The Dual Logic of Intergovernmental Transfers: Presidents, Governors, and the Politics of Coalition-Building in Argentina

Alejandro Bonvecchi* and Germán Lodola[†]

*Universidad Torcuato Di Tella; abonvecchi@utdt.edu, abonvecchi@hotmail.com
[†]Universidad Torcuato Di Tella and University of Pittsburgh; glodola@utdt.edu

How do fiscal institutions shape the ability of presidents and state governors in a federation to manipulate federal money with coalition building goals? This article proposes a two-level theory of intergovernmental transfers based upon variation in the level of discretionality over the use of federal money that fiscal institutions grant to national and subnational executives. We use subnational level data in Argentina to show that not taking discretionality into account leads to wrong inferences about the electoral returns of intergovernmental transfers. We find that presidents extract different political utility from discretionary and nondiscretionary transfers. While discretionary transfers enable them to directly target voters bypassing opposition provincial governors, nondiscretionary transfers pay off more to co-partisan governors by guaranteeing security in the reception of transfer monies.

What fiscal and financial tools do presidents and state governors have in a federation for territorial coalition building? How do fiscal institutions distinctively shape the ability of these political leaders to strategically manipulate the federal money with coalitional goals? The literature on fiscal federalism emphasizes that intergovernmental fiscal transfers constitute a powerful instrument that politicians use to win, exercise, and retain power. But although this research pays nuanced attention to how intergovernmental institutional settings shape the incentives of politicians and the functioning of decentralized governments, it overlooks the fact that fiscal institutions grant national and subnational executives different levels of discretion over the use of federal transfer funds. We know a great deal about the organization of intergovernmental fiscal systems and its implications for politicians' electoral strategies, local and regional accountability, and the economic performance of the nation. But little systematic effort has explored the issue of fiscal transfer discretionality across multiple spheres of government. This lacuna is

Publius: The Journal of Federalism volume 41 number 2, pp. 179–206
doi:10.1093/publius/pjq024
Advance Access publication August 12, 2010

serious because without an understanding of the role of fiscal institutions in shaping the spending powers of presidents and governors we lack the whole structure of incentives that operates on elected politicians.

This article is designed to fill such a vital oversight in the literature. It does so by developing a two-level theory of intergovernmental transfers that assesses variation in the degree to which presidents and governors control how federal grants are spent. Theoretically, we emphasize four points. First, the institutions of fiscal federalism determine the utility of intergovernmental transfers for territorial power-building by establishing what national and subnational executives can and cannot do with the federal money. Second, the political value of any transfer varies across different tiers of government. Depending on the institutional framework, a given transfer may be a potent tool for marshaling support at one level, but also a weak instrument at the other/s. Third, we propose an analytical distinction between transfer amount and transfer discretion which highlights that the political value of a transfer does not necessarily equal its actual economic relevance within the whole transfer system. Economically sizeable transfers can therefore be politically useless, while more modest grants can make a greater contribution to assemble support. Finally, we argue that coalition building returns are nested across levels. The underlying structure of incentives allocates a specific value to each transfer at any level of government. Thus, politicians build their own scale of preferences over transfers considering the preferences of others located at different levels. In a two-level game, we hypothesize that the most efficient combination of transfers for the central government assigns presidents discretion over the money and simultaneously guarantees governors security over its reception. In sum, we emphasize the need to move beyond extant analyses on transfer amount to explore the institutional conditions that regulate the functioning of intergovernmental transfer regimes and thus shape the incentives of office-holders operating in decentralized contexts to use federal grants with political survival goals.[1]

We focus our analysis on a prominent Latin American federation, Argentina, during the post-authoritarian period for both practical and substantial concerns. First, Argentina has a highly decentralized structure of government in which both presidents and governors exert great influence over budgetary allocations (Benton 2009; Calvo and Murillo 2004; González 2008; Remmer 2007). Second, these political actors have traditionally competed over the degree of redistribution of intergovernmental transfer systems, the amount of transfers allocated to each level, and the spending powers assigned to their use. Third, the Argentine transfer system in the period we study includes a large and complex array of grants which provides variation in the degree of discretionality assigned to national and subnational executives. Unlike most Argentine-specific as well as comparative and U.S.-oriented works that only consider some specific transfer or subset of transfers, we include the entire set of fiscal grants to distinguish politically manipulable spending and its ultimate impact upon vote choice on sounder empirical grounds.

Our results show that not taking discretionality into account leads to wrong inferences about the electoral returns of intergovernmental transfers from the center. The consequence of this conceptual error has been to vastly overstate the ability of Argentine presidents to politically manipulate the fiscal system. In line with our theoretical expectations, we find that different types of transfers yield different electoral effects. The statistical analysis indicates that Argentine presidents benefit to a different degree when using discretionary and nondiscretionary transfers. The former help candidates from the party of the president in districts headed by opposite governors, while the latter do it in districts controlled by allies. We find this differential effect of fiscal transfers to be significant in provincial legislative elections but not in gubernatorial and national deputy races. Our interpretation of this result is that discretionary transfers in Argentina are useful for the president to mobilize voters at the local level in order to help or hinder the chances of potential challengers.

This study has several implications for research on the political economy of federalism. Scholars working on distributive politics may find insights on how to measure and model the regional allocation of federal monies and the electoral effects of fiscal institutions. Our work also speaks to the literature on economic voting in federal systems because, unlike previous studies, we emphasize the importance of transfer discretionality as a tool in the competition between national and subnational governments for credit-claiming and burden-shifting. Our analysis of intergovernmental transfers also informs studies on the design of fiscal systems and their effect upon economic performance. Finally, students of political survival will likely benefit from our focus on the political utility of different types of transfers for electoral gain.

The rest of the article is organized as follows. The second section critically reviews the relevant empirical literature on intergovernmental fiscal transfers. The third section proposes a theoretical framework to study transfer discretionality in federalized (multilevel) countries. The fourth section applies this framework to Argentina's transfer system. The fifth section replicates previous research on the effects of federal grants on subnational elections, empirically tests the expectations of the dual theory, and discusses the results. The last section considers the potential generalizability of our results to other federations and proposes some lines for further research.

The Clustering and Incompleteness Deficits

Research on the political economy of fiscal federalism has studied intergovernmental transfers as either dependent or independent variables. The literature considering federal transfers as dependent variables has focused on the nature of intergovernmental fiscal arrangements and the tactical allocation of transfer funds from central to lower levels of government. In studying constitutional founding moments, some scholars have claimed that fiscal arrangements are decentralized when the inter-regional distribution of income is uneven (Boix 2003; Beramendi 2005; Wibbels 2005a), and the national party leadership is unable to credibly guarantee attractive career prospects to subnational politicians (Díaz-Cayeros 2006). Others have empirically tested the idea that national incumbents factor in the political strength of regions when distributing federal resources. Drawing upon the swing-voter model of distributive politics developed by Lindbeck and Weibull (1987, 1993) and Dixit and Londregan (1996, 1998) and the competing core-voter model of Cox and McCubbins (1986), a growing body of research on pork barreling has recently explored regional patterns of transfer allocations in several decentralized countries around the world (see Rodden 2006a and Beramendi 2007 for references).

Works treating intergovernmental transfers as independent variables have largely responded to a tradition that praises fiscal and political decentralization (Tiebout 1965; Oates 1972; Montinola et al. 1995; Weingast 1995). This contested body of research argues that a high degree of vertical fiscal imbalance undermines fiscal discipline (Rodden and Wibbels 2002), creates inflationary pressures (Treisman 2000), complicates exchange rate policy (Woodruff 1999), produces larger governments and deficits (Stein 1999; Rodden 2006b), and leads to unsustainable subnational borrowing and consequent federal bailouts (Rodden 2002, 2006b).

However, despite this wealth of studies on intergovernmental transfers we still lack a theory of how fiscal institutions shape the ability of national and subnational leaders to use federal transfers for electoral purposes. This is partly because, regardless of treating transfers as dependent or independent variables, the political economy literature has concentrated on studying the amount of transfers rather than the discretion assigned to their use.[2] Extant analyses that consider transfer discretionality rely on the distinction between unconditioned and earmarked transfers, but this distinction has two important limitations. First, it demarcates types of transfers considering only what recipients, but not donors, can do with the money. Second, it considers discretionality as an administrative matter and makes no allowances for potential differences in the political utility of grants across levels of government. Thus, it appears as if the crucial aspect of intergovernmental transfers is not what donors and recipients can do with the money, but rather the effects of transfers upon allocative efficiency and distributional equity.

We contend that this theoretical vacuum leaves the literature on fiscal federalism exposed to one of two deficits: incompleteness or clustering. The incompleteness deficit consists of focusing on some specific types of transfers and disregarding others. This limitation leads scholars to provide a misleading account of how intergovernmental transfer regimes operate, and to neglect the fact that the excluded grants can make a greater difference upon the ability of incumbents to craft political support. The clustering deficit consists of grouping essentially different federal transfers into a common, undistinguishable pool of resources. It is irrelevant whether these funds are part of a revenue-sharing regime, nonautomatic grants, unearmarked or conditioned loans. It is also irrelevant who—the national or subnational government—enjoys discretion over different dimensions attached to each individual transfer. Because resources from the center are channeled to lower levels of government, it is assumed that politicians located at higher levels concentrate more discretion. However, as detailed below, fiscal institutions distinctively assign presidents and governors—and municipal mayors in three-level federations—discretion to manipulate intergovernmental transfers. In what follows, we illustrate these analytical deficits by examining research on the Argentine case.

Both the clustering and the incompleteness deficit affect prior studies on fiscal federalism in Argentina. The clustering deficit is evident in Gibson and Calvo's (2001) innovative study on the decisive role played by low-maintenance (i.e. over-represented) subnational coalitions for the adoption of market-friendly reforms under the Peronist Carlos Menem administration (1989–1999). The authors argue that the central government used a portfolio of highly discretionary federal transfers to buy off the legislative support of low-maintenance peripheral provinces instead of furnishing the more expensive acquiescence of high-maintenance (i.e. under-represented) metropolitan districts. The collection of grants analyzed in the study includes some funds discretionally managed by the president, and "a series of federal grants and credits for housing, public works, health, and education" (Gibson and Calvo 2001, 43). But grouping all these funds is inadequate because the institutional rules that govern their allocation—and their consequent political utility—are far from similar. In particular, as argued below, the Argentine president's autonomy to distribute public works projects has varied considerably through time, while his/her capacity to discretionally assign health and education resources has historically been null.

A similar problem affects Jones' (2001) study of the potential influence exerted by the Argentine Congress upon the budgetary process. The author claims that provinces making the largest contributions to the president's legislative bloc receive the largest shares of budgetary funds. To test this argument, Jones constructs a variable that comprises budgetary credits and "the total amount of transfers allocated by the federal government" (Jones 2001, 176). The clustering problem is obvious as the author merges all federal transfers into a common pool regardless of whether they are allocated through fixed formulae or in an ad hoc manner, and independently of whether they are conditional or unconditional (for the federal or provincial authorities) in nature.[3] Similarly, Gordin (2004) falls prey to clustering when he investigates the potential effect of vertical (presidential–gubernatorial) co-partisanship, partisan turnover in the presidency, and divided government upon the share of intergovernmental transfers received by the Argentine provinces between 1973 and 1999. The author's dependent variable combines six federal transfers: royalties; national treasury contributions; housing, electricity, and road-maintenance funds; and a special fund to finance public work projects in the provinces. But only the regional allocation of the latter two funds was under the absolute discretion of the president in the period under study.

Clustering issues also arise in efforts to link intergovernmental transfers with subnational election results. In an often-cited article, Remmer and Gélineau (2003; see also Gélineau and Remmer 2006) use aggregate and individual level data to test the referendum voting hypothesis in subnational elections held in Argentina in the 1983–2001 period. The authors claim that the vote share of national in-party candidates fluctuates with the rise and fall of the presidential administration, the performance of the national but not the provincial economy, vertical co-partisanship, the midterm punishment phenomenon, and the amount of federal transfers received by each province as measured by the ratio of provincial to national revenues during the year of the election. In the authors' words, the operationalization of the transfer variable is "designed to capture the efforts of the president's party to influence provincial elections" (Gélineau and Remmer 2006, 133). Presidential co-religionists are therefore expected to perform better in provinces with comparatively lower levels of revenue generation relative to the flow of federal transfers. Yet no discussion exists regarding whether the grants considered remained at the president's own discretion or were administered by some pre-established distributive formulae or agreements. The authors construct the transfer variable by incorrectly assuming that the president has exclusive control over the whole transfer pie. This assumption, as we analyze and prove below, is untenable: the Argentine president enjoys absolute discretion only over a small share of federal transfers. Our replication of Remmer and Gelineau's analysis corrected for the clustering deficit indicates that intergovernmental transfers only affect the electoral fate of the president's candidates in provincial legislative contests, and it does so in quite a different way from that predicted by the authors.

The incompleteness deficit, on the other hand, is present in Wibbels' (2005b; Remmer and Wibbels 2000) original study on the effect of partisan harmony on intergovernmental fiscal relations. The author contends that in the nineties the national government recentralized fiscal authority in Argentina by restricting provincial spending autonomy through matching grants and conditioning federal bailouts of indebted provinces to the subnational enactment of market-oriented reforms. The reach of Wibbels' argument and the strength of his findings, however, are undermined because he quantifies recentralization through the classic distinction between automatic and nonautomatic, and conditional and unconditional transfers.

Although Wibbels does associate different types of grants with different institutional structures of incentives, he lacks a rigorous and complete conceptualization of the Argentine intergovernmental transfer regime.

Likewise, incompleteness characterizes studies that analyze the country's most relevant federal transfer: the revenue-sharing system known as *Coparticipacion Federal de Impuestos* (Federal Tax-Sharing Agreement, CFI).[4] The CFI is an automatic transfer distributed on a daily basis according to a fixed formula. Tightly constrained by law and closely watched over by the provinces, it is a sterile political tool for presidential coalition-building. Although national and regional officials have historically fought over the rationale of the revenue-sharing coefficients, federal governments of different stripes have been largely unable to manage these funds in a discretionary manner. By focusing on the CFI and ignoring other grants, the study of Argentine fiscal federalism is weakened in two ways. First, it is limited to the few instances in which the revenue-sharing system was discussed and redefined (Eaton 2001a, 2004; Diaz-Cayeros 2006; Porto and Sanguinetti 2001). Second, it is reduced to the conclusion that the CFI is a perfect illustration of an entire intergovernmental fiscal system with unstable rules and high transaction costs that impede efficient outcomes (Tommasi, Saiegh, and Sanguinetti 2001).

Having identified the presence of the incompleteness and clustering deficits in the literature, the next section aims to solve these analytical problems by proposing a two-level theory of intergovernmental transfers that explains institutional variation in the capacity of both national and subnational executives to manipulate federal transfer resources with territorial coalition-building goals.

The Dual Logic Of Intergovernmental Transfers

The starting point of our theory is that intergovernmental transfer regimes, despite their cross-country variation, often present the different political officials involved in their operation with diverse political-use values. Transfers are politically useful if they grant politicians discretionality to manage public money in order to build electoral or legislative coalitions. Together with the amount of resources available, this scope for manipulation shapes politicians' incentives to strategically distribute federal money with coalition building goals, and in turn affects the different electoral returns incumbents reap from allocating intergovernmental transfers. But some transfers are politically more useful for donors (typically presidents) than recipients (typically governors or municipal mayors),[5] others are more useful for recipients than donors, and still others may be equally useful to both. Consequently, the political utility of any given transfer for the president depends not only on the level of discretion the executive has to manage it, but also on the utility that the institutional format of such transfer confers upon the governors.

Relying upon rational choice institutional accounts, we posit an incentive effect of fiscal federalism.[6] Institutional rules create different incentives for national and subnational executives to distribute federal transfers by determining who has access to these resources and who controls how they can be spent. Two important implications follow from this proposition. First, the potential impact of federal grants to assemble support varies both between and within federations. Second, such an impact does not necessarily vary with the amount of transfers distributed to each sphere of government but rather with the spending powers assigned to their use. The distinction between amount and discretion underscores that financially relevant transfers may be politically useless tools in the absence of discretion, while relatively modest transfers with almost no conditions attached may become a valuable mechanism to entice political support.

This set of incentives generates different preferences for presidents and governors over the management of intergovernmental transfers. We refer to these conflicting logics as the logic of discretionality and the logic of security. Presidents prefer to manage transfers discretionally rather than centralizing tax revenues due to the comparatively higher coalition-building potential of discretionary funds relative to both formulaic and equalization transfers. Because states in multi-tiered systems draw federal grants from a common revenue pool, presidents would thus prefer to manage these resources discretionally to increasing them by centralizing taxation. Only if these options are unfeasible would presidents seek to increase subnational fiscal dependence by controlling state governments' spending and borrowing activities, and/or by creating earmarked grants with strong spending restrictions.[7]

Governors, in contrast, appreciate security in transfer reception over discretionality because federal money contributes to stabilize governors' position within their own party organizations and vis-à-vis other politicians such as local bosses and mayors of large cities. Moreover, since much federal money is "inelastic" in the sense that there is simply not enough for the central government to allocate to everyone, subnational officials with high demand for cash attempt to take whatever is available in the transfer market. Finally, governors prefer security over discretionality because they often enjoy some discretion over the allocated funds, whereas the political impact of discretion in the absence of resources is null.[8] In sum, governors would first seek to obtain budgetary transfers they can use without major legal restrictions. Then, they would prefer to receive earmarked federal money, and only lastly to negotiate informal side-payments with the center. According to this dual logic, politicians' preferences over intergovernmental grants are nested across levels of government. Because the political value of each transfer varies across levels of government, politicians build their preferences considering the preferences of other actors located at different levels. Thus, in this two-level game, the most efficient coalition-building tools for presidents would be those transfers that confer upon them the highest possible discretion while simultaneously granting the governors the highest possible security about the reception of the monies and the least discretionary power to manage them. Such transfers allow presidents to maximize their political utility and at the same time enable governors to satisfy their preference for income security. As for governors, who play a similar game with mayors, the most valuable coalition-building tools would be those transfers with high gubernatorial discretion and low presidential discretion. This combination simultaneously maximizes gubernatorial security and discretionality—which enables governors to discretionally spend secure money among mayors while also preventing presidents from sharing any credit for the effects of fiscal policy on subnational economies.

To analyze the link between federal transfers and electoral coalition building, we propose an operationalization of transfer discretionality built around the powers that fiscal institutions assign to national and subnational executives for the management of federal money.[9] In capturing qualitative aspects not accounted for in quantitative centralization shares of revenues and expenditures, we intend to contribute to a better understanding of which combinations of transfers give incumbents in federal polities the greatest electoral boosts.

We operationalize the donor's transfer discretionality by identifying whether the president controls five dimensions usually present in intergovernmental transfer systems: amount, timing, targeting, payment, and earmarking. Amount refers to the total volume of resources assigned to a given transfer: it may incorporate a fixed amount, a variable percentage within a pre-established range, budgetary quantities, or a fully discretional sum. Timing indicates the temporal order in which a transfer is allocated to the recipients. Targeting denotes the regional allocation of a transfer to lower levels of government. Payment points to the donor's act of depositing the money in the recipient's bank account. Earmarking indicates the formal restrictions established over the use by recipients of the transferred funds.

We classify a federal transfer with high level of donor discretionality as one where presidents control the five dimensions. A transfer with medium level of discretionality grants presidents complete control over the amount, timing, and payment but not over targeting and earmarking: these two dimensions are typically determined instead by specific legislation emerging from either bilateral or multilateral negotiations. A transfer with low level of donor discretionality is institutionally arranged in such way that it only allows presidents to control its timing and payment. This is usually the case because both the collection and management of fiscal resources are under the central government's administrative responsibility.

We operationalize the recipient's transfer discretionality by coding whether governors control four dimensions: reallocation, timing, procurement, and monitoring. Reallocation concerns the ability to redeploy funds. This dimension has two subdimensions: reallocation within a policy area, and across policy areas. In the first case, the recipient is allowed to determine variations of transfer spending within a policy area: for example, s/he can determine whether to use loans attached to education spending to construct schools or to finance teachers' professional training. In the second case, the recipient has the power to reallocate the money across different policy areas. Critical in the cross-policy dimension is whether resources can be indistinctively used to finance current or capital expenditures.[10] Timing denotes the recipient's formal ability to freely determine when money can be spent. Procurement indicates his/her capacity to decide on hiring employees and subcontractors to implement the funds. Finally, monitoring refers to whether the recipient controls the actors and procedures that supervise their spending choices.

On the basis of this operationalization, we classify a federal transfer with high level of recipient discretionality if fiscal rules allow beneficiaries to control the four dimensions of funding execution. Conversely, we consider a transfer with low level of recipient discretionality if beneficiaries are forced to spend grants in specific ways within a predetermined policy area, lack hiring power, and remain under the strict supervision of external (national or international) agents. Federal transfers falling in between these poles are defined as bearing a medium level of recipient discretionality.

A Taxonomy of Argentine Intergovernmental Transfers

This section applies our theory of transfer discretionality to a number of grants from the Argentine central government to the provincial governments since the return of democracy in 1983. To avoid the incompleteness deficit, we consider the entire set of fiscal federal grants allocated on a regular basis.[11] Federal budgetary programs executed in the provinces and municipalities such as health care, education, food, income-support, and working-generation programs are excluded from the analysis because they do not constitute transfers created to permanently channel funds to territorial subunits. They are temporary allocations oriented to achieve the contingent policy (and political) goals of the national government.

Table 1 cross-tabulates twenty-four federal grants relative to both their presidential and gubernatorial degree of transfer discretionality. Given the large variety of institutional and administrative formats that affect how each of these transfers is processed once entered into the provincial coffers, the discussion is organized according to the presidential degree of discretionality. Due to space limitations we only analyzed the transfers politically more salient according to the dual logic—i.e., those transfers where the preferences of presidents and governors contrast with their respective institutional capacities to manage the funds.

Table 1 Presidential and gubernatorial discretionality over Argentine intergovernmental transfers

Presidential gubernatorial	High	Medium	Low
High	***National Treasury Contributions (ATN)*** Regional Development Fund (FDR)	Industrial Promotion Nonindustrial Promotion CFI Advances	***Federal Tax-Sharing Regime (CFI)*** ***Greater Buenos Aires Fund*** ***Basic Social Infrastructure Fund*** Fiscal Disequilibria Fund Housing Fund (FONAVI) Special Tobacco Fund Electricity Fund (FEDEI) Oil and Gas Royalties
Medium	Central Bank Rediscounts Provincial Public Sector Reform Fund	***Budget for Public Works*** ***Highway Fund (CFI Vial)*** Organized Financial Programs (PFO) Loan Approvals	Education Transference Funds Utility Rates Subsidies and Compensation Funds
Low	***Treasury Bonds (BOTESO)***	Debt Consolidation Schemes Pension-System Bailouts	

Note: The transfers in italics and bold are analyzed in the text.

Transfers with High Level of Presidential Discretionality

(i) National Treasury Contributions (*Aportes del Tesoro Nacional*). The *Aportes del Tesoro Nacional* (ATNs) are one of the two federal transfers that enjoy constitutional status. These nonautomatic grants were originally introduced in Article 67, clause 8 of the 1853 Constitution, which entitles the Argentine Congress to "grant subsidies from the National Treasury to the provinces whose income does not suffice, according to their budgets, to cover for their ordinary expenses." On this basis, the national executive created the ATNs. From the creation of the republic until the establishment of the first revenue-sharing system (CFI) in 1935, these funds constituted the bulk of federal transfers to the provinces (Porto 1990). Thereafter, they coexisted with the CFI accounting for almost 40 percent of it (Cetrángolo and Jiménez 1998). Between 1985 and 1988, in the absence of a fiscal federal agreement, which had expired in 1984, the ATNs virtually replaced the CFI as the transfer scheme that ruled intergovernmental fiscal relations.

With the enactment of the current revenue-sharing scheme (Law 23548), the ATNs were reduced to a fixed total amount of 1 percent of all shared taxes and their control was granted to the Ministry of Interior. This change transformed the ATNs' geographic distribution into a zero-sum game, but it did not affect the absolute discretionality enjoyed by the president. One can argue that s/he does not truly manage the ATNs amount, which varies with revenue collection, but the president has complete discretion to determine the sum allocated to each district although s/he cannot modify the total amount of money assigned to these grants. The legal framework also sets some limits on the ATNs' earmarking. In theory, they could only be used to "attend to emergency situations and financial disequilibria of provincial governments" (Law 23548, Article 5). In practice, however, the president has utilized these grants for a variety of purposes ranging from supporting Catholic dioceses to funding sports competitions. Because of their relatively low amount, the ATNs primarily serve to reward party networks at the very local level. Traditionally, the federal government has financed coalition building by directly transferring discretionary funds to either provinces or municipalities. If ATNs loans were granted to governors, officials from the Ministry of the Interior usually sought to influence municipal reallocation—particularly if the incumbent provincial government belonged to an opposition party.[12] In contrast, when ATNs were directly granted to municipalities the central government bypassed the intervention of powerful opposite governors.

In the hands of provincial governors, the ATNs are also a highly discretionary transfer. Reallocation and discretion in procurement are common as no formal restrictions exist on how and where the funds should be spent. Actually, they are legally defined as funds with "free availability." In some provinces, for instance Santa Fe and Mendoza, the Auditor General's Office (*Tribunal de Cuentas*) sets a flexible time limit for provincial and municipal governments to acknowledge the reception of an ATN. Although this procedure may affect when the fund is eventually spent (i.e., timing), it merely responds to accounting rather than technical or supervising purposes.

(ii) Treasury Bond Bailouts (*Bonos del Tesoro*). Bailouts are extraordinary, non-predetermined decisions oriented to change the existing financial rules. Between 1992 and 1994, the federal government issued Treasury Bonds for US$ 800 million with the purpose of rescuing seven poor provinces that were experiencing severe fiscal deficits and mounting debts, and were unable to obtain fresh capital in the private financial markets because they had a high proportion of their CFI income compromised in the execution of previous loan payments (Nicolini et al. 2002). The federal bailouts were extended through agreements between the Ministry of Economy and provincial governments, which in turn agreed to fulfill a number of conditionality clauses such as reducing fiscal deficits, freezing the number of public employees, and prohibiting new indebtedness. Although no legal enforcement was available for the central government to drive provinces into full compliance, the five dimensions of presidential discretionality were under the executive's tight control. As the *Bonos del Tesoro* (BOTESO) essentially constituted federal government debt, their amount, targeting, timing, and payment were entirely at the center's own discretion. Earmarking was also determined by federal authorities as they decided the financial markets where the bonds could be traded.

Like most financial transfers managed by the federal government, the BOTESO were only slightly susceptible to gubernatorial discretion. Once the agreement between the federal and provincial governments had been signed, the provinces deposited the bonds with a private financial agent who had to gradually place them in the market to guarantee their normal absorption. The agreements also included a clause which explicitly stated that these federal loans should be canceled through automatic withdrawals from the provinces' CFI resources. This clause guaranteed that loans would be repaid (as they eventually were) on the scheduled dates (Nicolini et al. 2002). The BOTESO rescue, however, was not a simple loan operation. Provincial repayment was done at a lower financial cost than other alternatives available at the market which set higher interest rates to provinces. Furthermore, conditionality clauses usually required provincial governments to implement structural changes in the administrative and financial sectors that were not operative in practice. In most provinces public employment and indebtedness continued to grow, while fiscal surpluses were mostly contingent upon the country's macroeconomic condition.

Transfers with Medium Level of Presidential Discretionality

(i) Budget for Public Works. The resources incorporated into the federal budget to finance public works projects in the provinces have always been under the supervision of the Ministry of Economy and the budgetary amendment powers delegated by Congress to the president.[13] The Public Investment Law mandates that infrastructure projects can only be included in the budget proposal if they have been previously approved by the Secretary of Economic Policy. In addition, the 1992 Financial Administration Law grants the Treasury Secretary extensive power to determine: (i) the amount of the public works transfers, which can be determined by using the quarterly budget quotas or the delegated amendment powers; (ii) the timing, through quotas; and (iii) the payment, via the legal requirement that any disbursement by the Treasury must be authorized by the Treasury Secretary. The regional distribution of resources is established in the national budget, but it can be easily amended by the president through under-execution or expenditure reallocations. Budgetary execution of public works projects is hard to monitor because it must be compared against the credits originally proposed. As many of the infrastructure projects financed with federal resources are implemented by provincial—and to a much lesser extent municipal governments, their execution is not necessarily considered a budgetary expense.

The level of earmarking attached to most of these resources is also unclear. Some official publications acknowledge a historical scarcity of public works projects developed on the basis of well-elaborated cost-benefit analyses, while no system of supervision has ever been implemented (Plan de Inversiones Públicas, several years). Only at the aggregate (policy domain) level is it possible to estimate the degree to which these projects have been properly executed.[14] However, deficiencies in planning and weak monitoring have opened avenues for gubernatorial discretionality. Critical for their political survival, Argentine governors control procurement as they determine or influence the final allocation of these funds. In many cases, governors are the agents who sign contracts with private construction firms thus conditioning the hiring of workers and future contributions for electoral campaigns.

(ii) Road Fund (*Coparticipación Vial*). Introduced in 1958 by a presidential decree, the *Coparticipación Vial* (CV) scheme consists of funds for road maintenance and construction transferred by the National Road Directorate (*Dirección Nacional de Vialidad*, DNV) to Provincial Road Entities (*Organismos de Vialidad Provincial*). Resources are composed of 35 percent of all sharable revenues earmarked for the DNV. These funds must be distributed according to the following criteria: 30 percent in equal amounts across provinces, 20 percent proportional to provincial population, 20 percent proportional to the amount of provincial resources invested on roads, and 30 percent proportional to the consumption of fuel in each province. Because the DNV has the authority to set these coefficients—specifically the latter two—it can influence the geographic targeting of road funds. Although the central government does not control the amount of money to be transferred, payment is at its discretion because provinces must submit road programs, procurement documents, and disbursement requests to be evaluated by the National Road Council. All provinces are granted representation at this deliberative body advising on the distribution of funds. With the signing of the 1992 Fiscal Pact, the federal government decided to automatically allocate road resources (along with other funds) to the provinces, and consequently lost control over both timing and payment. However, the opportunity cost of initiating each infrastructure project is still negotiated with the central authorities. Using the CV funds as an example, the national deputy and former Chief of the Budget Committee in the Chamber, Carlos Snopek, explained: "The relationship changed and governors do not have to travel to Buenos Aires to get the funds. Perhaps, the opportunity for execution, that is, when the project is launched, whether it is initiated this month or the next month, has to do with peregrination to the center. But the institutional design guarantees governors that they receive the money."[15]

Like with other intergovernmental transfers, governors directly participate in the implementation phase of the CV funds. In doing so, they gain leverage over procurement and within-policy area reallocation. Gabriel Hernández, former UCR mayor of the Formosa city put it in these terms: "The important tender bids from national agencies are influenced by provincial officials. Then, you see here that a bid from CV is directly consulted with the governor who indicates which private enterprises can participate and which cannot. There is nothing discretionally managed from Buenos Aires. Those who think that the president controls these funds are wrong. Provincial officers and the governor himself have the power over most national transfer money in the province."[16]

Transfers with Low Level of Presidential Discretionality

(i) Federal Tax-Sharing Agreement (*Coparticipación Federal de Impuestos*). The Argentine revenue-sharing regime operates as a common pool of nationally collected taxes established by Congress. It was originally introduced in 1934 at the request of the federal government, which could no longer finance its own expenditures out of taxes on foreign trade as stipulated by the 1853 Constitution. For both economic and political reasons, the provinces gradually delegated the collection of most taxes to the center. Today, all the major taxes other than social security contributions are subject to sharing with the provinces. Some taxes such as levies on financial transactions and on small taxpayers are partially shared, while a few taxes, most notably export duties, are entirely appropriated by the federal government. The whole pie of shared taxes is collected at the national level and subsequently distributed in two rounds: the so-called "primary" distribution divides the *Coparticipación Federal de Impuestos* (CFI) funds between the federal government and the provinces, while the "secondary" distribution divides the provincial share among the subnational units according to redistributive coefficients set by tax-sharing legislation.[17] Historically, the CFI accounted for the bulk of intergovernmental transfers in the country averaging nearly 70 percent of the total between 1988 and 2008.[18]

The common pool composition and coefficients for primary and secondary distribution have changed many times since 1934. Taxes have been excluded or included in accordance with the financial (and political) needs of each level of government. In general, the federal share has grown under authoritarian governments and/or economic crises, while the provincial share has improved under democratic administrations and/or stability periods (Eaton 2001b). These periodical bargains have transformed the CFI regime into a ‘‘fiscal labyrinth’’ (Saiegh and Tommasi 1999), an array of ad hoc arrangements that set specific rules for sharing each specific tax. By the 1992 and 1993 Fiscal Pacts, the volume of CFI funds corresponding to the provinces was reduced and redirected to bailout the growing social security deficits. In exchange, the provinces obtained a fixed monthly sum (in pesos) and reasserted the minimal guaranteed floor of 34 percent of all federal revenues established in the 1988 CFI Law. The federal government thus won a Pyrrhic victory: it appropriated funds earmarked for social security, but was bound to guarantee a fixed income for the provinces regardless of macroeconomic conditions.

The amount, regional distribution, and goals of the CFI system have been established by Congress thus shielding them from presidential manipulation. Payment was set by law to be daily and automatic, although the lack of administrative procedures for executing this provision may occasionally enable the federal government to exercise some minimal discretion over transfer payment and timing. Actually, it can only withhold revenue-sharing payment until provincial governments file an appeal to the corresponding administrative courts or a writ to the Federal Tax Commission or the Supreme Court. Thus, federal government discretion over the payment and timing of the CFI funds is, at best, of a short-term nature.

In marked contrast, provinces enjoy complete leverage over revenue-sharing funds as no legislation determines how they should be spent. Provincial governments, in particular those ruling small, financially dependent, and public-employment intensive districts, typically use the CFI resources to finance current expenditures associated with the functioning of their administrations. In addition, unlike other federations in the region such as Brazil and Mexico, the Argentine intergovernmental transfer regime only recognizes the flow of federal resources to the provincial level, not to municipalities, and mandates that each province determine the mechanism through which to reallocate the CFI funds to their respective local governments. This particular arrangement has produced a large variety of provincial revenue-sharing regimes known as Municipal Tax-Sharing Agreement (*Coparticipación Municipal de Impuestos*, CMI). Indeed, the percentage of CFI funds reallocated by the provinces to their respective municipalities varies from 8 percent in the province of San Luis to 25 percent in Tierra del Fuego. Moreover, governors enjoy great latitude over the municipal reallocation of revenue-sharing funds since only 17 percent of these regimes incorporate the participation of the provincial legislatures in the making of CMI rules, 40 percent determine that reallocation should be automatic, 27 percent establish that it should be executed on a daily basis, 30 percent allow the governor to withhold the sharing funds, and 52 percent permit the provincial government to reallocate part of the CFI monies to "special" funds whose administration lie under its own discretion.

(ii) Greater Buenos Aires Fund and Basic Social Infrastructure Fund (*Fondo del Conurbano Bonaerense* and *Fondo de Infraestructura Social Básica)*. These two funds were instituted by the 1992 Income Tax Reform with the purpose of financing social policy programs in provincial jurisdictions. The former fund appropriated 10 percent of the income tax and was transferred exclusively to Buenos Aires, Argentina's most powerful province.[19] The programs financed with it were arbitrarily managed by the Peronist governor and subsequent president, Eduardo Duhalde, who ultimately centralized the administration of the fund in the Women's Provincial Council which, presided by Duhalde's wife, became the headquarters for implementing a number of patronage-based programs (Auyero 2000).[20] It has been estimated that monies allocated to Buenos Aires through this fund represented 4.4 percent of the provincial gross domestic product in 1992, 7.8 percent in 1993, 9.5 percent in 1994, and 10.6 percent in 1995.

The Basic Social Infrastructure Fund, on the other hand, is fed by 4 percent of the same income tax and distributed among the remaining provinces to finance social infrastructure projects according to poverty measures. Provincial governments must submit to the center proof of adequate allocation of resources. The federal government, however, has been unable to adequately check out the authenticity of provincial certifications, thus exercising discretion only over timing and payment. Therefore, provincial governments have great ability to reallocate social infrastructure funding across different investment projects, control the timing of execution, and manage the procurement of resources.

Empirical Analysis

To explore the effect of fiscal institutions for coalition building and the adequacy of our argument connecting transfer discretionality and electoral benefits, we begin by replicating a study drawn from our previous discussion on the clustering and incompleteness deficits. We show that not taking discretionality into account yields wrong conclusions about the electoral impact of federal grants, and leads students of Argentina's federalism to vastly overstate the ability of the president to manipulate transfers for political gain.

Remmer and Gélineau (2003, 2006) test the referendum and economic voting models in the Argentine provinces between 1983 and 2001 by estimating a pooled cross-sectional time-series model on the effect of several variables—including federal transfers—upon the vote share of candidates from the incumbent president's party in gubernatorial, national deputy, and provincial legislative elections. The authors assume that rational-minded politicians will seek to influence electoral outcomes through expenditure allocations, and voters will respond positively to such strategic spending. Hence, they expect that the federal government will deploy intergovernmental grants to enhance the electoral fortunes of the incumbent president's co-partisans. Remmer and Gélineau measure this effort as the ratio of provincial revenues to national revenues for each election year (weighted for the electoral calendar). This variable consistently reports a negative and statistically significant coefficient indicating that the lower the level of provincial revenue generation relative to the total flow of federal transfers, the higher the vote share of the national in-party candidates. The results thus seem to provide statistical grounds for confirming the hypothesis that the transfer system works in favor of the incumbent president in subnational electoral contests. Yet Remmer and Gélineau make the mistake of clustering quite different federal grants into a common pool of resources. This conceptual error stems from incorrectly assuming that the Argentine president has exclusive control over the whole transfer pie. We have seen, however, that the central government only controls with high discretionality a small portion of the transferable funds to the provinces—the majority of which actually confer more discretion to the incumbent provincial governments.

To probe whether there is a statistically significant relationship between transfer spending and electoral results, we corrected the clustering deficit and estimated slightly revised models.[21] We replaced the authors' transfer variable with a variable measuring the ratio of provincial revenues to national revenues *discretionally managed by the president*. This new variable is therefore computed for each province in a given election year as the ratio of provincial revenues to the national revenues corresponding to the transfers we coded as entailing a high level of presidential discretionality in table 1.

The estimates of Remmer and Gélineau's models and our replications are reported in table 2. This table shows that, with the sole exception of the federal transfers variable, the coefficients and standard errors of all explanatory variables included in Models 1, 3, and 5 remained virtually unaltered after correcting for clustering in Models 2, 4, and 6. Support for the president's co-religionists at the provincial level continues to vary indirectly with national economic conditions (especially unemployment and inflation), opposition control of the province, provincial deficits, and interim elections. But although the variable capturing presidential discretionary transfers in the corrected models retains its negative sign, it becomes statistically insignificant in gubernatorial and national deputy elections.[22] Discretionary grants only boost the vote for presidential co-partisans

Table 2 Electoral support for the incumbent presidential party in the Argentine Provinces, 1983–2001

	Model 1 clustering deficit Gubernatorial	Model 1 corrected	Model 2 clustering deficit National Deputy	Model 2 corrected	Model 3 clustering deficit Provincial Deputy	Model 3 corrected
Presidential approval	0.10 (0.12)	0.14 (0.12)	0.00 (0.06)	0.00 (0.06)	0.13* (0.06)	0.12* (0.06)
Provincial unemployment	−0.08 (0.31)	−0.23 (0.31)	−0.23 (0.18)	−0.20 (0.19)	−0.21 (0.20)	−0.22 (0.20)
National unemployment	−1.67* (0.80)	−1.68* (0.85)	−0.78* (0.37)	−1.02** (0.38)	−0.26 (0.41)	−0.52 (0.41)
Inflation	−0.17 (0.23)	−0.26 (0.25)	−0.45*** (0.09)	−0.49*** (0.10)	−0.46*** (0.10)	−0.52*** (0.11)
Federal transfers	−8.57** (2.88)	−0.02 (0.02)	−1.55*** (0.35)	−0.04 (0.03)	−1.02*** (0.25)	−0.05** (0.02)
Fiscal balance	20.59* (10.14)	20.73* (10.14)	14.73* (5.83)	11.57* (5.93)	15.18** (6.18)	13.25** (6.05)
Gubernatorial opposition	−7.69** (2.76)	−6.34** (2.85)	−4.03** (1.52)	−3.69** (1.53)	−5.83** (1.67)	−5.45** (1.66)
Interim elections	−18.96*** (4.18)	−15.81*** (4.24)	−4.81*** (1.48)	−5.33*** (1.55)	−7.12*** (1.60)	−7.84*** (1.56)
Lag vote	0.32** (0.12)	0.37** (0.13)	0.55*** (0.08)	0.58*** (0.08)	0.54*** (0.09)	0.56*** (0.09)
Constant	63.40*** (14.91)	51.64*** (15.73)	36.31*** (6.85)	36.59*** (7.40)	28.54** (7.66)	31.32** (7.77)
R^2	0.59	0.55	0.56	0.54	0.63	0.63
Wald test	149.89***	133.87***	229.85***	191.93***	253.57***	231.51***
N	90	90	182	182	155	155

Notes: Entries represent regression coefficients with panel corrected standard errors in parentheses. $^{*}p \leq 0.05$; $^{**}p \leq 0.01$; $^{***}p \leq 0.001$.

in provincial legislative elections. The magnitude of the impact, however, is lower. For every point increase in the relative flow of total/discretionary transfers to provincial revenue levels, candidates from the party of the president get a boost of 1.02 and 0.05 percent, respectively.

Having demonstrated that the ability of Argentine presidents to use transfer spending for electoral gain was exaggerated by previous studies, we tested our own theoretical expectations based upon the argument that different combinations of transfers produce different electoral results. Our dual theory predicts that presidents value discretion over security while governors value security over discretion. Thus, the best combination of transfers for incumbent presidents is that which assures them high discretion to manipulate the federal money and simultaneously guarantees governors income security. If discretionary transfers should benefit the president's candidates, we would expect higher discretionary transfers to be linked with electoral gains for the incumbent president's party in provinces headed by the opposition. In contrast, nondiscretionary or "secure" transfers should increase support for the presidential party in provinces controlled by the central government. The rationale for this expectation is that presidents would use discretion to directly target voters within provinces in order to bypass opposition governors, and leave nondiscretionary grants at the hands of co-partisan governors who would use them to favor the party of the president. To test these propositions, we included two multiplicative interaction terms in each model specification. We added both the discretionary transfers variable as a measure in our replication of Remmer and Gélineau reported in table 2 and its complement (i.e., nondiscretionary or secure transfers as measured by the ratio of provincial revenues to national revenues corresponding to the transfers we coded as entailing a medium and low level of presidential discretionality in table 1), and interacted these variables with dummies describing whether the governor is from the same party as the president.

Table 3 reports the estimates of the interacted models. Regardless of partisan control at the provincial level, we find no meaningful effect of discretionary transfers upon electoral results in gubernatorial and national deputy contests.[23] The effect of nondiscretionary grants, on the other hand, is significant at the 0.01 level. For every point increase in secure transfers relative to provincial revenues, gubernatorial and national deputy candidates from the party of the president can expect to obtain an additional 16.9 and 0.79 percent of the vote in opposition provinces, and 8.05 and 0.78 percent in allied provinces, respectively.[24] However, we do find considerable support for our argument in provincial legislative contests. No matter how we estimate the models, Argentine presidents benefit from targeting discretionary grants to provinces ruled by opposition governors (rather than provinces headed by allies), and from targeting nondiscretionary grants to provinces controlled by co-partisans. First, statistical results in Model 3 indicate that a

Table 3 Transfer discretionality and electoral support for the incumbent presidential party

	Model 1 Gubernatorial	Model 2 National Deputy	Model 3 Provincial Deputy
Presidential approval	0.16 (0.12)	−0.00 (0.06)	0.12* (0.04)
Provincial unemployment	−0.03 (0.32)	−0.21 (0.19)	−0.21 (0.20)
National unemployment	−1.30 (0.78)	−0.86* (0.38)	−0.39 (0.42)
Inflation	−0.14 (0.25)	−0.46*** (0.10)	−0.50*** (0.11)
Fiscal balance	21.81* (10.50)	13.85* (5.89)	14.16* (6.15)
Interim elections	−17.77*** (4.09)	−4.92*** (1.50)	−7.40*** (1.60)
Gubernatorial co-partisan	4.74 (4.11)	3.97* (1.60)	5.62** (1.76)
Discretionary transfers	0.02 (0.03)	−0.02 (0.02)	−0.03* (0.01)
Discretionary × co-partisan	−0.01 (0.04)	0.00 (0.03)	−0.01 (0.03)
Nondiscretionary	−16.87** (6.34)	−0.79** (0.33)	−0.59* (0.24)
Nondiscretionary × co-partisan	8.82 (7.45)	0.01 (0.40)	0.25 (0.25)
Lag vote	0.35** (0.13)	0.55*** (0.08)	0.56*** (0.09)
Constant	48.82*** (14.15)	32.03*** (7.19)	24.60** (7.93)
R^2	0.59	0.56	0.63
Wald test	154.08***	245.36***	347.91***
N	90	182	155

Notes: Entries represent regression coefficients with panel corrected standard errors in parentheses. $^{*}p \leq 0.05$; $^{**}p \leq 0.01$; $^{***}p \leq 0.001$.

one-point increase in discretionary transfers when gubernatorial co-partisanship equals zero (i.e., opposite governors) leads presidential candidates in provincial elections to a boost of 0.03 percent of the vote. As expected, there is no meaningful effect of the discretionary transfer variable when co-partisanship equals one (i.e., allied governors).[25] Second, also consistent with our theoretical expectations, we find that a similar increase in nondiscretionary grants when gubernatorial co-partisanship equals one provide an additional 0.34 percent of the vote, while the effect of this variable when vertical co-partisanship equals zero is not statistically significant.[26]

These results indicate that discretionary transfers in Argentina are only useful for presidents when it comes to mobilizing voters at the local level through the financing of established partisan networks. The institutional format of intergovernmental transfers with high presidential discretionality (complete control over their amount, timing, targeting, payment, and earmarking) makes them adequate tools to directly finance grassroots party organizations. These territorially concentrated organizations rely on operatives (*punteros*) typically able to tip the balance for or against local bosses in primary and general elections. Through the financing of grassroots operatives, presidents may help or hurt the electoral chances of governors and thus aid or obstruct the emergence of potential challengers to their leadership. We assume that the lack of evidence in gubernatorial and national deputy elections is related to the fact that these elections are much more expensive and tend to be driven more by the personality of the candidates.

Conclusion

This article has developed and tested a theory of intergovernmental transfers in federalized countries which focuses on how the level of political discretion institutionally conferred to national and subnational executives allows them to manage transfers with coalitional goals. We argued that these political leaders operate under a dual logic (discretionality and security), and that the electoral returns reaped from intergovernmental transfers are nested across levels of government. Since presidents and governors have conflicting preferences over the design and management of transfers, we hypothesized that the most efficient combination of transfer institutional formats for presidents is that which simultaneously assures discretion to the national executive and security to governors. Drawing on evidence from the Argentine provinces, our statistical findings show that prior research has vastly overestimated the capacity of presidents to manipulate transfers.[27] The results also indicate that transfer discretion in the hands of the president exercises no significant influence on elections for national and subnational executive office, but it does enhance the fortunes of the president's party in provincial legislative races in the direction predicted by our theory. Presidents maximize their political utility when they use discretionary transfers to bypass opposition governors and directly target voters within provinces, and secure transfers to benefit allied governors.

Our findings introduce new questions that cannot be answered with our current data. First, how generalizable are these results? Only studies that assemble parallel data on other countries can answer this question, but we suspect that intergovernmental transfers should have a larger impact on electoral coalition building where subnational territorial units are more dependent on federal monies than on their own revenues. We also contend that where presidents enjoy high discretion over transfers, the patterns reported here for provincial elections are likely to obtain also for national contests. Second, our modeling strategy allows us to assess variation in the electoral returns of intergovernmental grants over time but not change in their regional distribution. This opens intriguing questions for scholars interested in distributive politics: How do politicians allocate their portfolio transfers? Which electoral districts receive higher allocations of what type of transfer? When can the capacity of office-holders to manipulate fiscal institutions offset the impact of economic performance? Does transfer discretionality influence how voters distinguish successfully between the effects of subnational and national policies on their welfare? Finally, this article may be vulnerable to a troubling endogeneity problem usually overlooked in the literature. Many features of intergovernmental transfer systems are rooted in bargains struck when constitutions were written. What explains their complexity? When and why do they change? Would discretionality serve to predict the likelihood and form of changes?

This article has been intended as a contribution towards sorting out the incentives under which politicians operate in multi-tier systems. We believe that considerable progress in our understanding of how fiscal federal dynamics shape politics can occur if scholars investigate and employ the dual logic of intergovernmental transfers proposed here. The general message of this article is that although students of fiscal federalism may have well thought about discretionality, the fact that their analyses do not always reflect that concern creates sampling and analytical problems that could be avoided through more refined theorization. It is therefore desirable that analysts critically re-evaluate—and where necessary re-specify—their theories and models that incorporate intergovernmental transfer before using them as the basis for future research.

Notes

1. This article primarily deals with the impact of fiscal transfers upon election results, but the argument can be applied to the formation of legislative coalitions—as shown in the overwhelmingly congress-centered literature connecting the regional distribution of pork with electoral outcomes. Our point is straightforward: since money is fungible, what matters for understanding coalition-building is not the type of coalition politicians seek to build, but rather the utility of fiscal institutions to entice support among potential followers.
2. A good reason for this lacuna is that intergovernmental transfer discretionality is often hard to track with quantitative data. Relying upon qualitative analysis, we aim to solve this problem by developing an empirically testable theory that explains variation in the leverage that both presidents and governors enjoy over the use of federal resources.
3. Furthermore, as Jones' variable includes federal transfers and it therefore covers more than budgetary credits, it does no longer serve to capture the underlying dynamics of budgetary politics in the country. At this point, measurement problems become conceptual problems.
4. See below for details on the CFI.
5. Notice that in multi-tiered regimes with three levels of government, the state units in turn operate as donors for municipal recipients. In some federalized countries such as Brazil and Colombia the federal government operates as donor for both states and municipalities.
6. Incentive-based approaches have been applied to study the conditions under which decentralized fiscal institutions foster market-enhancing policies and good governance (Careaga and Weingast 2003; Montinola et al. 1995; Weingast 1995), or encourage

economic distress and corruption (Rodden and Wibbels 2002; Triesman 2000; Wibbels 2005b).

7. This preference ordering is contingent upon the state of the economy. In contexts of fiscal crises, presidents are simultaneously concerned about obtaining more funds to stabilize their accounts (i.e., centralizing) and concentrating discretionality to curtail subnational spending. Centralizing transfer management, controlling subnational finances, and earmarking subnational spending are functionally equivalent mechanisms insofar as they allow presidents to claim credit for the effects of fiscal policy on the functioning of local economies.
8. Additionally, to the extent that secure transfers are unconditional, they reduce provincial dependence from the center.
9. We explicitly exclude considering other important features of federal fiscal arrangements such as institutional incentives for equity and an efficient macroeconomic performance.
10. Earmarked transfers not tied to public employees' salaries are more likely to be used with some discretion because they are harder to monitor.
11. Due to data availability we were unable to include financial transfers in our statistical analyses. We collected some information for a limited number of provinces in a few years. Preliminary statistical results perform as expected but are sensible to model specification.
12. The Chaco province under the Radical government of Angel Rozas (1994–2002) is illustrative of this dynamics. In the context of a vociferous dispute between Radical and Peronist municipalities regarding the reallocation of ATNs, the Interior Ministry of the Peronist central government intervened in the conflict by protesting that the provincial government should not exclusively benefit their copartisan mayors. Interview with Eduardo Gabardini. Chaco's Secretary of Government (1996–2000), Resistencia, November 28, 2006.
13. The delegation of budgetary powers to the president was implicit during the high-inflation decades of 1970 and 1980, and became explicit after 1996 (Rodriguez and Bonvecchi 2004).
14. It is very hard to ascertain how provincial governments modify transfer spending within a given policy area. How can we know, for instance, if a governor built 300 houses of poor quality instead of 100 of good quality?
15. Interview with Carlos Snopek. Ciudad de Buenos Aires, December 16, 2005.
16. Interview with Gabriel Hernández. Formosa, April 10, 2006.
17. With the restoration of democracy in 1983, the CFI regime collapsed mainly due to the impossibility of finding a compromise between the federal government and the provinces on how to deal with the macroeconomic crisis (Cetrángolo and Jiménez 1998). No agreement on how to modify the transfer system was achieved until 1988. In the meantime, the CFI was replaced by an informal allocation of ATNs (see above). The 1994 constitutional reform gave the revenue-sharing regime constitutional status and mandated that a new CFI law be enacted. But the provinces' reluctance to renegotiate their quotas led regional interests in the Constitutional Assembly to set stringent procedural requirements to approve tax-sharing legislation. It was established that a CFI

law would require a previous fiscal pact between the president and the twenty-four governors, qualified majorities in both the Chamber of Deputies and the Senate, and the approval by simple majority of all the provincial legislatures. The deadline to sanction the law was postponed several times and a new CFI regime has never been produced.

18. Argentina has a high degree of vertical fiscal imbalance. Indeed, during the same period, provinces have financed less than 35 percent of their spending with their own resources.
19. This appropriation was limited to AR$650 million in 1995 (Law 24621), and the surplus distributed among the remaining provinces.
20. Anecdotal evidence indicates that the *Fondo del Conurbano* was negotiated by President Menem and Eduardo Duhalde, political boss of the Buenos Aires province and Menem's main adversary within the PJ. In exchange for the fund, Duhalde accepted not to run for the presidency in the 1995 contest thus paving the way for Menem's reelection.
21. We thank François Gélineau for providing replication data.
22. We report estimates of models including presidential approval, national unemployment, and provincial unemployment. Because the high correlation between presidential approval and national unemployment ($r = -0.76$), and between national unemployment and provincial unemployment ($r = 0.66$) may generate problems of multicollinearity, we reestimated a set of models that alternatively excluded these variables. Results remained unchanged.
23. Neither the coefficients for discretionary transfers nor the conditional coefficient for this variable when gubernatorial co-partisanship equals one (i.e., the sum of the coefficient for discretionary transfers and the coefficient for the interaction term) are statistically significant.
24. The calculation of the conditional coefficients for nondiscretionary transfers when gubernatorial co-partisanship equals one is $(-16.87 + 8.82)$ for gubernatorial elections and $(-0.79 + 0.01)$ for national deputy elections, both statistically significant at the 0.01 level.
25. The conditional coefficient that results from the calculation $(-0.03 + -0.01)$ is not significant at any reasonable level of confidence.
26. The calculation for this value is $(-0.59 + 0.35)$, significant at the 0.05 level.
27. This finding does not indicate the complete inability of Argentine presidents to dispute territorial power in the provinces. There are other redistributive mechanisms under central government influence not analyzed in this article, such as social policy programs and infrastructure projects, which may effectively promote subnational presidential partners.

References

Auyero, Javier. 2000. *Poor people's politics. Peronist networks and the legacy of Evita*. Durham, NC: Duke University Press.

Benton, Allyson L. 2009. What makes strong federalism seem weak? Fiscal resources and presidential–provincial relations in Argentina. *Publius: The Journal of Federalism* 39 (4): 651–676.

Beramendi, Pablo. 2005. *Inequality, economic specialization and fiscal decentralization*. Unpublished manuscript, Department of Political Science, Syracuse University.

———. 2007. Federalism. In *Oxford handbook of comparative politics*, ed. C. Boix, and S. C. Stokes. 752–782. Oxford: Oxford University Press.

Boix, Carles. 2003. *Democracy and redistribution*. Cambridge: Cambridge University Press.

Calvo, Ernesto, and Maria V. Murillo. 2004. Who delivers? Partisan clients in the Argentine electoral market. *American Journal of Political Science* 48 (4): 742–757.

Careaga, Maite, and Barry Weingast. 2003. Fiscal federalism, good governance, and economic growth in Mexico. In *In Search of Prosperity. Analytical Narratives on Economic Growth*, ed. D. Rodrik. 339–435. Princeton: Princeton University Press.

Cetrángolo, Oscar, and Juan Pablo Jiménez. 1998. Algunas reflexiones sobre el federalismo fiscal en la Argentina. Apuntes para el diseño de un nuevo sistema de Coparticipación Federal de Impuestos. *Desarrollo Económico* 38 (número especial): 293–327.

Cox, Gary W., and Mathew D. McCubbins. 1986. Electoral politics as a redistributive game. *Journal of Politics* 48 (2): 370–389.

Diaz-Cayeros, Alberto. 2006. *Federalism, fiscal authority, and centralization in Latin America*. Cambridge: Cambridge University Press.

Dixit, Avinash, and John Londregan. 1996. The determinants of success of special interests in redistributive politics. *Journal of Politics*. 58 (4): 1132–1155.

———. 1998. Ideology, tactics, and efficiency in redistributive politics. *Quarterly Journal of Economics*. 113 (2): 497–529.

Eaton, Kent. 2001a. The logic of Congressional delegation: Explaining Argentine economic reform. *Latin American Research Review* 36 (2): 97–117.

———. 2001b. Decentralization, democratization and liberalization: The history of revenue sharing in Argentina, 1934–1999. *Journal of Latin American Studies* 33 (1): 1–28.

———. 2004. *Politics beyond the Capital. The design of subnational institutions in South America*. Cambridge: Cambridge University Press.

Gelíneau, François, and Karen L. Remmer. 2006. Political decentralization and the Argentine experience. *British Journal of Political Science* 36 (1): 133–157.

Gibson, Edward, and Ernesto Calvo. 2001. Federalism and low-maintenance constituencies: Territorial dimensions of economic reform in Argentina. *Studies in Comparative International Development* 35 (3): 32–55.

González, Lucas I. 2008. Political power, fiscal crises, and decentralization in Latin America: Federal countries in comparative perspective (and some contrasts with unitary Cases. *Publius: The Journal of Federalism* 28 (2): 211–247.

Gordin, Jorge. 2004. Testing Riker's party-based theory of federalism: The Argentine case. *Publius: The Journal of Federalism* 34 (1): 21–34.

Jones, Mark. 2001. Political institutions and public policy in Argentina. An overview of the formation and execution of the national budget. In *Presidents, parliaments, and policy*, ed. Stephen Haggard, and Mathew D. McCubbins. 149–182. Cambridge: Cambridge University Press.

Lindbeck, Assar, and Jorgen Weibull. 1987. Balanced-budget redistribution as the outcome of political competition. *Public Choice* 52: 273–297.

Montinola, Gabriella, Yingyi Quian, and Barry Weingast. 1995. Federalism Chinese style: The political bases of economic success in China. *World Politics* 48: 50–81.

Nicolini, Juan Pablo, Josefina Posadas, Juan Sanguinetti, Pablo Sanguinetti, and Mariano Tommasi. 2002. *Decentralization, fiscal discipline in sub-national governments, and the bailout problem: The case of Argentina*. Working Paper R-467. Inter-American Development Bank, Washington, DC.

Oates, Wallace. 1972. *Fiscal federalism*. New York: Harcourt Press.

Porto, Alberto. 1990. *Federalismo fiscal: El Caso Argentino*. Buenos Aires: Tesis.

Porto, Alberto, and Pablo Sanguinetti. 2001. Political determinants of intergovernmental grants: Evidence from Argentina. *Economics and Politics* 13 (3): 237–256.

Remmer, Karen L. 2007. The political economy of patronage: Expenditure patterns in the Argentine provinces, 1983–2003. *The Journal of Politics* 69 (2): 363–377.

Remmer, Karen L., and Erik Wibbels. 2000. The subnational politics of economic adjustment. *Comparative Political Studies* 33 (4): 419–451.

Remmer, Karen L., and Francois Gélineau. 2003. Subnational electoral choice. Economic and referendum voting in Argentina. *Comparative Political Studies* 36 (7): 801–821.

Rodden, Jonathan. 2002. The dilemma of fiscal federalism: Grants and fiscal performance around the world. *American Journal of Political Science*. 46 (3): 670–687.

Rodden, Jonathan. 2006a. Federalism. In *Oxford handbook of political economy*, ed. Weingast Barry, and Donald Wittman. 357–370. Oxford: Oxford University Press.

———. 2006b. *Hamilton's paradox. The promise and peril of fiscal federalism*. Cambridge: Cambridge University Press.

Rodden, Jonathan, and Erik Wibbels. 2002. Beyond the fiction of federalism. Macro-economic management in multitiered systems. *World Politics* 54 (4): 494–531.

Rodriguez, Jesús, and Alejandro Bonvecchi. 2004. *El Papel del Poder Legislativo en el Proceso Presupuestario: La Experiencia Argentina*. Santiago: CEPAL-Serie Macroeconomía del Desarrollo.

Saiegh, Sebastian, and Mariano Tommasi. 1999. Why is Argentina federalism so inefficient? Entering the labyrinth. *Journal of Applied Economics*. 2 (1): 169–209.

Stein, Ernesto. 1999. Fiscal decentralization and government size in Latin America. *Journal of Applied Economics*. 2 (2): 357–391.

Tiebout, Charles. 1965. A pure theory of local government expenditures. *Journal of Political Economy*. 64: 416–424.

Tommasi, Mariano, Sebastian Saiegh, and Pablo Sanguinetti. 2001. Fiscal federalism in Argentina: Policies, politics, and institutional reform. *Economia* 1: 147–201.

Triesman, Daniel. 2000. Decentralization and inflation: Commitment, collective action, or continuity? *American Political Science Review*. 94 (4): 45–65.

Weingast, Barry. 1995. The economic role of political institutions: Market-preserving federalism and economic development. *Journal of Law, Economics, and Organization*. 11 (1): 1–31.

Wibbels, Erik. 2005a. Decentralized governance, constitution formation, and redistribution. *Constitutional Political Economy*. 16 (2): 161–88.

———. 2005b. *Federalism and the market. Intergovernmental conflict and economic reform in the developing world*. Cambridge: Cambridge University Press.

Woodruff, David. 1999. *Money unmade: Barter and the fate of Russian capitalism*. Ithaca, NY: Cornell University Press.