

National Leverage: Partisan Constraints on Reform in Sub-National Bureaucracies

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Abstract. Weak bureaucratic capacity fundamentally challenges the stability of new democracies. Decentralization has placed greater importance on low capacity sub-national bureaucracies. When, why and from who do we see successful reform initiatives of these bureaucracies? I argue that sub-national politicians in new democracies do not have political will or resources to reform. Rather, impetus for reform comes from threats to their resources, especially federal transfers, from the national level. Accordingly, the success of reforms depends on the national government's commitment and often derailed by short-time horizons and political expediency. These constraints on national leverage are shown in Argentina's Fiscal Pact of 1993. Partisanship and sub-national capacity are shown to interact to both fuel and temper reform initiatives.
Key-words: state capacity; bureaucracy; federalism; taxation.

Ventaja Nacional: Las Restricciones Partidistas Sobre la Reforma de las Burocracias Subnacionales

Resumen. Débil capacidad burocrática fundamentalmente se opone a la estabilidad de las democracias nuevas. La descentralización ha dado mayor importancia a la baja capacidad subnacionales burocracias. Cuando, por qué y de quién es lo que vemos iniciativas exitosas de reforma de estas burocracias? Yo sostengo que los políticos subnacionales en las nuevas democracias no tienen voluntad política ni los recursos para la reforma. Por el contrario, un impulso para la reforma proviene de las amenazas a sus recursos, en especial las transferencias federales, desde el nivel nacional. En consecuencia, el éxito de las reformas depende del compromiso del gobierno nacional y, a menudo frustrado por corto tiempo horizontes y la conveniencia política. Estas restricciones al apalancamiento nacional se muestran en la Argentina del Pacto Fiscal de 1993. El partidismo y la capacidad de sub-nacional se demuestra que interactúan para activar y dañar las iniciativas de reforma.

Palavras-clave: la capacidad del estado; la burocracia; el federalismo; la fiscalidad.

1 Introduction

Bureaucratic reform is a very important topic in political science and economics. High quality bureaucracies are the means by which governments implement policies that lead to economic growth and human development. Increasingly, sub-national governments are asked to fill these tasks across the world, and especially in developing countries. Sub-national bureaucracies, however, are afflicted with many barriers to quality services delivery and there's good reason to believe that these barriers are even more profound than those seen in national bureaucracies.

Despite the challenges of bureaucratic quality in sub-national jurisdictions, there is little academic literature devoted to creating and testing theory of when and how bureaucracies reform. This work is a start at identifying and evaluating the conditions necessary for reform efforts of sub-national bureaucracies, drawing on the Argentine case in the 1990s. Given the limitation of case analysis for generalizable theory, this is not meant to be a full explanation of bureaucratic reform but rather a broad effort to highlight areas of interest in capacity development.

The Argentine case suggests several important conditions that make reform more likely, but also that ultimately constrain reform efforts. The national government, I argue based on the Argentine case, is the most likely source of sub-national reform effort because local politicians have neither the will nor capacity to reform. National actors, especially presidents, have both the impetus and resources to jumpstart reform. National governments will only prioritize sub-national reform, however, when sub-

national weakness imposes high costs on the federal government. Moreover, the national government, as a quasi-exogenous political actor, is in a privileged position to initiate reform, but is highly limited by their dependencies and interconnections with co-partisans to force reform where it is too costly. Costs of reform, moreover, depend fundamentally on existing bureaucratic capacity. Sub-national politicians that share party ties with national majorities are able to skirt reform where it would be too costly. Thus partisanship and bureaucratic capacity strongly interact in sub-national reform efforts.

2 The Problem of Sub-National Governance and Need for Reform

Sub-national governments are vital policy players in most modern states. Their role has increased across the world as part of the “devolution revolution” in both the developed and developing worlds (Snyder, 2001). In federal countries, provincial or state governments typically implement most development-oriented policies, including some types of taxation, and the majority of health and education policies. In all countries, municipal and regional governments have important roles in creating and implementing local policies. Despite the large and growing importance of these levels of government, few studies have examined their bureaucratic quality nor asked why and when we might see needed sub-national bureaucratic reform.

In the developing world in particular, most sub-national bureaucracies have relatively weak capacity. They are characterized by administrative disorganization, poor management and compensation, corruption, and patronage employment (Spiller and Tommasi, 2009; Calvo and Murillo, 2004; Gibson, 2006). The result, for many places, is suboptimal service delivery and taxation, both of which inhibit economic growth, threaten the macroeconomic stability of the entire nation, and make governments less able to manage violence and unrest. Given the important role of these bureaucracies in the policies we know are influential in economic growth, much more academic effort should be devoted to explaining when and how these bureaucracies improve performance. These governments have been left largely untouched by national-level international interventions to improve state capacity and service delivery in developing countries.

Bureaucracies, both national and sub-national, appear to be roughly grouped in two categories according to “good” and “bad” equilibrium. Bureaucracies in a good equilibrium deliver services relatively efficiently, hire employees based on merit and skill, and have low levels of corruption. Accordingly, politicians trust bureaucrats to implement policies and devote resources for this purpose.

Bureaucracies in a bad equilibrium, on the other hand, are characterized by poor service delivery, partisan or other non-merit-based hiring, and high levels of corruption. Politicians do not trust bureaucracies to implement policies effectively and do not devote resources to improving the bureaucracy. Politicians do not devote resources toward reform because they do not believe they will be used effectively, or prefer the benefits of politicized bureaucracy. Even those inclined to introduce reform find that they have few resources to do so because one of their underperforming bureaucracies is the tax collection agency. Outside resources that become available for such tasks are often diverted for projects with more immediate payoffs.

Developing countries, in particular, thus face the complex problem of increasingly important sub-national governments managing many of the most important aspects of government, despite weak bureaucratic capacity and, related to this, little accountability of politicians for poor bureaucratic performance. The point of this work is to contribute to a much-needed literature on the conditions that encourage or discourage sub-national reform.

3 National Impetus and Constraints to Reform

Weak bureaucratic capacity is a bad equilibrium. With the analogy of equilibrium, we expect that weak bureaucracies are in a stable condition and unlikely to change unless a dramatic reform is enacted. Most high quality bureaucracies are expected to remain high quality and poor-quality bureaucracies to continue to be so. Nonetheless, we do sometimes observe transformations of bureaucracies that dramatically change the quality of service delivery and revenue extraction. The extensive literature on adoption of Weberian bureaucracies in the United States and Western Europe describe this type of positive bureaucratic change (c.f. Rauch, 1994; Skocpol, 1982). Moreover, most descriptions of the East Asian “miracle” of economic growth ascribe credit to the development of high quality, professionalized bureaucracies (Evans, 1995; Johnson, 1982). These studies are almost all of national bureaucracies and rely primarily on explanations of institutional or partisan change that results in either longer time horizons for political actors or seeks to depoliticize the bureaucracy for fear of the opposition controlling it (c.f., Geddes, 1994)¹. This institutional or partisan change is thought to be endogenous to the political system.

In developing countries with wide variance in sub-national capacity, endogenous efforts to improve sub-national bureaucracies are likely to come in the places that already had relatively high-quality bureaucracies in the first place. Sub-national bureaucratic reform, unlike national reform, may also come from quasi-exogenous actors and, in particular, national executives and national parties.² This possibility of quasi-exogenous reform makes analysis of sub-national reform distinct from national reform efforts and those imposed by international organizations. The interconnection between national and sub-national systems (through national political parties and national institutions) thus lead to important theoretical differences from national political reform.

Endogenous reform is less likely in many sub-national bureaucracies in the developing world due to uncompetitive local policies and poor incentives of fiscal federalism. In the Argentine case, for example, incumbency advantage stifles sub-national electoral competition and federal fiscal institutions create strong incentives to rely on federal transfers rather than engage in a costly and long-term transformation of sub-national bureaucracies (Gervasoni, 2010; Spiller and Tommasi, 2009).

Drawing from the Argentine case, I argue that sub-national bureaucracies are most likely to embark on serious reform when the impetus comes from the national level. The national government, is removed enough from the sub-national game to effect change but also invested in sub-national outcomes and has powerful tools to influence reform. Moreover, in developing countries revenue is typically centralized, making the national government the only actor likely to have the means to fund reform. The remainder of this article will examine conditions under which national politicians take on this reform and the constraints to their success. This argument will be based on politicians’ incentives to make and change policy.

¹ Notable exceptions are the study of reform in US cities away from political machines to more competitive politics and more Weberian bureaucracies (c.f. Rauch, 1994; Rauch and Evans, 2000)

² Of course we do at times see “exogenous” national bureaucratic reform, in particular put into place by international financial institutions such as the IMF. Such reform efforts have often been characterized as “window dressing” because they lack domestic “buy in.” National impetus for subnational reform has some similarities to that wholly external actors like the IMF, but also notable differences both in the national actors’ thorough entanglement in sub-national affairs and in the carrots and sticks available to incentivize reform.

4 Will and Capacity to Reform

Reform efforts require both will and capacity to implement change. For most sub-national governments, the will to reform is missing for several important reasons. Most importantly, weak bureaucratic capacity is politically useful to politicians. Staffing in sub-national bureaucracies is the principal source of political patronage that benefits incumbent politicians (Gervasoni, 2010; Stokes, 2005; Calvo and Murillo, 2008). Thus, weak capacity is not useful per se, but politically-motivated staffing—which reduces the quality and expertise of bureaucrats—creates strong disincentives to reform. Capacity is also lacking in most sub-national governments. Reform is a long-term, capital-intensive project that most provinces find difficult to prioritize above short-term needs.

The national level only prioritizes sub-national bureaucratic reform when their poor performance has a strong, negative impact on the functioning and outcomes of the national government. Under normal conditions, the national government is not willing to expend its political capital to influence sub-national governance. However, when sub-national government's negative externalities are costly enough to impede the national government's functioning, national politicians have good reason to intervene and powerful tools to do so.

The national government can create will to reform in sub-national politicians through a combination of carrots and sticks. Those jurisdictions without latent will and capacity to manage reform will quickly abandon it without outside support. The imposition of reform initiatives from within the national political system but outside the sub-national actors themselves has its limits. It can be more binding and effective, but can also be undermined by the political logic of national politicians.

5 Creating Will and Ability: Carrots and Sticks

National executives have many tools available to induce compliance with sub-national actors. The most prominent of these tools is federal resources. Modern federation, especially in the developing world, is built on a system of federal transfers to sub-national governments. In most federations, the majority of taxation occurs at the national level, which in turn distributes resources to sub-national actors to spend on government services. Of course, all sub-national governments maintain some level of taxing authority, including both states/provinces and municipalities. These federal transfers fund a large percentage of sub-national activity and thus serve as the primary “carrot” and “stick” available to national politicians to induce sub-national compliance. Additional benefits the national level can provide include favorable national policy, and selective and partisan benefits to sub-national politicians.

The “sticks” available to induce sub-national compliances are in most cases the opposite of the carrots. Federal governments can withhold federal resources and cut funding from the national party. The national executive and legislature can push forward policies unfavorable to recalcitrant sub-national governments. In Argentina and many other federal countries in the developing world, national governments also have the extreme option of federal intervention whereby the governor is removed and replaced by an appointee. The national government has many strong tools to forces sub-national politicians to adopt reform. The willingness of national politicians to use those tools to follow-through on serious reform, however, is conditioned by political and partisan goals.

6 Partisanship: Interactions with Carrots and Sticks

National government carrots and sticks are the source of national leverage. In countries with nationalized parties, national governments have additional partisan tools to invoke compliance. Parties

provide resources valuable resources to members that can be increased or withdrawn depending on levels of cooperation. Moreover, parties provide a shared “brand-name” with value to all members and provide incentives to individual members to contribute to collective and longer-term goals (cf. North and Weingast, 1989; Schepsle, 1989; Mayhew, 1974; Aldrich, 1995; Cox and McCubbins, 1993). Given that weak bureaucracies constitute a bad equilibrium where sub-national politicians face severe collective action problems to achieving the public good of national economic stability, parties can be a means to overcome those problems.

The tools of partisanship in pressing reform, however, are limited by national politicians’ assessments of political capital. Executives depend on partisan actors for support in negotiations with national legislatures and in bargains with sub-national actors. Partisan support is thus crucial to national leverage for reform in two primary ways. The first is an obvious source of strength for executives—co-partisan sub-national politicians should be more cooperative, *ceteris paribus*, to national initiatives because of shared platforms and common incentive to further party goals. Surprisingly, however, co-partisanship is also a source of weakness for national actors in bureaucratic reform. National executives must sympathize with the immediate costs of reforms to their co-partisans and may treat sub-national jurisdictions differently depending on the weight of their vote and their perceived capacity to endure the hardships of reform. Co-partisanship thus suggests a bifurcated outcome, with high capacity provinces complying more readily and completely and low capacity provinces complying at lower levels. This is an unexpected result, given the higher dependence of low capacity provinces on the national government resources (Bonvecchi, 2010).

Opposition governors are in a different position. Those from regional parties without national organizations have the ability to sell their compliance for perks. This approach only goes so far, however, because they, too, are reliant on national resources and subject to the other non-partisan “sticks.” For those governors from national opposition parties, they will be more constrained by their national platform to accept opposition imposition of reform. This can result in those governors taking public oppositional positions but may not reflect actual levels of compliance. Provincial parties can also sell their compliance, and extract higher prices like national opposition parties, because they can reasonably argue that they must overcome resistance of constituents.

7 Theoretical Hypotheses

In the previous section, I suggested several theoretical hypotheses that could be tested in cases of sub-national bureaucratic reform. I will describe these hypotheses in this section. Given the exploratory nature of this work, I will not attempt any scientific test of these hypotheses but rather will explain the dynamics in the Argentine case. The Argentine case should prove a fertile ground for hypothesis development and for revealing the pertinent variables to evaluating sub-national reform. Of course, Argentina is not perfectly analogous to any other case, so the specifics of that country’s political system will necessarily become variables to analyze in other cases.

The first hypothesis is that reform itself is most likely to come from the national level. The national government, moreover, is unlikely to invest in this reform unless sub-national behavior is imposing high costs and great harm to the national government.

Hypothesis 1: Reform is most likely when externalities of sub-national government behavior have strong negative effects on the national government.

Partisanship and extant levels of state capacity will also affect reform efforts. Partisanship is expected to improve the likelihood of co-partisan compliance with the national executive's reform initiatives. However, low-capacity co-partisans will be in a particularly fortuitous position to claim hardship with reform and extract concessions by the federal government that is dependent on their support in other arenas. High capacity provinces will feel compelled to "pull the weight" for their co-partisans.³ Thus, for Hypothesis 2, partisan and state capacity interact.

Hypothesis 2: the effect of party cooperation will be contingent on capacity.

H2a: high performing co-partisans will bear brunt of reform

H2b: low performing co-partisans will be allowed to selectively comply

The role of either partisanship or capacity in reform might be missed without consideration of how they interact. Importantly, this hypothesis is not expected given most accounts of federal bargaining. Low capacity units are usually thought to be vulnerable to bullying by the federal government due to resource dependence. The higher capacity provinces are less dependent on the national government and could, in theory, deviate with more impunity (Bonvecchi, 2010). However, the nature of the partisan bargain, electoral rules and the system of representation in federal democracies tend to empower weak sub-national governments beyond their means.

8 Case Analysis: Federal Pact of 1993 in Argentina

Argentina's national government, under President Carlos Menem, signed a pact with all of the nation's 24 governors in 1993 to reform their provincial tax bureaucracies. This reform effort took place in the aftermath of a devastating economic crisis in the late 1980s. The national government was very successful at inducing governors to sign on to the pact despite the formidable challenges of sub-national reform. However, the federal government had to use substantial national resources to get the deal signed and compliance was highly uneven. I use the hypotheses about, regarding national leverage and the interaction of partisanship and state capacity to explain the patterns of compliance.

The Fiscal Pact of 1993 was aimed at enhancing the quality of taxation in Argentina's provinces. The federal government traded some of its resources to alter the incentives of provincial politicians to make these tax reforms politically attractive. It was based on virtually unanimously agreed upon economic principles that know these taxes to be detrimental to the development of provincial economies, in particular the development of financial markets.⁴

Tax bureaucracy reform is the most important bureaucratic reform because all government services ultimately come from taxation. Where tax bureaucracies are weak, governments cannot afford to provide services and they lack the quality information to identify needs and deliver goods. As Weller (2008, p.47) argues,

³ High capacity provinces do not do this altruistically. Their vote-rich co-partisans help them to pass legislation favorable to the higher capacity provinces (Rogers, 2012).

⁴ I do not claim that the Fiscal Pact of 1993 was perfect from an economic or social standpoint. I also do not claim that it Menem had the provinces' best interest at heart in all of the pacts' elements. Many of Menem's policies contributed to increasing income inequality and worsened conditions for Argentina's poor (Rock, 2002). The pact was a political accord negotiated by self-interested actors on both sides. However, economists have universally decried the harm of the provincial taxes addressed in the pact.

State capacity is visible through taxation and taxation is fuel that allows states to exercise and develop capacity. Taxation is thus a core task of the state; all states should devote a high level of effort to fill their coffers even during economic crisis or social disturbance. If a state has capacity to implement policy, this should be visible in the effective collection of taxes.

Theory development of sub-national reform should thus start with tax bureaucracy reform. This is where governments get the most “bang for their buck” and develop capacity that can extend across all bureaucracies.

9 National Impetus

President Carlos Menem took office in 1989 in the midst of a severe economic crisis. In that year, inflation was 3058%, national GDP contracted by 7% and 9% per capita, and unemployment grew 14% (World Development Indicators). The crisis was blamed, in large part, on profligacy of the provinces. All of the provinces consistently spent beyond their means, depending on inflation financing, free loans from their provincial central banks, and frequent bailouts by the central government (Nicolini et al., 2002). Menem’s introduced dramatic reforms in the early 1990s to stabilize the economy and to correct the root causes of economic instability through privatization, currency reform, and tax reform. The Federal Pact of 1993 was part of this larger plan to improve and rationalize the national economy by bolstering the “weak links” in the Argentine economy- the provincial governments.

Importantly, provincial profligacy and weak bureaucracies were not a new phenomenon in Argentina. The provincial governments had never been efficient organizations with Weberian bureaucracies. However, 1989 was the first economic crisis since the return of democracy in 1983. Reforming provincial bureaucracies was not considered during the military dictatorships of the 1970s and 1980s because leadership flowed top-down to the military-controlled bureaucracies from the national level, rather than from reelection-oriented politicians. During the interlude of democracy from 1973-1976, the political crisis was too serious to prioritize sub-national bureaucratic reform. 1989 is important in the history of Argentina not just because it was the first successful transfer of democratically-elected presidents, but it was also a very serious crisis that did not result in the fall of democracy. Thus an extreme crisis, brought about by weakness in provincial bureaucracy and self-interested provincial leadership, was necessary for the President to expend political capital on reform.

10 Federal-Provincial Revenue Connection and Disincentives to Reform

The provinces are in a weak position, relative to the central government, in revenue collection. Argentina has experienced periods of both centralization and decentralization since the beginning of the republic, but devolution has always influenced the jurisdiction of expenditures, not revenue. All changes in revenue collection have been centralizing, towards the delegation to the national government of revenue responsibilities (Eaton, 2001).

The provinces have been very supportive of most, if not all, of the revenue centralization mechanisms. If they are able to get a satisfactory allocation of Co-participation funds from the national government, federal transfers are highly advantageous to provincial politicians. They get the revenue they need to pay for provincial programs, they get the benefits of providing services (and patronage) at the provincial level, and they do not have to pay the political costs of collecting the taxes.⁵ Provinces

⁵ Federal transfers have also frequently been used for patronage positions (Levitsky, 2003; Eaton and Dickovick, 2004).

like it this way. For example, in 1998, the governors killed a proposed shift to distribution criteria that would reward provincial tax effort (*El Economista*, 1998, p. 3). They run on platforms “against” the national government - it is the evil force that robs constituents of their hard-earned money yet withholds revenue from the provinces. Co-Participation is easy money for the provinces, and thus provincial officials devote extraordinary time, effort and political capital to securing their share from the national government.

The consequence, for most provinces, of this delegation of revenue collection to the federal level has been the persistent weakness of provincial administrative capacity. Many provinces have scattered, inefficient bureaucracies that are unable to effectively collect tax revenue and do not perform much better on delivery of services. They do not invest in revenue collection bureaucracies because they want revenue to come from the federal level. They prefer to expend political capital to the politically preferable, and the easier and shorter-term, option of negotiating larger transfers with the federal government rather than work to build better bureaucracies.

11 Pact Components

The Fiscal Pact was first signed on August 3, 1993 between the national government, represented by Economic Minister Domingo Cavallo, and all of the Peronist governors. After this meeting, Cavallo pledged to reach out to opposition Radical (UCR) and provincial party governors to earn their cooperation with the pact’s terms. Cavallo announced, on the day of the signing, that “it is the harmonization initiative that reflects the efforts of the nation and the provinces, aimed at supporting productive activities in order to create more jobs and increase production, thus promoting economic growth” (*Noticias* 3 Aug 1993)⁶.

Provinces tax what they are allowed by law and what they are able to, given the constraints of their bureaucracies’ bureaucratic capacity. National law allows provinces to tax automobiles, real estate, contracts, and turnover tax. The pact’s major tax reforms were the following, listed in Table 1: rates on real estate taxes to be reduced to a maximum of 1.5 percent on urban real estate, 1.35 on suburban, and 1.2 percent on rural real estate. The provincial turnover tax should be repealed and replaced with a general consumption tax by 1995. Also, stamp taxes on the contracts for institutionalized financial or insurance operations for certain sectors of the economy should be repealed. The full description of the tax reforms and all of the other components of the Fiscal Pact of 1993 are listed in Table 1.

⁶ Cavallo could never be described as “diplomatic” in his dealings with the provinces, particularly those with governors from other parties. He said, speaking somewhat pointedly to the UCR Córdoba province, “What advice can we give to these provinces and those that still have a debt problem? We suggest that they read, over and over again, the Fiscal Federal Pact on 12th August 1993.”

Table 1: Fiscal Pact of 1993- Major Components.

| National Government Agrees to: | Provincial Governments Agree to: |
|--|--|
| Provide a minimum of federal transfers of the provinces of \$740 million Argentine Pesos | Eliminate the provincial turnover tax and replace it with a general consumption tax |
| Accept the transfer of provincial social security systems to the national government | Repeal the stamp tax on financial and insurance transactions for the agricultural, industrial, mining or construction sectors |
| Reduce federal payroll taxes in certain regions and sectors | Average real estate tax rates should not exceed, for rural real estate, 1.2 percent; suburban real estate, 1.35 percent; and urban real estate, 1.5 percent The real estate taxable base valuation should not exceed 80 percent of the market value of urban and suburban real estate or the value of undeveloped land in case of rural real estate |
| | Taxes on driver's licenses- The obligation will be to ensure the uniformity of valuations or applicable tax rates among all jurisdictions as of 1994. Valuations published by the General Directorate of Taxation (DGI) are to serve as reference |

Source: Schwartz and Liuksila (1997).

These measures aimed to improve bureaucratic capacity in the provinces in two primary ways. The first was to rationalize and improve the economic efficiency of provincial tax statutes. The second was to provide incentives and resources for governors to invest in improving their bureaucracies. The national government understood that the pact was asking a lot of provincial governors and bureaucracies. Schwartz and Liuksila describe:

Initially, the provinces were slow to join this second pact, largely because of the revenue implications of the tax reforms, particularly the initial stipulation to abolish the provincial turnover tax before June 1995. The announcement in December 1993 that federal payroll taxes levied on employers would be reduced, depending on region and sector, in those provinces participating in the second pact, increased pressure on provincial governments to join. By May 1994, all but one provincial legislature had ratified the second fiscal pact, and most had taken at least some initial steps toward implementation. Also the provinces were given a minimum revenue guarantee and some other guaranteed fixed payments that provided a floor of federal transfers equivalent to about 4.5% of GDP annually (1997, p. 408-410).

The Pact was made very attractive to provinces by providing the minimum guarantee of federal transfers and its reductions in the federal employer payroll tax rates. The federal government had been inconsistent in providing transfer revenue in the past. The provinces won significant concessions from the federal government, in part because they argued how difficult it would be to give up these taxes, given their bureaucracies. Schwartz and Liuksila explain:

The second fiscal pact clearly shows the “horse-trading” that is involved in implementing structural reforms of the system of fiscal federalism...An example is the reduction in federal employer payroll taxes, which reduced enterprise costs...but came at the expense of making payroll taxes an explicit instrument of regional and sectoral policies and contributed to the growing social security deficit (1997, p. 412).

Prior to the pact, the tax rate was 33 percent in all provinces but three, where it was 28.5 percent. The new rates, introduced in early 1994, reduced the taxes up to 80%, depending on region and productive sector. Provinces in weak economic regions received larger reductions that were restricted to agriculture, industry, construction, mining, and scientific and technological research sectors (see Appendix Table 5.1a). Tourism and service sectors, much more common in the economically well-off regions, received no reductions. Around 50 percent of the labor force was affected by these changes (Ibid.)⁷

The pact was signed as a mutually-beneficial agreement: the national government would gain improved economic activity and government revenue while the provinces got a guaranteed minimum for federal transfers. Both sides would gain if they held up their ends of the bargain. Not surprisingly, the costs of implementing those tax changes varied across the provinces and the potential benefit of the floor on transfers was also uneven.⁸ The differences in benefits and the challenges they create to the administration of provincial bureaucracies are a primary reasons for non-compliance by the provinces, especially Peronist provinces.

12 Political Background

Reform is never politically neutral—partisan, sectoral, and regional interests lobby for beneficial outcomes. All of these factors played some role in negotiation of and compliance with the pact, in particular partisan and regional interests. In Argentina, a longstanding two party system dominates political activity. These parties—the Peronists (PJ) and the Radicals (UCR) are broad-based parties with appeal throughout the nation. The president is the head of the party and is imbued with strong constitutional and partisan powers. In the time of the Fiscal Pact of 1993, Peronist Carlos Menem held relatively strong sway over his majority co-partisans in the national legislature and was complemented with co-partisans governors in a majority (15 out of 24) of provinces.

The negotiation of the federal pact took place between the President and his cabinet, and provincial governors who represent their own regional interests. Provincial governors are, for all intents and purposes, the sole policymakers in the provinces (Jones et al., 2002; Spiller and Tommasi, 2009). Moreover, they control the career paths of the politicians that represent their province in the national government. The President is the only elected actor in Argentina with a national constituency. He is interested in what will improve the federal government’s fiscal accounts. Provincial governors are concerned with what is best for their province. And given the tremendous diversity in provincial

⁷ The employer tax that resulted from this tax was “excessively complicated and distortive, as it meant that different industries in the same province could have different employer payroll tax rates, and the same industry in different provinces could have different tax rates. Even within the same province, employer payroll contributions were differentiated according to rural and urban location. For example, in the province of Entre Ríos, the new employer payroll tax rate was 18.2 percent in the capital city, 13.2 percent in the district of Feliciano y Federación, and 16.5 percent in the rest of the province” (Schwartz and Liuksila, 1997, p. 413).

⁸ The Fiscal Pact contained more provisions than the tax changes. Importantly, it allowed provinces to transfer their social security systems to the federal government and privatize provincial industries. The privatization of industries was far more controversial than changes to provincial taxes.

development and bureaucratic quality, these interests can vary quite widely. These two groups of actors often conflict, therefore, because what is best for the national government is often not the same as what is best for a given province. To overcome this frequent source of conflict, political actors are brought together in the common interest of improving and maintaining the reputation of their political party. Partisanship and conflicting interests shaped the political background to this federal pact. Nonetheless, the provincial-based incentives of governors created by Argentina's institutions and concern about their own weak bureaucratic environment often trumped the desires of presidents.

13 Data Analysis

13.1 Dependent Variable

The dependent variable of this study is compliance with the fiscal pact of 1993. These data come via Argentine Economist Mariano Tommasi from the Argentine Ministry of the Economy⁹. He collected this information for his chapter in Srinivasan and Wallack's (2006) book¹⁰. Compliance with the reforms is coded as "full," "partial," or "none" by the Ministry of the Economy. For my figures and tables, I treated both full and partial as "compliance" and none as non-compliance. I understand that variation exists within the partial category and between full and partial but these distinctions were not made clear in the data. Even more than this, the attempt at compliance suggested by the "partial" designation does say something about those provinces' incentives to reform. However, nearly all data points were coded "full" or "none" so there's good reason to believe that the distinction between compliance and non-compliance was very significant. It is important to recognize the limitations of these data. These data are a snapshot of the compliance of the provinces, taken years after the 1993 pact. They do not give a textured account of efforts by the provinces to introduce or implement these reforms but they are the best resource available in a little-studied research area¹¹.

The dependent variables are general compliance with reforms and compliance with reforms of individual taxes. Argentina's provincial taxes vary considerably in their difficulty of collection. Provinces have easy (automobile), medium (gross business/turnover tax), and most difficult taxes (real estate). I utilize the difficulty of these taxes to show that provinces with higher capacity are better able to comply with these reforms, when they have incentive to do so.

⁹ Specifically, it was published in the "Pact Federal para el Empleo, la Producción y el Crecimiento", UNLP, Lics. L.M.Monteverde, R. Ruiz del Castillo, S. G. Tarragona y H. Terán y Dres. T. Perez Balda y J.M. Prada sobre la base de información de la Dirección de Coordinación Fiscal con las Provincias.

¹⁰ Tommasi's table is shown in the appendix.

¹¹ Argentina's national government itself does not know much about the reform efforts. On several aspects of the reform, especially the turnover tax changes, the national government did not have enough information for any of the provinces to suggest whether any of them complied at any level.

13.2 Partisanship and Capacity Groups

The sorting variables in this study are partisanship and provincial bureaucratic capacity.

Table 2: Partisan Composition of Provincial Governors.

| Party of Governor 1992-1995 | Total | Provinces |
|-----------------------------|-------|---|
| Peronist Party (PJ) | 15 | Buenos Aires, Capital City, Entre Rios, Formosa, Jujuy, La Pampa, La Rioja, Mendoza, Misiones, San Juan, San Luis, Santa Cruz, Santa Fe, Santiago del Estero, Tucumán |
| Radical (UCR) | 4 | Catamarca, Córdoba, Chubut, Rio Negro |
| Provincial Party | 5 | Corrientes, Chaco, Neuquén, Salta, Tierra del Fuego |

Source: Author's calculations.

The provincial party governor represents the provinces' political motivation to adhere to the pact. The partisan composition of the provinces is shown in Table 2. As explained above, the pact was negotiated by the Peronist governors with the Peronist president, Carlos Menem. Accordingly, the Peronist governors should have wanted to implement this reform. The governors from the Radical (UCR) party and the provincial parties resisted this pact initially and were not subject to intra-party pressure by Menem. All provinces, and especially the UCR and provincial parties, had to be concerned about the carrots and sticks available to Menem in the form of national resources.

13.3 Provincial Capacity

The extent of provincial bureaucratic capacity cannot be directly measured. Service delivery, the quality of interactions with citizens, what bureaucracies know about citizens and how they use that information can only be ascertained indirectly, by outcome variables. The best measure of outcomes measure of capacity is taxation, which I cannot use because that is the dependent variable of interest in this case. Instead, I employ economic data from the Central Bank of the Republic of Argentina (BCRA) that I argue is a good proxy for capacity.

13.4 Sorting Variable: Private Loans Per Capita

I use a proxy variable of bureaucratic quality, value of loans per capita given to private citizens in the province.¹² With citizens seeking loans, state bureaucracies have quality information about their access to resources since this information is reported to provinces and linked to their national information number. High values on this variable suggest bureaucratic quality in enforcement of laws and contracts. It should correlate with other state information. Importantly, this variable is not endogenous to taxation; taxation itself does not cause high or low loan access since these resources are not taxed at the provincial or federal level. The provinces, grouped into high, medium and low information groups according to the Private Loan sorting variable, are listed below in Table 3.

¹² Private loans per capita is not a proxy for wealth. It correlates with GPP per capita at .57 level.

Table 3: Private Loan Per Capita Groupings.

| Bureaucratic Capacity Group | Provinces Included |
|------------------------------------|---|
| <i>Low Capacity Provinces</i> | Catamarca, Corrientes, Formosa, Jujuy, Misiones, Salta, Santiago del Estero |
| <i>Medium Capacity Provinces</i> | Buenos Aires, Chaco, Entre Ríos, La Rioja, Rio Negro, San Juan, San Luis, Tucumán |
| <i>High Capacity Provinces</i> | Chubut, Córdoba, La Pampa, Mendoza, Neuquén, Santa Cruz, Santa Fe, Tierra del Fuego |

Source: Central Bank of the Republic of Argentina.

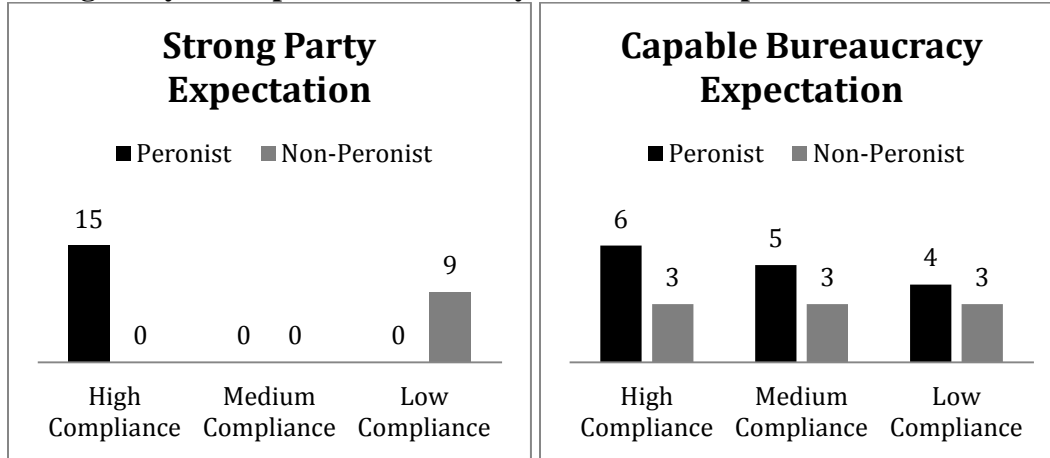
14 Hypotheses and Results

The logic of political capital in Argentina suggests that reform is not a simple matter of political allegiance or of bureaucratic capacity alone. The strength of parties is conditioned by the bureaucratic capacity of the state. Accordingly, I do not expect to find perfect partisan cooperation with the pact or an exact match between bureaucratic capacity and compliance. Rather, I expect a hybrid of these results, with clear patterns based on both party and bureaucratic capacity.

To illustrate the roles of partisanship and bureaucratic capacity in compliance with the Fiscal Pact of 1993, I first illustrate a “strong party” explanation versus a “capable bureaucracy” explanation to show the theoretical expectations for compliance with the Fiscal Pact of 1993. If the parties in Argentina are strong—they are able to impose discipline on co-partisans—then all Peronists should comply with the pact. If partisanship is the only explanation for compliance and discipline only occurs within the party, all provinces with governors from other parties will not comply. Such a result would look like the bar graph on the left in Figure 1. This theoretical bimodal distribution reflects pure partisan allegiance.

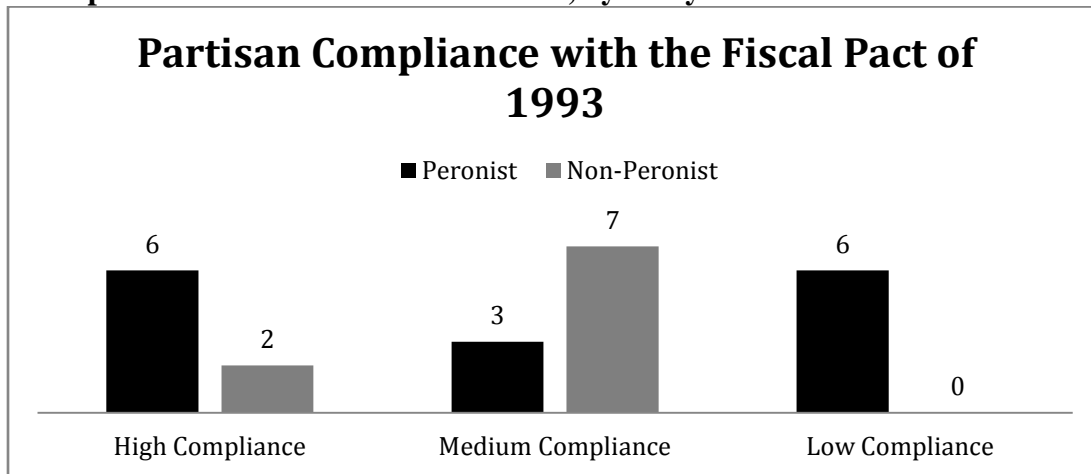
If provinces bureaucratic capacity perfectly explained compliance with the reform, the results would resemble those found on the chart on the right in Figure 5.1. The bars represent the number of provinces in each capacity group. Thus the nine provinces in the high capacity group are in the high compliance group. The eight medium capacity provinces are in the medium compliance group and the seven low capacity provinces are in the low compliance group. This chart represents what would happen if compliance was driven purely by the provinces’ ability to reform their taxes and shows no role for the party. The high capacity provinces would comply because they have knowledgeable bureaucracies and are able to collect taxes from a variety of sources. The low capacity provinces could not comply because it would hurt their base level of taxation.

Figure 1: Strong Party vs. Capable Bureaucracy Theoretical Expectations.



The actual pattern of compliance with the pact is shown in Figure 2. The influence of parties is supported by these data, but not in the way that strong party theories might suggest. This chart shows the level of compliance for each province based on an index of all of the Pact’s components. Of course, this is a very rough indicator of compliance with the Pact. This index counts all components of the pact equally without consideration for the theoretical importance of compliance with some components over others. I only use this chart to give a general sense of compliance and I break down the pact’s components in the next several sections. The important differences between the different taxes and the reforms required show much more textured accounts of provincial compliance. Importantly, without understanding the interaction of partisanship and capacity, the logic of compliance appears largely random.

Figure 2: Compliance with the Fiscal Pact of 1993, by Party.



In Figure 2, we see that a pure strong party explanation is not supported in the data. Provinces with Peronist Governors did not comply at the highest level in the majority (9 out of 15) cases. The UCR and Provincial Party-led provinces all complied at medium or high levels, contrary to expectations that they would comply at the lowest level. However, there is a clear and prominent partisan trends apparent in these data. Peronists were almost exclusively in the highest and lowest categories of compliance and the non-Peronists were all, except two, in the medium compliance group.

These data suggest something that we have long known about Argentina—that their parties (or at least the Peronist party) do not live up to the standards of a strong party. Their parties are not able to fully overcome the significant barriers to inter-temporal cooperation. They also do not appear able to impose perfect discipline, or at least they do not exercise this option. Their party cooperation looks different than strong party theories suggest.

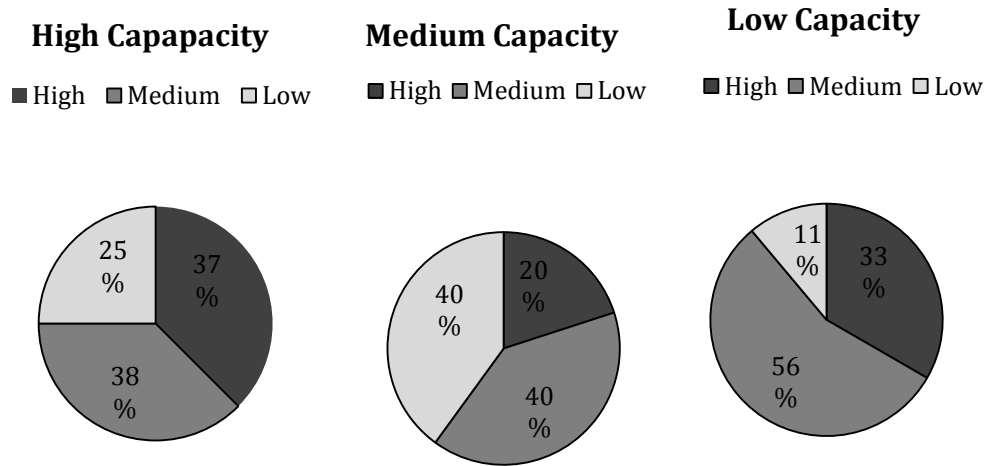
The data shown in Figure 2 do, however, reveal the important role of the party in explaining compliance with the Fiscal Pact. The Peronists were bifurcated - either they complied at a high level or they skirted the pact almost entirely. The non-Peronists neither embraced nor ignored the pact but reformed enough to appear compliant. What Peronists chose to reform can be explained, again, by looking at the partisan and bureaucratic capacity aspects of capacity. For Peronists, those capable of reform were leaned upon to carry it out. Those Peronist provinces that would suffer from the reforms because they lacked the capacity to keep the same level of tax revenue were allowed to selectively comply. This reveals evidence of intraparty negotiation and the flexibility that holds the Peronist coalition together. It also shows how feedback from bureaucratic capacity shapes the political environment. The Peronist party made choices knowing compliance would be limited in some cases, and worked around this reality.

Party does not capture all of the political motivations in this case. Governors from the UCR or Provincial parties were much more concerned than the Peronists with the possibility of punishment by the Menem and the Peronist Congress. They were also in a stronger position than Peronists to extract discretionary resources from the president (Bonvecchi and Lodola, 2010). They could expect to get away with some level non-compliance, at least in certain policy areas, but they could not blatantly defy the pact in the way of some of the Peronists. We see that all of the non-Peronists complied at least at a medium level.

These trends become even more apparent when the pact is broken down into its components. The Peronist provinces did not fully comply with any aspect of the Fiscal Pact. In some cases, however, the UCR provinces and the Provincial Party provinces all complied with the reform. This is true of compliance with reform of the automobile tax, for example, as I show in the next section.

Bureaucratic capacity also help to explain the differences in cooperation with the pact. In Figure 3, the level of compliance is plotted according to provincial capacity. The provinces again show a bifurcation in these data. Seventy five percent of high capacity provinces and 89% of low capacity provinces complied with the pact at a medium or high level. The medium capacity provinces, despite their relatively higher level of capacity than the low capacity provinces, had low compliance in 40% of provinces.

Figure 3: Compliance with the Fiscal Pact of 1993, by Capacity.



Bureaucratic capacity do not perfectly explain compliance, either. To begin, compliance was low overall, and no provinces complied with the provincial turnover tax. In my description of the hypothetical “Capable Bureaucracy” theory above, I made several assumptions that do not hold true for the Fiscal Pact of 1993. In particular, low capacity do not lead a province to reject all tax reforms. On the contrary, low capacity provinces are willing to comply with changes to taxes that they could not collect effectively in the first place. High capacity provinces are able to collect revenue from all types of taxes, so reform of them would not dramatically undermine their revenue. The medium capacity provinces are in the most difficult position to carry out these reforms. They do collect significant revenue from the taxes as levied prior to the fiscal pact but they may not be able to maintain those levels if they comply with the reforms. The reforms were too costly for many of the medium capacity provinces to implement.

The pattern of compliance reveals a mixture of these factors; clear partisan trends but not perfect party discipline and bureaucratic capacity revealed through the lens of party allegiances. Partisanship’s influence on compliance with the pact was conditioned on provincial capacity since provinces that would struggle to enact the reforms were allowed to avoid many of them.

In the next sections, I break the pact into component parts to see how partisan effects and bureaucratic capacity impact provincial decisions to reform their taxes. The first reform element I examine is the automobile tax.

15 Selective Compliance: Partisanship and Capacity

15.1 Automobile Taxes

In previous work, I ranked the provincial taxes based on their “order of difficulty” or the information requirements necessary to collect the tax (Rogers, 2010). Provinces collect four primary taxes: real estate, stamp, gross business, and automobile taxes. The easiest of these taxes to collect is the automobile tax. Provinces require citizens to approach the bureaucracy with information about their car in order to receive a license plate. Non-compliance is very obvious—cars do not have official tags. The most difficult of these taxes is the real estate tax. Provinces must have quality, detailed information about their land and their citizens to know whether they are taxing at an appropriate level. In this section, I examine the role of bureaucratic capacity in compliance with reforms to these two taxes.

Bureaucratic capacity play an important role in both reforms, but party differences work differently in the two taxes.

The pact required provinces to standardize their drivers' license fees, to "ensure the uniformity of valuations...among all jurisdictions as of 1994. Valuations published by the General Directorate of Taxation (DGI) are to serve as reference" (Decreto 1807/1993). I expect provinces with higher bureaucratic capacity to comply with valuation reforms on this "easy" tax. They can acquire revenue from many different types of taxes and do not need to rely heavily on automobile taxes. It is important to recognize this was a very easy administrative reform. Low capacity provinces will be less willing to comply with reforms of easy taxes, however. These provinces depend on revenue from easy taxes because they cannot effectively collect more difficult taxes. I expect capacity, not party allegiance, will best explain compliance with the automobile tax.

Figure 4: Automobile Tax Compliance, by Capacity.

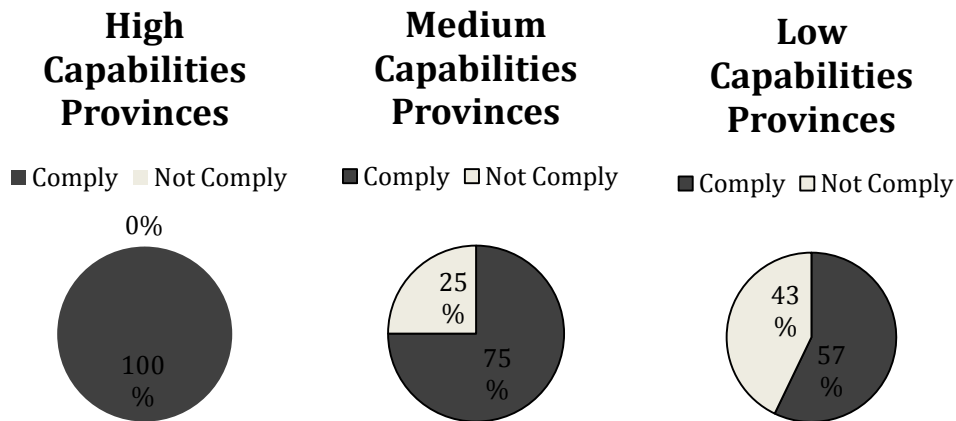


Figure 4 shows the level of compliance with the reform of the valuation of the automobile tax for each capacity group¹³. The groups show a clear progression of compliance based on their level of capacity. The high capacity provinces all complied with the reforms. The medium capacity provinces mostly complied (6 out of 8 provinces). The low capacity provinces complied at the lowest rate with 3 of the 7 provinces failing to change their valuation. Capacity appears, on its face, to be influencing the choices of provinces to comply with the tax. Reducing the revenue from this easy tax seems too costly for the weakest capability provinces.

Only examining the capacity groups, however, would hide important variation in the partisan compliance with the reform. *Every single province that failed to comply with the automobile tax was headed by a Peronist governor.* This holds true for the provinces in both the medium and low capacity groups. Every UCR and Provincial Party province complied with the pact, regardless of their level of bureaucratic capacity.¹⁴ Again, this suggests that a strong-party characterization of the Peronist party would not explain provincial behavior. Rather, being in the Peronist coalition seems to allow more leeway for their weaker provinces. The importance of those extremely overrepresented provinces with

¹³ No provinces complied with the automobile tax rate reform at the provincial level.

¹⁴ One UCR provinces, Chaco, and three provincial party provinces, Corrientes, Neuquén, and Salta, carried out the automobile reforms at the municipal level. This was the only reform with municipal involvement.

weak bureaucratic capacity in the national decision-making also help to explain the concessions made to them by the Peronists.

The automobile tax shows the important role of capacity in policy implementation. The provinces with the lowest bureaucratic capacity would not comply with the reforms of their automobile valuation because it threatened a source of revenue that they could not easily collect from other sources. Partisanship was clearly present in this case, however. The only provinces that did not comply with the automobile valuation were Peronists. One economist I spoke with in the federal capital spoke of this very dilemma in the negotiations of the pact. He said that the Peronists governors all knew, during the negotiations, that the small Peronist provinces would not comply with reform to the “irreplaceable” automobile tax. Unlike many parties where discipline is essential to party functioning, Peronists allow leeway for weaker provinces to skirt collective responsibilities in exchange for cooperation on policymaking.

16 Real Estate Taxes

The real estate tax is the most difficult for the provinces to collect and the high capacity provinces collect this at the highest levels. The provinces do this poorly by nearly any standard and even the best province at collecting this (Córdoba at 31%) did so only at a rate of 1.33% of Gross Provincial Product in 1992. The average for all provinces was 0.33% of Gross Provincial Product in 1992. The information and enforcement demands of this tax are very high.

Evidence from Santa Fe (a high capacity province) and Buenos Aires (a medium capacity province) show the difficulty of collecting this revenue even amongst reasonably capable, urban provinces. The challenges of collecting and managing the information necessary to levy these taxes is more than most provinces can handle effectively. Schwartz and Liuksila (1997, p.411) quote:

In the city of Santa Fe, a recent survey showed that two-thirds of the lots that were vacant according to the tax roll actually had buildings on them, and 56 percent of all properties were underrecorded in the sense that the extent of the construction that was recorded was less than what was actually on the lot. A similar survey in the municipality of Santo Tome found 52 percent of all properties to be underrecorded. Also, a 1994 tax amnesty in the province of Buenos Aires led 400,000 taxpayers, including 170,000 whose land was vacant according to the tax roll, to report 30 million square meters of construction previously unknown to the tax authorities (Provincia de Buenos Aires, 1994).

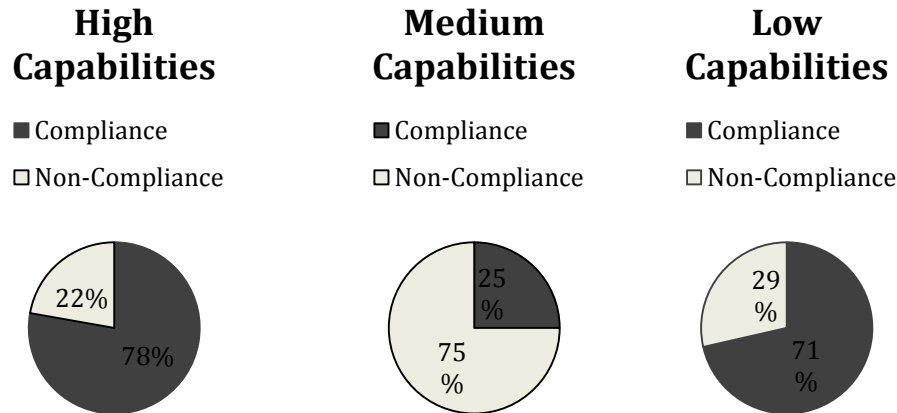
The observations in Santa Fe and Buenos Aires are particularly telling because these are provinces that collected a significant portion of their total revenue from real estate (24% and 17%, respectively). This is a very difficult tax to collect and no province does this perfectly. That being said, some provinces do this much better than others and for some the real estate tax is a significant tax in their revenue. Compliance with these reforms, accordingly, can tell us something about the role of capacity in the reform efforts.

Real Estate Valuation involved standardization of rates for urban, suburban and rural property. The real estate tax requires the highest levels of bureaucratic capacity to implement effectively. Thus the highest capability provinces tend to be the ones that get the most revenue from it. However, these same provinces are able to collect revenue effectively from all sources, including the stamp, gross business and automobile taxes. The weakest capacity provinces will comply with this reform because it is not very costly to them. They did not get much revenue from the real estate tax in any case. I

expect a bifurcated result—the provinces with the highest and the lowest levels of capacity will be able to implement this reform.

Compliance with the real estate valuation is shown in Figure 5.¹⁵ This reform reveals very different patterns than those observed with automobile taxation. The high capacity provinces and the low capacity provinces nearly all complied with these reforms. Very few of the medium capacity groups, on the other hand, reformed their real estate valuation.

Figure 5: Compliance with Real Estate Valuation.



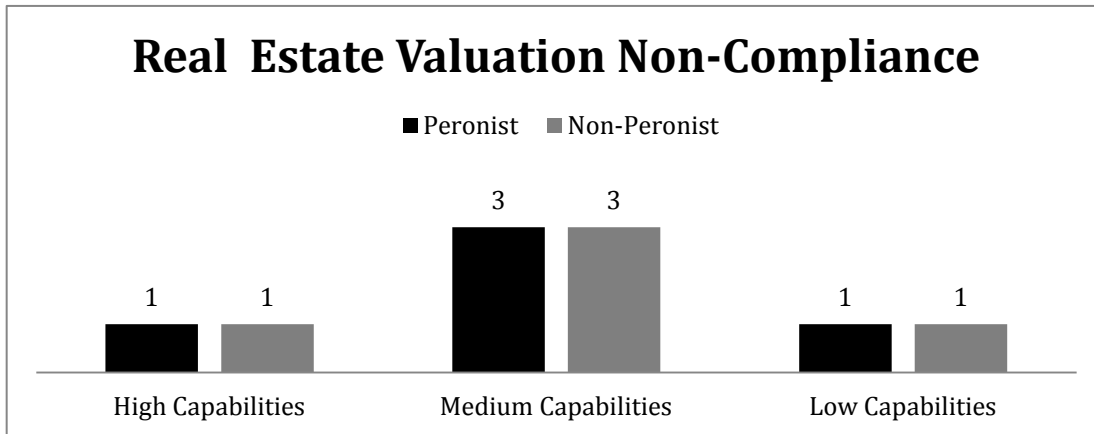
The data shown in Figure 5 supports the idea that the provinces with the lowest and highest capacity would be compelled to change their behavior, but for different reasons. The high capacity groups had the sophistication to reform their real estate valuation while still collecting enough revenue to keep their finances afloat. The low capacity provinces reformed their valuation because their revenue systems were not dependent on it. This stands in contrast to the automobile valuation where the low capacity provinces had much to lose from reforming that tax.

The medium capacity provinces were put in a difficult spot by these reforms. These provinces collected the real estate tax with some success and relied on it for their revenue. Reform to the real estate valuation had the distinct possibility of either reducing the amount of revenue they collected or disorganizing the existing system of collection, or both. The provinces with very serious concerns about their revenue collection were wary of disturbing their real estate collection.

The pattern of non-compliance with the real estate reform is not well explained by simple party allegiance. Unlike automobile taxes or the general compliance with the pact, real estate non-compliance was exactly the same across parties. This is shown in Figure 6. In all capacity groups, the same number of Peronist as non-Peronist provinces rejected these reforms. These results reinforce the importance of considering province’s capacity to implement policy, not simply their political will to do so when evaluating the pact.

¹⁵ The compliance pattern on real estate valuation and rate reforms were very similar. The real estate rate table is shown in the appendix.

Figure 6: Non-Compliance with Real Estate Tax Reform.



The evidence from real estate valuation reforms suggests that bureaucratic capacity of the provinces are a factor in provinces’ compliance. Party affiliation does not explain the broad patterns of compliance observed in this case. Political will is certainly relevant in these cases however. What we observe as provinces’ non-compliance can be a matter of partisanship of governors, *informed by the bureaucratic capacity* of their own provinces. This would be consistent with Spiller and Tommasi’s argument about Argentina’s bureaucracies. They say: “Thus, a poor bureaucracy worsens the policy-making environment, and a poor policy-making environment is unlikely to create a quality bureaucracy” (2009, p. 156). Bureaucratic capacity in this case drove the motivations of politicians, and not the other way around.

17 Conclusions and Implications

Sub-national governments play a large and growing role in governance in developing countries. What little we know about these governments - their systems of elections, governmental organization, and bureaucratic capacity - suggests that they may be of even lower quality than highly criticized national governments. The academic and policy communities both need to spend much more time considering how to bolster their capacity and strengthen the connection between quality service delivery and electoral reward.

The challenge becomes how to incentive capacity-strengthening and service-improving reforms in sub-national bureaucracies. In this article, I have suggested one way this might happen - a disgruntled national government - but also laid out serious impediments to the success of this approach.

The crucial link in democracy is that between politicians and voters. If voters are able to hold sub-national politicians accountable for policy outcomes and the quality of their bureaucracy, then we expect this to create incentives for politicians to care about improving sub-national governance. In the Argentine case, two important facts make accountability very difficult. First, sub-national elections of governors are not competitive in most of the provinces, making accountability very difficult to impose by voters (Gervasoni, 2010). Voters in these provinces cannot reasonably expect partisan change in the province and thus must press for change from within the party, especially by employing to “alternative political technologies” such as protests and strikes (Scartascini, Trucco and Tommasi, 2009a).

The other, perhaps more important, reason that governors do not prioritize bureaucratic reform is that, even where voters can hold them accountable and threaten to vote them out, most voters do not base their vote choice on the quality of subnational bureaucracy. Rather, “quality” of governors is seen

as the ability to extract resources from the center and distribute them in the form of patronage jobs and clientelist resources. Remmer and Gélineau (2003) and Bonvecchi and Lodola (2010) show that sub-national voters base their assessments of candidates, and ultimately base their voting decision, mostly on the ability of governors to deliver (federal) resources to their provinces not to other “objective” assessments of government performance such as economic growth. Voters’ assessments of sub-national politicians may thus pose a serious impediment to reform in Argentina and other federal developing nations. As long as voters hold governors accountable for efforts to attract federal resources, rather than for efforts to improve sub-national government quality, then those politicians find little incentive to invest in the long-term project of bureaucratic reform.

Argentina’s provinces vary considerably in provincial bureaucratic capacity and their ability to attract federal resources (relative to other government resources). Ostensibly, then, there should be variation amongst provincial voters in the how they assess governor success. For those provinces less dependent on federal transfers, governor’s success at attracting them should not be so highly valued. In those provinces, voters should have a somewhat different standard to evaluate governors, including, perhaps, on the quality of public service provision. A potential research area is extending and refining the Remmer and Gélineau (2003) study to separate voter preferences across districts, depending on the sources of provincial revenue. Do voters in less dependent provinces evaluate their governors more on standards of bureaucratic quality? The political logic of Argentina’s provinces’ role in the national government, however, suggests very high barriers to reform. The same provinces that are more likely to evaluate their politicians for the quality of service delivery and government outcomes are also less viable locations for political patronage given larger populations, higher incomes, and lower representation in the national legislature (Calvo and Murillo, 2008; Stokes, 2005). Thus, federal transfers and bureaucratic reform are both heavily intertwined with the political logic of clientelism in Argentina.

Interestingly, provincial voters appear to have a relatively uniform standard across parties for governors. Peronist, Radical and provincial party voters appear to evaluate governors based on federal resource acquisition. In fact, being an opposition governor is a better position to collect federal transfers (Gordin, 2006; Bonvecchi and Lodola, 2010). This suggests even higher barriers to reform if all parties and nearly all politicians see their fate tied to transfers rather than good governance.

This work, more importantly, lends itself to a research agenda on sub-national bureaucracy that extends far beyond the Argentine case. In particular, I have suggested at least five directions for further research on bureaucratic capacity in sub-national arenas, including generalizable and testable propositions for further research. First is national impetus for reform. Do we find, empirically, that bad equilibrium in sub-national bureaucratic capacity are broken most often by national governments? If not, how is reform initiated?

Second, third and fourth is the role of national political parties, extant capacity and the interaction of those two. Can national parties play the role of prioritizing good collective national outcomes over more local outcomes? If so, under what conditions? How do extant levels of capacity, and resource dependence on the federal government influence politicians’ willingness and incentives to engage in reform? Is intra-party bargaining shaped by extant capacity in ways similar to the Argentine case? Thus, do parties play a positive or negative role in sub-national reform efforts?

APPENDIX

Table 5.1a: Fiscal Pact of 1993 Components.

| Fiscal Pact of 1993 Components |
|--|
| <i>Provinces that are signatories receive:</i> |
| A minimum amount of coparticipated revenues is increased to Arg\$740 million a month, compared with a minimum of Arg\$725 million a month that was established under the previous federal pact that was in force during 1993 |
| To the extent that they eliminate stamp duty and taxes on gross income for productive activities, provinces are not required to refund advances made by the Treasury since August 1992 to comply with the guaranteed coparticipation minimum (during September 1992 to June 1993; advances from the federal government amounted to Arg\$0.9 billion) |
| The option to transfer their pension funds to the national system, including the deficits they generate, that is, approximately Arg\$1.2 billion a year |
| Political guarantees to negotiate the offsetting of claims and debts between the provinces and the federal government |
| <i>Productive sectors receive:¹</i> |
| Exemptions from the provincial turnover tax—the process must be completed by June 30, 1995, the provinces having the option to apply it partially or gradually—or primary production; industry; mining; tourism; financial services; savings and investment companies for those generated in homes for domestic use |
| Exemptions from stamp duties for financial or insurance operations for the agricultural, industrial, mining, or construction sectors, with the commitment that this will fully apply to the remaining operations and sectors by June 30, 1995 |
| Exemptions from specific provincial taxes levied on transfers of fuel, gas, electricity including taxes on self-generated energy, and domestic services |
| The elimination of rates or taxes that are levied directly or indirectly on the flow of goods among jurisdictions or the use of physical space, including airspace, for services |
| Waiver for the taxes on interest earned on fixed term and savings bank deposits, banking debts, and gradually all taxes levied on payroll, with completion of this waiver process by June 30, 1995 |
| Relief from the assets tax, to the extent that they are affected by the repeals and exemptions arranged by each province in connection with stamp tax |
| Reductions of 30-80 percent in rates of employers' social security contributions, applying only to those sectors that are exempt from stamp duties and turnover taxes |
| <i>Provinces are also required to:</i> |
| As of January 1, 1994, revise taxes on real estate property, so that in no case they exceed for rural real estate, 1.2 percent; suburban real estate 1.35 percent; and urban real estate, 1.5 percent of the taxable base. The taxable base may not exceed 80 percent of the market value of the real estate |
| As far as possible, strengthen the tasks of auditing and supervising compliance with tax obligations, implementing standard systems that give precedence to regimes of at-source withholding and collection or payment on account |
| Within three years, replace provincial turnover taxes with general consumption tax, with a view to ensuring tax neutrality and an improved competitiveness of the economy |
| Move toward the full or partial privatization, or leasing/concessions to the private sector of provincial public enterprises |
| Undertake deregulation, removing the restrictions on the supply of goods and services and on interventions in the various markets |
| Adopt rules consistent with national legislation on occupational accidents |

Source: Ambito Financiero of January 21, 1994. Agricultural production, industry, construction, mining, tourism, and scientific and technological research.

Table 5.2a: Tax Stipulations of the Second Fiscal Pact of August 1993—Obligations of the Provinces.

| Tax | Measures Adopted | Sector or Activity |
|---|--|---|
| Stamp tax | Repeal | Any institutionalized financial or insurance operations for the agricultural, industrial, mining, or construction sectors |
| Specific provincial taxes and municipal taxes | Repeal | Transfers of fuel, gas, electricity, including taxes on self-generated energy, and similar services |
| Taxes on interest on fixed term and savings bank deposits | Repeal | |
| Provincial turnover taxes | Eliminate (completed by June 30, 1995) | Primary production, financial services provided by financial institutions Savings and investment companies, mortgage security issuing companies, private pension funds (AFJPs) Mutual fund management companies Insurance companies, with respect to income from their specific activity Currency transactions, with respect to income from such activity Production of goods, not including income from sales to consumers Provision of electricity, water, and gas services for commercial and/or industrial purposes Real estate construction |
| Real estate property taxes | Revise | As of January 1, 1994: Average tax rates should not exceed, for rural real estate, 1.2 percent; suburban real estate, 1.35 percent; and urban real estate, 1.5 percent The taxable base should not exceed 80 percent of the market value of urban and suburban real estate or the value of undeveloped land in case of rural real estate |
| Road taxes and road maintenance taxes | Revise | It is recommended to municipal governments that these or similar taxes not exceed 0.40 percent of the value of the provincial taxable base and be adjusted to reflect the cost generated by the actual provision of the service |
| Taxes on driver's licenses | Revise and coordinate | The obligation will be to ensure the uniformity of valuations or applicable tax rates among all jurisdictions as of 1994. Valuations published by the General Directorate of Taxation (DGI) are to serve as reference |

Sources: Schwartz and Liuksila (1997), Instituto de Estudios Económicos sobre la Realidad Argentina y Latinoamericana (IEERAL)

Table 5.3a: Automobile Valuation Non-Compliance, by Capacity and Party.

| Automobile Valuation | Non-compliance |
|----------------------|--------------------------------------|
| Low Capacity | Jujuy, Misiones, Santiago del Estero |
| Medium Capacity | Buenos Aires, San Juan |
| High Capacity | |

Source: Author's calculations, using Tommasi in Wallack and Srinivasan (2006).

Table 5.4a: Real Estate Valuation Compliance, by Capacity.

| Real Estate Valuation | Compliance | Non-compliance |
|-----------------------|--|---|
| Low Capacity | Corrientes, Formosa, Catamarca, Misiones, Santiago del Estero | Jujuy, Salta |
| Medium Capacity | San Juan, San Luis | Buenos Aires, Chaco, Entre Rios, La Rioja, Rio Negro, Tucumán |
| High Capacity | Capital City, Chubut, La Pampa, Mendoza, Neuquén, Santa Fe, Tierra del Fuego | Córdoba, Santa Cruz |

Source: "Pacto Federal para el Empleo, la Producción y el Crecimiento." Decreto 1807/1993.

Table 5.5a: Provincial Compliance with the 1993 Fiscal Pact.

| Items | C.T. | B.A. | Cat. | Cord. | Cuar. | Chu. | Chu. | E.R. | For. | Juj. | L.P. | L.R. | Mio. | Mis. | Nen. | Rio. | San. | Sal. | S.J. | S.L. | S.P. | Tuc. | T.F. |
|--|------|------|------|-------|-------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| 1: Tax on contracts | | | | | | | | | | | | | | | | | | | | | | | |
| 1.1: Short term reduction | | | | | | | | | | | | | | | | | | | | | | | |
| 1.2: Medium term reduction | | | | | | | | | | | | | | | | | | | | | | | |
| 2: Specific taxes | | | | | | | | | | | | | | | | | | | | | | | |
| 2.1: Tax on oil | | | | | | | | | | | | | | | | | | | | | | | |
| 2.2: Tax on gas | | | | | | | | | | | | | | | | | | | | | | | |
| 2.3: Tax on electrical energy | | | | | | | | | | | | | | | | | | | | | | | |
| 2.4: Tax on sanitary services | | | | | | | | | | | | | | | | | | | | | | | |
| 3: Tax on bank accounts and interest | | | | | | | | | | | | | | | | | | | | | | | |
| 3.1: Bank accounts | | | | | | | | | | | | | | | | | | | | | | | |
| 3.2: Paper taxes | | | | | | | | | | | | | | | | | | | | | | | |
| 4: Turnover Tax | | | | | | | | | | | | | | | | | | | | | | | |
| 4.1: Primary production | | | | | | | | | | | | | | | | | | | | | | | |
| 4.2: Financial services | | | | | | | | | | | | | | | | | | | | | | | |
| 4.3: Insurance services | | | | | | | | | | | | | | | | | | | | | | | |
| 4.4: Foreign currency transactions | | | | | | | | | | | | | | | | | | | | | | | |
| 4.5: Imports | | | | | | | | | | | | | | | | | | | | | | | |
| 4.6: Multiple | | | | | | | | | | | | | | | | | | | | | | | |
| 4.7: Construction | | | | | | | | | | | | | | | | | | | | | | | |
| 4.8: Tourism | | | | | | | | | | | | | | | | | | | | | | | |
| 4.9: Research and development | | | | | | | | | | | | | | | | | | | | | | | |
| 5: Real estate taxes | | | | | | | | | | | | | | | | | | | | | | | |
| 5.1: Valuation | | | | | | | | | | | | | | | | | | | | | | | |
| 5.2: Tax rates | | | | | | | | | | | | | | | | | | | | | | | |
| 6: Tax equities | | | | | | | | | | | | | | | | | | | | | | | |
| 7: Consumption tax | | | | | | | | | | | | | | | | | | | | | | | |
| 8: Tax on cars | | | | | | | | | | | | | | | | | | | | | | | |
| 8.1: Valuation | | | | | | | | | | | | | | | | | | | | | | | |
| 8.2: Tax rate | | | | | | | | | | | | | | | | | | | | | | | |
| 9: Privatization and concessions | | | | | | | | | | | | | | | | | | | | | | | |
| 9.1: Energy firms | | | | | | | | | | | | | | | | | | | | | | | |
| 9.2: Sanitary and water utilities | | | | | | | | | | | | | | | | | | | | | | | |
| 9.3: Provincial Banks | | | | | | | | | | | | | | | | | | | | | | | |
| Transfer of Provincial Pension System | | | | | | | | | | | | | | | | | | | | | | | |

Total fulfillment Partial fulfillment no fulfillment municipal no information

Source: "Pacto Federal para el Empleo, la Producción y el Crecimiento", UNLP, Lics. L.M.Monteverde, R. Ruiz del Castillo, S. G. Tarragona and H. Terán y Dres. T. Perez Balda y J.M. Prada sobre la base de información de la Dirección de Coordinación Fiscal con las Provincias.
 Note: The province of Buenos Aires has privatized the water company during 1999.

Source: Tommasi *apud* Wallack and Srinivasan (2006).

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