not earmarked. Since independently elected provincial governments are not obligated to spend coparticipation funds in any particular way, which is not the case with many other transfer programs, increases in provincial shares clearly increase their autonomy from politicians and bureaucrats in the federal government. Most evidence suggests that the provinces used revenue sharing to greatly expand public employment at the provincial level (World Bank 1991; and Novaro 1994). This helped local politicians build independent patronage networks that served their own interests and that helped launch their own national careers. Third, throughout this period, when central politicians agreed to increase the provinces’ share in revenues, they did so without touching the distribution of expenditure responsibilities. Though there were changes in distribution of expenditure, namely in the early 1980s and in the early 1990s, these were not explicitly linked to increases in revenue sharing. Increases in revenue sharing through time were thus a real boon to the governors on the receiving end of these transfers.

If increases in provincial shares count as decentralization, then increases and decreases at different points in time can be thought of as movement along the decentralization continuum. Before asking in the next sections whether democratization and liberalization explain this movement, it is important to note that there are problems with comparing percentage increases across different time periods. Because the provinces started out receiving so little in the way of revenue sharing and ended up receiving so much, and because the pool of revenues subject to revenue sharing changed through time, these comparisons need to be made very carefully. The coparticipation system became much more important through time as the government’s share of GDP rose over the century and as the share of tariffs in federal government revenues fell (Sawers 1996, 219). A 10% increase in provincial shares when provinces are getting 20% of the pool is not the same as a 10% increase when they are getting 30%, at least in terms of the significance of this change for fiscal outcomes like macroeconomic stability. Likewise, a 20% increase in provincial shares when few taxes are channeled into the common pool may be less advantageous for provinces than a 10% when more taxes are pooled. I try to control for this problem by discussing the substance of the changes in each period.

II. Democratization and Decentralization

Can democratization explain decentralization? One of the challenges in evaluating the causal link in this relationship is that there is too little variation in the independent variable. Every South American country either became democratic at the national level in the 1980s and 1990s or incorporated democratic elections for subnational offices (e.g. Colombia and
Venezuela). Argentina’s early experience with decentralization allows one to correct for this by evaluating changes in decentralization under both democratic and authoritarian periods.

Before examining regime change in Argentina and its effects on revenue decentralization, the logic of the democratization hypothesis requires further consideration. One important question concerns the identity of the actors who dominate the decentralization process. Does decentralization occur because policy makers at the center push it “from the top,” or because policy makers at lower levels of government (chiefly governors and mayors) demand greater control over revenues and expenditures “from the bottom”?

According to “top down” arguments, democratically elected national policy makers may decentralize for a variety of reasons. Like chief executives in non-democratic systems, democratically elected presidents stand to lose considerable authority as a result of decentralization (Willis et. al. 1999). Unlike unelected chief executives, presidents may agree to decentralize as a means of bolstering their electoral support among groups who favor decentralization. Where new democracies are fragile, presidents may favor decentralization as a means of furthering the democratization process itself (Eaton 1998b). As for members of national legislatures, legislators may support decentralization when subnational party leaders control their careers (Willis et. al. 1999). Legislatures may also advocate decentralization when they are dominated by opposition parties who seek to decentralize policymaking authority in order to limit the president’s power over them (Garman et. al. 1998). At the same time, national legislators may have cause to resist decentralization when they belong to the governing party at the national level but not at the provincial level.

According to “bottom up” approaches, democratically elected officials at lower levels of government lobby for decentralization as a way to increase their authority, both with respect to the populations they govern and the national policy makers who hold such power over them when policy making is centralized. These pressures would have been absent under the authoritarian governments in Latin America’s past, when subnational officials served at the pleasure of de facto authorities at the center. As Bird and Vaillancourt argue in their survey of contemporary experiences with decentralization, bottom-up approaches to decentralization are not possible in non-democratic systems such as China and Indonesia under Suharto (Bird and Vaillancourt 1998). Since holding democratic elections for subnational offices is unique to the third wave of democratization in most Latin American countries (Willis 1999, 11; IDB 1997, 152), pressures by lower level officials to decentralize policymaking are probably a new phenomena in these countries. However, some of the countries that returned to democracy in the 1980s, including Argentina, had previous experiences with democratically elected subnational governments (Burki 1999).

In countries that previously held democratic elections for subnational office, nothing about the democratization hypothesis would restrict its applicability to the third wave experience. Instead, one would expect democratically elected local officials to prefer to have access to greater revenues in earlier periods of democratic government as well.

The Argentine Experience: 1930-2000

To evaluate the democratization hypothesis in Argentina, I look at all the administrations since the start of coparticipation, classify them as democratic or non-democratic, and then determine how each administration changed the coparticipation system. A table detailing these changes is presented in the appendix. Not all governments changed revenue sharing rules, but if
they did change them, the expectation is that democratic governments increased revenue sharing while non-democratic governments did the opposite.⁷

As indicated in figure 1, there appears to be a perfect correlation between democratization and changes in coparticipation laws that increased provincial shares of revenue. These increases were implemented either in the year of the democratic transition or shortly thereafter: 1947, 1959, 1964, 1973, 1987. Meanwhile, military governments in 1967 and 1973 decreed changes that had the effect of reducing provincial shares of federally collected taxes, and de facto governments between 1943 and 1946 froze revenue sharing in contradiction to the 1934 laws. Considering only changes in provincial shares rather than changes in the set of taxes subject to coparticipation, there was a clear, though interrupted, upward trend in the share of revenues sent to provinces. It appears that, after military governments reduced revenue transfers, legislators in subsequent democratic periods felt pressures from below not simply to restore provincial revenues but to increase them further to ever higher percentages of total revenues.

A more systematic look at how revenue sharing rules were renegotiated, however, leads one to question whether the “democratization” thesis tells the whole story. The two biggest problems for this thesis are the very important changes introduced in 1973 and 1992/93. The 1973 law implemented a 20% increase in provincial shares of revenue, significantly expanded the set of taxes included in coparticipation, and adopted redistributive criteria to the division of revenues among the provinces. Though Perón returned to power in 1973, these changes were decreed by the outgoing, authoritarian government of Alejandro Lanusse after the Peronists won the elections but before they took office. In 1992 and 1993, without actually legislating a new coparticipation law, democratically elected policymakers in the federal executive and legislative branches implemented changes proposed by President Carlos Menem that dramatically reduced provincial shares in coparticipated taxes. Five out of six democratic governments decentralized,
but one democratic government centralized revenues and one of the most dramatic cases of decentralization occurred under authoritarian auspices.

In addition to offering qualified support for the democratization hypothesis, the Argentine experience also suggests that under democratic periods, pressures for revenue decentralization originate at lower levels of government. As I show in the following discussions of each period, whether the pressures exerted by subnational actors result in significant decentralization depends on the political strength of the federal executive. In contrast, the decentralization that occurred under authoritarian government was a “top down” experiment in institutional design meant to constrain the incoming democratic government. In the following paragraphs I evaluate in chronological order the six democratic governments that altered coparticipation and the one authoritarian period that led to decentralization: Perón, Frondizi, Illia, Lanusse, Perón, Alfonsín, and Menem.

1946-1955: The First and Second Perón Administrations

The nationalist military governments that ruled Argentina before Juan Perón’s election in 1946 introduced a number of changes in the coparticipation system that were detrimental to provincial finances. In 1943, the revenue hungry federal government decreed a tax on profits but declined to share the proceeds with the provinces despite their exclusive constitutional authority over direct taxes. In 1945, the government issued a decree unilaterally altering the rules used to divvy up revenues from the income tax, essentially freezing the scheduled increases in provincial shares stipulated in the 1934 law (Nuñez Miñana and Porto 1982).

In response to the disadvantageous changes introduced under the military regime, from subnational officials to alter coparticipation in their favor exploded soon after Perón took office in June 1946. In November of that year Perón called the first conference of provincial finance ministers to discuss coparticipation. The ministers complained not just about the military decrees, but also about the very centralization of tax authority in 1934 by a government that may of them considered to be illegitimate. The Perón administration agreed to raise provincial shares but defended coparticipation as necessary for the government to carry out the many new tasks it would undertake in order to lead the process of industrialization underway (Pírez 1986, 25, 27).

With large Peronist majorities in both houses of Congress, the legislature approved the agreement without modifying the terms to benefit the provinces, even though it fell far short of provincial expectations. Later, democratically elected presidents without Peron’s level of support would not be able to count on Congress in this way.

Though decentralization in 1947 was not as significant as what occurred under later democratic periods (1959, 1987), it is nevertheless interesting that Perón went along at all. In 1946, Perón could clearly negotiate with governors from a position of enormous strength and legitimacy. Given his level of support in the legislature, this is clearly not a case of divided government producing decentralization to check the president. Further, considering the revenues required by the process of industrial transformation contemplated by Perón, and how much his political future depended on the successful pursuit of this project, sending additional revenue to the provinces had significant opportunity costs. Despite his strength and dependence on urban support, as Edward Gibson demonstrates, Perón also depended on a “peripheral” electoral coalition dominated by traditional political caudillos from the country’s poorer, interior provinces (Gibson 1997; Sawers 1996, 199). Apart from increasing overall provincial shares, the 1947 law negotiated by Perón also altered the distribution of revenues among the provinces so that the poorer provinces gained, but at the expense of intermediate provinces rather than the
advanced provinces where industrialization was centered. Giving more revenues to the provinces would have facilitated Perón’s efforts to “fuse disparate coalitions under one national party structure (Gibson 1997, 345).”

1959-1962: The Frondizi Administration

When coparticipation laws expired after the forced exile of Perón in September 1955, the military government that deposed him simply extended the laws for successive one-year periods. Four months after the return to democracy in May 1958 with the inauguration of Arturo Frondizi as President, provincial officials organized a conference in which they demanded that coparticipated revenues be split evenly between the federal and provincial governments (La Nación, July 7, 1958). Initially, Frondizi responded that it could not afford to send any more revenues to the provinces and proposed delaying any discussion of the coparticipation system for five years. When the provincial representatives insisted on reform, the President agreed to increase provincial shares from 21% to 26%. When the provinces declined his offer, Frondizi proposed the following schedule of increases in provincial shares: to 28% in 1959, 30% in 1961, 32% in 1962, and 34% in 1963. The provinces refused this offer as well, which Frondizi then took to Congress. The legislature endorsed Frondizi’s plan, though the lower chamber increased provincial shares to 36% in 1963 (Diario de Sesiones, December 21, 1958).

Why did Frondizi ultimately agree to a 100% increase in provincial revenue transfers? Like the earlier Perón period, this is not a case of decentralization resulting from divided government at the federal level; Frondizi’s party held comfortable majorities in both chambers. Unlike Perón, however, Frondizi’s negotiating position as President was a fundamentally weak one. When the outgoing military government agreed to hold elections in 1958, it refused to allow the Peronist party to participate, even though it clearly enjoyed enormous support among the electorate. Frondizi triumphed in these elections after forging a secret deal with Perón according to which the exiled leader would instruct his followers to vote for Frondizi in exchange for the liberalization of the proscription of Peronism (McGuire 1997). Once in office, Frondizi’s strategy was to build his own independent political base and neutralize Perón by imitating his policies, including wage hikes and industrial deepening (Rock 1985, 338). Though further revenue decentralization would compromise his ability to defend a stabilization program after 1959, Frondizi’s legitimacy problems prevented him from ignoring provincial demands. At the same time, agreeing to increase provincial shares served as an additional means by which Frondizi could expand his own support base outside of urban areas. There are signs that this strategy may have enjoyed some success: the President’s Intransigente wing of the Radical party won three preliminary gubernatorial elections in 1961 (Rock 1985, 342). These victories, however, convinced him to lift the ban on Peronism in elections the following year, which precipitated the successful military coup against him in March 1962.

1963-1966: The Illia Administration

In many ways, the dynamic surrounding decentralization under the government of Arturo Illia paralleled the Frondizi experience. In both periods, subnational actors forced a weak federal executive to decentralize and in both periods, Congress played an intermediary role as broker between the provinces and the federal executive. Early in Illia’s administration, governors of some of the most important interior provinces, including Catamarca, La Rioja, Salta and Tucumán, met in Buenos Aires to discuss coparticipation. They reiterated the 1958 demand that the federal government split revenues equally with them by raising the provincial share to 50%.
The President agreed to raise provincial shares from 42% to 44%, but no further, and sent his proposal to Congress (Pírez 1986, 39, 40). In reviewing the legislation, the Budget Committee in the lower house increased the provincial share to 46%, midway between the President’s initial offer of 42% and the provinces’ demand for 50% (Diario de Sesiones, January 29, 1964).

Illia was powerless to resist the decentralization that subnational actors forced upon him. Like Frondizi, Illia faced serious legitimacy problems since he became President through elections in which Peronists could not participate. Unlike Frondizi, Illia did not enter into an electoral pact with Perón, made no real efforts to secure support among the working class, and came to power with only 25% of the vote. Also unlike Frondizi, Illia’s Popular wing of the Radical Party held much less than a majority of seats in the lower chamber. Divided government, however, does not seem to have been a considerable factor pushing decentralization. Under both Frondizi’s unified government and Illia’s divided government, Congress played the same role of legislating policy outcomes that bridged the differences between presidential and provincial preferences. This is explained by the reality that the careers of Argentine legislators depend not on national or provincial party leaders but both (Eaton 1998a).

1966-1973: The Onganía and Lanusse Administrations

Unlike the previous two military coups of 1955 and 1962, the June 1966 coup sought the fundamental transformation of the Argentine economy, polity, and society. The military junta appointed General Juan Carlos Onganía as President of the so-called “Argentine Revolution,” which sought to overcome the structural impasses that had plagued the Argentine economy since the late 1940s (Smith 1989, 74). One of the first and most pressing tasks facing Onganía’s Economic Minister, Adalberto Krieger Vasena, was to control the budget deficit and sustain an IMF-sponsored stabilization program. This led to significant tax reforms and, more importantly, to changes in March 1967 that sharply reduced provincial shares in coparticipation to pre-1959 levels. Unilaterally slashing provincial shares was a way of forcing the costs of stabilization onto provinces as a means of achieving fiscal balance at the center. While the revenue shares of the provinces were reduced 11% (from 40% to 35.6%), the capital city’s share alone was reduced 22% (from 6% to 5.3%) and an additional 22% in 1968.

The authoritarian nature of the regime is obviously critical in explaining why Onganía was able to recentralize revenues while his three democratic predecessors agreed to decentralize. Though decentralization may have helped solve the various political challenges facing Perón, Frondizi, and Illia, losing revenue at the federal level must be understood as a constraint on their subsequent performance as President. By replacing democratically elected governors with military appointees and by closing Congress, Onganía subverted the institutions that formerly mediated provincial and national interests. He consequently had the luxury of ignoring subnational pressures. Though this changed over time, particularly with the emergence in the later 1960s of protest and opposition movements with strong regional bases, Onganía’s political position in 1967 was a strong one.

By the late 1960s, Onganía’s attempt to remake Argentina had foundered. After a short-lived experience with economic nationalism under the government of Roberto Levingston, in 1971 the military appointed Alejandro Lanusse as President, beginning a process of liberalization designed to reverse the growing opposition to the government (Smith 1989). When greater support failed to materialize, Lanusse’s central task become one of extricating the military and preparing for democratic elections that Lanusse himself hoped to win. Though the military
banned Perón from running in the May 1973 election, Perón’s stand-in candidate, Héctor Cámpora, handily won the Presidency. Ten days later, the Lanusse government decreed a new coparticipation law that significantly advanced the cause of decentralization. For the democratization thesis, then, this is a confounding case of revenue decentralization by an authoritarian regime. Up to Lanusse, every democratic government had decentralized and every military government had either reduced or frozen provincial shares.

The 1973 decree law is noteworthy for a number of reasons. First, it unified the different tax laws into a single coparticipation system and finally realized the old dream of the provinces to share in these revenues on an equal footing with the federal government. The law pegged provincial and federal government shares at 48.5%, with the remaining 3% going to the federal capital and the national territory of Tierra del Fuego. As a result, the provinces would enjoy a larger share of coparticipation than they had managed to get under Perón, Frondizi and Illia. Second, the law stipulated that all subsequent taxes would be automatically included in coparticipation and it endorsed much more redistributive criteria for the division of revenues among the provinces. Third, the law created a permanent Federal Tax Commission (Comisión Federal de Impuestos) composed of representatives of the provinces and the federal government who would monitor coparticipation.

What explains this case of decentralization by non-democratic means? In contrast to Onganía in 1967, Lanusse operated from a position of real political weakness. His goal was not to remake the Argentine economy or policy but rather the much more limited and defensive project of preventing Perón’s return, an outcome he failed to deliver. Relative to the subnational interests harmed by Onganía’s centralizing project, Lanusse was in a weak position. Clearly, however, Lanusse could have simply left office without decentralizing. The timing of the new coparticipation so soon after Peronism’s electoral victory suggests that Lanusse saw decentralization as a way of protecting some of the military’s interests (Saiegh and Tommasi 1998). The profound crisis Argentina entered in the early 1970s led some in the military to favor the return of Perón as the only leader who could check the radical left. Most military leaders, however, feared what Perón would do if returned to power.

Rather than representing a gift to the incoming government (Pírez 1986, 52), there are several reasons to suspect that the 1973 decentralization was designed to tie the hands of the Peronist government, particularly given all the signals sent by Perón in the early 1970s that he had significantly radicalized his agenda for Argentina. By shifting greater revenues to the provinces, the military limited the resources at Perón’s disposal. By including all subsequent taxes in the coparticipation pool, the military lessened the appeal of dramatic changes in tax policy – say increases in wealth taxes – by forcing the federal government to share the proceeds equally with lower levels of government. By creating the Federal Tax Commission, the military gave institutional voice to the provinces in a way that would increase their ability to monitor and report federal abuses of the coparticipation system.


It is difficult to make much sense of policy making in the years between 1973 and 1976, a period of democratic government that had four Presidents: Cámpora, Lastiri, Perón, and his widow Isabela (Di Tella 1983). In 1973, there was some discussion in Congress of continued reforms in the coparticipation system, but the generosity of Lanusse’s law toward the provinces apparently undercut decentralizing pressures from subnational officials of the sort that resulted in greater decentralization in previous democratic administrations (Diario de Sesiones, December
In late 1973, the federal government introduced the value added tax and included the proceeds in the revenue sharing pool, as Lanusse’s law had stipulated. In late 1975, in the final months of Isabela Perón’s rule, the federal government passed a law removing the VAT from the coparticipation system as an emergency measure to increase federal tax revenues (Pírez 1986, 54). Though the Peronist party held majorities in both chambers, the President was forced to allow the provinces to collect their own taxes on overlapping bases as the price of removing the VAT from coparticipation. Isabela Perón’s political position was never strong, but it was clearly weakest in this final phase of her government. A few months later, the military took over once again and unilaterally reduced provincial transfers as part of its proposed liberalization of the Argentine economy (see section three below).

1983-1989: The Alfonsín Administration

As in 1946, the centralization of revenue under the previous military regime ignited pressures for decentralization after the return to democracy in 1983. The day before the military government handed over the government in December of that year, it reenacted the 1973 coparticipation law for a one-year period until the end of 1984 to give the new government time to negotiate a new law. Though the incoming government decided to reimpose social security contributions on employers within a few months, it was unable to agree on a new revenue sharing law. Between January 1985 and January 1988, there was no formal coparticipation system, leaving the federal executive free to distribute revenues on an ad hoc basis. After four years of constant and often acrimonious debate, a new coparticipation law was finally passed at the end of 1987, which raised provincial shares in coparticipation to a historic high of 56.7%.

One can understand how these pressures resulted in decentralization in 1987 by evaluating the changing balance of power between the Radical and Peronist parties in these years. In the 1983 elections, the Radical party won the federal executive branch and a majority of seats in the lower chamber of the National Congress. Its candidates, however, won only 8 of the 23 gubernatorial elections. In contrast, the Peronist party won a majority of provincial governorships and enough seats to dominate the National Senate. In other words, the partisan composition of the government was divided both at the federal level and between the federal and provincial levels. Given the strength of the Peronists in the provinces and their fears that a Radical President would use his discretion over transfers to benefit provinces administered by Radicals, decentralization in this period was a particularly Peronist issue. Furthermore, the Peronists were strongest in the poorest and least developed provinces (Smith 1989, 258), precisely the ones that were highly dependent on coparticipation transfers.

Though provincial governors had some difficulty agreeing to a unified stance vis-à-vis the federal government, they finally proposed increasing provincial shares to 56.7%, based on what provinces received under the former law in addition to the estimated cost of providing the services that the military government had unilaterally decentralized. Alfonsín was loathe to decentralize additional revenues to the provinces, particularly after 1985 when decentralization would threaten his austral plan, an orthodox stabilization program whose short-term success bolstered the President’s political strength. At the same time, negotiating revenue transfers on an ad hoc basis provided the President with important leverage over other political actors, even within his own party. For example, Pírez argues that Alfonsín was able to condition provincial revenue transfers on support by Radical legislators for his budget proposals in Congress (Pírez 1986).
Alfonsín’s ability to resist decentralization evaporated with his political strength, however. First, the austral plan collapsed in 1987, giving way to renewed inflation. Second, the Peronist victory in the October 1987 congressional elections meant that the Radical party lost its majority in the lower chamber. After the elections, Alfonsín acceded to the demands of subnational Peronist leaders for greater decentralization in exchange for Peronist support for a new tax reform in Congress. Like the earlier experiences with decentralization under democratic rule, the Alfonsín experience suggests that pressures for decentralization in Argentina were essentially “bottom up,” while the political strength of the federal executive determines when and how these pressures resulted in actual policy.

1989-1999: The Menem Administration

The administrations of Carlos Menem offer the important case of a government that managed to recentralize revenues under democratic auspices. Not only was Menem able to resist subnational pressures for decentralization, he actually reversed many of the provincial gains achieved under the previous government. Menem was able to recentralize because of the enormous political strength he enjoyed as a result of his successful stabilization of the economy in 1991. Defeating inflation led to important Peronist victories in the 1991 and 1993 congressional elections, which subsequently made it easier to negotiate the fiscal pacts that would recentralize revenue. The defeat of inflation, in addition to a comprehensive set of tax reforms, also increased the size of the tax revenue pool. As senior Economic Ministry officials acknowledged, an expanding pie made it easier to convince the provinces to accept a smaller share.11

Specifically, in 1992 and 1993, Menem negotiated two fiscal pacts with the provinces that had the effect of significantly reducing the coparticipation pool (World Bank 1996; Rezk 1998). In the first pact, Menem proposed deducting 15% from coparticipation to be channeled to the social security administration. In exchange for agreeing to surrender their claims over these funds, the provinces received guarantees of a minimum level of revenue transfers. A second pact in 1993 increased the guaranteed revenue transfers but made them conditional on the provinces implementing a series of federally-designed economic policies, including bank privatization, social security reform, and changes in tax laws. According to a research institute affiliated with the Radical party, between 1992 and 1995 alone the provinces lost US$13 billion as a result of the two fiscal pacts (Fundación CECE 1998, 43).

III. Economic Liberalization and Decentralization

In addition to the wave of democratization that swept Latin America in the 1980s, economic liberalization is another common, cross-national event that may explain the shift to more decentralized governance in the region. According to well-known arguments by many public finance experts, shifting policymaking authority to lower levels of government can enhance the efficiency of policy outcomes, one of the main goals of economic liberalization (IDB 1996). The causal argument linking liberalization with decentralization may depend either on an ideational explanation of change or on a rational actor-based explanation. According to first, in the 1930s, ideas associated with the United Nation’s Economic Commission for Latin America about declining terms of trade, the necessity of state-led industrialization, and state regulation were all institutionalized in ways that proved long lived. In Argentina, for example, the belief that the central state should play the dominant role vis-à-vis the provinces was
in institutionalized in the centralization of expenditures and tax authority. Only once ideas about development began to change in the late 1970s and 1980s, with the growing belief in the inefficiency of state interventionism, did countries actually embrace functional decentralization. At least with respect to tax authority, the Argentine experience presented above suggests problems with the ideational argument since efforts to decentralize revenue – sometimes successful, sometimes not – began in the 1940s when ideas about a strong central state were most powerful, and continued unabated throughout the statist period.

At a more micro level of analysis, rational actor approaches ground the analysis in the motivations facing state actors at the central and local level. Such actors may be motivated less by the genuine commitment to economic liberalism and fiscal federalism than by pragmatic considerations. For example, after 1982 a variety of external actors including the U.S. government, international financial institutions and foreign investors have rewarded chief executives for maintaining macroeconomic stability. Responding to the inflation that fiscal instability fueled in the statist period, voters have likewise rewarded chief executives for stabilizing fiscal accounts and liberalizing state control over the economy (Remmer 1990). In addition to budget cuts, tax reform, and privatization, one way that national chief executives can defend macroeconomic stability at the center is to shift expenditure responsibilities onto lower levels of government. There appears to be much empirical support in Latin America for the proposition that liberalizers are decentralizers of expenditures (Murrillo 1999; IDB 1997; Willis et. al. 1999). But these same pressures may lead liberalizing chief executives to centralize revenues, even though this seems to contradict the logic of liberalism. Efforts to decentralize expenditure and centralize revenue are of course logically compatible behaviors, but this suggests that pragmatic considerations rather than liberal ideology is what is driving political behavior. After all, contemporary liberal prescriptions in this area are fundamentally contradictory: central policy makers must enhance their ability to control national budget deficits and at the same time enhance efficiency by increasing local control over revenue and expenditure.

The Argentine Experience: Videla and Menem

Efforts to liberalize the economy in Argentina predate the contemporary period and make it possible to examine the liberalization hypothesis in historical perspective. Argentina has had two governments whose economic agendas can be classified – with varying degrees of accuracy – as liberal: Jorge Videla (1976-1981) and Carlos Menem (1989-1999). Each government identified Argentina’s experience with heavy state intervention in the economy as a chief source of its poor economic performance in the post-war period, and each endorsed liberal economics as the solution. Though the agenda of Videla’s Economic Minister Martínez de Hoz certainly appeared radical at the time, and seemed to depend on the authoritarian identity of the government, Menem’s administration proved to be more consistently liberal. As I demonstrate below, both governments decentralized expenditure and both centralized revenue. In contrast, as section two demonstrated, revenue decentralization in Argentina has occurred under governments that avowed statist development goals, including those of Juan Perón, Arturo Frondizi, and Raúl Alfonsín.
1976-1981: The Videla Administration

In terms of the centralization of revenues, the Videla administration repeats the dynamic of Onganía’s earlier de facto government. Like Onganía’s Argentine Revolution, the Proceso de Reorganización Nacional (1976-1983) sought to destroy the sources of Peronism and permanently transform economic and political life in Argentina. Though it chose much harsher means to pursue these goals and demonstrated more commitment to liberal economic policies than did Onganía’s regime, both governments were committed to the pursuit of macroeconomic stability at the center. Unlike Ongania, what motivated the Videla government to decrease provincial revenue transfers was not stabilization but the attempt to enhance market driven growth and reduce wage costs by eliminating employer contributions to social security (FIEL 1993, 146, 147). According to the 1980 decree law that abolished social security taxes on employers, the federal government would deduct from the coparticipation pool the funds it needed to finance the national social security system. This “pre-coparticipation” did not alter the provinces’ legal shares in the revenue pool, but effectively reduced transfers by decreasing the size of this pool. As a result of pre-coparticipation, provincial shares were reduced to 29% of total revenues legally subject to coparticipation (by the 1973 law), a 44% decrease (FIEL 1993, 148). This created an important precedent that was repeated by later, democratic governments. In addition to centralizing revenue, Videla’s administration also decentralized expenditures in the health and education areas, with the result that the provinces received small transfers but faced heightened expenditure responsibilities. The effect was to squeeze provincial finances, making them highly dependent on discretionary transfers from the center. Finally, in 1981 the Videla government decreed a law that simply eliminated the federal capital from the coparticipation law, arguing that the city of Buenos Aires had “sufficient revenues to fulfill its obligations” (Nuñez Miñana and Porto 1982, 22).

1989-1999: The Menem Administration

Though elected in 1989 on a populist campaign program, Menem implemented a thoroughly liberal economic program in his ten years in office, including privatization, deregulation, and tariff liberalization. Immediately after taking office, Menem delegated control over the Economic Ministry to leading agro-export interests and brokered an alliance with Argentina’s only genuine liberal party, the Unión del Centro Democrático (Gibson 1997). Whereas liberalism had formerly implied authoritarian government in Argentina, Menem was able to enact his liberal program by working with Peronist majorities in both houses of Congress. The center of his program was the Convertibility Law of 1991, which tied the currency to the US dollar and prevented the government from printing money, making it impossible for the government to run a budget deficit beyond what it could finance through borrowing. This arrangement clearly put a premium on the President’s ability to secure sufficient revenues to close national budget deficits.

Menem’s liberal agenda, as well as his ability to maintain control over the provincial Peronist leaders in his party, was thus at odds with the decentralization of revenue forced upon Alfonsín in the 1987 coparticipation law. For this reason, Menem proposed the two fiscal pacts described in section two above. Neither pact was free of costs for the federal government since it had to agree to a minimum level of revenue transfers in order to get the provinces to forego their legal share of coparticipation. In the wake of the Mexican tequila crisis in 1995, this minimum revenue guarantee constrained federal government maneuverability. Nevertheless, for much of his administration, Menem’s ability to recentralize authority over tax revenues clearly facilitated
his ability to maintain a stable, liberal economic agenda at the national level. In fact, it is hard to imagine that Menem could have maintained this agenda if he had been unable to recentralize authority over revenues.

IV. Conclusion

The history of revenue sharing in Argentina is an important case for comparative theories about the decentralization that has swept Latin America in recent years. Argentina began its process of revenue decentralization early relative to its neighbors in the region and, despite the numerous reversals detailed above, this process has resulted in one of the most decentralized countries in Latin America. This paper shows that successive generations of political leaders have sought to shift the country back and forth along the decentralization continuum. In explaining the direction and the timing of this movement, hypotheses that attribute causal roles to democratization and economic liberalization help illuminate certain aspects of Argentina’s experience. At the same time, this experience reveals some of the limits of such global hypotheses.

With respect to the democratization hypothesis, the historical record in Argentina confirms the more general finding in the contemporary period that the democratic election of subnational officials unleashes a powerful force for decentralization. Repeatedly, in the wake of the country’s many democratic transitions, subnational officials wasted no time in pressing for a greater share of revenues. The only real exception was Perón’s third government in the 1970s, when significant decentralization by the previous military government appears to have delayed the expression of such demands – for the time being. The democratization hypothesis cannot tell us much, however, about how and why central policy makers respond to these pressures. One pattern that emerges in the analysis above is the direct relationship between the president’s political strength and his ability to resist decentralization. For example, moderate decentralization under Perón in the early part of his first administration reflects his desire to cement a relationship with the traditional provincial leaders who had helped him achieve office. The 100% increase in revenue sharing under Frondizi speaks to the serious legitimacy problems he faced and his desire to create a political support base independent of Perón. Though he held decentralizing pressures at bay for four years, Alfonsín was powerless to resist them any longer with the exhaustion of his political capital in 1987. Under Menem, successful macroeconomic stabilization created enough presidential authority to enable him to recentralize tax revenues.

As for causal arguments based on liberalization, Argentina’s experience suggests that there is indeed a strong relationship between the pursuit of liberal economic models and changes in the distribution of tax revenue between levels of government. The exact nature of the relationship, however, is the opposite of what one would predict from liberalization theories. Efforts by chief executives at the federal level to liberalize the state’s role in the economy have come hand in hand with successful attempts by these same actors to centralize revenue. Thus the same liberal policy preferences that encourage central state officials to adopt decentralizing stances in certain areas like expenditure appear to demand centralization in others. Interestingly, governments dedicated to an activist role for the central state were responsible for much of the decentralization that has occurred in Argentina over the course of its revenue sharing history. They did so not because endowing subnational officials with greater authority over revenue was compatible with their statist agendas – it was manifestly not and imposed serious opportunity costs on each. Ultimately, movement along the decentralization continuum reflects the shifting
balance of power among political actors, in both liberal and statist periods and under democratic and non-democratic governments alike.
## Appendix

### Table I: Nature of changes to the coparticipation system: 1935-1999

<table>
<thead>
<tr>
<th>Administration (years in power)</th>
<th>How government came to power</th>
<th>Date of Change, # of law</th>
<th>Nature of Change</th>
<th>% Increase/Decrease in Provincial Share of Revenue Pool</th>
</tr>
</thead>
<tbody>
<tr>
<td>Justo (Jan 1932-Jan 1938)</td>
<td>Elections with fraud and proscriptions</td>
<td>1934 (12,139)</td>
<td>Revenue sharing of excise taxes</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1934 (12,143)</td>
<td>Revenue sharing of income taxes, 82.5% = federal 17.5% = provinces</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1934 (12,147)</td>
<td>Revenue sharing of sales taxes, 82.5% = federal 17.5% = provinces</td>
<td>n/a</td>
</tr>
<tr>
<td>Ortiz/Castillo (Jan 1938-June 1943)</td>
<td>Elections with fraud</td>
<td>No change</td>
<td>No change</td>
<td>n/a</td>
</tr>
<tr>
<td>Ramírez/Farrell (June 1943-June 1946)</td>
<td>Military Coup</td>
<td>1943</td>
<td>Creation of new tax on profits, not shared</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1945</td>
<td>Limits placed on sharing of income tax revenue with provinces</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1946</td>
<td>Creation of new tax on income, shared</td>
<td>n/a</td>
</tr>
<tr>
<td>Perón (June 1946-Sep 1955)</td>
<td>Democratic elections</td>
<td>1947 (12,956)</td>
<td>Increases provincial share and includes profits tax in pool, 79% = federal 21% = provinces</td>
<td>20% increase</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1951 (14,060)</td>
<td>Creation of new tax on inheritance, shared with provinces</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1954</td>
<td>Regulatory decree decreases provincial shares in inheritance taxes</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1954 (14,390)</td>
<td>Increases provincial shares of excise taxes</td>
<td>32% increase</td>
</tr>
<tr>
<td>Lonardi/Aramburu (Sep 1955-May 1958)</td>
<td>Military coup</td>
<td>No change</td>
<td>No change</td>
<td>n/a</td>
</tr>
<tr>
<td>Frondizi (May 1958-Mar 1962)</td>
<td>Elections with proscriptions (but Peronists support Frondizi)</td>
<td>1959 (14,788)</td>
<td>Adopts 5 year transition period in which SNG shares will be doubled 58% = federal 36% = provinces 6% = federal capital</td>
<td>100% increase</td>
</tr>
<tr>
<td>Guido (Mar 1962-July 1963)</td>
<td>Military coup</td>
<td>No change</td>
<td>No change</td>
<td>n/a</td>
</tr>
<tr>
<td>Period</td>
<td>Event/Action</td>
<td>Year</td>
<td>Revenue Share Percentages</td>
<td>Changes</td>
</tr>
<tr>
<td>------------------------------</td>
<td>-------------------------------------</td>
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<td>---------------------------</td>
<td>---------</td>
</tr>
<tr>
<td><strong>Illia</strong> (July 1963-June 1966)</td>
<td>Elections with proscriptions (without support of Peronists)</td>
<td>1964</td>
<td>Provinces 54%, Federal 40%, Federal capital 6%</td>
<td>11% increase</td>
</tr>
<tr>
<td><strong>Onganía/Levingston</strong> (June 1966-Feb 1971)</td>
<td>Military coup</td>
<td>1967</td>
<td>Provinces 59%, Federal 41%</td>
<td>11% decrease for provinces, 22% decrease for capital city</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1968</td>
<td>Federal capital reduced further</td>
<td>22% decrease for federal capital</td>
</tr>
<tr>
<td><strong>Lanusse</strong> (Feb 1971-May 1973)</td>
<td>Internal Military Coup</td>
<td>1973</td>
<td>Increases provincial shares and broadens set of taxes in pool</td>
<td>21% increase</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1973</td>
<td>VAT introduced and included in pool</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1975</td>
<td>VAT taken out of revenue sharing pool but provinces allowed to keep collecting overlapping tax</td>
<td></td>
</tr>
<tr>
<td><strong>Cámpora/Lastiri/Peron</strong> (May 1973-March 1976)</td>
<td>Elections without proscriptions</td>
<td>1973</td>
<td>Provinces 48.5%, Federal 48.5%, Federal capital 1.8%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1975</td>
<td>VAT introduced and included in pool</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1975</td>
<td>VAT taken out of revenue sharing pool but provinces allowed to keep collecting overlapping tax</td>
<td></td>
</tr>
<tr>
<td><strong>Videla/Viola/Galtieri/Bignone</strong> (March 1976-Dec 1983)</td>
<td>Military Coup</td>
<td>1980</td>
<td>Amount deducted from revenue sharing pool equal to cost of financing social security, provincial shares effectively reduced to 29%</td>
<td>44% decrease</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1981</td>
<td>Federal capital eliminated from revenue sharing system</td>
<td>100% decrease</td>
</tr>
<tr>
<td><strong>Alfonsín</strong> (Dec 1983-July 1989)</td>
<td>Elections</td>
<td>1988</td>
<td>Provincial shares increased to 56.7% and federal shares decreased to 42.3%; tax on gasoline included in pool</td>
<td>95% increase</td>
</tr>
<tr>
<td><strong>Menem</strong> (July 1989-Dec 1999)</td>
<td>Elections</td>
<td>1992/93</td>
<td>Fiscal pacts that deduct revenues for national purposes before sharing in exchange for guaranteed revenue transfers; some taxes removed from pool</td>
<td>Estimates vary</td>
</tr>
</tbody>
</table>
I am grateful to Rebecca Weitz for her research assistance. This research was made possible by grants from the Fulbright Foundation and the Woodrow Wilson International Center for Scholars.

Subprovincial governments were not included in the arrangement, though in recent times many provinces have adopted provincial coparticipation systems with municipalities (Frías).

This is most clear in his negotiation of the liberal Roca-Runciman treaty with Britain according to which Argentina agreed to reduce tariffs on over 300 British goods in exchange for Britain’s agreeing not to cut Argentine beef imports.

Thus the provinces did not completely surrender taxing authority, only for taxes that overlapped with central taxes. For most of the period covered in this study, the provinces continued to collect some of their own taxes. The most important of these include a turnover tax, a tax on automobiles, and stamp taxes.

In negotiations leading up to the 1987 law, however, provincial officials defended their demand for 56.7% of coparticipation revenues as an estimate of what it would cost them to provide expenditures decentralized by the previous military government.

Starting with the 1930 coup that ended Argentina’s first period of democratic government, Argentina experienced a dizzying series of regime changes lasting more than 50 years. Classifying Argentine governments as democratic or authoritarian is not always straightforward, particularly given the problems of electoral fraud in the 1930s and the proscription of Peronism in the 1950s and 1960s. Though some “democratic” periods were more democratic than others, the premise of this analysis is that it is possible to distinguish between democratic governments of varying degrees of legitimacy and de facto, authoritarian governments.

Note that the timing of the re-negotiation is sometimes determined by when the previous law expired, but usually not.

In trying to get the provinces to accept this schedule, Frondizi’s government promised extra funds apart from coparticipation to help provinces comply with recent legislation raising the salaries of provincial teachers to national levels (Pírez 1986, 39).

This may be construed as an attempt by the government to discipline urban groups and the populist coalition that previous politicians had constructed in and around the capital city.

While the Lanusse government increased the provinces’ share to a higher amount than under previous democratically elected governments (Frondizi and Illia), he did not restore the federal capital’s share to its former status: 6% under Illia, and 1.8% under Lanusse.

Interview with author, May 7, 1996.

This negative effect for the provinces was somewhat mediated by a later law that included provincial social security in the “pre-coparticipation.”

In addition to producing additional revenue for the federal government, this move had the added benefit of harming the city in which opponents of the regime were well represented. Such a bold centralizing move would have been difficult for a democratically elected government to implement.

Sources: Nuñez Miñana and Porto 1982; FIEL 1993, p. 148-152; author’s calculations
References


