

# **Fiscal Federal Politics in Authoritarian Regimes: Theory and Evidence from Argentina, 1976-1983**

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The idea of a politics of fiscal federal relations under authoritarian rule appears to be a theoretical anomaly. This anomaly rests on the assumption that authoritarian rule is incompatible with federalism because the latter consists of decentralization of political authority and economic-decision making while the former consists precisely of the opposite. But this assumption is empirically untenable: there are and have been cases of authoritarian regimes with federal institutions – the Soviet Union, Mexico under the PRI, China, Brazil and Argentina during their last dictatorships (Riker 1964; Abrucio 1998; Desposato 2001; Eaton 2004; Magaloni 2006; Landry 2008). The literature on authoritarian institutions, however, has not dealt with the use of federal rules in authoritarian regimes. While it has convincingly argued that authoritarian rulers introduce legislatures and political parties to deflect threats of deposition (Gandhi 2008; Boix and Svolik 2009), it has not extended this coalition-maintenance logic to the analysis of the role of federal institutions under authoritarianism. In turn, the literature on federalism has not systematically considered the design and use of federal institutions in authoritarian regimes. Although some definitions of federalism have broken with the assumption of its inherently democratic nature, no theory of federalism has accounted for authoritarian federations except as extreme cases of centralized federalism. Consequently, the existence of authoritarian federations and the effects of federalism on fiscal policymaking under authoritarian rule are still in need of elucidation. What is the rationale underpinning the adoption of federal arrangements in authoritarian regimes? What political dynamics do federal institutions trigger in fiscal decision-making under authoritarian rule? How do fiscal federal politics under authoritarianism compare to fiscal federal politics in democratic regimes?

This article combines insights from selectorate theory and the recent literature on authoritarian institutions to answer to each of these questions. Authoritarian rulers adopt federal institutions to secure the political integration of their main organizational support when the territorial distribution of political and economic power among selectors is so dispersed that leaders cannot build sustainable winning coalitions without incorporating those selectors to decision-making. Federal institutions empower selectors to represent subnational interests, so the maintenance of winning coalitions and the survival of government leaders eventually depend on

buying off the loyalty of those selectors via transfers to subnational districts. This drives fiscal federal relations into a political dynamics equivalent to that of democratic polities: pork-barrel, rent-seeking, political-business cycles, etc. The article illustrates these claims with empirical evidence from fiscal federal relations during the last military dictatorship in Argentina.

The article is organized in four sections. The first section outlines the theoretical problem by revising the literatures on federalism and on authoritarian institutions. The second section uses selectorate theory to construct a framework for the analysis of fiscal federal politics under authoritarian rule and operationalizes the framework to account for fiscal federal relations in Argentina during the 1976-1983 military dictatorship. The third section presents the evidence from the Argentine experience, which shows that the military dictatorship developed federal political arrangements, and engaged in the pork-barrel, rent-seeking strategies typical of fiscal federalism in democracies. Finally, the conclusion assesses the arguments and outlines a research agenda.

### **1. The Problem: Fiscal Federalism and Political Regimes.**

Federalism is generally characterized as an inherently decentralized institutional arrangement. Scholars on fiscal federalism (Oates 1972, 1999; Elazar 1987, 1993; Weingast 1995; Qian and Weingast 1997) typically define it as a set of institutions that assign different responsibilities and competences to different levels of government: macroeconomic and defense policies to the federal level; delivery of public goods to the local levels. Scholars on political federalism (Wheare 1963; Riker 1964, 1975; Ostrom 1986, 1991; McKay 1996, 2000; Beramendi 2007) typically describe it as a polity with a central government and local constituent units, all directly elected by the citizenry and constitutionally empowered to exercise those legislative and administrative powers not delegated to other levels of government. Thus, the politics of federalism – fiscal and political – is the politics of the relations between relatively autonomous levels of government.

In this conceptual scheme, federalism appears to be an inherently democratic institutional arrangement. For different levels of government to co-exist and function

under strict demarcations of authority and responsibility, the rule of law needs to be upheld and governments must be accountable for any violation of the constitutional allocation of power between jurisdictional levels. Accountability and the rule of law require that the institutions of fair elections and an independent judiciary be in place (Manin, Przeworski and Stokes, 1999). A structure of government combining self-rule and shared rule (Elazar 1987) cannot hold if the people and the judges cannot make their rulers to account for any violation of the constitutionally assigned limits to the power of each level of government.

Under this theoretical rationale, fiscal federal relations inevitably take on a pork-barrel, rent-seeking dynamics. Insofar as federal polities comprise a national legislature where the constituent units are represented, at least some taxing and spending decisions must be made in accordance with the representatives of those units. Each of these representatives is typically empowered to strive and secure particularistic benefits for its district, so decisions can only be made if a norm of universalism is respected by which all districts are awarded some private benefits – at the expense of the whole federation (Weingast et al. 1981; Weingast and Marshall 1988). Fiscal federal politics are thus inherently rentistic.

If federalism implies decentralization, then centralization should entail the elimination of federalism and, consequently, the disappearance of its politics. This would be the case when authoritarian rulers take over a democratic federation. If authority is centralized at the national level, e.g. by closing down the legislature and replacing popularly elected governors with appointed officials, the separation of powers between levels of government ceases to exist. If subnational officials are no longer representatives of subnational entities in the national arena but delegates of the national government in the subnational districts, their political and institutional dependence on central authorities removes the incentives for the pork-barrel and rent-seeking politics of fiscal relations. Consequently, an authoritarian federation cannot exist, and there cannot be fiscal federal politics in authoritarian regimes.

However, there are and have been cases of authoritarian federations. Riker (1964, 1975) used this term to define the Soviet Union and Mexico. Abrucio (1998) and Desposato (2001) described how the Brazilian military used subnational elections,

parties, and authorities to build their own political base. Eaton's (2004) comparative study of South American subnational politics showed how the military dictatorships in Argentina and Brazil used fiscal policy and electoral legislation to empower conservative parties and facilitate their own withdrawal in the early 1980s. Magaloni (2006) explained how the PRI in Mexico used public expenditure and electoral fraud at the subnational level to maintain party hegemony by excluding competing political organizations and subjecting subnational governments to fiscal dependence from the centre. Landry (2008) demonstrated how the Chinese Communist Party combined fiscal and policy decentralization with co-optation of local leaders to maintain political control at the subnational level.

All these experiences challenge the conceptual scheme that equates federalism to democratic decentralization of political and economic authority. How can the existence of federal institutions in authoritarian regimes be accounted for? What are the effects of those institutions on fiscal policymaking? How does fiscal politics in authoritarian federations differ from that in democratic polities?

The recently burgeoning literature on authoritarian institutions provides an important, albeit insufficient, building block towards an explanation. This literature contends there is a rationale for institutions under authoritarianism: they provide autocrats with arenas within which potential threats to their survival can be defused through policy compromise or the distribution of rents to either the opposition or unstable supporters (Gandhi 2008; Boix and Svobik 2009). Thus, according to Gandhi (2008), authoritarian rulers introduce legislatures and allow for parties to organize and even to compete in more or less fair elections in order to build their own bases of support and reduce the potential for political instability. Legislatures operate as arenas for policy compromise and for the controlled organization of political conflict, while political parties serve as conduits of information and participation both for the opposition and for external economic and social actors (*ibid.*: xxiii).

This contribution sets the ground to establish whether other institutions apart from legislatures and parties might respond to the same rationale. But, given its overwhelming concern with parties and legislatures, this literature on authoritarianism has hitherto not applied its analytical logic to other institutions – such as federalism. If

some horizontal division of power at the national level can be construed as instrumental for coalition-building and maintenance in authoritarian regimes, why would a vertical division of power not function equivalently? If legislatures and parties deflect threats of deposition by creating opportunities and instruments with which to incorporate potential challengers into the ruling coalition, why would federal institutions not be instrumental for the very same purposes?

The theoretical literature on federalism reviewed above poses an obstacle towards answering these questions: if federalism is inherently democratic and decentralizing, such inquiries are simply senseless. However, some authors have proposed definitions of federalism that depart from the dominant paradigm linking federalism to democracy. For starters, Riker himself (1975: 101) defined federalism as “a political organization in which the activities of government are divided between regional governments and a central government in such a way that each kind of government has some activities on which it makes final decisions”. More recently, Rodden (2004: 489) stated that federalism is “a process – structured by a set of institutions – through which authority is distributed and redistributed” and which “implies that for some subset of the central government’s decisions or activities it is necessary to obtain the consent or active cooperation of the subnational units”. And even more recently, Bednar (2008: 18-19) proposed that a government should be classified as federal if it meets three criteria: the geopolitical division of the territory into mutually exclusive states the existence of which is constitutionally recognized and cannot be unilaterally abolished; the independence of the basis of authority of each level of government; and the shared sovereignty of each level of government over its citizens such as both national and subnational governments rule directly over citizens and have at least one policy realm in which they are sovereign.

None of these definitions of federalism requires democracy to work. They all hinge on the vertical division of power between the national government and the governments of the constituent units. As long as such vertical division, with its corresponding demarcation of authority or sovereignty, obtains, then a polity should be considered federal. Democracy is not necessary to maintain that division of power. It may still hold under authoritarian rule insofar as some institutional equilibrium is in place that

preserves it from potential violations by the national government. The question is what this equilibrium would consist of.

At this point, the theory of authoritarian institutions should meet the theory of federalism. If institutions emerge within authoritarianism to solve coalition management problems, then federal institutions might serve equivalent purposes. If federalism institutes a vertical division of power and sovereignty, then authoritarian rulers might find some utility in the establishment and maintenance of this division. The next section uses selectorate theory to bridge the gap between the theory of federalism and the theory of authoritarian institutions, and thus account for fiscal federal politics under authoritarian rule.

## **2. The Theory: Authoritarian Federations, Fiscal Politics, and Political Survival.**

Authoritarian rulers use federal institutions to increase the size of the selectorate and thus reinforce the loyalty of selectors with power bases at the subnational level. Selectorate theory shows that the political survival of leaders in autocracies depends on maintaining a small coalition relative to the size of the selectorate. For this condition to obtain, power must be effectively concentrated in a few hands so that small coalitions may be winning coalitions. But if power is more or less dispersed, particularly if it is dispersed throughout the territory, winning coalitions would need to be larger. This increases the leader's risk of deposition because it diminishes the risk of exclusion of selectors from potential challenger's coalitions. Since the dispersion of power makes it impossible to reduce the size of the winning coalition, increasing the size of the selectorate is the only alternative available for leaders to increase the risk of exclusion of their coalition members. Federal institutions are the adequate instrument for this purpose: they acknowledge the power of selectors with territorial bases and they create an arena for the distribution of rents that could secure their loyalty. But federal institutions come at their own cost: they increase the need for leaders to maintain an integrated political force so that intergovernmental bargaining would not become disruptive and threaten government stability. The need for high political integration stimulates a fiscal federal dynamics equivalent to that of democratic federations: pork-barrel, rent-seeking, and political business cycles. This section develops the latter argument the following way. First, it presents the basic

notions of selectorate theory. Then it applies the theory to account for the use of federal institutions in authoritarian regimes and for the accompanying fiscal federal politics. Finally, it proposes an operationalization of the theoretical arguments in order to study fiscal federal politics in authoritarian regimes.

### **2.1. Coalition Size and Political Survival.**

Selectorate theory (ST) is particularly useful to bridge the gap between the theory of federalism and the theory of authoritarian institutions. As developed in Bueno de Mesquita et al. (2003), ST investigates how the selection of political institutions, policy choices, and the allocation of benefits help or hinder the survival of leaders in any type of political system by affecting the size of the winning coalition (W) relative to the selectorate (S). The theory's claim to validity across regime types makes it especially suitable to address the conceptual challenge at hand.

The defining feature of political survival according to ST is the size of the winning coalition (W) relative to the selectorate (S) – that is  $W/S$ . S is defined as “the set of people whose endowments include the qualities or characteristics institutionally required to choose the government's leadership and necessary for gaining access to private benefits doled out by the government's leadership” (ibid.: 42). W is the subset of S whose support “is essential if the incumbent is to remain in power” (ibid.: 38) because it endows the leadership with power over the remainder of S as well as the disenfranchised members of society (ibid.: 51). Membership of S – contingent on personal origin, special proficiency, wealth, and gender or age (ibid.: 43) – conveys the possibility of membership of W. This membership, in turn, depends on institutionally defined entry requirements, on affinities between the leader (L) and the followers, and on the flow of private benefits from the former to the latter (ibid.: 51).

$W/S$  defines the probability for any S member of being in a successor W – i.e. the winning coalition assembled by a successful challenger (C) against the incumbent. Since W is a subset of S, those S members who defect from the incumbent to C cannot be certain of their inclusion in the new W because only W members of S are needed to unseat the incumbent. Defecting from L's W to C's potential W therefore involves the risk of exclusion from that potential W, and consequently from the flow of private goods that accrues to all members of W. Hence, “if either the size of the

winning coalition shrinks or the size of the selectorate grows, defecting becomes riskier” (ibid.: 66). Thus, W/S simultaneously determines the prospects of leadership survival and of the challenger’s success.

So whatever determines W/S in any given political system becomes the critical question for assessing survival probabilities and predicting survival strategies. ST focuses on two major determinants: selectorate membership rules, because they define who is eligible to become W member; and government formation rules, because they define how many S members are formally required to constitute a W.<sup>1</sup>

Selectorate membership rules refer to qualities that may be either evenly or unevenly distributed among residents in a society or among S members themselves. In hereditary monarchies, the lineage required for S membership is unevenly distributed among residents, but – at least in principle – evenly distributed among nobles (ibid.: 51). In one-party systems, party affiliation is typically unevenly distributed among the population, but it does not typically suffice for S membership – for which a certain hierarchy within the party is required (ibid.: 54). This would also be the case in military juntas, where control over weapons is the main membership requirement – a quality unevenly distributed not only among the population but also among the different Armed Forces (ibid.: 51-52). In contrast, liberal democratic presidential systems, by using universal suffrage as S membership requirement, distribute evenly their S-membership qualities among residents (ibid.).

Government-formation rules differ markedly across political systems. While liberal democracies typically use some form of majority rule – which makes W equal to about half of the electorate – in hereditary monarchies, no W is typically required to access office, but a majority of the nobility may be required to survive in it (ibid.: 51). In turn, military regimes operate under a qualitative majority rule which typically requires the support of “among fewer than half of the senior officers who collectively control a majority or more of the nation’s soldiers and arms” (ibid.: 52).

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<sup>1</sup> A third determinant would be affinities, because they define which S members leaders will surely pick to form their W. But ST treats affinities as more or less accidental, and hence as less important than selectorate and government formation rules.

Political survival requires that incumbents choose followers with the greatest risk of exclusion from potential alternative Ws, because that risk is the basis of loyalty. Loyalty depends on the W/S ratio: the higher the ratio, the weaker the loyalty. As W increases and S decreases, leaders are forced to pick more S members from a smaller pool to form their W: this diminishes the probability of any S member being excluded from any W. Inversely, as W decreases with a fixed or expanded S, the risk of exclusion from future Ws grows because leaders need less S members to form their winning coalition, which strengthens loyalty to the incumbent (ibid.: 66-68).

Leaders' capacity to influence followers' risk of exclusion is heavily dependent on the costs that the institutional structure of political systems imposes on leaders for manipulating the rules. Liberal democracies typically prevent rule manipulation: since universal suffrage "provides a mechanism through which practically everyone can be brought into the coalition and everyone is replaceable" (ibid.: 68), democracies have both a large S and a large W, and therefore promote disloyalty with incumbents (ibid.: 93). In contrast, autocracies incentive loyalty: rigged elections or armed power reduce the size of W and give leaders the chance to manipulate also the size of S (ibid.).

Coalition size thus determines the survivability of politicians in office. Leaders find it easier to survive in small-W systems than in large-W ones: they need to buy off less S members in the former than the latter to form their winning coalition. And this lesser cost leaves more slack available for them to accumulate and put to use whenever a challenge to their leadership arises (ibid.: 280). W members face a greater risk of exclusion and therefore are typically more loyal to incumbents; and challengers are wary of confronting leaders due to their disproportionate disadvantage in resources.

So why would authoritarian leaders introduce or maintain federal institutions if, as the theory of federalism claims, this type of institutions decentralizes power and fiscal management, and would therefore reduce the risk of exclusion of selectors? Selectorate theory suggests an answer: because the nature of the selectorate may be such that no small, stable winning coalition might be feasible.

## **2.2. Federalism, the Integration of Political Forces, and Political Survival.**

The fundamental condition for stable winning coalitions in autocracies is that power be concentrated in a handful of actors. Only then may a  $W$  be small enough to secure the survival of the leader. But if power, whatever its source may be according to selectorate membership rules, were dispersed rather than concentrated, then small  $W$ s would be inherently unstable. If power is dispersed among many actors, then it becomes easier for those excluded from the current  $W$  to form an alternative coalition, so the risk of exclusion of the current  $W$ 's members from potential challenger coalitions is reduced, and with it their loyalty to the leader. To keep their  $W$  together and stable, authoritarian leaders must increase the size of  $S$  so that it encompasses potentially all power-holders. An expanded selectorate would give power-holders a stake in the status quo by acknowledging their ability to influence government stability – if not its formation. At the same time, a larger  $S$  would keep the risk of exclusion for  $W$  members high enough to secure their loyalty to the leader. The incumbent's power would be explicitly and formally limited, and the distribution of rents among  $S$  members would become less uneven than before – but government survival would obtain.

This would be, translated into selectorate theory, the rationale underpinning the introduction of institutions in authoritarian regimes according to the recent literature on political institutions under dictatorship (Gandhi 2008; Boix and Svobik 2009). The argument of this paper is that this rationale can also account for the use of federal institutions in authoritarianism: federal institutions would be adequate to expand the size of the selectorate when power-holders are dispersed throughout the territory.

The more dispersed economic or political power is within a polity, the least likely it would be that a) any one power-holder from any particular region or district is powerful enough to rule on its own, and b) any small coalition of power-holders is stable enough to survive. If local economic actors are strong enough to resist or elude taxation from the centre, then national authorities would lack resources to buy off enough members of  $S$  to form a winning coalition. If political or military actors have developed local power bases independent from the centre, then national authorities would lack the coercive resources to deter potential challengers from forming alternative coalitions. Consequently, as long as powerful actors exist at the subnational level that might threaten the survival of the leader by organizing

challenger coalitions or blocking the implementation of policies that distribute benefits to buy off loyalties, the stability of incumbent coalitions would be lower than in polities where power is less dispersed.

The more dispersed the distribution of power within a polity, the higher the risk of responding to coalition instability by reducing even further the size of  $W$  – as autocrats would be initially tempted to do. An even smaller  $W$  would only reduce the loyalty of  $S$  members and therefore increase the risk of deposition. Hence the only alternative available for leaders to form stable winning coalitions would be to increase the size of the selectorate – so that incorporates as many power-holders as possible.

Federal institutions such as a) subnational governments with independent bases of authority and more or less autonomous policy jurisdictions, b) national legislatures composed of members politically connected to subnational power-holders, or c) rules for national government formation that directly or indirectly incorporate subnational power-holders as selectors, are most apt devices for such an increase in selectorate size. All these institutions integrate subnational power-holders into decision-making processes that are crucial for the functioning of the regime. Through subnational governments and national legislatures, local power-holders would be able to bargain with the centre about policy design and implementation, and thus represent and promote their own interests or those of other local actors before national authorities. Through participation in collective bodies with decision over national government formation, subnational power-holders would be able to put a price for their loyalty to national leaders that could accrue benefits for their localities and thus enhance the chances of their own political survival. By providing subnational power-holders with an arena that acknowledges their power and enables them to use it to bargain with and obtain rents from the centre, federal institutions enable authoritarian leaders to increase the stability of their coalitions by increasing the stakes of subnational power-holders within the status quo.

This rationale explains why authoritarian leaders may introduce federal institutions in the structure of their polities or retain federal institutions that pre-existed their rule. Autocrats would have a strong incentive to introduce federal institutions if the distribution of political and/or economic power within their territory is, or becomes,

such that they cannot build stable small winning coalitions. This would be the case, for instance, of China and the Soviet Union. In both countries political power and factor endowments were unevenly distributed throughout the territory, so the consolidation of strongly centralized national governments was accompanied by the creation of legislative institutions, party organizations, and decision-making procedures that guaranteed some representation of subnational interests at the national level, as well as some input on national policymaking. In turn, autocrats would have a strong incentive to retain pre-existing federal institutions if these had already structured the distribution of political and/or economic power in such way that most selectors at the national arena already were also subnational power-holders. This would be the case of civic or civic-military authoritarian federations such as Mexico under the PRI, Brazil under the 1964-1985 dictatorship, and Argentina under the 1976-1983 military government. In these experiences economic and political actors and/or factions of the Armed Forces had such a strong subnational presence that authoritarian leaders opted to organize some form of input from them at the national policymaking level, rather than exclude them completely.

This theoretical logic can also account for the nature of fiscal federal politics in authoritarian regimes. The argument would be the following: federal institutions create the possibility of disruptive bargaining among subnational units over the distribution of fiscal resources or policy responsibilities; disruptive bargaining may undermine the authority and stability of the national government; to avoid disruptive bargaining the governing political force should be highly integrated; high political integration requires the most universalistic distribution of fiscal resources possible; so authoritarian leaders must engage in pork-barrel, rent-seeking, and political business cycles just as their democratic counterparts.

Recent studies on federal constitutional design (McKay 2000; Filippov, Ordeshook and Shvetsova 2004; Treisman 2007; Bednar 2008), as well as investigations on fiscal federal politics (Rodden 2006, Diaz-Cayeros 2006), have demonstrated that federal institutions typically induce “disruptive bargaining over outcomes that can infect the institutions that seek to direct and constrain that bargaining” (Filippov, Ordeshook and Shvetsova 2004: 187). According to these authors, constituent units in a federation generally strive to maximize their share of the fiscal pie and the tailoring of

policies to their local preferences. This maximizing behavior may become disruptive by either overgrazing the common pool of fiscal resources or posing insurmountable jurisdictional conflicts on policymaking or implementation. Disruptive bargaining may undermine the authority of the national government by depriving it of fiscal resources with which to cater to the needs of subnational districts, or by undercutting its legitimacy before districts that pursue autonomous policies. If the authority of the national government is undermined, so would be its stability, and possibly the survival of the federation itself.

The key to avoiding disruptive bargaining and its consequences would be to provide incentives for political actors to abstain from it. Following an insight first posed by Riker (1964) that the structure of the party system explains the sustainability of federal bargains, Filippov, Ordeshook and Shvetsova (2004) argued that the solution to disruptive bargaining is to build and maintain an integrated party system. A party system is integrated, these authors claim, if the parties that constitute it satisfy the following conditions: 1) their organization exists and fields candidates at all levels; 2) their electoral success at the national level facilitates electoral success at the local level; 3) their regional organizations and candidates are autonomous enough to direct their own campaigns and to defect from the party; 4) their national platforms are acceptable for local branches and interpreted in local terms by local politicians who campaign on behalf on national parties in national elections; 5) every component of the party contributes to the party's overall success; 6) winning nationally requires that candidates campaign locally; and 7) the offices the party seeks to fill at the subnational level are meaningful – i.e. they control valuable resources and are empowered to make decisions that can either aid or foil policy implementation at the national level (ibid.: 192). Parties thus integrated would not be prone to disruptive bargaining: their meaningful electoral presence throughout the territory would lead them to a) assess “the benefit of each federal subject as being of approximately equal importance”, b) be unattached to any “identifiable group within the electorate”, and therefore c) prefer a “more equitable allocation of benefits” (ibid.: 188).

A federation with integrated parties would hence be more stable because both national and subnational politicians' long-term strategy of preserving the party's overall electoral coalition and competitiveness would take precedence over the possibility of

obtaining short-term political gains by challenging the competences of other levels of government (ibid.: 194-195). The political aim to maximize electoral competitiveness would incentive party leaders to establish branches in as many subnational units as possible, and thereby to tailor national electoral platforms to subnational concerns and promote the decentralization of decision-making over issues that prove to be irrevocably divisive (ibid.). Consequently, integrated parties would typically inflate the size of the coalitions needed to enact changes, and would thus discourage disruptive bargaining (ibid.: 193).

An equivalent dynamics would ensue in authoritarian federations. To avoid disruptive bargaining and coalitional instability, the political organizations competing or sharing power – be they single parties, competing parties, branches of the Armed Forces, or factions within the military – would have to integrate the concerns of the power-holders that constitute their political bases. The interests of power-holders in legislative districts or military jurisdictions would have to be internalized by each political organization so that no other would be capable of attracting the disaffected to alternative coalitions.

But high political integration increases the cost of coalition-building and maintenance. To maximize the integration of their political organizations, national leaders must distribute benefits to as many subnational power-holders as possible. Consequently, authoritarian federations with highly integrated political forces would operate as large-W political systems – that is, with a weak loyalty norm, which renders W members highly replaceable, and governments unstable. Federal institutions are instrumental for organizing political competition and containing instability, but fiscal policy is the currency they work with. The national exchequer thus becomes prey to the pressures from subnational governments, national legislators and/or military factions connected with subnational power-holders. If subnational governments or national legislatures are the only federal institutions in place within an authoritarian regime, then fiscal politics would assume the form of pork-barrel projects and distribution of rents to governors, legislators, or local firms connected to them. If subnational power-holders are directly or indirectly involved in the formation of the national government, then fiscal politics would be characterized by political business cycles – i.e. by an increase in the distribution of benefits to subnational districts or

firms in the years scheduled for government changes. If all these federal institutions are in place, then fiscal federal political dynamics would combine all three elements.

Fiscal federal politics in authoritarian regimes would thus be functionally equivalent to fiscal federal politics in democratic regimes. In both cases, a) the need to avoid disruptive bargaining among the constituent units of the federation drives leaders to build integrated political organizations that might internalize bargaining conflict; b) the building of integrated political organizations requires that leaders incorporate and aggregate the interests of as many subnational power-holders as possible, and c) the best way to aggregate those interests and avoid disruptive bargaining is to distribute benefits as universalistically as possible. Therefore, in both democratic and authoritarian federations, fiscal federal politics would accrue benefits to most subnational districts at the expense of the national exchequer through pork-barrel, rents, and political-business cycles – i.e. the distribution of a higher volume of transfers as changes of government approach.

### **2.3. The Operationalization.**

To put these arguments to work it must be possible to identify authoritarian federations, and measure their fiscal federal dynamics. To identify an authoritarian regime as federal requires establishing whether its institutional structure contemplates a vertical division of power and policymaking responsibilities. Following standard definitions of federalism, this would ensue if the Constitution or equivalent national legislation institutes a) subnational governments with distinct policy responsibilities from the national government and/or b) national legislatures elected on a territorial basis. Although the non-democratic nature of the regime might enable the national government to overawe subnational authorities or legislatures, it would still be analytically possible to distinguish levels of centralization within authoritarian federations. If subnational governments or legislatures are popularly elected rather than appointed, elected in competitive rather than rigged contests, and have their policy autonomy at least nominally protected by law, then authoritarian federations should be counted as more decentralized than if the opposite were the case.

An authoritarian regime should also be counted as a decentralized federation if subnational authorities, legislators, or other representatives of subnational power-

holders may operate as selectors. When the appointment of the national government depends on deliberation and voting by a collective body made up of representatives of subnational interests – i.e. deputies or delegates from provinces or states, and/or military commanders from military zones – then the authoritarian regime would be less centralized than if national leaders were simply self-appointed or elected by a purely national decision-making body.

To measure fiscal federal dynamics it would be necessary to establish whether the distribution of fiscal resources among subnational units varies with a) government changes, b) legislative deadlock, and/or c) pressures from subnational governments or power-holders against national policy decisions. Positive variations for a majority of districts alongside government changes would indicate the presence of a political-business cycle. Positive variations for a majority of districts linked to stalling, rejection or significant amendments to the Executive's legislative initiatives would indicate the presence of pork-barrel bargaining. No variation would indicate lack of effectiveness of subnational pressures.

The nature of the intergovernmental transfers distributed is also an indicator of the presence of pork-barrel and/or rent-seeking fiscal politics. Both national and subnational economic policymakers in authoritarian regimes would typically attempt to increase the importance of discretionary fiscal transfers relative to automatic transfers, and of rentistic transfers relative to non-rentistic transfers. National leaders would pursue this to secure the loyalty of subnational power-holders by increasing their payoffs. In turn, subnational leaders would strive for these transfers to secure their own political bases and thus their relative autonomy from the centre. Discretionary transfers are those arbitrarily distributed by the centre, and hence bargained for on a particularistic basis between national and subnational authorities.<sup>2</sup> The same goes for rentistic transfers: they are, by definition, those that exceed recipients' opportunity costs, so they are more suitable to buy off political support than non-rentistic transfers – which would strictly accrue the amount predicted following equalization criteria (Buchanan 1980; Oates 1999). According to the logic

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<sup>2</sup> It might be the case that all transfers are, to some extent, discretionary, because their amount, geographic targeting, timing, payment and/or earmarking might be subject to the arbitrariness of some decision-maker. For a detailed treatment of transfer discretionality, see Lodola and Bonvecchi (2009).

of fiscal federal politics outlined above, the national government would increase discretionary and rentistic transfers in the face of legislative deadlock or policy pressures from subnational power-holders.

The next section illustrates these theoretical insights with evidence from Argentina's last military dictatorship (1976-1983). Argentina was selected as a least likely case of fiscal federal politics under authoritarian rule. The pre-existence of federal institutions, the heterogeneous territorial distribution of factor endowments and wealth, and the territorial dispersion of military power would have theoretically stimulated the conservation or adaptation of federal political arrangements similar to those of Brazil: elective subnational governments and/or an elective national legislature. The Argentine military did not retain these institutions but established functional equivalents of them, and a consistent fiscal federal dynamics ensued.

### **3. The Evidence: The Argentine Military Dictatorship, 1976-1981.**

The evidence shows that Argentina's last military dictatorship developed a set of federal political institutions: subnational governments with distinct policy responsibilities and some political autonomy; a national legislative body with selectoral connections; the participation of subnational power-holders as selectors in the appointment of the national Executive, and specific procedures for intergovernmental bargaining. The military also retained, with minor amendments, the pre-existing fiscal federal framework. Fiscal federal politics also performed as expected by the theory: the national government increased discretionary transfers to the provinces in response to policy pressures from below, and engaged in political-business cycles of spending in the years of national government selection.

#### **3.1. The Institutional Framework: An Authoritarian Federation.**

Upon taking over the national government in March 1976, the Argentine military inceptioned a set of political institutions and practices that established both a horizontal and a vertical division of power. These rules and practices comprised the unanimity voting rule within the Military Junta, the tripartite distribution of provincial governorships, the Legislative Advisory Commission, the participation of senior

military officers in the appointment of the President, the promotion rules within the Armed Forces, and the procedures for intergovernmental bargaining.

The unanimity rule of voting within the Military Junta (JM), the tripartite distribution of institutional posts, and the organization of the Legislative Advisory Commission (CAL) were devised to involve the three Armed Forces in the entire business of government with an equal burden of responsibility. The political integration of the Armed Forces was intended to emerge as a product of the mutual reinforcement of a horizontal and a vertical division of power.

The horizontal division of power was designed as equal participation of the three Armed Forces in the appointment of the President and the provincial governors, and in the organization and operation of legislative power. Decree-Law 21,256, also known as the *Reglamento para el Funcionamiento de la Junta Militar, el Poder Ejecutivo Nacional y la Comisión de Asesoramiento Legislativo* established that unanimity was required for the JM to appoint or remove the President.<sup>3</sup> This rule was introduced because all Forces wanted to avoid repeating the experience of the previous military government of 1966-1973, in which the Army had practically monopolized decision-making and, for the most part, excluded the Navy and the Air Force.<sup>4</sup> The Army wanted to share the burden of the struggle against guerrillas; the Navy and the Air Force wanted to prevent the emergence of an Army strongman that could exclude them from decision-making. Establishing the JM as the “supreme government entity” of the country and imposing a unanimity voting rule to appoint and remove the President addressed both concerns.<sup>5</sup> If all three Forces were ultimately responsible for decision-making, political integration and agreement among the three Commanders in Chief would be a requisite for the government to operate at all.

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<sup>3</sup> The President had to be a retired officer of any of the three Armed Forces – Army, Navy or Air Force – and was answerable to the Junta, formed by the Commanders in Chief of each Force. Unable to agree on a name, in 1976 the Junta appointed Lt. General Jorge R. Videla, Commander in Chief of the Army, as President for an extraordinary two-year emergency period. This effectively entailed that the Junta violated its own appointment rule from the very beginning because for over two years Videla acted as President while retaining his Army command (Novaro and Palermo 2003).

<sup>4</sup> This exclusion came to an end in 1971, when Gral. Alejandro Lanusse took over the Presidency and established a consultation process with the Navy and the Air Force for important decisions.

<sup>5</sup> Audio interview with Gral J. Villarreal, Oral History Archive, University of Buenos Aires.

These same concerns inspired the division of all institutional positions in the country among the three Forces. The general principle was that each Force be awarded 33% of the posts so that they would all be equally involved in policymaking with the same level of responsibility. Consequently, every institutional arena, from the national to the subnational level, was divided in thirds and distributed among the Forces. The *Reglamento* stipulated that the governors and the ministers would be appointed by the President with previous agreement from the Junta.<sup>6</sup>

It must be noted, however, that this general principle was somewhat modified in its application to certain arenas. Provincial governorships were distributed according to each Force's territorial presence throughout the country. The Navy and the Air Force were only allocated those provinces where they had important headquarters and activity; and all the remaining districts were given to the Army.<sup>7</sup> Thus, the Army controlled 50% of the provinces, and the Navy and the Air Force had 25% each. The other slight modification of the tripartite distribution rule concerned the Cabinet. In the ministries controlled by one Force, the others attached liaisons that kept their respective commanders informed; and all three Forces had liaisons in the main office run by civilians, the Ministry of Economy.

The horizontal division of power was completed with the tripartite division of legislative power. The *Reglamento* granted legislative initiative to the High Commands of the three Forces and involved them in lawmaking. To this aim, it set up the CAL, run by nine senior officers – three per Force – charged with advising the Executive on certain legislative initiatives. Upon receiving a legislative proposal, the CAL would decide if it had “significant relevance” and if so, would refer to its sub-commissions – constituted by civilian advisors – for further consideration. These sub-commissions had 20 to 30 days to report on initiatives, suggesting their approval, rejection or modification. The CAL's officers then had another 30 to 40 days to produce a definitive report on the initiatives, which would then be referred to the Executive. Should the Executive disagree with the CAL's report, the matter would be passed on to the JM, whose decision would be final (Palazzo and Schinelli 1976: 53-

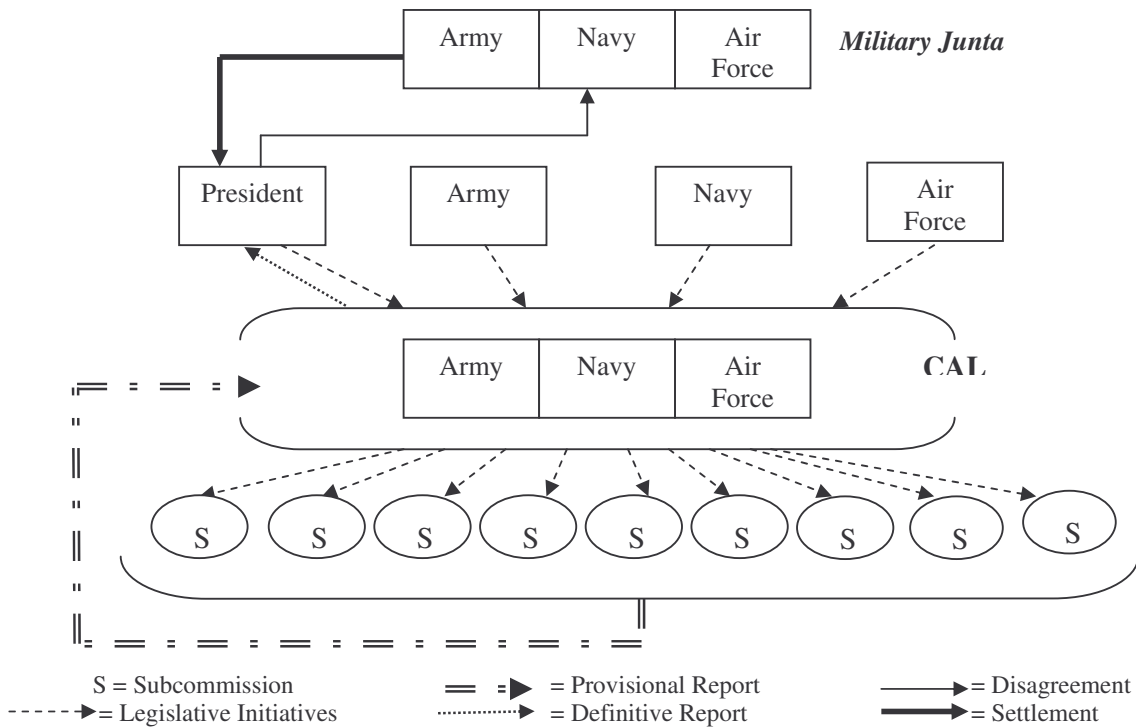
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<sup>6</sup> Even the municipalities, where the military made the least number of changes, were subjected to this procedure.

<sup>7</sup> Interview with anonymous senior Army officer and former Executive official, Buenos Aires, December 2005.

57). These lawmaking procedures gave the military selectors power to introduce their own concerns into the decision-making process; the Commanders' veto power through the CAL and the Junta conferred upon them the capacity to guarantee that those concerns would be taken into account.<sup>8</sup>

**Figure 1**  
**Argentina 1976-1983: The Legislative Process**



Source: author's own elaboration on the basis of Law 21,256.

The institutions that divided power horizontally among the Armed Forces also divided power vertically between levels of government. The device that secured the vertical division of power was the selectoral connection: the political and organizational linkages among subnational governors, Corps Commanders, and the Commanders in Chief in the JM. To survive in office, a Commander in Chief needed the support of the High Command – the whole set of senior officers of the Force – and particularly of the Corps Commanders – i.e. the officers with direct authority over troops and,

<sup>8</sup> These lawmaking procedures were devised not only to secure the engagement of the three Armed Forces in decision-making but also to prevent any one of them from using its veto to block the legislative process. The key instrument for this was the timetable for reporting on initiatives. However, as Palazzo and Schinelli (1976: 56) note, the *Reglamento* had a loophole that was eagerly embraced whenever disagreement among the Forces emerged: nothing prevented the plenary session of the CAL from referring contested initiatives back to the sub-commissions after their initial report.

thus, the main authority in the territories where military bases were settled. To secure this support, the Commanders in Chief appointed as provincial governors either the Corps Commanders themselves or their allies within the Force. Since the appointment of governors required unanimous agreement in the Junta, once a military faction captured a governorship it could play off the Commanders in Chief against each other so that their disagreement would secure the survival of the governor. Thus, governors effectively had an important degree of autonomy from the Junta and the President to pursue their own policies and political aims.<sup>9</sup>

The selectoral connection, which prompted the Forces to operate as factions within the regime and to develop factions of their own, was also decisive for the appointment of the President. General Videla, appointed as interim President in March 1976, was part of a minority Army faction that preferred a moderate strategy of repression against guerrillas and an intensive program of economic liberalization (Palermo and Novaro 2003). This minority status compelled Videla to seek allies in the Navy and the Air Force,<sup>10</sup> but the Navy's cooperation only lasted until its Commander, Admiral Massera, decided to run for the Presidency in 1977.<sup>11</sup> Consequently, when Videla's emergency term expired in April 1978 and the Junta had to decide whether to appoint a new President or re-elect Videla, disagreement prompted each faction to compete for the loyalty of all selectors.

This competition was structured in such way that it involved all senior officers of the three Armed Forces in the selection of the national Executive. Each Force had to choose a presidential candidate from the pool of retired officers of all Forces. This selection was to be made by an assembly of each Force's senior officers convened by their respective Commander in Chief. This procedure opened the way for all senior officers to trade in their vote for a presidential candidate both for some political and material interest of their own and for those of their protégés – i.e. the governors, SOEs directors or any other government official for whose appointment they had lobbied. Moreover, since any retired officer from any Force was entitled to compete for the

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<sup>9</sup> Audio interview with General J. Villarreal, Secretary General of the Presidency (1976-1978), Oral History Archive, University of Buenos Aires. According to General Villarreal, this autonomy also obtained at the Cabinet level: "Each minister, in theory, was [under] the President's [authority], but in fact they took their orders from their respective Commander".

<sup>10</sup> Audio interview with J. Alemann, Oral History Archive, University of Buenos Aires.

<sup>11</sup> Audio interview with J.A. Martínez de Hoz, Oral History Archive, University of Buenos Aires.

Presidency, each faction had a strong incentive to lobby for their candidate both within the respective Force and within the others. Thus the selectoral connection prompted generalized intergovernmental bargaining whenever competition for the Presidency was due.

The selectoral connection also influenced the legislative process. The CAL's powers to decide which legislative initiatives were of "significant relevance" and to delay the definitive reports on bills through multiple referrals to the sub-commissions transformed both the CAL's floor and the sub-commissions into arenas for selectoral pressures and deadlock. These were particularly acute when fiscal or financial issues were at stake: the Financial Reform Act promoted by Economy Minister Martínez de Hoz cycled back and forth in the CAL for months because the Minister resisted pressure from the governors to grant provincial banks a full Central Bank guarantee for their clients' deposits.<sup>12</sup>

To manage these conflicts and strive for political integration, the regime developed two institutional devices: the procedures for rank promotion within the Armed Forces, and the governors' meetings with Executive officials. The promotion procedures strengthened the Commander in Chief. Recommendations for rank promotions were drafted by Qualification Boards composed by senior officers, and subsequently submitted to each Commander in Chief for approval. Since the latter was empowered to overrule the recommendations, Qualification Boards tended to produce only recommendations that the Commander in Chief would be prepared to endorse.<sup>13</sup> Personal loyalty and service to the Commander in Chief therefore practically guaranteed promotion, whereas dissent and conflict typically stalled military careers.

The governors' meetings with Executive officials were devised and carried out by the Ministry of the Interior, in close collaboration with the Treasury Secretary at the Economy Ministry. Each ministry appointed an attaché to the other ministry, so the

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<sup>12</sup> Video interviews with J.A. Martínez de Hoz and J. Alemann, Oral History Archive, University of Buenos Aires.

<sup>13</sup> The Army had two Qualification Boards, one composed by all Generals and the other only by Division Generals. Although the latter had the capacity to overrule the former, the fact that roughly the same people sat in both bodies paved the way for bargaining, and for the Commander in Chief to influence the members of one Board through linkages with the members of the other. Interview with anonymous Division General and former Cabinet minister, Buenos Aires, December 2005.

Interior Minister had an update on each province's fiscal and financial situation and the Economy Minister was apprised of the political situation of each governor. The Interior Ministry was empowered to distribute the most important intergovernmental transfers among the provinces. The Treasury Secretary provided the Interior Ministry with the ceilings for each transfer, and left their distribution at the Interior Ministry's discretion. These competences effectively granted the Interior Ministry supervision over the income that nurtured provincial budgets, though not over their execution.<sup>14</sup> In order to better exercise this supervision power, the Interior Minister held periodic meetings with governors throughout the country. These intergovernmental meetings were useful for provincial governors to make their fiscal and financial demands, and for the Economy and Interior Ministries to contain them.<sup>15</sup> At least twice a year, the Interior Ministry convened a governors' meeting in the Federal Capital for Cabinet ministers and governors to bargain over the composition of the Budget. Ministers then briefed governors on the policies adopted by their offices and on the ceilings for certain transfers over the next fiscal year. Governors, in turn, voiced their demands and discussed national policy lines.

However, the operation of these institutional devices came at a cost. The regime's rules divided power vertically and gave the selectors strong connections at the subnational level. The tripartite division of the governorships enabled each Commander in Chief to build its own coalition in the provinces. The unanimity rule protected governors' autonomy from Presidential overawing by making it extremely difficult for the Junta to agree on governor removals. The veto power of each Force over lawmaking gave selectors and subnational power-holders an arena to promote their interests and force the other selectors to incorporate their demands into policymaking. This institutional combination prompted senior officers to become

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<sup>14</sup> Ibid. The governors had some discretion over the execution of important infrastructure transfers such as the National Housing Fund, distributed by the Secretary for Urban Development and Housing at the Social Welfare Ministry, then under control of the Navy; and the Road Coparticipation scheme, distributed by the National Road Directorate at the Ministry of Economy. See Law 21.581 for the National Housing Fund and Decree-Law 505/58 for Road Coparticipation.

<sup>15</sup> Video interview with L. García Martínez, Chief of Staff at the Economy Ministry (1976-1981), Oral History Archive, University of Buenos Aires. According to Garcia Martinez, "Military [governors] are more demagogical than politicians. They sit in their office, endorse everything that [the local] society demands – bridges, roads, dams, anything. ... Everywhere there was a list of demands. ... Everywhere they had an overwhelming number of public employees. [And to justify this] they would say: 'There are no jobs around here'. ... They believed that the Treasury was a bottomless well, and that therefore it had to hand them down money here and there".

representatives of subnational power-holders at the national level. Thus, as the evidence presented below indicates, these federal institutions prompted the emergence of the typical fiscal federal dynamics of democratic polities as a device to pay for the political integration of the Armed Forces.

### **3.2. Fiscal Federal Politics: Business as Usual.**

Fiscal federal negotiations between the central government and the provinces during Argentina's last dictatorship displayed patterns consistent with expectations. On the one hand, subnational pressures against national policy decisions were met with intergovernmental transfers to the provinces that entailed short-term compensations for their prospective losses. These compensations consisted of discretionary, rentistic transfers that accrued to the majority of provinces affected by those policy decisions. On the other hand, the national government engaged in political-business cycles of spending by increasing, in the years of scheduled government changes, the level of rentistic transfers to those provinces connected to the key selectors in the winning coalition of the governing military faction.

These political uses of intergovernmental transfers were possible because the military government centralized the management of the most relevant federal funds. Firstly, the Federal Coparticipation (CFI) revenue-sharing scheme was transformed from an automatic into a discretionary fund controlled by the Interior Minister. Secondly, the central government resorted to the National Treasury Contributions (ATN), a discretionary fund devised by the Constitution to assist provinces with fiscal deficits. Finally, the national Executive centralized control over the main financial sources for public works: the national Budget transfers, the Regional Development and National Housing Funds, and the Road Coparticipation. All these transfers were highly rentistic: they provided the majority of the provinces with income in excess of the opportunity costs of raising their own revenues; and they granted governors significant powers to discretionally manage transfer monies – either because transfers were designed as unconditioned (CFI, ATN) or because their institutional format allowed governors to control procurement (Bonvecchi and Lodola 2009).

#### **3.2.1. Containing Pressures from Below: Short-Term Compensations for Prospective Losses in Education, Public Works, and Social Security.**

On three occasions during the period, national fiscal policy decisions severely damaged provincial finances and stirred pressures for compensations from below. On each occasion, the national government gave short-term compensations to subnational administrations for their prospective losses. Although these compensations did not amount to complete reversals of those losses, they did enable provincial exchequers to go by until the next negotiation round.

*The Transfer of Primary Schools and Hospitals.* In 1978, the federal government transferred the administration of the primary schools and hospitals under its jurisdiction to the provinces. The rationale of the transfer was partly ideological – to tailor the provision of public services to local demands and preferences – but mostly fiscal – to take advantage of the surge in provincial Coparticipation receipts (3.47% of GDP in 1977) and discharge upon them significant items of central government spending. Governors reacted by demanding appropriate funding for the transferred services. But the Economy Minister incepted the transfer without funding into the 1978 Budget bill. Article 7 of this bill authorized the Executive to withhold budgetary transfers to the provinces for the amount required to finance the services to be transferred “for as long as it takes for [the transfer] to become effective” – which effectively meant punishing the provinces that rejected the transfer of schools and hospitals by reducing their Coparticipation receipts. However, renewed pressure from the governors ultimately led to partial financial compensation. Article 19 on the Budget eventually enacted authorized the Executive to cancel all standing provincial debts with the National Treasury. Although the real value of many of these debts had already been partially eroded by inflation, the measure still amounted to a bailout that freed provincial funds to meet the cost of the transferred services.

*The 1979 Contribution of the Developed Provinces to the Treasury.* In February 1979, the federal government forced the most developed provinces – Buenos Aires, Cordoba, Santa Fe, Mendoza, and the Federal Capital – to make an extraordinary contribution to the National Treasury and finance with their own resources the public works that the national government had promised to pay for in the Budget. With this budgetary savings, the Ministry of Economy intended to finance a larger than expected fiscal deficit at the national level – which had been triggered by an increase in the military budget due to preparations for war against Chile over the Beagle

Channel.<sup>16</sup> The governors immediately reacted by demanding separate meetings with the Interior Minister to discuss the measure. The Minister's reluctance to reverse the decision prompted the governors to publicly voice their protest. The Air Force governor of Mendoza and the Mayor of the Federal Capital issued official statements regretting the episode and denouncing the rise in military spending, while simultaneously pledging compliance with the order.<sup>17</sup> But the Army governor of Córdoba, General Chasseing, demanded to meet with President Videla, and claiming to possess the backing of Córdoba's business associations – which was subsequently proven through their public statements – proposed that the contribution was forced upon the municipalities, not the provincial government.<sup>18</sup> Unable to obtain either a reversal of the measure, or a reduction of the amount to be contributed, Chasseing resigned his post. However, the federal government's General Investment Account for 1979 shows that the governors of the affected provinces were subsequently able to reverse their defeat. The National Treasury transferred more money for public works to this group of provinces than in 1978. As Table 1 shows, although the share of public works financed in these provinces via the Central Administration's budget decreased, financing through the Special Accounts and Decentralized Entities discretionally managed by the Treasury increased. The only province damaged by the distribution of public works money in 1979 was Santa Fe, governed by the Navy – whose former Commander in Chief, Admiral Massera, was by then openly opposed to President Videla and his policies.

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<sup>16</sup> This motivation was repeatedly stated by the governor of Mendoza, Brigadier S. Fernandez, and never denied by any federal Executive official. See Fernandez's statements in *La Nacion*, 25/1/79, 2/2/79 and 22/3/79.

<sup>17</sup> *La Nacion*, 25/1/79, 2/2/79 and 3/2/79.

<sup>18</sup> *La Nacion*, 2/2/79.

**TABLE 1**  
**Funds for Public Works in the Developed Provinces**  
**(1978-1979)**  
*(Percentages by Financial Source)*

<i>Province / Financial Source</i>	<i>Central Administration</i>		<i>Special Accounts</i>		<i>Decentralized Entities</i>		<i>Mean of Public Works Transfers</i>	
	<i>1978</i>	<i>1979</i>	<i>1978</i>	<i>1979</i>	<i>1978</i>	<i>1979</i>	<i>1978</i>	<i>1979</i>
Buenos Aires (A)	31.71	22.14	20.29	22.19	13.35	13.6	21.78	19.31
Cordoba (A)	4.27	3.08	4.18	12.3	18.78	21.76	9.07	12.38
Federal Capital (AF)	29.26	40.28	27.05	34.05	1.95	1.24	19.42	25.19
Mendoza (AF)	6.8	2.99	0.55	5.22	5.71	5.99	4.35	4.73
Santa Fe (N)	0.31	0.12	16.39	8.14	6.16	4.49	7.62	4.25

Source: Secretaría de Hacienda (1978, 1979). A = Army; AF = Air Force; N = Navy.

It must be noted that in the cases of Cordoba, the Federal Capital, and Mendoza, the rate of growth of public works transfers in 1979 was actually higher than the rate of GDP growth. While the Argentine economy expanded by 7% compared to 1978, public works transfers grew by 36.5% in Cordoba, 29.7% in the Federal Capital, and 8.7% in Mendoza. The extraordinary growth of national spending in Cordoba might be explained by political integration concerns. This province was the haven of the 1979 failed military rebellion of the hawkish faction against President Videla. The conflict over the extraordinary contribution of the developed provinces to the National Treasury thus suggests that although the national government preferred the resignation of a provincial governor to openly conceding to his demands, it certainly had a stronger preference for maintaining the support of the military factions running the provinces, and was prepared to face the cost.

*The 1980 Coparticipation Law Reform.* In October 1980, the federal government eliminated the employers' contribution to the social security system and the National Housing Fund, and replaced that funding with Coparticipation receipts to be drawn from the common revenue pool before its primary distribution between the federal government and the provinces. The rationale for eliminating employers' contributions

to social security was to reduce production costs for firms.<sup>19</sup> The stabilization policy in force since December 1978, based on the pre-announced decrease of the exchange-rate and the opening of the economy to foreign imports, was under fire by protests of industrial and agricultural producers and fierce criticism from inward-oriented business associations. To defuse critics while avoiding devaluation (Schvarzer 1986; Novaro and Palermo 2003; Veigel 2005), the government sought to improve competitiveness by eliminating employers' contributions to social security, and pledged to replace those funds with receipts from the generalization of the Value-Added tax.<sup>20</sup> But instead of earmarking the new VAT revenues for those purposes, Law 22,293, clause 5, part ii ordered that the amount required to finance the national social security system and the National Housing Fund be deducted from the common pool of tax revenues before its division between the federal government and the provinces. This pre-Coparticipation regime implied a net loss for the provinces by reducing their effective share of revenues. Provincial governors immediately protested before the Interior and Economy ministries, and eventually obtained three compensations. Two were enacted by Law 22.453: advances of Coparticipation funds to be returned to the federal government by the end of the 1981 fiscal year; and the bailout of provincial social security systems, to be financed through the same pre-Coparticipation mechanism that funded national social security. Finally, the federal government gave the provinces a Coparticipation warranty for 1981: National Treasury Contributions would finance the difference between the Coparticipation transfers received in 1980 and the sum of their expected 1981 Coparticipation share plus the emergency contributions for provincial social security regimes (Porto and Nuñez Miñana 1982: 106). Data on the financial consequences of these three measures shows that, at least in 1981, the Coparticipation warranty compensated the provinces for the losses generated by the Coparticipation Law reform. According to the Treasury Secretary (Secretaría de Hacienda, 1989: Table 21) the provinces lost 0.2% GDP in Coparticipation receipts between 1979 and 1981 but earned 0.91% GDP in National Treasury Contributions. Consequently, these transfers more than offset the losses from the Coparticipation Law reform.

### **3.2.2. Spending to Survive: Political-Business Cycles in 1978 and 1980.**

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<sup>19</sup> See Law 22,293, Mensaje de Elevación.

<sup>20</sup> Video interview with J.Alemann, Oral History Archive, University of Buenos Aires.

The distribution of discretionary fiscal transfers to the provinces by the federal government during Argentina's last military dictatorship responded to patterns typical of political-business cycles. The federal government incurred in spending booms in the years scheduled for government changes and in fiscal restraint in the in-between years. And the distribution patterns of discretionary transfers among the provinces varied according to the composition of the selectorate and the winning coalition.

The Argentine dictatorship went through two institutionally scheduled changes of government – in 1978 and 1980.<sup>21</sup> Both changes prompted significant factional divisions within the Armed Forces, such that each change involved a different selectorate and, hence, a different winning coalition. In 1978, when Videla's two-year emergency period was due to expire, his aides at the Secretary General of the Presidency unveiled a plan for an immediate political opening by which the military would surrender all federal cabinet posts, call for subnational elections within a year, and subsequently for a presidential contest.<sup>22</sup> This plan upset Navy Commander in Chief Massera's own presidential ambitions by complicating the building of a national political organization in time to compete (Uriarte 1992; Novaro and Palermo 2003). It also ran against the preferences of the hawkish faction of the Army, bent on extending repression in order to radically change the ideological map of Argentine politics (Novaro and Palermo 2003). The convergence between the Navy and the Army hawks paralyzed the Junta. Massera argued that either Videla complied with the *Reglamento* and retired from his command in order to stay as President, or the Junta had to appoint another Chief Executive. The Navy's stance obstructed Videla's political plan, because once retired as Army Commander in Chief he would be taking orders from the Junta without having a seat in it. Consequently, the implementation of the political opening depended on two factors: having a supportive new Army Commander in Chief; and getting the Air Force to toe the Army's line.

The selectorate out of which the winning coalition had to be formed in 1978 thus consisted of the Junta and the High Commands of each Force – i.e. the senior officers: the Junta, because it was institutionally empowered to choose the President; the High

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<sup>21</sup> The Presidency changed hands three more times until the 1983 democratic election, but these government changes took place through coups d' Etat, not via the procedures established by the regime's own institutions.

<sup>22</sup> Audio interview with J. Villarreal, Oral History Archive, University of Buenos Aires.

Commands, because they were institutionally empowered to decide on military promotions, and their decision was therefore a signal of the Commander in Chief's political support within his own troops. Therefore, to form a winning coalition (W) Videla needed a majority of Division Generals in order to appoint loyal General Viola as Army Commander in Chief, and a majority of Air Force Brigadiers to secure the Air Force Junta vote. Eventually, after each Armed Force summoned their senior officers and each Commander was able to show the others his grip, the Junta decided that Videla would remain as President for a three-year period and that all Junta members would retire in 1978.

In 1980, the object of the controversy was the election of Viola as President. Massera's open opposition to the Videla-Viola faction prompted the Navy to anticipate its abstention within the Junta. The Air Force, eager to avoid responsibility for a deadlock, announced it would vote for whoever the Army proposed.<sup>23</sup> So the selection of the new President had to be resolved within the Army High Command, in which although the weight of the hawks had been reduced after their failed 1979 insurrection there was still disagreement about Viola's prospective policies.<sup>24</sup> Hence in this episode, the size of the selectorate was reduced to the Army's Division Generals, and the size of the winning coalition came down to a majority within the Army's Senior Qualifications Board. Eventually, after several rounds of voting in which Viola competed against Interior Minister Harguindeguy, the latter withdrew his candidacy and Viola was appointed Army presidential candidate, and subsequently anointed as Videla's successor in the Presidency.

The aggregate data on national public spending in Table 2 shows a political-business cycle linked to these two government selection episodes. National expenditures on provinces and municipalities rose in 1978 and 1980 and diminished in 1979. The expenditure increase was higher than GDP growth in 1978, when the required W size was larger than in 1980, when it was minimum winning.

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<sup>23</sup> Interview with anonymous senior Army officer and former Cabinet minister, Buenos Aires, December 2005.

<sup>24</sup> Economy Minister Martínez de Hoz thought that Viola would reverse his policies, so he first proposed that Videla stayed as President, and after Videla declined, he promoted the candidacy of Interior Minister Harguindeguy (Novaro and Palermo, 2003).

**TABLE 2**  
**National Public Sector Fiscal Outcomes (1977-1980)**

<i>Year</i>	<i>Expenditure in Provinces and Municipalities (1)</i>	<i>Difference (2)</i>	<i>GDP Variation (2)</i>
1977	9.2	1.38	6.3
1978	10.23	1.03	(3.2)
1979	9.89	(0.34)	7
1980	10.33	0.44	1.5

Source: FIEL (1988). (1) Percentages of GDP. (2) Percentage points.

The distribution of discretionary fiscal transfers among the provinces in the years of scheduled government change varied with the composition of S and W. This pattern can be appreciated by observing the variation in each province's share of discretionary intergovernmental transfers as displayed in Table 3. In 1978, when S was constituted by the Junta and the High Commands of each Force and W amounted to a majority of Army Division Generals and Air Force brigadiers, the share of discretionary fiscal transfers was increased for 50% of the provinces governed by the Army and 57% of the provinces under Air Force control.<sup>25</sup>

In 1980, when the selectorate consisted of the Army's Division Generals and the size of the winning coalition was reduced to a majority within that group, the share of discretionary fiscal transfers was increased for 70% of the provinces under Army control and only 14% of the districts governed by the Air Force. Viola's W consisted of all the provinces under control of the Fifth Army Corps, 75% of those under the Third Corps, and 66% of the ones under the Second Corps' jurisdiction.

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<sup>25</sup> The provinces punished in 1978 were either under Navy control – except for Misiones – or the site of the Army hawks' command (Buenos Aires and Cordoba).

**TABLE 3**  
**Variation in Provincial Shares of Discretionary Fiscal Transfers, 1977-1980**  
*(Percentage Points per Province)*

<i>Province</i>	<i>Armed Force</i>	<i>Army Corps Jurisdiction</i>	<i>1978-1977</i>	<i>1979-1978</i>	<i>1980-1979</i>
Buenos Aires	Army	First	-2.9	9.5	-1.4
Catamarca	Air Force	Third	17.4	-1.9	-5.1
Córdoba	Army	Third	-12.9	8.7	1.1
Corrientes	Army	Second	5.8	0	-4.2
Chaco	Army	Second	-7.4	-3.9	2.4
Chubut	Air Force / Navy (1979)	Fifth	-5.1	0	16.2
Entre Ríos	Air Force	Second	30.5	-19.8	-15.4
Formosa	Army	Second	-3.1	9.3	10.7
Jujuy	Army	Third	8.6	-0.8	5
La Pampa	Army	Fifth	15.4	-9	2.6
La Rioja	Air Force	Third	0.4	-2.1	-4.7
Mendoza	Air Force	Third	2.1	1.6	-0.9
Misiones	Navy	Second	9	0.3	-7
Neuquén	Army	Fifth	37.6	-17.9	4.1
Río Negro	Navy	Fifth	-28.5	5.6	9
Salta	Navy	Third	-2.4	4.9	0
San Juan	Navy / Air Force	Third	24.4	-9	11.9
San Luis	Air Force	Third	-4	-5.4	0
Santa Cruz	Air Force	Fifth	-26.8	-3.3	-1.3
Santa Fe	Navy	Second	-14.1	5.9	-0.8
Santiago del Estero	Army	Third	30.6	-28.1	13.5
Tucumán	Army	Third	-1.5	0.9	-5

Source: Secretaría de Hacienda (1989: Table 11). Data is not available for the Federal Capital and Tierra del Fuego.

The lack of public access to the records of the Armed Forces' Qualifications Boards prevents researchers from establishing how each Division General, Admiral and Brigadier voted in these government selection episodes. Still, given the institutional structure of this authoritarian polity and the role of subnational power-holders in the selection of national government leaders, it can be argued that, upon voting, senior military officers were not indifferent to the transfer of fiscal rents towards the provinces to which they were selectorally connected.

## **5. Conclusion: Towards a Research Agenda.**

This paper has proposed a theoretical framework for the analysis of fiscal federal politics under authoritarian rule and provided evidence to illustrate its potential productivity. The theory proposed stands on three claims. First: authoritarian regimes introduce or retain federal institutions in order to increase the stability of ruling coalitions when political and/or economic power is dispersed throughout the territory. Second: federal institutions require a high integration of political forces to prevent disruptive intergovernmental bargaining from endangering the stability of the ruling coalition and/or the federation itself. Third: to secure the integration of the governing political forces the national government must distribute fiscal resources among subnational power-holders according to the universalistic logic of pork-barrel or rent-seeking fiscal politics. The evidence from Argentina's last military dictatorship appears to be consistent with the theory. The Argentine military took over a federal country with a heterogeneous distribution of power and, fearful of replicating the internal bickering that had undermined previous authoritarian experiences, developed a set of federal institutions intended to secure the political integration of the Armed Forces in government. They divided power both horizontally and vertically in such way that the horizontal division of power reinforced the vertical division: the Armed Forces had equal status in a Military Junta that operated on a unanimity rule; and the Junta established a tripartite distribution of subnational governments and legislative power among the Forces. These rules generated subnational governments with relative autonomy from the Junta, a Legislative Advisory Commission connected to the military selectors, and the institutional involvement of senior military officers in the selection of national government leaders. As theory predicted, this institutional framework stimulated a fiscal federal politics in which the central government engaged in political-business cycles and compensated subnational power-holders for their cooperation in the implementation of policies that hurt provincial interests.

These theoretical insights and empirical findings open a number of questions about the comparative political economy of authoritarian federations. How do different designs of federal institutions affect selectorate and coalition sizes under authoritarian rule? How does the level of centralization of federal institutions in authoritarianism influence fiscal federal politics? What institutional formats of intergovernmental

transfers are more suitable for the formation and the maintenance of winning coalitions in authoritarian regimes? To what extent do institutional designs, levels of centralization, and intergovernmental transfers vary with the size of the polity and the institutional and military path that led to the establishment of authoritarian rule? Finding answers to these questions might also lead, eventually, to a reassessment of the comparative political economy of democratic federations. If coalition formation and government survival follow the same logic under democratic and authoritarian federations, then the structure of the polity might be more important than the type of political regime to understand the incentives under which political leaders operate.

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