

**Federalism and Decentralization under Convertibility:
Lessons from the Argentine Experience**

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I. INTRODUCTION

The quest for more suitable fiscal interjurisdictional arrangements, and the extent of spending decentralization towards subnational governments stand as priority issues in many countries' policy agendas, no matter whether their institutional set up is federal or unitary.

In this relation, the Argentine is a particularly worth studying case as, despite it being a formally federal country in which national and subnational governments have full taxing and spending powers, marked centralization in tax collection (vertical imbalance) and regional disparities (horizontal imbalances) cause serious distortions that call for urgent consideration.

In tackling the subject, the paper shows that decentralization took the form of delegation rather than devolution and focuses on its impact upon accountability, given that lower government levels did not generally rely on the financial autonomy principle.

In the light of the 1994 constitutional amendment mandating the setting up of a new Coparticipation Regime, the paper also advances in the analysis of the shortcomings of the existing transfer mechanisms, such as the Revenue Sharing System, and attempts to add some inputs to the debate now under way.

Given also the clear implications of decentralization for macroeconomic management, the paper deals with the subject on the following three accounts:

- It tries to assess, in the first place, whether the existing Convertibility Regime sufficed to introduce fiscal discipline in the provincial level.
- Second and given that, in meeting their budget restraint, provinces resorted to debt, consideration is given to subnational borrowing performance.
- Finally, and in the light of provinces' performance in the provision of public goods, some analytical efforts are devoted to analyze whether Public Choice patterns should necessarily accompany any important decentralizing process.

II. FISCAL FEDERALISM DURING THE CONVERTIBILITY

A. The Argentine Fiscal-Federal Set Up

The Argentine is constitutionally a three-tiered federation in which the national government, twenty four provinces (including the autonomous city of Buenos Aires) and 1,175 municipalities share taxing powers and spending functions. Nevertheless, the centralized pattern of tax collection imposed by the Revenue Sharing System established in the thirties and maintained ever since led to many authors¹ to consider that the country has behaved more like a "formal" rather than

¹ See, in this connection Rezk (1998).

a “true” federation; this assertion found also support in the role played by the other transfers to provinces that favoured principal-agent schemes and did not help to promote higher accountability of subnational governments.

The mentioned feature is clearly depicted by Table 1 in the Appendix, as it shows that in 1997 the national government was responsible for 79% of the total tax collection, whereas provinces and municipalities accounted in turn only for 16.5% and 4.5% of the total yield. This ‘concentration’ feature is explained by the fact that provinces left in national hands the levying of Personal and Corporate Income Taxes, VAT, Excise (internal) and Personal Good Taxes, which added up to Taxes on Salaries and Import Duties. Thus, provinces and municipalities’ fiscal commitments limited to raising the distorting Turnover Tax (Impuesto sobre los Ingresos Brutos), Property and Motor Vehicles Taxes and Stamp Duties².

It is worth emphasizing here that the quantitative overview of table 1 hints one of characteristics of the ‘formal’ Federalism in Argentina: despite the ample constitutional faculties given to subnational governments to raise direct and indirect taxes (possibility of overlapping tax systems), revenue sharing was the preferred method of tax coordination in the country, coparticipation becoming ‘the’ intergovernmental fiscal arrangement, whereby national and subnational levels sought to avoid tax competition among jurisdictions and, as will be shown below, to check horizontal imbalances.

Although the unconditional transfers to provinces, mainly coparticipated funds³, represent more than 80% of total transfers provinces still receive an important amount of earmarked transfers each year under the form of diverse funds (energy, housing, regional disequilibria, education), as well as transfers for decentralized services, road construction or provincial social security regimes. Provinces also manage their own revenue sharing system whereby municipalities in their jurisdictions receive unconditioned transfers, although in this case local levels do not render or delegate the collection of any tax to provinces as is the case between the Nation and the provinces⁴.

Let it be stated that the sharing of tax revenues is at present being carried out through the following two-stage procedure: the primary distribution, that assigns 58.05% of net coparticipated funds⁵ to provinces and 41.95% to the national level,

² This mentioned feature stands as the main difference with the other South American federation, Brazil, where the subnational level (the states and municipalities) is responsible for levying almost 35% of total tax revenues and also the most important single tax (the so called ICMS, a variant of value added tax), whose yield outweighs those of the main national taxes: 29.5% of overall tax revenues compared to 21.6% and 16.6% for Social Security Contributions and Income Tax respectively.

³ Another type of unconditioned transfer, called National Treasury Grants (ATN), ranges annually between 2% and 4% of total transfers.

⁴ Provinces do, however, generally delegate to municipalities the collection of the Motor Vehicle Tax, whose tax base and rates are uniformly set by provinces seeking to avoid municipalities’ unfair attempts to capture a typically mobile tax base.

⁵ Those percentages do not apply straight away to the original tax yield of shared taxes but to the so called Net Coparticipation Fund, which does not include previous deductions which will later accrue to provinces under

and the secondary distribution whereby each province is allotted revenues on the basis of fixed coefficients determined by the law 23548⁶.

As indicated in Table 1, the national level is responsible for collecting 100% of Income Taxes and External Trade Duties, 90% of Social Security Contributions and almost 80% of Consumption Taxes; provinces and municipalities are mainly responsible for Taxes on Property and Motor Vehicles (56% and 32% respectively) whereas their participation in the collection of Consumption Taxes is significantly minor (18.5% and 2.9% respectively).

A preliminary comment on the distribution of tax instruments among jurisdictions in the Argentine is that the prevailing pattern seems to broadly agree with the suggested Musgravian economic criteria whereby the national government should administer (both in terms of efficiency and equity) those fiscal instruments taxing mobile factors of production or whose tax bases are unevenly distributed among jurisdictions; subnational levels should, in this context, commit to residence-base consumption taxes or raise taxes on immobile factors and assets.

B. Provinces' Fiscal Performance under Convertibility

The so called Convertibility Regime, whereby the national currency was anchored to dollar in 1991, in a 1 by 1 relation, ruled out any legal possibility of money deficit financing in the Argentine. This mechanism was framed within a more comprehensive macroeconomic programme that included privatization of state-owned firms, state reform and control of tax evasion and aimed at stabilising the Argentine economy, subject to years of inflation and lately to the hyperinflationary shocks of 1989 and 1990, and at securing a self sustained GDP growth path.

In this respect, the observed price stabilisation of the last decade and some successes in evasion control (mainly in the period 1991-95) had a clear impact upon national and provincial finances. The control of inflation did away with the damaging effects of the so called Olivera-Tanzi effect, whereby high inflation and legal fiscal lags were seen to combine in eroding fiscal resources, while the higher tax revenues resulting from measures to counter evasion and the economy boost during the period enabled the provinces to receive more coparticipated funds, as is depicted by figure 1 below and shown by tables 2 and 3 in the appendix.

Please place figure 1 here

The table 2 in the appendix, which includes data for provinces' coparticipated funds in the period 1990-99, permits to see that the change -in real terms- ranged

the form of other specific transfers. The net coparticipation fund takes 54.5%, 75.65% and 85% of the yields of Income Tax, Value Added Tax, Excise and Personal Good Tax, respectively.

⁶ Although the 1994 constitutional reform mandated that a new coparticipation system should be at work not later than 1 January 1997, the new system is far from being ready for treatment by the Congress and the law 23548 is still being used for secondary distribution.

between 25% and 45% when the comparison is done with respect to 1991, the convertibility's departing year. Similar conclusions can be drawn in relation to provinces' own tax revenues, as table 3 shows that those climbed -also in real terms- between 35 and 80% related to 1991. Results were also striking in both cases, when the real growth in average annual fiscal revenue for the period 1992-99 was measured with respect to the pre-convertibility year 1990 (85% and 99% respectively).

Three interesting conclusions appear evident from the visual inspection of Figure 1 above and the analysis of the information provided by tables 2 and 3:

- in the first place, both coparticipated funds and provinces' own fiscal revenues experienced important increases in the period considered, although provinces' fiscal effort seemed at first sight to have been more impressive in view of the fact that their average real growth in own revenues reached 61%, compared to 1991's figures; the performance of coparticipated funds showed in turn a more modest increase of 30% during the same period.
- second, and in line with the abovementioned feature, own resources had a slightly better participation in provinces' overall fiscal revenues although it does not follow from this that horizontal imbalances tended to dwindle⁷.
- third, and as it was expected, both yields exhibit a marked sensitiveness to the external crises that impacted negatively upon the domestic level of activity. Thus, shared revenues and fiscal yields both fell in 1995 and in 1999, following the effects of the Mexican and the Brazilian crises and the subsequent contraction in the GDP growth rate⁸.

The allegedly overall better performance of provincial fiscal resources during the period might however result a misleading statement should horizontal fiscal disparities not be introduced into the analysis. As will be shown in section E, most provinces failed in properly addressing the goal of bettering their own fiscal sources and the greatest part of fiscal efforts were seen to occur in a handful of provinces; suffice it thus far to point out that only five jurisdictions (four provinces and the city of Buenos Aires) accounted, and still account for more than 83% of own subnational tax revenues⁹.

C. Provincial Expenditure Assignment and the provision of Public Goods under Convertibility

⁷ As will be shown below, the proven better performance of overall provincial fiscal resources is not tantamount to saying that all provinces exhibited similar high commitments to raising tax revenues.

⁸ Suffice it in this connection to say that GDP fell 2.84% and 3.0% in 1995 and 1999 respectively.

⁹ Percentages were as follow in 1997: Buenos Aires, 41.9%; autonomous city of Buenos Aires, 22.8%; Córdoba, 7.9%; Santa Fé, 7.6% and Mendoza, 3.5%.

Valid conclusions concerning provinces' fiscal performance during Convertibility ask for the joint consideration of the behaviour of Revenues and Expenditures during the period, for what the content of Tables 4 and 5 in the appendix will be analyzed next.

Spending data for 1997, included in Table 4, by function and by jurisdiction's percentage share, clearly show that the revenue centralization pattern depicted by table 1 did not hold in the case of expenditures owing to the profound spending decentralization processes that took place, although in part under the form of delegation; that is to say, provinces received earmarked funds that enhanced their spending possibilities without helping at the same time to raise subnational governments' accountability.¹⁰

But, whatever the implications of discussions on whether delegation was the right procedure or if provinces should have regained more fiscal autonomy by demanding decision making devolution, table 4 indicates a certain degree of overlapping in spending functions, which is to be obviously attributable to the institutional federal set up by which concurrent spending powers were granted by the Constitution to the different government levels. A careful inspection of percentage shares shows that, by and large, national and subnational governments keep a relatively even participation in Administration, Law and Order, Social Expenditure and Spending on Human Resources and in Infrastructure and Services for Economic Affairs, being the Nation only overwhelmingly superior when the percentage share of Public Debt is considered.

A more disaggregated analysis of figures permitted to assert that the real degree of decentralization in Argentina could also be higher than indicated so far; in fact, if Social Security payments and expenditure on Training and Labour Force were excluded, provinces' percentage share of Social Expenditure would raise considerably as Education, Health, Welfare and Housing became spending functions practically in provinces' hands.

A similar conclusion can be drawn for Administration, Law and Order as percentage share would have tilted on the provinces' side had Defense (a classical national commitment) not been considered.

Finally, though the national government bears the major part of the public debt burden, it should not pass unnoticed that despite the mentioned positive effects of convertibility upon provinces' resources and fiscal collection subnational governments' responsibility for overall public debt dues amounts now to a non negligible 15%.¹¹

¹⁰ Again experience shows that, let alone likely cases of moral hazard, asymmetric information problems make very difficult for the national level to maintain hold of conditioned transfers' use.

¹¹ As will be explained next, the explanation must be sought at the soft budget constraint faced by provinces.

The performance of National and Provincial Revenues and Expenditures for the period 1991-99, shown by Table 5 in the appendix, places in the frontline of debate the fiscal problem faced by the Argentine national and subnational governments with the unwanted outcome of the extraordinary Consolidated Public Debt increase in the decade, whose unprecedented growth in the case of provinces was just pointed out in the preceding paragraph. In line with what has been said above, there is clear evidence of major fiscal efforts in all jurisdictions, reflected in the growth of national and provincial fiscal revenues; nevertheless, whatever financial autonomy that provinces could have won was thwarted by the more impressive growth of their public expenditures which, as will be shown later, demanded subnational governments to resort to borrowing to restate the government budget constraint.

It has just been said that national revenue collection (and consequently transfers of all kinds to provinces) increased owing to the success in checking part of tax evasion mainly during the earlier years of convertibility. As repeatedly quoted, figures in table 4 and 5 also show that the decentralization process furthered only in the spending side and that, alongside the revenue increase, provincial public expenditure also boosted in the period considered. Nevertheless, the warning is here in order that the success in devolving or delegating spending faculties to lower government levels should in any case be considered in the light of the latter's performance in providing public goods rather than judging their ability to grabbing as much spending powers and national transfers as possible; in other words, sound decentralization is the one falling in line with subnational governments' enhanced supply of public goods rather than with the latter's command of larger public spending shares.

In deepening this line of reasoning, observers can be therefore led to error if, on the basis of the available and quoted statistical evidence, the conclusion is straightforwardly drawn that provincial public expenditure figures are an adequate 'proxy' for public goods provision. Quality and efficacy indicators for each province will have to be resorted to in order that public sector analysts be able to utter founded opinions as to whether Argentine provinces were or are in fact correctly addressing people's demand for public goods and this falls, by all means, well beyond this paper's reach. Very important findings, related to the spending decentralization process during the Convertibility, may however come out from a partial consideration of data contained in tables 6 and 7 which depict Argentine provinces' performance in determined outstanding spending functions.

Still abiding by the above assertion that **public spending** and **public goods provision** can not be taken as equivalent concepts, it is however true that in some spending functions (particularly Health Care and Educational Services) the above two concepts relate more closely in so far as expected outcomes: assisted patients, surgical treatments, schooled children or number of graduates are easier perceived by people than the results of a sound administrative management by the

public sector¹². In this respect, inspection of table 6 (yielding information on percent spending share according to function) gives support to the idea that provincial public goods provision in Argentina fell up to now short of people's expectations while at the same time the result of interprovincial comparisons serves as a disclaimer to the alleged equity feature of the existing revenue sharing system as precisely in the more backward provinces, which in turn received more per capita national transfers, Health Care and Educational Services (let alone other Social Welfare functions) seemed to have rendered poorer in governments' consideration¹³. Table 6 also draws a panorama of horizontal disparities in the supply of public goods as, regarding **Health Care** (excluding the city of Buenos Aires) , 13 provinces have a percent share above or similar to the national average whereas only 5 provinces fall within this group when expenditure on **Education** is considered.

According also to tables 6 and 7 the pure **Administrative**¹⁴ function, whose public goods are less perceived by people or, at least, in which governments have more chances of indulging in political clientelism (i.e. public employment practices), run counter the evidence yielded by Social Services as now 18 provinces out of 23¹⁵ exhibited percent shares above or equal to the average; likewise, public employment per thousand inhabitants in 11 provinces -including the less developed ones- outweighs the country's mean.

In the search for more solid foundations to what has been outlined in the preceding paragraphs a regression equation was adjusted and whose structure aimed at testing provinces' right response to the public goods provision issue. Thus, under the hypothesis that the demand for public goods was better attended to where more resources were devoted to Social functions (in this case Health Care and Education), and that an excessive amount of personnel run counter efficiency levels in providing public goods, the following variables were defined:

PUEM: Provincial public employees per thousand inhabitants
 HEDU: Provincial spending in health care and education

the regression¹⁶ rendering the ensuing adjusted equation:

$$\text{PUEM} = 155.43 - 2.86 \text{ HEDU} \\ \quad \quad \quad 24.82 \quad \quad 0.68$$

¹² Paradoxically, what is being asserted here is that spending in mixed or impure public goods are easier perceive by people than spending in pure public goods.

¹³ The provinces of Formosa and La Rioja and San Juan stand as clear examples of this.

¹⁴ Although the underlying assumption has so far been that greater spending in the Administration branch of provincial governments entailed the suspicion, or at least the possibility, of an inefficient resource assignment, let it be clearly stated that a properly managed Administration branch (in which Law and Order is included) is one of the most valuable public goods for any community.

¹⁵ Excluding again the autonomous city of Buenos Aires.

¹⁶ In order to obtain the regression equation, data from tables 6 and 7 were used from what percent shares for the city of Buenos Aires were discarded, given their condition of outliers.

(6.26) (4.24)

R Squared = 0.46

Adjusted R Squared = 0.44

Durbin Watson coefficient = 2.67

in which is possible to observe that the negative sign for the coefficient of the independent variable is the expected one, t values ensure that coefficients are significantly different from 0, R Squared values speak of a relatively good adjustment and the Durbin Watson coefficient does not hint possibilities of serial correlation. All in all, the regression equation stresses the negative relationship between provincial public employment (and to a certain extent and according to the jurisdiction, of Administration percent share) and provincial public spending in Health and Education¹⁷.

Summing up, three comments are in order with reference to the Expenditure behaviour of provinces and the public good provision during the Convertibility:

- the politico-economic cycle, suggested by A. Downs, made itself crystal clear in Table 5, as can be noticed that expenditure levels grew in election years (1995, 1997 and 1999) and this was particularly noticeable in the subnational level where the overall budget deficit reached record levels in 1995 and 1999 (3,178 millions and 3,345 millions pesos respectively).
- the marked expenditure increase in the provincial level resulted neither in better provision of public goods nor in less horizontal imbalances, as higher fund availability normally meant more employment in the already overcrowded provincial public sectors and provinces differed markedly in what they assigned to what people regarded as typically public goods producing spending functions.
- there did not seem to have been in general public choice-like mechanisms in the spending function of most of Argentina subnational governments for what optima patterns for public goods supply were exceptionally found¹⁸

The above remarks aimed at backing the assertion that a centralized revenue collection and an expenditure decentralization, totally or substantially relying on transfers accruing to subnational governments from 'imperfect'¹⁹ revenue sharing

¹⁷ Although not carried out in this paper, the guess is that similar relationships may be intended with other spending functions that include the production of the so called 'more visible public goods', as for instance Economic Services that entail externalities.

¹⁸ A worth mentioning exception in this connection was the municipality of the city of Córdoba, whose two mayors in the decade resorted, from time to time, to interesting preference-revealing mechanisms and adopted a firm stance against 'free-riding'. Also, the recourse to 'club' goods for the provision of determined municipal services was not unusual in the period.

¹⁹ Imperfect must in this context be taken in the sense that the secondary distribution in the existing revenue sharing arrangement does not respond to any explicit logic except for it being the result of a political negotiation in the Congress in 1987.

arrangements or under principal-agent schemes collide not only with the wise financial autonomy principle but helps also to switch people's demand of accountability from the subnational to the national government²⁰.

D. The Provincial Fiscal Gap and Borrowing During the Convertibility

The familiar coefficients of vertical imbalance due to Hunter (1977), whose validity has somehow been challenged by R. Bird (1986b) on grounds that balance is regarded as an unequivocal good (success in a federal setting will depend on whether this equilibrium is reached) help at least to visualize how far subnational governments are from meeting the principle of financial sufficiency (subnational expenditures must equal revenues of all sources). In this regard, table 8 in the appendix presents measurements of the 1997 fiscal gap for the three government levels, stating in each case the situation before and after the transfer process was performed.

The 'centralization of collection' feature is shown in the upper part of the table 8, where only resources (tax and no tax revenues) collected directly by each of the three government levels were taken into consideration; thus, the negative 19.3% and 4.2% for the provincial and the local levels respectively are here a proof of the strong subnational governments' dependence on resources accruing from sources in other jurisdictions. The picture improves a great deal when coparticipated funds are regarded as jurisdictions' resources (the fiscal gap now reduces to -6.6% and -0.2% for each one of the subnational levels). Finally, other unconditioned grants (e.g. ATN) and the bulk of earmarked transfers received by provinces further reduce the fiscal gap which, however, does not cancel completely and figures in Table 5 have already shown that it persisted all throughout the period under analysis.

Figures in table 8 may give the impression that, to some extent, vertical imbalances are relatively brought under control once shared revenues and other transfers accrue to subnational governments and that, in any case, provincial excessive spending has to be resorted to in order to explain the permanent budget deficits (see table 5); nevertheless, simplifications may be misleading in this field, as horizontal imbalances will show it below, specially if the analysis ignores the particular structure of provincial tax systems and each province's performance in terms of fiscal effort and efficacy of its tax administration²¹.

The legal ban placed by the Convertibility Regime to the possibility of monetary financing of budget deficits, induced all government levels to seek alternative financing sources to meet the budget constraint. Soon, borrowing captured provincial governments' attention favoured by the openness of the economy and the

²⁰ Education is a clear instance of this: despite the fact that this service is a total provincial responsibility, people tend to blame the national government for what they consider budget and quality deficiencies.

²¹ This matter will be addressed to in section E.

liberalization of capital markets. Table 9 furnishes with clear evidences that not only the provincial public debt increased during the period but stresses also the close relationship shown by annual deficits and debt. Although information is more scanty regarding local governments, reliable statistical information proves that municipalities did not escape from the mentioned pattern as their overall financing needs (resulting as well from spending growing faster than revenues) reached at least 4% of their total spending in the decade's first half.

Although available reliable information indicates that more than half of subnational borrowing stemmed from capital markets (banks and issuing of bonds)²², the evidence shows that unfortunately reliance on market discipline was far from being the rule during the borrowing process. Let it, in this regard, Lane's (1993) suggestions be quoted as to the necessary conditions for financial markets be able to exert effective discipline in this field: free and open markets, adequate information on the borrower's outstanding debt and repayment capacity, not perceived chances of bailout of the lenders and borrower's institutional structures ensuring adequate policy responsiveness to market signals.

Although T. Ter Minassian and Craig (1997) asserted that subnational governments would unlikely meet the stringent Lane's conditions, they suggested in turn ways to make the borrowing process safer and more sustainable in the subnational level through what they named cooperative approaches to debt control, rules-based approaches to the control of subnational borrowing and direct controls of national government over subnational governments.

All the same, either under the unlikely form of reliance on market discipline or through one of the mechanisms suggested by Ter Minassian and Craig, there is little doubt that the present and intertemporal dangers posed by the outstanding provincial debt call for some control of subnational borrowing. In this connection, the statistical information gathered in Table 10 shows that only 10 provinces' outstanding debt (out of 24) were below the 50% of their annual budgets²³, whereas other 9 were between 51% and 100% and 5 exceeded the annual budget of the respective jurisdiction.

Figures in table 10 place in its real dimension the solvency problem of the Argentine provinces which have to face, by and large and let alone debt servicing commitments, capital repayments and amortizations next to 1,8 billions dollars a year²⁴; that is, in average, 6% of their total revenues. Needless to say, capital repayments and amortization will hit harder the highly indebted jurisdictions (those

²² The composition of subnational governments' in 1999 was as follows: banks 31%, bonds 22%, international organisms 18%, floating debt 15%, consolidated debt 12%, others 2%.

²³ Some provinces in this group, e.g. Córdoba and Santa Fé, are however firmly committed to reduce even more the burden of their outstanding debt, for what they have undertaken the privatization of the provincial banks and of some public utilities (the case of Electricity in Córdoba).

²⁴ Of this amount, creditors stand as follows: 70%, banks; 23% international organisms and 7%, provincial bondholders.

placed at the bottom of the table)²⁵, in view of their noticeable unwillingness to carry out structural reforms and fiscal policies conducive to restoring fiscal balance²⁶.

E. Horizontal Imbalances in the Argentine

The idea that the consequences of vertical imbalance, suggested by the abovementioned figures, are far from representing a threat in terms of provinces' principle of fiscal autonomy breaks down when the case of horizontal imbalances in the subnational level is brought into picture. In regard to this, figures in Table 11 depicting the standing relationship between provincial per capita revenues and expenditures make clear that the degree of fiscal regional disparities is a problem deserving rapid consideration.

Suffice it to say that only in 5 provinces, per capita own fiscal resources reach, or exceed the 30% of their per capita expenditure, while in the rest this percentage ranges from 7% to 30% and in 2 extreme cases (Formosa and La Rioja) own fiscal tax raising does not even amount to 5% of per capita spending, which in turn indicates provinces' marked dependence on national transfer of all kinds.

Once coparticipation is summed up with provinces' own resources the gloomy panorama just described improves a great deal as practically no jurisdiction fails now to meet 50%-60% of its per capita expenditure. The improvement in backward provinces' fiscal position is thus seen to be closely linked to the coefficients for secondary distribution of shared revenues (law 23548) and the changes undergone by the Revenue Sharing System which evolved from practically a devolution mechanism in 1935 (when the devolution criteria overruled the equalizing 91 to 9) to the situation of the law 23548, whose coefficients maintained unchanged in 1988 the results of the 100% equalizing criteria of the replaced law 20221 of 1973.

An unwanted distorting effect of the prevalent Revenue Sharing System also appears in table 11 and casts serious doubt on the convenience of using Coparticipated Funds to tackle horizontal fiscal disparities. In fact, while country's average of public employees per thousand inhabitants, and the corresponding to those jurisdiction in which per capita own resources exceed 30% of per capita public expenditures, is respectively 35 and 32.6, the figures rise rapidly with values between 37 and 90 for the rest of jurisdictions. Strange enough, the average personnel expenditures (a proxy for monthly wages) in those provinces facing both overpopulated public sectors and budget difficulties do not significantly differ either from those defrayed by the most developed provinces.

²⁵ There is a correlation with the last column in table 6, as debt servicing is also important in these provinces' budgets.

²⁶ A suggestion will be included in the Concluding Remarks, as to how to improve provinces' debt profile.

This situation keeps straight relationship with the analysis in section C above, which conveyed the econometrically demonstrated idea that there was a negative relationship between excessive public employment and the supply of public goods (represented then by health care and education). This in turn showed that not optima situations, in terms of public goods provision, precisely occurred in those provinces that received more per capita coparticipation funds.

The conclusion can be drawn then that the most fiscally backward provinces, despite having been favoured by higher levels of per capita coparticipation, channelled most of these funds to inefficient public employment (seeking to reduce the unemployment rate) and they did that at the cost of sacrificing the amount and quality of public services; needless to emphasize, this implies that those subnational governments regarded politically more costly to reduce the number of agents than incurring in additional borrowing whose burden would be somehow bailed out in case of provincial default risk.

As advanced in section D above, the analysis of horizontal imbalances in Argentina would be incomplete if the ensuing two features were ignored: first, the structure of provincial tax systems and provinces' fiscal effort and performance of their tax administrations. With regards to the first feature, let it be stated that provinces command a relatively simple tax systems embodying four main fiscal instruments: a turnover tax, a property tax, a motor vehicle tax and stamp duties whose percent share are respectively 55.7%, 16.8%, 8.5% and 8.6% of total revenues.

Although the raising of provincial revenues mainly rested on the turnover tax, the use of this instrument was not devoid of problems given its cascade and pyramidation effects and no tax rebates on exported goods, for which reason the national authorities unsuccessfully attempted soon after the Convertibility came into being to replace it by a single stage consumer tax levied at the retail level²⁷. Although efforts were not totally wasted as most jurisdictions agreed in checking part of the tax' damaging pyramidation effects by exempting their agricultural, mining and industrial sectors, provinces however missed an opportunity of doing away with this obsolete turnover tax and of resorting instead to more modern and less distorting taxes²⁸.

In relation to the second feature, horizontal imbalances are in part explained by the uneven fiscal efforts applied by provinces to their own tax raising. In considering for instance the turnover tax, which has already been said to make up 55.7% of provinces' own revenues, only five provinces (the city of Buenos Aires, Buenos

²⁷ Provinces raised, among others, the following contentions against the turnover tax supression: the important tax share within total revenues, taxpayers' knowledge and acceptance of the tax and years of tax harmonization among provinces in order to avoid fiscal competition (the so called Convenio Multilateral).

²⁸ The author of this paper is at present leading a research team at the University of Córdoba whose objective is to assess the replacement of the provincial turnover tax by a progressive consumption tax. Some details can be found in an Annex to this paper.

Aires, Córdoba, Santa Fé and Mendoza) are responsible for more than 80% of the overall yield. The situation does not differ too much with the rest as the same 5 jurisdiccions respond for 88% of the property tax and for 84% of total fiscal revenues.

Even accepting that tax collection reflects tax bases' geographic location, the repeated suggestion that the geographic concentration of wealth and economic activity was responsible for the just mentioned figures gathers a great deal of scepticism and the following alternative and related explanations are often quoted:

- the equilization features of the revenue sharing system were in part responsible for some provinces' fiscal efforts sluggishness as they perceived that in the end coparticipated funds would make up the bulk of revenue without them incurring in political costs.
- most provinces provided neither the political support nor the resources required by their tax administrations to properly fulfill their duty.
- based finally on the idea of taxpayers' intertemporal myopia, and the already acknowledged lack of market discipline, many a governor found less politically compromising to meet the budget constraint by borrowing rather than by collecting more taxes.

It is clear therefore that various causes can be cited to explain horizontal fiscal imbalances in Argentina, but while some of them were not under provinces' control and others can be said to have been provinces' own fault the result has been that the principle of financial autonomy failed to be fulfilled and accountability consequently weakened.

III. LESSONS FROM THE ARGENTINE EXPERIENCE

F. Federalism During Convertibility : A Lost Decade?

The survey completed over the 10 years upon which the Convertibility placed new macroeconomic rules to the Argentine public sector poses in turn the question of whether it really helped to enhance and improve interjurisdictional fiscal relations and also if it encouraged fiscal discipline in subnational governments.

While it is extremely difficult to give a straight answer to the question, quoted figures in tables included in the appendix permit nonetheless to draw diverse conclusions pointing, some of them, to the idea that convertibility enabled some positive situations to come up but, at the same time, casting doubts on whether the regime did not lack accompanying policies which would in fact made the enforcement of overall fiscal discipline more likely and effective.

With relation to the former, it is clear that the dramatic cut in inflation and the subsequent price deflation had positive effects for subnational governments at least on three accounts:

- the feared reduction of real revenue yields, due to the effect of time lag upon tax collection (the so called Olivera-Tanzi effect) did not longer occur.
- sound budgetary practices and procedures regained credibility as monetary values assigned to spending items were not longer turned useless by effect of the inflation.
- although not generally respected, many subnational governments started to perceive the meaning or the government budget constraint and the need of properly addressing it.

Turning now to the 'negative' results in terms of federalism and decentralization, the following two aspects are particularly worth mentioning:

- as macroeconomic stabilisation gained strength, and control of evasion rendered results in terms of higher tax yields, subnational governments found themselves richer (income effect) and reacted increasing total expenditure instead of devoting endeavours to increasing expenditure efficiency (public goods quality).
- likewise, when due to external crises and domestic problems national GDP became subject to cyclical perturbations, and so did coparticipated funds, subnational governments found easier to resort to borrowing instead of applying politically expensive expenditure resizing policies. Suffice it to say that the increase of subnational public debt was somehow favoured by looser conditions in capital markets and the openness of the economy.

But when the matters of financial autonomy and accountability-enhancing of subnational governments are dealt with the deadlock reached in respect of the new coparticipation regime, in no way connected to convertibility and with not a likely solution still on sight, stands as the most serious challenge to the future of federalism in the Argentine.

The last constitutional reform in 1994, that mandated the Congress to enact a new Coparticipation Regime, not only gave the subject a clearly distinctive treatment vis-a-vis other competing issues but aimed also at setting the basis for a modern and lasting legislation in the field of interjurisdictional fiscal arrangements. In this regard, the constitutional mandate pointed out that the new Regime had to be based both on efficiency and equity criteria and gave hints in favour of higher accountability by stating that no services or expenses would be transferred to lower government levels without also transferring resources or taxing powers to the jurisdiction.

The establishing of a new Coparticipation Regime was regarded by many as the certain possibility of framing the fiscal federal relationship more close to Public Choice prescriptions, should it allow fiscally well behaved subnational governments to benefit from orderly administrations and enhanced accountability if, at the same time, economic costs were to be borne by those jurisdictions whose fiscal performance fell short of required standards for public goods provision and macroeconomic management.

In summing up, the idea of a lost decade for federalism may be too a pessimistic balance of what in reality happened, in the light of the positive elements already surveyed. Nevertheless, it must however be acknowledged that some degree of anarchy in subnational borrowing, a larger fund availability and the lack of the right incentives for lower levels' good fiscal behaviour (in terms of enhanced accountability and better public good provision) and the missed opportunity of getting rid of obsolete provincial tax instruments should be counted as the main decade's liabilities.

Last, but by no means least, it must be accepted that failure to reach a decision on the subject of Coparticipation entails enormous damages in terms of intertemporal vertical balance and horizontal equity, let alone costs of governance incurred by authorities in missing opportunities for a final covenant.

G. Concluding Remarks

Although they are not intended to be a recipe, some interesting points can be put forward, in the light of recent experience, which will be assumedly conducive to improving the performance of Fiscal Federalism in the Argentine:

- the quest for enhanced accountability of subnational governments demands that Public Choice practices be furthered at least on the following three accounts: an increase in the percentage share of lower governments' own resource (principle of financial autonomy), a major reliance on unconditioned transfers instead of earmarked grants as a form of preventing moral hazard and the recourse to preference-revealing mechanisms ensuring that demand for public goods will be better addressed in terms of quantity and quality.
- in meeting the government budget constraint, subnational levels' resorting to borrowing can not be based on the sole reliance on market discipline, but rather in rule-based approaches and approaches allowing for some level of control, not to mention Ter Minassian and Craig (1997) suggestion of cooperation of all levels of government in containing the growth of public debt.
- a better profile for subnational governments' debt calls for the following changes to take place: interest reduction and collateral releasing actions by issuing

bonds to replace bank loans and the recourse to borrowing mainly for capital formation.

- fiscal interjurisdictional arrangements (i.e. coparticipation, revenue sharing systems) should also include stronger built-in incentive enhancing mechanisms in line with Public Choice prescriptions, seeking to strengthen subnational governments' accountability and fiscal macromanagement.
- It results clear that, in the light of available experience, when horizontal fiscal imbalances are marked (as is the case of some provinces in Argentina) coparticipation may not be the most adequate instrument to address the matter of regional disparities.
- regarding expenditure decentralization, devolution fares better than delegation for the following two reasons: it enhances accountability and encourages fiscal discipline, as public expenditure will more likely be related to jurisdictions' revenue yield. Delegation (under the principal-agent relationship) will be effective only if the principal is able to minimize problems of asymmetric information and moral hazard.
- as horizontal imbalances in the Argentina do not only occur for uneven geographic distribution of tax bases, some provinces should cease to rely only in transfers and aiming instead at the improvement and strengthening of their tax administrations, as well as to the replacement and elimination of distorting taxes (i.e. turnover tax and stamp duties).

TABLE 1

ARGENTINA. TAX COLLECTION RESPONSIBILITY, BY GOVERNMENT LEVEL
AND TYPE OF TAX. 1997
(In percentage share)

	Taxes on income	Social security contributions	Taxes on property	Taxes on consumption domestic	Taxes on consumption imports	Other
National Level	100	89.4	12.2	78.6	100	
Provinces	0	10.6	56.0	18.5	-	
Municipalities	0	0	31.8	2.9	-	
Percentage of total	12.9	23.5	7.5	49.6	4.3	

Source: Own estimates based on data from "Informe Económico" and "Informe Económico Regional", Secretary for Economic and Regional Programming, Argentina.

TABLE 2

ARGENTINA
PROVINCES' COPARTICIPATED FUNDS DURING CONVERTIBILITY
(In million pesos of 1991)

YEAR	COPARTICIPATED FUNDS
1990	4,791.9
1991	6,822.0
1992	8,592.3
1993	8,890.7
1994	8,148.3
1995	8,028.0
1996	8,329.4
1997	9,403.7
1998	9,920.4
1999	9,796.1

Source : Own estimates based on data from 'Informe Económico', Secretary for Economic and Regional Planning, Argentina.

TABLE 3

ARGENTINA
PROVINCES' OWN FISCAL REVENUES DURING CONVERTIBILITY
(In million pesos of 1991)

YEAR	FISCAL REVENUES
1990	3,780.4
1991	4,678.0
1992	6,373.0
1993	7,320.6
1994	7,547.6
1995	6,805.3
1996	7,161.3
1997	7,932.1
1998	8,635.7
1999	8,329.5

Source : Own estimates based on data from 'Informe Económico', Secretary for Economic and Regional Planning, Argentina and Argentina Provincial Finances Study, Selected Issues in Fiscal Federalism, The World Bank, Report N° 15487-AR, 1996.

TABLE 4

ARGENTINA. TOTAL EXPENDITURE BY GOVERNMENT LEVEL
(In percentage share)

ITEMS	NATIONAL GOVERNMENT	PROVINCES	MUNICIPALITIES	ALL GOVERNMENT LEVELS
TOTAL EXPENDITURES	55.8	35.2	8.9	100.0
ADMINISTRATION, LAW AND ORDER	54.2	35.7	10.1	100.0
GENERAL SERVICES, JUSTICE, LEGISLATION	47.6	37.6	14.8	100.0
DEFENSE, PUBLIC ORDER AND SAFETY	68.4	31.6	-	100.0
SOCIAL EXPENDITURE AND SPENDING ON HUMAN RESOURCES	51.8	38.8	9.4	100.0
EDUCATION, SCIENCE AND TECHNOLOGY	16.0	80.6	3.4	100.0
HEALTH	12.8	73.7	13.5	100.0

WELFARE AND HOUSING	26.6	60.4	13.0	100.0
SOCIAL SECURITY	89.5	10.5	-	100.0
LABOUR	100.0	-	-	100.0
URBAN SERVICES	-	-	100.0	100.0
INFRAESTRUCTURE AND SERVICES FOR ECONOMIC AFFAIRS	46.4	42.2	11.4	100.0
PUBLIC DEBT	84.4	14.6	1.0	100.0

Source : Own estimates based on statistical information from 'Informe Económico' and 'Informe Económico Regional', Secretary for Economic and Regional Programming, Argentina.

TABLE 5

ARGENTINA. NATIONAL AND PROVINCIAL REVENUES AND EXPENDITURE DURING CONVERTIBILITY*
(In current million pesos)

YEARS	NATIONAL		PROVINCIAL	
	REVENUES	EXPENDITURES	REVENUES	EXPENDITURES
1991	25,159	25,157	13,734	15,076
1992	36,400	35,849	20,091	20,516
1993	40,062	37,331	22,775	24,884
1994	40,143	40,429	24,516	27,170
1995	39,579	40,952	24,048	27,226
1996	36,393	41,657	26,065	27,844
1997	42,603	46,880	28,310	29,528
1998	43,368	47,442	30,056	31,876
1999	45,566	53,565	31,013	34,358
Δ (1999-92)	25.2%	49.4%	54.4%	67.5%

Source: Own estimates based on data from the "Informe Económico" and "Informe Económico Regional" Secretary for Economic and Regional Programming, and Carta Económica (M.A.M. Broda y Asociados).

*National Revenues and Expenditures are exclusive of funds coparticipated to provinces.

TABLE 6

ARGENTINA, PROVINCIAL PUBLIC SPENDING 1997
(as % of total spending)

Prov.	Admin	D.Safet	Health	Educat.	S.Welf.	S.Tech.	Econ.	P.Debt
B.Aires	21.9	10.5	11.6	32.8	11.8	0.1	9.0	2.3
Catam.	31.2	7.0	11.2	25.8	8.0	0.1	13.0	3.7
Córdoba	27.3	12.3	9.9	31.3	8.6	0.1	7.0	3.5
Corrien	25.3	9.4	9.4	27.6	17.7	-	7.7	2.9
Chaco	32.2	8.2	11.2	26.0	9.0	0.1	10.1	3.2
Chubut	19.0	7.9	14.4	23.2	8.0	-	24.4	3.2
E.Ríos	22.8	8.1	9.8	24.8	12.5	0.1	17.6	4.3
Formos	28.1	6.8	8.6	18.0	18.0	-	12.2	8.2
Jujuy	31.3	8.9	10.6	27.8	9.2	-	8.6	3.6
L.Pamp	28.6	6.4	12.4	22.0	12.6	0.1	17.0	0.9
L.Rioja	40.2	8.9	9.2	23.7	6.2	-	11.2	0.7
Mendoza	28.1	7.7	13.7	28.4	7.5	-	6.1	8.5
Misiones	24.3	6.8	11.1	23.2	9.6	0.1	21.6	3.4
Neuque	25.1	7.8	12.2	26.6	10.4	-	16.0	1.9
R.Negro	24.1	9.3	12.9	26.0	9.3	-	11.0	7.3
Salta	26.2	8.4	15.1	23.7	10.2	-	13.8	2.6
S.Juan	26.5	7.6	11.0	21.0	11.7	-	18.3	3.9
S.Luis	27.6	5.5	12.1	23.8	12.1	-	18.0	0.9
S.Cruz	21.4	8.1	7.9	21.7	16.9	-	23.8	0.3
S.Fé	28.6	10.1	8.3	32.9	11.2	0.1	7.6	1.2

S.del E.	26.3	9.3	10.1	29.0	8.1	-	13.5	3.6
Tucuma	31.2	7.6	10.1	27.4	8.6	-	9.8	5.3
T.del F.	29.4	6.3	11.2	19.8	14.5	0.3	17.0	1.6
B.A.City	13.0	-	39.3	32.3	5.3	-	5.7	4.4
All Prov.	24.4	8.5	13.6	29.0	10.5	0.1	10.7	3.2
Prov (a)	25.5	9.3	11.0	28.7	11.0	0.2	11.2	3.1

Source: Own estimates on the basis of statistical information from 'Informe Económico Regional', Secretary for Economic and Regional Programming, Argentina.

(a) Percentage share for all provinces excluding the autonomous city of Buenos Aires.

TABLE 7

ARGENTINA, PROVINCIAL EXPENDITURE ON SOCIAL SERVICES AND
ADMINISTRATION 1997
(as % of total spending)

Provinces	Social Services	Health + Education	Administration	Public Employees p/1000 inh.
City of B. Aires	76.9	71.6	13.0	42.1
Buenos Aires	56.3	44.4	21.9	25.5
Corrientes	54.7	37.0	25.3	47.4
Santa Fé	52.4	41.2	28.6	31.6
Córdoba	49.9	41.2	27.3	25.5
Mendoza	49.6	42.1	28.1	35.7
Neuquen	49.2	38.8	25.1	68.0
Salta	49.0	38.8	26.2	39.5
Río Negro	48.2	38.9	24.1	51.4
San Luis	48.0	35.9	27.6	50.7
Jujuy	47.6	38.4	31.3	45.1
Entre Ríos	47.2	34.6	22.8	45.7
Sgo del Estero	47.2	39.1	26.3	47.7
La Pampa	47.0	34.4	28.6	57.3
Santa Cruz	46.5	29.6	21.4	89.3
Chaco	46.3	37.2	32.2	39.3
Tucumán	46.1	37.5	31.2	36.6
Chubut	45.6	37.6	19.0	55.2
Tierra del Fuego	45.5	31.0	29.4	60.3

Catamarca	45.1	37.0	31.2	73.5
Formosa	44.6	26.6	28.1	68.8
Misiones	44.0	34.3	24.3	36.7
San Juan	43.7	32.0	26.5	50.8
La Rioja	39.1	32.9	40.2	90.0
All Provinces	53.1	42.6	24.4	50.6
All Provinces (a)	50.7	39.7	25.5	50.9

Source: Own estimates on the basis of statistical information from the 'Informe Económico Regional', Secretary for Economic and Regional Programming, Argentina.

(a) Percentage share for all provinces excluding the autonomous city of Buenos Aires.

TABLE 8

ARGENTINA: PUBLIC SECTOR LEVELS AND FISCAL VERTICAL
IMBALANCE 1997
(In current million pesos and percentage share)

	REVENUE SHARE		EXPENDITURE SHARE		BALANCE	
<u>Before transfers:</u>						
National Level	55,377	76.8	41,686	53.3	13,691	23.5
Provincial Level	12,835	17.8	29,030	37.1	-16,195	-19.3
Municipal Level	3,939	5.4	7,471	9.6	- 3,532	-4.2
<u>Before transfers:*</u>						
National Level	42,603	60.1	41,686	53.3	917	6.8
Provincial Level	21,602	30.5	29,030	37.1	-7,428	-6.6
Municipal						

Level	6,713	9.4	7,471	9.6	-758	-0.2
<u>After transfers:</u>						
National Level	42,603	54.3	46,880	55.8	-4,277	-1.5
Provincial Level	28,310	36.1	29,528	35.2	-1,218	0.9
Municipal Level	7,475	9.5	7,471	8.9	4	0.6

Source: Own estimates based on data from the "Informe Económico". Secretary for Economic and Regional Programming, Argentina 2000, I.

*Funds from Revenue Sharing being here computed as subnational governments' own resources.

TABLE 9

ARGENTINA - PROVINCIAL DEBT AND DEFICITS DURING CONVERTIBILITY
(In current million pesos)

YEARS	DEBT	ANNUAL INCREASE	BUDGET DEFICIT
1991	7,103	-	1,342
1992	7,700	597	425
1993	9,771	2,071	2,109
1994	12,136	2,365	2,654
1995	15,685	3,549	3,178
1996	17,217	1,532	1,779
1997	16,126	-1,091	1,218
1998	17,199	1,073	1,820
1999	20,544	3,345	3,345

Source: Own estimates based on data from "Informe Económico", Secretary for Economic and Regional Programming, Argentina, and Carta Económica (M.A.M. Broda y Asociados).

TABLE 10

ARGENTINA. OUTSTANDING PROVINCIAL DEBT – DEC.1997

PROVINCES	TOTAL DEBT (in current million of pesos)	PER CAPITA DEBT (in current pesos)
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Provinces whose debt amounts to less than 50% of their annual budget

Buenos Aires (16.3)	1,487.4	109.1
Córdoba (49.2)	1,181.9	397.5
Entre Ríos (46.0)	523.6	485.2
La Pampa (16.6)	82.7	285.4
Neuquén (30.4)	291.3	586.6
San Luis (17.4)	86.7	258.3
Santa Cruz (15.9)	38.7	204.0
Santa Fe (24.1)	579.7	194.0
Tierra del Fuego (44.3)	153.0	1,340.9
Santiago del Estero (43.1)	326	462.4

Provinces whose debt stands between 50% and 100% of their annual budget

Buenos Aires City (91.2)	2,624.0	878.9
Catamarca (72.3)	353.7	1,186.1
Chaco (95.2)	832.3	913.5
Chubut (75.3)	393.6	948.0
La Rioja (83.1)	505.8	1,958.9
Mendoza (94.8)	1,143.0	743.7
Misiones (86.2)	636.3	692.5
Salta (64.7)	516.8	520.8
San Juan (55.1)	373.6	668.8

Provinces whose debt exceeds their annual budget

Corrientes (104.3)	761.8	869.2
Formosa (118.2)	767.0	1,647.3
Jujuy (114.9)	634.8	1,114.3
Río Negro (133.3)	830.9	1,436.3
Tucumán (105.1)	1,001.4	809.1
TOTAL	16,126.0	455.4

Figures between brackets indicate debt as a percentage of the annual budget.

Source: Own estimates based on data from "Informe Económico Regional", Secretary for Economic and Regional Programming. Argentina.

TABLE 11

ARGENTINA. FISCAL HORIZONTAL IMBALANCES – 1997
(In current pesos)

Province	Per capita own revenue	Per capita coparticipation	Per capita expenditure	Public employees P/1000 inhabitants	Monthly average personnel expenditure	Provincial unemployment rate
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Provinces whose own per capita revenue exceeds 30% of their per capita public expenditure

Buenos Aires City	823	53	998	42	1,046	11,1
Buenos Aires	331	161	733	27	880	15.6
Córdoba	286	299	791	26	1,199	15.8
Mendoza	244	272	823	36	906	6.1
Santa Fe	275	300	794	32	988	14.0

Provinces whose own per capita revenue ranges between 10% and 30% of their per capita public expenditure

Chaco	114	548	1,042	39	1,125	10.1
Chubut	150	382	1,513	55	975	13.0
Entre Ríos	258	453	1,070	46	878	12.8
La Pampa	306	649	1,666	57	1,012	9.3
Misiones	97	360	908	37	924	6.6
Neuquén	282	350	1,888	68	980	4.9
Río Negro	224	437	1,259	51	992	13.9
Salta	132	387	893	40	900	14.3
San Juan	240	681	1,142	51	892	11.5
San Luis	164	606	1,277	51	941	9.6
Santa Cruz	335	835	3,395	89	1,241	4.6

Santiago del Estero	111	587	1,000	48	851	9.4
Tucumán	136	385	819	37	915	15.5
Tierra del Fuego	364	573	3,313	60	2,118	10.3

Provinces whose own per capita revenue is less than 10% of their per capita public expenditure

Catamarca	126	925	1,743	74	969	13.2
Corrientes	83	425	890	47	751	13.4
Formosa	60	783	1,559	69	853	6.3
Jujuy	96	499	1,035	45	979	15.5
La Rioja	95	803	2,026	90	942	9.7

Country average	275	256	858	35	931	13.7
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Source: Informe Económico Regional. Secretary for Economic and Regional Programming. Argentina.

Annex

A proposed provincial progressive consumption tax for the Argentine

At the moment this paper is being written, the author is conducting a research team at the Institute of Economics and Finance of the National University of Córdoba, whose set objectives are to study alternative provincial taxes to replace the presently used Turnover Tax.

From the outset, the research team focused the search upon a tribute that:

- could ensure similar or higher levels of revenue yield
- were free of cascade and pyramidation effects
- rendered a more fairer provincial tax system
- included some welfare impact (progressivity elements)
- were relatively easy to handle by provincial tax administrations
- permitted some harmonization degree with national taxes in order to prevent evasion

So far, analytical efforts are placed in the consideration of the so called Consumed Income Tax (CIT) or in some variants of it (see Mc Lure, 1996), in so far as it is a very flexible instrument, it permits either a flat or graduated taxes to be used and allows for different treatment of individuals and firms. Furthermore, by being in essence similar to a subtraction-method VAT, provincial tax administrations would have the chance of arranging anti-evasion mechanisms with the national tax administration (AFIP).

Although the research project is still in a very early development stage, preliminary results of tests aiming at assessing the proposed instrument's revenue raising capacity already showed promising results. In a simulation performed for the year 1997, when the overall Turnover Tax yield reached 6 billion dollars, rendered the ensuing estimates for the case of individuals:

Tax Rates	Tax Yield (in million dollars)
3%	448
3.5%	523
4%	598
4.5%	673

whereas for the case of firms results were as follows:

Tax Rates	Tax Yield (in million dollars)
3%	4,255
3.5%	4,964
4%	5,673
4.5%	6,382

Even though computable general equilibrium procedures are still under way, and no evidence can at this stage be produced of the expected welfare impact or incidence effects, it is worthwhile pointing out that the existing turnover tax has a nationwide harmonized general tax rate of 3.5% which, due to cascade and pyramiding effects, is reckoned to reach a final figure of 7%-8%. In this connection, if it is assumed that (owing to elasticity of demand conditions) firms will have to adjust their good prices to the new tax burden, a favourable important welfare impact is not to be discarded.

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