

The political economy of sub-national democracy : fiscal rentierism and geography in Argentina

Matias Federico Bianchi

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The Political Economy of Sub-National Democracy

Fiscal rentierism and geography in Argentina

Matías Federico Bianchi

Thèse dirigée par M. Olivier Dabène

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PREFACE

"Un intelectual debe ocuparse de cosas que lo conmueven moralmente."

- O´Donnell (Página 12, 14 Sept 2003).

This dissertation is about a deep moral preoccupation that has almost monopolized my intellectual energy since a teenager. With different questions, levels of complexity and approaches, the goals have remained unchained: the paradoxical political dynamics of Argentina´s provinces. I come from San Luis, the province whose politics is the main driver of this work. In high school I already could not understand how people from San Luis would vote, in increasingly higher percentages in every subsequent election, for politicians who were openly corrupt, that changed judiciary authorities when they did not like them, and spent public funds on building the best basketball team on the country while having one of the worst education and health systems.

Those questions led me to study political science, to approach the theories of development and democracy of Guillermo O´Donnell, Amartya Sen and others, who gave me hints about the centrality of citizenship and the factors that could hinder their capabilities. Then, with a higher degree of complexity in my understanding, I understood that what happened in San Luis was not unusual and there was something in the institutional dynamics of Argentina´s federal arrangements that could explain this tragedy that seemed to condemn millions in my country. This was the focus of study of my master's degree in Oxford. Then, while working at the Development Center of the OECD, I learned through the experience of oil exporting countries, that there was a common causality that was hindering the process of democratization of my province and others. This has been the path I have taken in my doctoral dissertation but I am confident that new perspectives will continue to emerge.

Over the years I have evolved my questions and approaches and I have even learned the broader scope of my very basic preoccupations. The main goal of this work is not academic, but moral and political: to strengthen the capacity of citizens to decide what to do with their lives. Ultimately, I hope, I can help to shed light for decision makers on an agenda for change.

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ACRONYMS

ASDE: Asociación Sanluiseña de Docentes Estatales

ATN: Aportes del Tesoro Nacional

CTA: Central de los Trabajadores Argentinos

INDEC: Instituto Nacional de EstadÌsticas y Censos

IIERAL: Instituto de Investigaciones Económicas de la Realidad Argentina y Latinoamericana

ECLAC/CEPAL: Economic Commission for Latin America and the Caribbean

FONAVI: Fondo Nacional para la Vivienda

FPV: Frente Para la Victoria

MOPOF: Movimiento Popular Fueguino

MPN: Movimiento Popular Neuquino

PACh: Partido Acción Chubutense

PAN: Partido Autonomista Nacional

PJ: Partido Justicialista (Peronist Party)

PROVECH: Proyección Vecinal del Chubut

UCR: Unión Cívica Radical

YPF: Yacimientos Petrolíferos Fiscales

I The Political Economy of Sub-National Democracy

This dissertation investigates the causes for the divergent experiences of political and economic development of the provinces in Argentina. This country is geographically the most unequal federal country in the world (Cetrángolo and Gómez Sabaini, 2007), with a contrasting group of economically dynamic and politically competitive provinces and a large group of provinces that have important rigidness in their markets and dubious democratic exercise of power. Interesting to note is that the latter are politically powerful in the national arena. They are overrepresented in the national legislature – more so than in any other federal country - and local elites enjoy an important level of political autonomy from the National government. Especially after the return to democracy in 1983 and the administrative decentralization process, provinces have become an even more crucial arena for national politics and policies. Despite the important fiscal and political resources these provinces receive, a large group of them are increasingly less dynamic economically and more dependent on fiscal resources coming from the national government (see chapter 2). At the same time, local elites have tended to remain in power through patronage and have surpassed the autonomy of other powers, thus stagnating – and sometimes even reversing – the democratization process started in the country three decades ago.

Little is known about the determinants of continuity and change that drive this paradox of high political leverage and underdevelopment. I follow Charles Tilly in his finding that democratization does not follow a single path and, hence it is unlikely to have universally applicable necessary or sufficient conditions (2000)[1]. There are many factors that intervene in democratization processes, ranging from the agency of actors to institutional arrangements, political networks, political culture, or even structural factors. While all of these variables are undoubtedly important, in trying to understand the political economy of *subnational* democracy in federal States, I focus on two variables and their interplay, which I consider to be crucial: the institutions of the federal system, particularly their fiscal arrangements, and structural factors, including the geographic distribution of economic development at the national level and within the provinces.

[1] This lack of lineality is not only empirical but also onthological. Autors like Whitehead recognize that democracy is no longer a pre-determined end-State but an "essentially contestable" concept (2002: 14) and, the democratization of societies becomes a "complex, long term, dynamic and open ended process" (p. 27).

Federal institutions have a substantial impact on the governance of the country, and particularly at the provincial level. As Sen put it, "our opportunities and prospects depend to a large extent on what institutions exist and how they function" (1999: 222)**.** Institutions create incentives, favor some actors whilst excluding others, and reallocate resources, thus shaping and re-shaping the outcomes of the political system (Acemoglu, Johnson and Robinson 2004). This study seeks to investigate how federal institutions have affected the performance of the political system and the economy at the sub-national level. In particular, given the asymmetry of Argentina´s Federal system, it examines the interaction of federalism with other structural factors in order to explain why some regions tend to develop institutions and practices that incentivize cooperation and innovation while others develop practices that promote patrimonialism and rent-seeking behavior.

Regarding the institutions of Federalism, the crux of my argument is that fiscal federalism allows a large group of provinces to be highly dependent on windfall fiscal revenues. Thus, these subnationals "rentier States" – defined later in this chapter - tend to show important limitations to democracy the same way that oil exporting countries do. I use O´Donnell´s expression of democracy to refer to a broader definition than the Schumpeterian and Dahlian procedural definitions. Democracy "*tout court*" (O´Donnell, 2010: 49) includes a functioning democratic regime, as well as a State apparatus (i.e. the political autonomy of bureaucracies from political power and fairly high standards of professionalization) and citizens with the capacity for "agency". I argue that fiscal federalism hinders democratization along all three of these dimensions.

In making this part of my argument I stand on the shoulders of Carlos Gervasoni, who has convincingly demonstrated the strong correlation between fiscal rentierism and illiberal political regimes in Argentina´s provinces (2010b; 2011). One of my particular objectives is to explore this connection in further detail, disentangling the causal mechanisms through which the "curse" operates at the subnational level in Argentina. I also examine how these mechanisms operate in the particular cases of San Luis and Chubut.

In identifying the mechanisms through which rentierism hinders democratization at the subnational level, this study makes two key contributions. First, we will understand in more detail how rentierism works in practice at the subnational level. I will also show below that rentierism interplays with structural factors like geography, institutions and the traditions specific to each polity. These kinds of interactions, which may be unique to a province or a

group of provinces, need a kind of contextualized approach that large-N analyses cannot provide.

In all, I demonstrate that what is at stake is an enormous redistribution of power resources within the rentier provinces that limits or reverses democratization processes along the three above-mentioned dimensions: the citizenry, the regime and the State apparatus. I identify three main mechanisms through which this redistribution operates. I carefully spell out how they operate in the case of San Luis, that is, how rentierism hinders citizen´s autonomy vis-à-vis the State, also hinders the emergence of State capacities and incentivizes the unproductive allocation of public resources.

By observing those provinces that managed to escape the "curse" I identified the second, structural variable that explains variations in democratic outcomes a the subnational level: the geographic distribution of resources. Just as there are a few rentier countries that have been remarkably successful in the last decades, some provinces like Tierra del Fuego, Chubut and to a lesser extent Río Negro, have experienced more lively democratic regimes than the other equally rentier provinces. Instead of treating these cases as outliers, a case study approach allowed me to understand other variables that could restrain the mechanisms through which rentierism operates at the subnational level. Through the experience of Chubut, I illuminate the importance of geography – a variable that is currently disregarded by mainstream political science in general and democratic theory in particular (Gibson 2005) – as a fundamental variable in our theoretical and empirical discussions of democracy and democratization. The evidence from Chubut shows that the development of three fairly distant and autonomous poles within the province has exerted an important counterbalance to the centripetal, centralizing forces that rentier provinces experience.

In this introductory chapter I go through the dissertation's main arguments, which I then fully explain in subsequent chapters. First, I review the structural and geographical inequalities and main political and fiscal arrangements of Argentina´s federal system, and emphasize that they favor the less-populated provinces and especially provincial governors. Second, I examine in further detail one of my independent variables, sub-national rentierism, concentrating on its specificities and the mechanisms through which it operates. Then I spell out my second independent variable, the regional distribution of resources within provinces, which helps to explain cases that do not fit the expected pattern of subnational rentierism. I

finish this chapter by explaining my methodological approach, the selection of cases and how the rest of the dissertation is organized.

A) The Redistributive Argentine Federalism: history, structure and dynamics

Federalism, in normative terms, is a kind of institutional arrangement that unites heterogeneous regions – through mutual consent and without sacrificing their respective integrities – under the idea of pluralism and equality (Lane and Ersson 2005). Argentina´s Constitution followed the same goals. Article 1 of the 1853 National Constitution establishes a federal political system as an explicit mechanism seeking to balance the development of the provinces and to counteract the prominent role of Buenos Aires and its port. Regardless of the means[1], the result of this federalization process has been a formal contract of equity and solidarity among the provinces with the objective of reaching an equivalent degree of development.

In practice, since the National Constitution was first issued, there has been a changing balance of centripetal and centrifugal forces between the national government and the provinces, including periods in which one would (re)gain leverage over the other (Falleti 2005). For most of the 20th century, Argentina was a case of what Riker (1964) has called a "centralized" federalism: a situation in which the federal government largely dominated over subnational units. Especially taking into account the continuous military interruptions to the democratic regime and the building of national institutions, the most relevant decisions have been taken at the federal level thus turning the sub-national level into a subordinate actor (Jordana, 2001: 32). However, starting in the second half of the century, there were efforts at institutional reform that sought to strengthen the less populated provinces. Most of these, however, were not effective due to institutional interruptions (Benton 2003). With the return to democracy in 1983 and the initiation of a successful administrative decentralization process, provinces regained leverage.[2] Today Argentina ranks amongst the most decentralized federations in the world in political (Samuels and Snyder 2001) and fiscal terms (Wibbels 2004). Since 2005, there has been a process of fiscal and political *re*centralization, as well as

[1] The adoption of this political system – like in many other counties –was not the result of a Republican idealism but more related to long-lasting and bloodshed civil wars, political conflicts and not too altruistic negotiations among provinces that were looking to dominate ones to the other Falleti (2004).

[2] There is a large corpus of literature supporting this. See, e.g., Falletti (2005), Calvo and Abal Medina (2001), Gibson and Suarez Cao (2007), and Leiras (2007), to mention a few.

a an increasingly weigh of discretionary funds and national agencies directly operating in the provinces. These changes, which I consider in further detail in Chapter 2, increased the leverage of the national government over the provinces, thereby changing the nature of dependence between the federal government and provinces. For this reason, the dissertation focuses on the period between 1983 and 2005[1].

1) Political Federalism

Provinces in Argentina – especially the less populated ones – receive important institutional sources of power. First and foremost, provinces have the authority to write their own constitutions and legal frameworks. From 1983 to 2011 there have been 40 Constitutional reforms, most of which strengthen the power of governors (Almaraz, 2010; Liendo, 2011). Second, less populated provinces are overrepresented in the National legislature. There, the principle of proportionality has been abandoned in the 20th century through successive reforms. In 1949 under the government of Juan Perón the Constitution established a minimum of two representatives per province in the Lower Chamber. Then, in 1972 and 1983, different military governments raised that minimum to three and five respectively, setting a maximum of 70 representatives. Thus, provinces like La Rioja, Tierra del Fuego, San Luis or Santa Cruz, which have 1% of the population or less, elect 5 National Deputies each, while the Province of Buenos Aires, with more than of the 30% of the national population elects 70. This proportion favors the scarcely populated provinces by 3 to 1. Similarly, though more reasonably, is the case of the Upper Chamber in which every province elects three representatives under an equality of conditions.

Consequently, the 19 least populated provinces – where only 30% of Argentines live – dominate the legislative power, electing 83% and 52% of the Upper and the Lower Chambers respectively. This makes Argentina the most malapportioned federal country in the world (Samuels and Snyder 2001).

A third source of political power comes from the structure of political parties and the party system. Not only are smaller provinces influential in the national arena, they also enjoy an important autonomy from national politics (Ardanaz, Leiras et al. 2010). In Argentina provinces serve as electoral districts for all congressional elections. Only 3 of 17 other

[1] The dynamics do not completely change after 2005 as provinces continue to be fiscally dependent. I will cite examples that show these dynamics even after 2005 – like Santa Cruz, Chubut and Neuquén than have increased their rentierism with the boon of oil prices in the last decade. However, the changes of the rules of the game with a more powerful central State calls for further research.

federations elect all of their legislators in districts that conform to State boundaries (Ardanaz, Leiras et al. 2010: 7). On top of that, local leaders control nominations within each province. This make National legislators more accountable to local leaders rather than to the national leadership of the parties. Similarly, Governors define provincial elections, and thus have the possibility of choosing whether to align or not with national ones depending on their own convenience.

These features turn the provinces into key arenas for electoral competition, not only for local positions but also for national ones. Therefore, national leaders must necessarily negotiate with local bosses to gain local support. Therefore, it is not surprising that governors have become the key actors – along with the President - in Argentina´s political game.

2) Fiscal federalism

A core aspect of Argentina's federal system is the mechanism through which fiscal resources are distributed between levels of government and among the provinces. One source, which is also the most important, is the Tax Sharing scheme. On average, the provinces only collect 20% of the national fiscal revenues but they execute around a half of the national administrative expenditure[1]. This shows an important vertical imbalance. The difference is covered by transfers from the national government. The main distribution scheme of fiscal resources is that every year the federal government automatically transfers the same percentage of funds of the total collected. This is not the only mechanism of fiscal transfers from the national to the provincial level, but it represents ¾ of them (see Chapter 2). The Tax Sharing scheme (or Federal Co-Participation Law) dates from 1988[2], establishing that 42% of sharing taxes go to the Federal Government, 57% to provinces and 1% to a special fund formally aimed to finance provincial crisis.

The Law also establishes distribution coefficients among provinces –called secondary distribution. The formal criterion set by the Constitution is "equality and solidarity" as the rector principles of fiscal federalism. It gives priority to an equivalent level of development, where the distribution of resources must be related to the responsibilities, services and

[1] On the overview of Argentina´s fiscal system see Cetrángolo and Gomez Sabaini (2007) and Bonifacio and Del Cogliano (2010).

[2] The first Law dates from 1935 and has been replaced several times. The National Contitution of 1994 established that a new Law must be dictated, but there has not been the political consensus for it that must be of the total of provinces.

functions of each one of the provinces[1]. Nevertheless, fiscal federalism also has a bias favoring less populated provinces – and not necessarily the poorest ones. Provinces from Patagonia, which have some of the highest income *per capita* in the country, are also amongst the most favored in terms of fiscal transfers (see Chapter 2).

Additionally, Argentina´s Federalism establishes that mineral royalties directly accrue to exploiting provinces. Therefore, largely unpopulated provinces like Neuquén, Río Negro, Chubut and Catamarca are highly benefited by the windfall revenues coming from oil and mineral extraction.

As I show in detail in Chapter 2, the result is a great disparity between provinces like the City of Buenos Aires, the provinces of Buenos Aires, Córdoba, Santa Fé, Mendoza and Entre Ríos which are net fiscal contributors – that is, they pay more than they receive – and the rest that are net recipients. Moreover, taking into account all transfers and mineral royalties, we see that there are provinces that collect less than 10% of their fiscal revenues.

These provinces desperately need those resources. Since the 1980s and following the international trend, Argentina underwent an unparalleled process of decentralization. Provinces are now in charge of an important proportion of the provision of public goods. In the 1980, water, sanitation services and the distribution of electricity were transferred to the provinces. In 1992 hospitals and educational services were also decentralized. Provinces are responsible for around 40% of public spending and are in charge of responsibilities that are crucial for development (Cetrángolo and Jimenez, 2004; IERAL, 2012).

3) Political and economic inequalities

The irony is that despite the strong redistribution of political and fiscal resources, Argentina is still a "country of contrasts" as the historian Halperin Donghi points out (2004).

Economic activity is geographically concentrated, more than in other federal countries in the world, where income *per capita* of the wealthiest province – Santa Cruz – was almost nine times that of the poorest– Formosa. In Brazil – which has a higher overall gini coefficient - this figure is seven times, six in Mexico and less than two in Canada (Cetrángolo and Gómez Sabaini 2007: 18).

[1] The current Co-Participaton Law dates from 1988 and the criteria used for establishing the distribution coefficient were an average of the prior three years and ad hoc negotiation among provinces. This is a sharp contrast with other Laws from 1935, 1947, 1954 that had population as criteria and the one from 1973 that incorporated gross domestic product *per capita* as a redistributive component.

To a large extent, this heterogeneity is rooted in a structural pattern of development linked to the agro-export model of the 19th century, which was implemented in Argentina as a means to take advantage of expanding world trade at the time (Cortés Conde, 2008). This process coincided with the consolidation of the State-building process, which concentrated its energies in the construction of infrastructure for overseas trade, promoted European immigration in order to populate its almost empty territory, and consolidated the national market around Buenos Aires. During this process, regions that were central during the colonial period – the Northern provinces – became eclipsed by the more dynamic and prosperous Pampas. By the early 20th century, under the new economic model, the accumulation of human capital, urban infrastructure and higher connectivity fostered in the new center a development of industrial activities and services (Rofman and Romero 1974).

Despite transformations in the composition of the national economy over the 20th century, the geographical pattern of the concentration of economic and human resources is not too dissimilar to that of the late 19th century. The economic structure described in 1940´s piece "Una nueva Argentina" by Alejandro Bunge, in which half of the national economy is within 600 kilometers of the port of Buenos Aires, still holds true. A special group of provinces are located in Patagonia – Tierra del Fuego, Santa Cruz, Chubut, Neuquén, Río Negro and La Pampa. These provinces were more recently incorporated into the Nation, and they enjoy high income *per capita*, 2-3 times higher than the average, but only represent 5.5% of the national population.

All in all, today two thirds of the national population lives in six provinces that represent 75% of the national economy and concentrate 85% of the industrial production. To the contrary, the poorest 8 provinces, where 16% of the population lives, produce less than 10% of the national economy, and have marginal participation in exports, investment, and so on and so forth (UNDP 2002).

A revealing point is that an important group of fiscally benefitting provinces – the ones for which fiscal transfers from the federal government represent more than 90% of their fiscal income and more than 20% of their gross geographic product – are the ones with the worst political and economic performance since 1983. Corrientes, Chaco, Formosa, Jujuy, La Rioja, Santiago del Estero and San Juan currently integrate this group.[1]

[1] In the last decades the composition of this group has slightly changed as their level of fiscal dependene has also changed over time. In 1998 San Juan was not part of that group but Chubut and Catamarca were; and in 1988

Curious to note is that all of these fiscally "dependent" provinces have diminished their participation in the national economy in the last three decades. Also - besides Catamarca and La Rioja – they all have poverty levels considerably superior to the national average[1]. Fiscally dependent provinces rank considerably lower in human development index (UNDP 2002).

Similarly, when observing democracy as a political regime, it appears that the same fiscally "dependent" provinces are the ones with the most alarming democratic deficits. In the last couple of years there has been a proliferation of studies showing the diversity of sub-national regimes (Zicodillo and Montenegro 1991; Trocello 2008; Gibson 2005, 2008 and 2010; Behrend 2005 and 2007; Chávez 2004). Using two different indexes of subnational democracy for Argentina, a strong negative correlation exists between fiscal dependence and democracy (Gervasoni 2010a; Giraudy 2010). Electoral democracy exists in provinces like La Rioja, Santiago del Estero, Santa Cruz, San Luis and Formosa, but they tend to have important limitations on access to media, accountability and the division of power. Interesting to note that this behavior not only includes poor provinces and the ones ruled by "traditional" politics, but also more modern – Santa Cruz or Neuquén – and wealthy provinces – including San Luis.

This paradoxical centrifugal distribution of resources and divergent political and economic development of provinces is an invitation to seek a better understanding of the political economy of provinces.

B) Looking for causal mechanisms: The Rentier State

The study of subnational politics comes from researchers preoccupied with the study of federal systems and, in a way, is a product of advances in this literature. In the last two decades there has been an important advancement looking for a deeper understanding of the dynamics and effects of federal institutions at the national and subnational level. Federalism has been a widely studied topic of political science during the 20th century, especially in the United States where federalism was "born". Traditionally, it has been approached by constitutional theory in a normative and prescriptive manner by the likes of Madison, Jay and Hamilton and their constitutionalist heirs. The literature tended to emphasize the dichotomy

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Misiones, Salta, San Luis, Santa Cruz and Neuquén were part of the group. I pay more attention to the 1980s and early 90s as this is when the political game of Federalism was put in place (see chapter 2).

[1] The EPH (Permanent Household Survey) shows that for 2007 those provinces were above 40% while the national average was 25% (INDEC, 2007).

between federal and unitary systems and to demonstrate the privileges of federal institutional arrangements over the others.[1] In that discussion Argentina did not fulfill the prediction of higher political stability and balanced economic growth that "strong" federal countries were supposed to enjoy (Mainwaring 1997; Samuels and Mainwaring 2004). Argentina is not only geographically the most unequal of all federations but also has suffered long-lasting economic decline and unstable governance for most of the 20th century.

There are studies emphasizing the differences between federations (Stepan 2004) to show that federalism is not always a tool for democracy and economic development (Wibbels 2005; Gibson 2005).[2] The literature has moved away from normative analysis and now grasps how federal institutions provide incentives for certain behaviors by decision-makers. Especially, the above mentioned studies look at how the effects of federal institutions are conditioned by their interaction with structural social, economic, and political features. This is the direction this dissertation will take.

In Argentina, even though the literature on federalism is relatively recent, it has been quite prolific. This is thanks in part to important moments in recent Argentine history: the last period of Alfonsín, the profound crisis of 2001 and De la Rúa´s resignation, the weeklong mandate of Rodriguez Saá, Duhalde´s year and a half in office, and then important events such as the 2009 "crisis del campo." These are all events deeply marked by a protagonistic role of subnational actors and the interactions between the nation and provinces[3]. Similarly, the 2003, 2005, 2007 and 2009 electoral results have demonstrated an increasing geographical variation between the national and the provincial party systems (Gibson and Suarez-Cao 2010). All of these episodes have increased the need for "scaling down" (Snyder 2001) to the

[1] For overviews over these discussions, see Beramendi (2007); Rodden (2006); Weingast (2005) and Wibbels (2005).

[2] In fact, this is an old preoccupation. Hanson (2003) points out that during the French Revolution, the Jacobins viewed federalism as an enemy of progress that helped the regional landlords to maintain the (previous) status quo. The supporters of Federalism were the Girondins, who, in 1793, with the support of the provinces of Caen, Bordeaux, Lyon and Marseille, organized the so-called Federalist Revolts that rebelled against the more radical revolutionaries in Paris. In the United States the conservative Republican party is the strongest supporter of strong decentralization. This has served other policy interests, both during the segregation policies of the 1950s and currently in the debate over healthcare.

[3] In the 1987 elections, Raúl Alfonsín lost control of both legislative chambers, and his party only controlled 2 out of 22 governorships. Facing sky-rocketing inflation and the impossibility to implement policy initiatives, Alfonsín resigned in 1989. In 2001, President De La Rúa also faced Peronist control in both chambers of Congress and the vast majority of provincial governments. His capacity to govern highly depended on his direct negotiations with the "League of Governors," which concentrated the 14 Peronist governors at the time. He lost their support in the restructuring of the foreign debt and found himself helpless. He resigned in December 2001. The Congress elected Adolfo Rodriguez Saá as his successor, who had to resign a week later because he too did not have the support of the League. After subsequent short-term presidencies, Eduardo Duhalde received their support and managed to successfully oversee the transitional government.

subnational level to better understand provincial politics and the interaction between the different levels of government.

In the last decade, a large proportion of the literature has provided more emphasis on the interaction of party systems, legislative organization and electoral rules. Most of them have shown the increasing importance of subnational arenas. Innovative studies have focused on party system dynamics and their implication for provincial party systems, particularly after Calvo and Abal Medina (2001). More recently Leiras (2007) demonstrated the important connections linking electoral federalism and party organization in the provinces. Jones and Hwang (2003) look at the inverse – the way subnational politics influences national legislative power.

Among studies on Argentina´s federalism, another corpus has focused on fiscal federalism - particularly on the causes and patterns of the distribution of fiscal resources between the levels of government, and among provinces. Research has looked at the causes of fiscal deficits (Remmer and Wibbels 2000; Tommasi 2002) or to the determinants of bailouts (Rodden, 2006). Many analyses have emphasized the economic implications of the distribution of resources (Cetrángolo and Jiménez 1996, 2004; Cetrángolo and Gómez Sabaini 2007; Tommasi, Saiegh and Sanguinetti, 2001), while others have given a historical approach to the issue (Chiaramonte 2005; Eaton 2004; Dalla Vía 2010; Botana 2010).

Fewer studies look at the political consequences of fiscal federalism. There are studies like that of: Gibson, Calvo and Falleti (2004), which analyze the impact of provincial over-representation in the national legislative power over the territorial distribution of fiscal resources; Calvo and Murillo (2005), which found that over-representation has effects the percentage of the provincial spending funded by the Federal government; and also González (2009), which shows that coalitions formed between Presidents and Governors explain the centralization or decentralization of fiscal resources. Also, other studies have demonstrated how public policies are shaped by the distribution of clientelistic resources in provinces (Brusco, Nazareno and Stokes 2003; Remmer 2007).

Fewer studies have focused on the political impact of Argentina´s fiscal structure on sub-national politics. The exception has been the works of Gervasoni, which look at the connection between the fiscal structure of provinces and the heterogeneity of subnational democratic regimes (2006, 2010b, 2011).

This is the direction this dissertation takes. It seeks a better understanding of those provinces that are the recipients of large fiscal transfers but nonetheless remain weakly democratic. I examine the mechanisms that connect the fiscal structure of provinces with their political outcomes.

1) Rents and politics

In order to look for causalities, support can be found in a corpus of literature dedicated to the study of the paradoxical situation of natural resource rich countries. Led by scholars specializing in Middle Eastern studies, more social scientists have concentrated their effort in trying to understand the undesired effects of exporting point source natural resources[1]. Best known as the "resource curse", this multidisciplinary literature notes that countries that are economically "dependent"[2] on the exports of natural resources tend to be more authoritarian (Ross, 2001; Acemoglu, Robinson and Verdier, 2004), more corrupt (Sala-i-Martin and Subramanian, 2003; Collier and Gunning, 1999), have weaker institutions (Auty, 2001; Tornell and Lane, 1999) and even to suffer more civil wars (Ross, 2004; Collier and Hoeffler, 1998) than their non-dependent counterparts.

Economists have led the discussion on the "resource curse". The most important economic explanations emphasize how the exporting sectors interact with the domestic economy and with the international trade markets. Among the most popular explanations for poor growth in resource-rich countries is the so-called "Dutch disease" [3]. Corden and Neary (1982) developed an economic model showing that a booming resource sector could lead to bad performance through two distinct effects - the resource movement and the spending effect – which I explain in further detail in Chapter 3. These movements have perverse consequences on the economy. The most prejudiced is the industrial sector, which has the most externalities but also raises productivity and long-term income. In the short or medium term, when prices of the exported resource drop or the resource itself is exhausted, the economy suffers a deep economic crisis, because other sectors of the economy have already lost human resources, capital and productivity, and the currency is over-valued.

[1] Point source natural resources are minerals, gems and oil that have particular attibutes differentiated to other natural resources. Chapter 3 goes further in the attributes.

[2] Economically dependent countries are the ones that are not only resource rich, but also their economies largely rely on the revenues coming from the exports of those natural resources. Dependent countries are the ones in which natural resources exports´ represent more than 20% of the gross domestic product.

[3] This name is after the title of a 1977 article in *The Economist* "The Dutch Disease" on the macroeconomic problems of the Netherlands at the time (issue 26 November: 83-84). Little more than a decade after the discovery of enormous offshore natural gas deposits, in the 1960s, the Dutch economy began experiencing a recession and rising unemployment that lasted into the mid-1980s.

I will show in chapter 3 that there are important limits to applying the effects of the Dutch Disease to the provinces. The mechanisms mentioned above refer to the interaction of domestic economies with international trade markets. Provinces are not sovereign and, thus, do not have independent monetary policies. The main mechanisms of the Dutch disease – currency over-valuation and volatility of commodity prices – cannot therefore be applied to the subnational level.

2) Rentier State

Increasingly scholars agree that the "curse" is not a curse per se, and that problems of resource dependence are instead found in the political realm. Dependence on natural resource exports creates incentives for decision-makers to be less transparent, less democratic, and to avoid productive investment (Karl 1997). Thus, theoretically "poor" political decisions are in fact rational political strategies, as politicians respond to the incentives induced by resource rents (Robinson, Torvic and Verdier, 2005: 3).

This "paradox of plenty", as Terry Lynn Karl has described it, is an extraordinary human tragedy that seems to condemn hundreds of millions to poverty and violence. For several decades, scholars of the so-called "resource curse" have studied this phenomenon, trying to explain why countries with large natural resource endowments tend to suffer from slower long-term growth rates, enduring civil wars, brutal dictatorships, weaker institutions and endemic corruption.

Fiscal sociology provides powerful arguments on why taxes are important for politics. The discipline was inspired by Schumpeter´s paper on "The Crisis of the Tax State" (1954) where he Stated that modern Europe was not the result of the emergence of capitalism (Marxism) or "rational" bureaucracies (Weberianism), but rather the creation of the tax State. This discipline understands that State resources "are" the State (Karl 1997: 222). Therefore, understanding the fiscal structure of the State opens up an important window for understanding economic and political structure and change in societies (Moore 2003). The transition from States that were no longer funded by a ruler´s own wealth and started to be supported by taxes collected from the people had important implications. First, it implied a bargain between rulers and the ruled, who exchanged their taxes for citizen rights. This is how a group of scholars like Charles Tilly explain the birth of democracy (1992). The second important political innovation is the increasing professionalization of bureaucracies and the State in order to create taxes and to deliver goods and services to their citizens.

In this sense, oil-exporting countries have a peculiarity. Because extraction is geographically concentrated and export value is high, governments find it easier to concentrate efforts on extracting rents rather than taxing their population. Thus the State-society contract weakens. Mahdavy in 1970 coined the modern use of "Rentier State" looking at what some Middle Eastern countries were experiencing with their increasing dependence on oil at that time. As it will be explained in Chapter 3, the main issue with the rentier State is that States live largely off unearned income hindering the emergence of State capacities, weakening democracy and dismissing productive activities.

The tragedy is that poor and developing countries tend to suffer this "curse" more than their richer counterparts. Michael Moore (2003) explains that the reason is globalization. Better communications and better transportations has consolidated a bi-polar world in which there is a group of developed countries that have 40-50 times the income than poor suppliers of minerals and oil. Because poor and developing countries tend to have less diverse economies, taxes on oil and mineral exports become the central, and many times the sole, source of revenues for States (Lewis 2004; Karl 2007).

3) Sub-national Rentier States

It is appealing to apply these concepts to the situation of many Argentinean provinces. Provinces that are highly dependent on windfall fiscal revenues – including transfers from the Federal Government and mineral royalties – tend to be less democratic.

Despite the immediate appeal of applying rentierism to the subnational level, there are some methodological issues that must be addressed before this can happen. As with natural resources, subnational fiscal revenues are locally controlled by provincial governments, increasing its leverage in local – and even national affairs. In a novel contribution to the Argentinean case Gervasoni moves the concept of "natural resource rents" up the ladder of abstraction and constructs an ideal-type, "fiscal rents," that holds the same properties:

> *"Natural resource rents (the point of departure of the rentier State literature) and fiscal federalism rents should, I argue, be united under the same conceptual umbrella, along with rents based on other sources, like unconditional foreign aid"* (2011: 49).

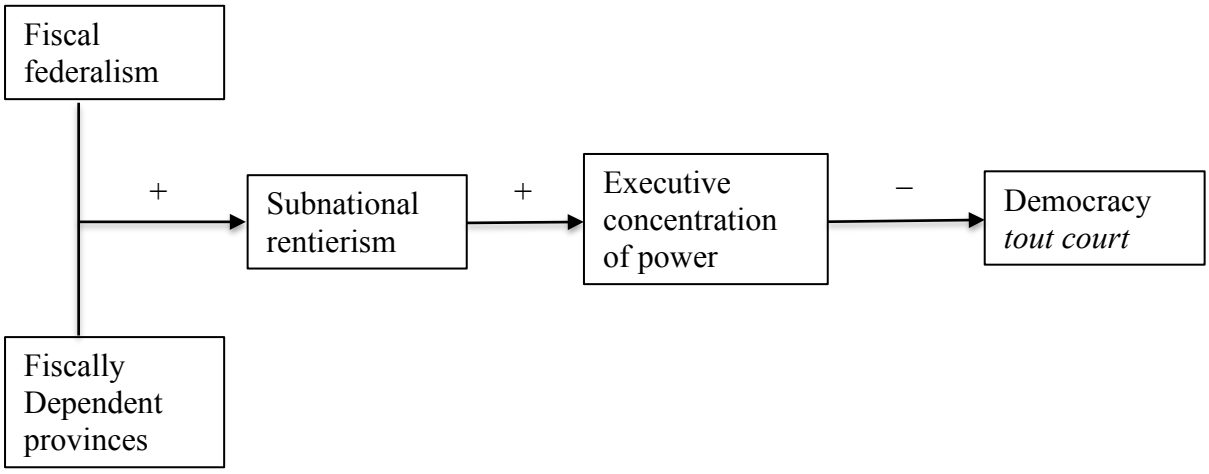
Working at a higher level of abstraction is an advantage for comparative politics. When causation is captured by the more general concept, it is no longer necessary to specify or distinguish between types of rents. Thus, fiscal rents are:

"revenues accruing to a State from a external source, they do not depend on broadly taxing the domestic economy, and they are not necessarily proportional to its size. These characteristics imply that incumbents who collect any of them enjoy the political benefits of spending without facing the political costs of taxing " (idem: 50)

In this way, Gervasoni demonstrates that natural resource rents and fiscal federalism rents are analytically similar. However, as I show in Chapter 3, it is important to note fiscal rentierism does not pose an economic but rather a *political* challenge. Fiscal dependence *per se* is not as important as the way those fiscal resources are distributed. In Argentina, the Co-Participation Law and mineral royalties accrue directly and unconditionally to provincial governments. Governors are not accountable for those funds and thus, their abundance – relative to the provincial economy - modifies the balance of power within the territory[1].

In the diagram below, I show the simplified version of the causal relationship between fiscal federalism and fiscally dependent provinces and democracy (Figure 1.1).

Figure 1.1. Simplified diagram of causal relationships between the variables



Source: Author´s own elaboration.
Note: The + means there is a positive relationship between the two variables joined by the arrow. The – means there is a negative relationship.

C) Geography and politics

Experience shows that there is no necessary "curse" associated with rentier States. Just as oil dependent Norway, copper rich Chile or Botswana´s diamond-based economy have

[1] In his recent book, Gibson makes a similar argument comparing Argentina to other countries like Mexico or Brazil, which have different arrangements of federal fiscal transfers (2012: 166).

managed to escape the perverse mechanisms that condemn point-source natural resource exporting countries, there are provinces that have avoided the negative effects of rentierism. Provinces like Chubut, Río Negro and Tierra del Fuego are all fiscally dependent, and, yet, they enjoy healthy democracies. For example, unlike the majority of fiscally dependent provinces, these provinces hold competitive elections and have experienced an alternation of power. In eight elections since 1983, Chubut's ruling party has changed four times, and it has elected into office six different Governors. It even managed to resist the autocratic will of Das Neves (2003-2011), whose election was accompanied by increasing oil royalties, and therefore concentrated power more than any previous governor in the province. Tierra del Fuego has changed its governing party four times in six elections and has changed governors four times. Río Negro, despite changing parties only once, in 2011, of party, has had five different governors. As I show in Chapter 5, these provinces also have a wide diversity of newspapers and a higher range of freedom of information. They enjoy competitive electoral processes, with regionally diversified political coalitions, lively activity within political parties, a plurality in the mass media and higher levels of social standards. These are provinces that are democratic "overachievers" (Mainwaring and Pérez-Liñan 2003), given the expectations of rentier theory. They deserve greater examination.

Studying Chubut in detail, which appears at first blush to contradict subnational rentier theory, adds substantial information about structural variables that are often overlooked by institutional analyses. Through the experience of this province, I show the importance of geography – more accurately, space[1] - as a fundamental variable for theoretical and empirical discussions of democracy and democratization.

Geography is a variable that is not in the scope of mainstream political science and economics. Neoliberal economists understand the world as being flat[2] and institutionalist political scientists have largely been driven by a "whole-nation bias." That is, they analyze

[1] Space includes social dynamics, economic specialization and cultural identities. However, throughout the text I alternatively use geography and space to refer to the same thing. I return to this point in Chapter 5.

[2] A relatively recent contrasting development, and with substantially lesser weight in the discipline, is economic geography, which emphasizes that there is a "natural" tendency for the territorial concentration of economic activity through a dynamic mechanism of centripetal (transportation, economies of scale) versus centrifugal (incremental costs of land) forces (Krugman 1997). Despite the distribution of monetary resources, the centripetal forces prevail. Donato (2002) States that the lack of policies for regional development in Argentina to counterbalance those centripetal forces explain the long-term tendency for centralization of human and capital resources in the Pampas.

party systems and executive-legislative relations without taking into account the subnational level[1], much less the distribution of resources within the subnational territorial unit.

However, just as there is a discipline of economic geography, there is also one of political geography, despite the fact that most of its work focuses on electoral studies (Agnew 1996; Johnston 2002). This school was inaugurated by André Siegfried (1995), who, with his classic study of Western France at the beginning of the century, showed that the political economy of electoral competition depended on characteristics of the soil. This school also influenced Amos Hawley, a scholarly precursor to the school of « human ecology » (1950).[2]

In Chapter 5 I identify a particular dimension of geography, the "horizontal" competition of different spaces within Chubut,[3] as the main source of resistance to the "curse". The historical development of three fairly distant regions within the province has posed a powerful resistance to the centripetal forces that rentierism exerts. In Chubut, most political dynamics are related to intense competition between the economic power of Comodoro Rivadavia – an oil-producing area - and the political power of the Valley. A third pole, Esquel, despite being substantially smaller and economically less dynamic, has served as a tiebreaker in the political and economic competition between the first two regions. Each region is located at no less than 400 kilometers one from the other, helping to develop long-term differentiated economic activities, cultural idiosyncrasies and, more importantly, fairly autonomous local political elites.

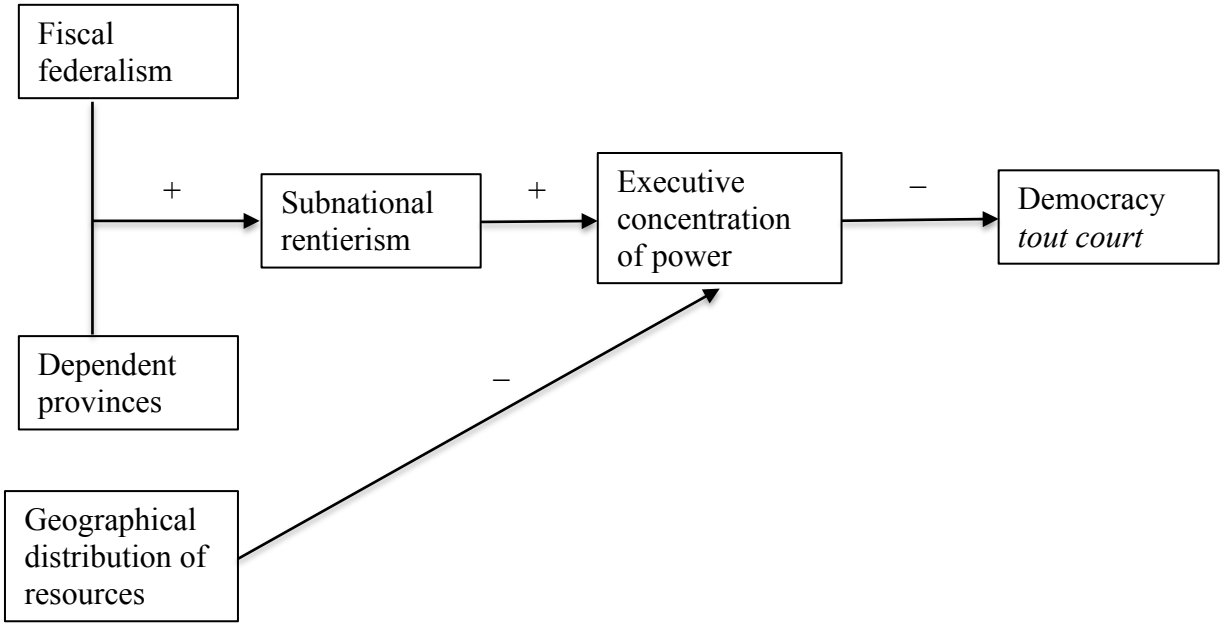
This long-term formation of « spaces », I argue, has helped the province to escape the rentier curse. The reason is that these differentiated spaces have fostered greater inter- and intra-institutional bargains in political competition, a more parochial profile of the media and a limited geographical penetration of public employment, all factors that, in turn, have helped to increase the plurality of the political system. I argue in Chapter 5 that all of this has exerted an important counterbalance to the centripetal forces that rentier provinces tend to experience (see figure 1.2).

Distance, socioeconomic differences, and the geographic distance between the economic center and the political one, has provided the structural basis for the development of

[1] They have failed, until recently, to capture the diversity of regimes at the subnational level. This is why that Gibson invites us to make a "topography" of the power dynamics within provinces (Gibson 2004).
[2] This approach has also been applied to the case of Argentina by Joseph Tulchin (1979) when he examines the structure of credit distribution and political power in Argentina from 1910 – 1930.
[3] Lipietz points out that horizontal dynamics of power do not preclude the relevance of "vertical" relations of domination (1996: 219), as Marxist approaches sustain.

a plurality of fairly independent political actors. In this chapter, I also test the capacity of this structural variable to travel to other provinces.

Figure 1.2. Geographical competition of space as a causal variable



Source: Author´s own elaboration.
Note: The + means there is a positive relationship between the two variables joined by the arrow. The – means there is a negative relationship.

D) Methodological approach

Past work on fiscal rents have been primarily large-N in nature. While effective at delineating the negative correlation between rentierism and liberal democracy, there are certain weaknesses to this approach. In this study, therefore, I adopt the same epistemological logic of causality, but I propose a different methodological logic: case study analysis. This approach provides certain advantages over quantitative analysis, allowing me to make three specific contributions to this nascent literature on subnational rentierism.

1) Lack of reliable cross sectional data

The first is not a benefit of case study per se but a limitation of Large N-analyses. Large N-analyses are very useful when looking for correlations. However, when trying to dig deeper in order to better understand the phenomenon of rentierism we find that there are important limitations due to the availability of statistical data. Gervasoni, for example, had to build his own index of liberal democracy. There is only other one database available. This one, created

by Giraudy (2010), focuses on the procedural aspects of democracy. As I show below, rentierism not only influences the dynamics of the political regime. It also negatively impacts the State and society. Neither index captures this broader definition of democracy "*tout court*" that I borrow from O´Donnell. In fact, the authors themselves recognize the limitations of the quantifiable data available for democracy.

Regarding the other dimensions of democracy "*tout court*", on the one hand, we have the quality of the State apparatus. The only attempt to fill the data vacuum on this variable have been recent works made by CIPPEC (Straface and Page, 2010) and Poder Ciudadano (Secchi, 2010) to build datasets aiming at measuring the quality of institutions at the provincial level. Both make the point that these are works in progress, since some provinces are not included in the surveys, and warn of the dangers of using them for comparative analyses. Still, even if they were available, indicators like these would not be able to capture the complexity of the concept of provincial State quality. There are some indicators, for example, on the recruiting system of provincial governments, but this does not tell us much about the actual implementation of regulations or their impact on the functioning of the State. The dimension of "society" is also difficult to measure. The UNDP Human Development index for provinces is limited in nature and the one that includes the most complexity – see Chapter 2 – was made for only one year.

Even simple economic indicators at the provincial level are not fully reliable. There is not a single dataset that includes the gross geographic product of provinces. The Ministry of Finance calculates it in shares of the national economy and there are others that take periods 1980 to 1991 or 1992 to 2005, but these are not coherent and many times do not coincide with provincial measures.

Even though I use these data in the pages below, we need to be careful about feeling fully confident in the conclusions drawn from statistical analyses based on imperfect data. The use of qualitative case study analysis in these situations works as a "detective" method, with which to gather detailed facts and observations on a single "positive case." In so doing, we can identify those pieces of evidence that corroborate the general theory (Mahoney and Goertz 2006: 239-241). San Luis represents a "positive" case of subnational rentierism preventing democratization "*tout court*". In undertaking a detailed analysis of San Luis we can feel more confident about the general causal relationship revealed in large-N analysis.

2) Mechanisms

Another important contribution of my case study-based research is that it helps to better understand how the "curse" actually operates. Several authors like Bunge (1997), Tooley (1988) and Harre (1970), have pointed out the importance of identifying causal "pathways" as an integral part of causality. The details and density of the case study analysis help us to understand the causes-of-effects rather than the effects-of-causes that large-N analyses generate (Mahoney and Goertz 2006: 229).

Gerring (2007) explains that a more detailed case study approach does not represent a resignation, on the part of the scholar, to understanding the general theoretical phenomenon. The goal is still to understand the broader concept of the rentier State at the sub-national level, and to shed light on political processes in other provinces. As Gerring points out, case studies are useful for understanding the micro-macro link, which can then be used to make a cross-level inference from particular cases to a larger population (2007). In depth knowledge of one case – especially if we take into account the already mentioned lack of reliable and exhaustive quantitative data on provinces – can help us to generalize over the rest of the provinces. The same line of reasoning is followed by George and Bennet when they emphasize that process-tracing tools used in case study analyses give us a "more detailed examination of an aspect of an historical episode to develop and test historical explanations that may be generalizable to other events" (2005: 5).

This dissertation aims to provide a contextual analysis of the institutional and economic deterioration of fiscally dependent provinces. Therefore, one of the most important contributions of this dissertation is to understand in detail the mechanisms through which this deterioration happens. In Chapter 3 I identify the mechanisms of subnational rentierism by looking first to the experience of oil exporting countries and then extrapolating those to the subnational level. In this way, I argue that rentierism weakens social actors vis-à-vis the (subnational) State; causes the States themselves to be less effective; and incentivizes the unproductive use of public resources.

These mechanisms operate together, through "multiple, conjectural causation" (Ragin 1987), concentrating power resources in the hands of incumbents. Incentives created by windfall revenues are strong because they generally accrue to the State; they tend to be the main source of income, especially in poor regions; and they are easily "capturable". These

mechanisms create incentives for decision-makers to undertake misguided policies, and they provide the financial means to sustain those harmful policies. The curse operates in a way that redistributes power away from many political and social actors and concentrates it in the hands of those who control revenues. As those actors tend to control the State, the State itself becomes patrimonial thus diminishing the State capacities and weakening the relation between the State and society.

These mechanisms also produce major commitment problems, since groups with political power cannot avoid using their advantageous situation in their favor. This challenge multiplies in a context of a unique source of revenues that is so large for the local economy. In these rentier polities, tensions over the control of resources diametrically increase, making politics a "winner takes all" game. At its most intense, politics becomes harsh and conflictive between those who control the State and those who want to control it.

Using O´Donnell´s concept of democracy "*tout court*" poses an extra challenge of measurement and causation. Democracy understood in this way is a diffuse concept – especially compared to procedural democracy – that implies a kind of social organization that includes three components: a society that is able to enjoy its rights – "agency"; a well-functioning State apparatus; and a democratic regime (O´Donnell 2004). Democratization here entails the constant redefinition of the interplay among the three components rather than a static set of rules.

The complexity of multi-causality and the dynamic nature of my dependent variable are better captured through tracing the historical process of particular cases. This "multiple, conjectural causation" (Ragin 1987) – also called "equifinality" (Mahoney and Goertz 2006 : 236) - is strongly associated to qualitative analysis. My argument is that three mechanisms operate simultaneously, redistributing power resources within provinces in a way that favors Governors and their allies and prohibiting democratization along the three different components of democracy. How governors gain legitimacy in the public opinion, how they control the content of information that the population consumes, and the way in which independent judges are removed, all represent potential indicators of the incumbents' accumulation of power – the mechanism that connects the independent variables to the dependent variable. These kinds of indicators are more difficult to measure through cross sectional statistical analysis.

3) Variance

The study of particular cases allows us to arrive at more "nuanced" theories (George and Bennet 2005: 8). Case study analysis helps to look for intervening variables that many times are treated as a "black box" or as "outliers" by large-N analyses (George and Bennet 2005). This is the reason for selecting on the one hand a "positive case," like San Luis, which helps me to corroborate in detail the general theory of subnational rentierism. On the other hand, by studying the "negative" case of Chubut, which does not "fit" (Mahoney and Goertz 2006: 243) the larger theory, has helped me to identify special factors that lead negative cases or outliers – Chubut - to follow a distinctive causal pattern. Rentierism creates important incentives for a particular type of political behavior. It also interplays with structural factors like geography, institutions, culture and others, which may mitigate the negative effects of rentierism. In all, a close examination of these variables can help explain variance that is unaccounted for in large-N analyses.

Case study analysis sets us on a path to separating those variables that are more limited in range - such as a specific ethnic group or historical path - from those that can travel to other regions (Gerring 2007: 13). Also in Chapter 5, I test the capacity of this structural variable to travel to other provinces. I apply the insights learned in the case of Chubut to other provinces in order to explore the extent to which my hypothesis travels. At an exploratory stage I find that the provinces with higher regional population dispersion, and specially the ones in which the capital city is not the most populated city, are politically amongst the most democratic. I specifically analyze the case of the Patagonian provinces– a fairly homogenous group – and I show that the provinces of Chubut, Río Negro and Tierra del Fuego are far more democratic than the monocephalic Neuquén and Santa Cruz.

E) Selection of Case Studies

Following Przeworski and Teune (1970) I selected cases using the "most similar" criterion. San Luis and Chubut were selected because both share many similar features:

First, these provinces have a similar population size - 368,000 for San Luis and 413,000 for Chubut. Second, they have experienced comparable fiscal rentierism, and both represent between 1.2 and 1.8% of the national economy. Also, fiscal transfers and mineral royalties are similar: they accounted for 84.1% of the fiscal revenues in San Luis and 81.1% for Chubut in

1988, compared to 10% in Buenos Aires and 55% in Córdoba and Santa Fé. In this study, I emphasize the 1980s because this was when provinces regained autonomy and most provinces modified their constitutions, instituting electoral rules and locking into place political behaviors. Similarly, for both provinces fiscal revenues are very important for the provincial economy. Both are net recipients of fiscal transfers and those revenues represent a similar proportion of the economy as in oil exporting countries – 21.7% in San Luis and 18.1% in Chubut for 2005 compared to 5.4% in Buenos Aires and 13% in Córdoba and Santa Fé. While Chubut is one of the main oil extractive provinces in Argentina, San Luis benefited from an Industrial Promotion Law that created a particular case of fiscal rentierism. This is addressed in more detail in Chapter 4.

Despite these similarities, political consequences in the two provinces have been very different. On the one hand, San Luis is a "positive case" that fulfills all the symptoms of rentier States. Thanks to the fiscal transfers of the Tax Sharing scheme and the Industrial Promotion Law implemented in 1984, this province managed to multiply its share of the national economy by three. This economic "miracle" provided the means and legitimacy to Governor Rodriguez Sáa to accumulate power in a way that had never been seen in the province before. He reformed the constitution, bought one newspaper and bankrupted the others, and won 5 consecutive elections until he was nominated President in 2001. From 2003 to 2011 his brother, a former national Senator, has been the Governor. He, in turn, became Senator at the national level.

Chubut, on the other hand, is a "negative" case that falsifies the prediction of rentier provinces. This province has the highest rotation of the executive both by name and party (6 different governors and 4 party changes from 1983 to 2011). There is a diversity of media responding to different political interests, and a plurality of active political and social actors contesting the provincial executive. Looking at this case in detail I find that the crucial variable that distinguishes Chubut from other rentier provinces such as San Luis has been the competition of differentiated geographical spaces.

F) Organization of chapters

The dissertation is organized as follows.

Chapter 2 addresses in detail the dependent variable. It looks at the workings of Argentina´s federalism in the political, administrative and fiscal fields in which provinces and

the federal government interplay. The chapter examines in detail the puzzle of Argentina´s federal system. It establishes an important puzzle: the least populated provinces, which receive important political and economic resources, have nonetheless had more limitations in their democratization process. Their experience violates the basic premises of Lipset´s developmentalist theory.

Chapter 3 spells out the primary explanatory variable. Learning from the experience of oil exporting countries, the chapter identifies the mechanisms through which rentierism hinders democracy at the subnational level. I show how those mechanisms operate, creating incentives that limit the autonomy of society, create a clientelistic State apparatus, and promote the unproductive use of public funds. These mechanisms jointly weaken the three components of democracy – citizenry, regime and the State apparatus.

Chapter 4 focuses on the particular case of San Luis in order to understand how the mechanisms of the rentier State operated in practice, particularly in the first two decades after the restoration of democracy in Argentina. Here I identify a new type of fiscal rentierism: "subsidized industrialization". I will demonstrate in this chapter that industrialization through tax exemptions is a subtype of rentierism that has the same symptoms as other forms of rentierism. This subsidized economic growth, plus the important increase in the fiscal revenues transferred by the national government, provided windfall revenues equivalent to an oil boom, crucial for the formidable concentration of power resources in the hands of the Rodriguez Sáa brothers. I show that the political game evolved from one of oligarchic rule organized around a set of traditional families to one of the personal concentration of power in the hands of two brothers. They gradually managed to control the State and its different powers as well as the media, and they subsumed most social actors to a patron-client relationship. Since 1983 this province has shown the lowest levels of political contestation.

Chapter 5 analyses the particular case of Chubut, which appears at first blush to contradict subnational rentier theory. It does not, but adds crucial evidence for understanding other causal variables that interplay. There I show that the historical development of distant poles – Comodoro Rivadavia, Esquel and Trelew/Puerto Madryn - within the province have been crucial for avoiding the consolidation of power in the hands of the provincial governors. The insights revealed in the case of Chubut are then applied to the rest of the provinces to see if they are generalizable. In this chapter I find that in the politically most competitive of all rentier provinces, the provincial capital is neither the wealthiest nor the most populated city in

the province. I compare the cases of Santa Cruz and Neuquén on the one hand, to Tierra del Fuego and Río Negro. These four provinces from the Patagonia have similar historical trajectories, socio economic standards but different levels political competition.

II The Different Argentinas

"Argentina es un país mal unido"
Tulio Halperin Donghi (2004)

This chapter aims to spell out the dependent variable of this dissertation: the heterogeneity of political development of Argentina´s provinces, and particularly the persistence of undemocratic political practices in some provinces since 1983, despite being enormously favored with fiscal and political resources.

Argentina is, and has always been, a vast and diverse country. This heterogeneity has been the crucial source of tensions that led to the creation of Argentina´s modern institutional system. As early as the time of the River Plate Viceroyalty, economic disparities among provinces appeared with the emergence of Buenos Aires as a prosperous port. Meantime the interior was decaying along with the colonial economic structure. Juan Álvarez (1983) in his essay on Argentina´s 19th Century civil wars, shows how most of the political turmoil of the post-independence period came from the fact that the interior provinces found that preeminence excessive and unfair, encouraging the "caudillos" to react against the political and economic centralizing forces of the "porteños".

Those conflicts were at the center of Argentina´s institution-building process and nurtured the establishment of a Federal system in the first National Constitution of 1953, a process that concluded with the federalization of the city of Buenos Aires and its port in 1880 (Botana 1994). Moreover, that dualism has always been present, and continues to be. There have been periods of centralization in which the national government has dominated the provinces and periods in which the provinces have gained political leverage to influence political and policy-making processes (Falleti 2005).

The analysis focuses on the period starting in 1983, when the democratic regime was restored after a half century of political instability and *coups d'état*. At that moment federal institutions were revived due to the effects of democratization on party system dynamics, regional representation in the legislative power, the structure of division of powers, and the provincial constitutions (Gibson 2004). The argument developed here and in the next chapter is that this geographical diversity has been the source of tensions that led to the creation of

Argentina´s institutional system, and this, in turn, has been a crucial cause for the persistence of that heterogeneity after 1983.

This chapter will show the paradoxical situation whereby less populated provinces are enormously favored by fiscal and political institutions of Argentina´s federal system. All provinces, and the less populated ones in particular, enjoy an important degree of political autonomy. This country holds the highest malapportionment in the upper and lower chambers compared to any other federation in the world (Samuels and Snyder 2001). Less populated provinces tend to raise on average no more than 20-30% of their own fiscal needs, fulfilling that gap with transfers from the national government and others with mineral royalties.

Nevertheless, after almost three decades of democracy being the "only game in town", there is a group of provinces that can hardly be labeled as democratic. This challenges Lipset´s modernization theory, which suggests that economic development leads to occupational specialization, urbanization, and higher levels of educations and thus causes the social changes needed for democratization (1959 and 1993). To the contrary, the redistribution of political and economic resources, instead of fostering higher political plurality, seems to hinder endogenous economic development and to obstruct competitive political contestation, concentrating power in the hands of Governors. San Luis, Formosa, La Rioja, Santiago del Estero and Santa Cruz continuously raise the attention of experts in subnational politics and systematically rank at the bottom of any index comparing subnational democracy (Gervasoni 2010a, Giraudy 2010), levels of accountability (Straface and Page 2010, Secchi 2010), clientelism (Brusco, Nazareno and Stokes, 2004) and electoral competitiveness (Jones 2001).

This chapter focuses on political underdevelopment in the 1983 – 2005 period. The reason is that, even though the same dynamics and tensions continue between the Nation and the Provinces, in the post-2001 economic recovery strong centralizing forces have re-emerged. The growing tax base – to a large extent import taxes that cannot be shared with the provinces – have allowed the national government to regain preeminence. Similarly, since 2005 the government began to renationalize pension funds, public utilities and even important companies like the flagship airline and the national oil company. With more financial muscle, national agencies like ANSES (pension), AFIP (taxes) and PAMI (retired social security) have implemented social plans and provided benefits all over the country – i.e. with the delivery of netbooks in schools or the implementation of the universal contribution per child.

Thus, the availability of plentiful fiscal resources has provided enormous room to the national government to regain agenda-setting power over the provinces and, for the first time since 1983, to impose candidates, calendars and policies within provinces. I think this period deserves a separate analysis.

Argentina is a large country with a complex set of institutional settings, culture, geography and a wide variance of economic development and productive structure. To understand this geographical complexity is crucial for understanding the democratization process in Argentina. Therefore, the emphasis of the following section will be to provide a general ´topography´ of the political and economic resources of the country.

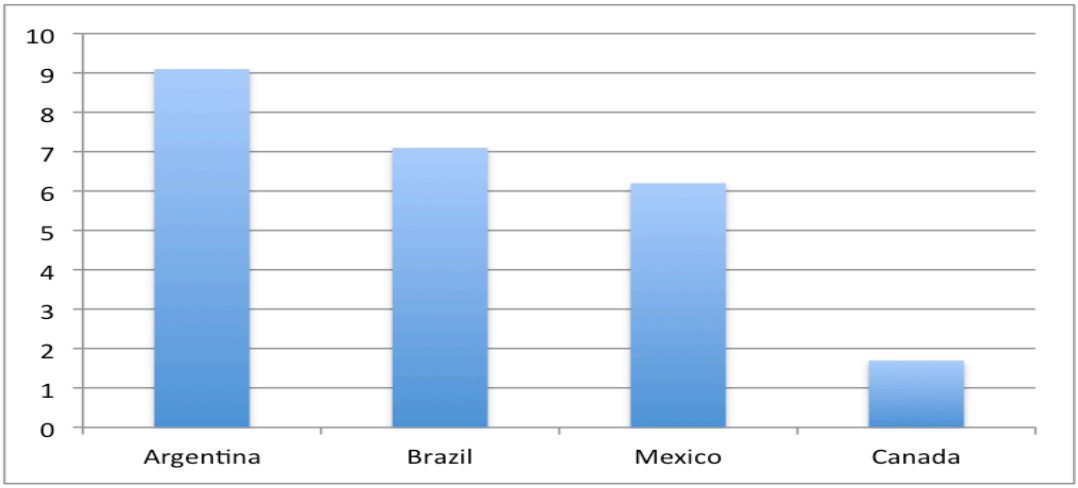
A) Geographical distribution of socio-economic resources

Structural variables are important to start with because they show the resources that each region has, the complexity of each society, the fiscal capacities of the States and the resource needs they have for fulfilling the functions for which their governments are responsible. Argentina has always been a "poorly united" country (Halperin Donghi 2004). It is therefore important to disaggregate provinces according to their structural dimensions, including the geographical distribution of the population, levels of development and productive structure.

Economic activity is geographically highly concentrated in Argentina, more than any other federal country in the world. As figure 2.1 shows, the gross geographic product *per capita* in Santa Cruz (the wealthiest province) was 9.1 times greater than in Formosa (the poorest province), in 2005. In Brazil the ratio between the wealthiest and the poorest is 7.1; in Mexico, 6.2 and in Canada, 1.7.

This uneven geographical development is an enduring characteristic in Argentina. However, this uneven development is not only the result of the provinces' different natural resource endowments. It is also the result of political contestation and conflict between models of development and actors in which geography has always been present.

Figure 2.1. Difference in income *per capita* between poorest and wealthiest regions in selected federal countries (by factors)



Source: Cetrángolo and Gómez Sabaini, 2007.

During the colonial period, under the reign of the Spanish crown, the current provinces of the North (Jujuy, Salta, Santiago del Estero, Tucumán and Catamarca) and, to a lesser extent, Cuyo (Mendoza, San Luis and San Juan) were the most dynamic regions. Their economies were connected to the mining activities in Bolivia and Perú – the regional economic centers of the period (Bulmer-Thomas 2003; Halperin Donghi 1993). Buenos Aires was essentially a swamp. Colonial inhabitants struggled to become settled thanks to continuous attacks from native populations. Only with the Borbonic reforms of the late 18th century and the creation of the River Plate Viceroyalty did the port of Buenos Aires become more dynamic.

In the second half of the 19th century, while the interior stagnated as the colonial economy collapsed with the wars of independence, trade boomed in Buenos Aires. A national party – *Partido Autonomista Nacional* (PAN) – managed to control the political scene between 1880 and 1916, and implemented explicit policies to consolidate the Nation State in order to take advantage of expanding world trade. The policies concentrated on building infrastructure and transportation to bring production to the port, promoting European immigrants to populate the empty territory, and creating a national market around Buenos Aires. During this period, Argentina became very successful and was able to transform the shape of its economy and society. The products produced in the Pampas – hides, leather,

wool, beef – were in great demand by the economic power of the time, England (Cortés Conde 2008: 14; Bulmer-Thomas 2003: Chapter 3).

The country´s new center was very well-connected to the European market. It was rich in human capital and enjoyed new urban infrastructure. Meantime, the former economic center linked to the colonial economy became dependent on the sales of foodstuffs to Buenos Aires and had to compete with cheaper and more sophisticated English imports. The only exceptions to economic decline were the wine-producing areas of Mendoza (and partly San Juan) and the sugar-cane producers in Tucumán, Salta and Jujuy. Even though Argentina was by far the Latin American country that received the most overseas immigration (Bulmer-Thomas 2003), poorer provinces started a long process of emigration. Large proportions of the labor force began working seasonally, harvesting in the more prosperous pampas and in other dynamic provinces. Most national and foreign migrants settled in the pampas and the littoral provinces.

By the early 20th century, given the forces of economic and demographic agglomeration, a process of industrialization began. A service-based economy began to develop in the urban centers with high income. Then, in the 1940s an import substitution industrialization process began. These processes were based mainly in the urban areas of Buenos Aires, Córdoba and Santa Fé.

The Northern provinces (see Group 3 in figure 2.2) did not adapt to the changes in the economy. Northeastern provinces continued to produce cotton (in Chaco and Formosa) and citrus and rice (in Corrientes. Productivity was very low and working conditions were not too far from slavery. A well-documented case was that of a *quebracho* logging company in Chaco. Two million-acres of forest were controlled by one company, which also owned the railroad, port, and even issued its own currency. The company kept the local working force in calamitous conditions (Gori 1974). Northwestern provinces produced tobacco, but the most promising activity was the government-protected sugar industry in Tucumán, Salta and Jujuy. With the exception of Mendoza, interior provinces not only received less foreign immigrants but also lost part of their native population, which left in search of better economic options.

Figure 2.2. Map of Argentina – grouping provinces per region.



The Patagonia region stands itself as a differentiated group (Group 2, Figure 2.2) The region is scarcely populated, and until the late 19th Century it was mainly inhabited by native Tehuelches and Mapuches that were not subsumed to Buenos Aires. Only after the 1880s was their territory occupied by the Federal government in the bloody "Campaign of the Desert," where most natives were literally massacred. In the 20th century some prosperous economic activities emerged - like wool production in the south, fruit production in Río Negro and oil discoveries in Chubut and later Neuquén. Nevertheless, these activities were limited in scope,

and Patagonia remained scarcely populated and isolated. This group makes up the last frontier of the national territories to become full-fledged provinces: Chubut in 1955, La Pampa in 1951, Neuquén in 1955, Río Negro in 1955, Santa Cruz in 1956 and more recently Tierra del Fuego in 1990.

Unlike the rest of the interior, Mendoza in Cuyo is an outstanding case, where the wine industry supplied the growing urban populations under protectionist policies. This province managed to grow substantially and to attract large quantities of migrant workers. Today, this province is considered one of the most developed, alongside the Autonomous City of Buenos Aires and the Provinces of Buenos Aires, Córdoba and Santa Fé (Group 1, Figure 2.2). It is important to bear in mind that these most developed regional economies are not only the ones that are best connected – by infrastructure and human capital formation - to the center of consumption in Buenos Aires. They are also the ones that managed to receive protectionist policies and subsidies for their production.

During the 20th century the composition of the national economy changed, with the emergence of new industries and regional production. It is interesting to note, however, that longstanding geographical patterns did not change, with the notable exception of Mendoza. In general, the interior has been largely bypassed by the industrialization process of the post-war period. Its regional economies subsisted thanks to subsidies from the Federal government. Most of those subsidies were eliminated only in the 1990s under Menem administration.

By examining geographic development in Argentina over the *longue dureé*, it is apparent that most of the country's wealth and productive activities were concentrated in Buenos Aires, Córdoba, Santa Fé and Mendoza. Sustainable development has failed to be achieved in the rest of the provinces.

Alejandro Bunge (1940) described the economic development of Argentina in the shape of a "fan," where half of the national wealth was found in a radius of less than 600 kilometers around the port of Buenos Aires. Today, this still holds true. Nowadays, the city and the province of Buenos Aires together account for 45% of the national population and more than half of the national gross domestic product[1]. When Córdoba, Santa Fé and Mendoza are included in this group (Group 1 in figure 2.2) it represents 67% of the population and more than 80% of the national economy and exports. These provinces have large and diversified economies and a developed system of services with a gross geographic product *per capita* of

[1] Population 2001; GDP percentages are based the author's calculations and taken from the Secretaría de Provincias, Ministerio de Economía, 2005.

$ 16,000 in 2005 (current prices). Their average score on the human development index is of 0.68[1].

The Northern provinces (Group 3, figure 2.2) contain 27.5% of the national population but represent only 13% of the national economy. The average GGP *per capita* is less than a half of the central provinces and one third of the Patagonia provinces. Similarly, the average poverty level is double than the former and three times higher than the latter (see table 2.1).

Table 2.1. Selected indicators organized by regions.

	Population 2001	Share of national population	GGP per capita	GGP – share national	Exports 2006 (%)	Poverty line 2007 average (in %)	Public employ-ment	Public employment (per 1,000 people)
Group 1	24.250.494	67,00	15,66	71,38	74,11	17,36	786.579,47	32,44
Group 2	2.037.545	5,50	22,95	9,78	11,76	12,98	134.128,73	65,83
Group 3	9.972.091	27,50	7,44	12,94	14,10	35,31	442.372,37	44,36

Source: Author´s based on National Census (INDEC 2001), Ministry of Finance, Exports (IADER 2007), Poverty (PROVINFO 2008).

The unpopulated Patagonia region only contains 5.5% of the national population, but their share of the economy is twice as large, holding an average income *per capita* of 23,000 pesos. Half of the economy in these provinces depends on the exports of oil and other minerals. Living standards are substantially higher and poverty is one third of that of the Northern provinces.

These three groups of provinces are fairly well differentiated in terms of socio-economic realities as well. The five most populated and developed provinces, the City of Buenos Aires, Buenos Aires Province, Santa Fé, Córdoba and Mendoza, are urban and economically diversified in terms of industrial production and services, levels of education and quality of infrastructure. The provinces from Patagonia are the wealthiest, but also the most scarcely populated with a high dependence on mineral exports. To some extent only La Pampa has a – not coincidentally - "Pampean" economy as well as Tierra del Fuego, which has an important share of tax exempted industrial settlements. The reality of the other thirteen provinces ranges from total economic and productive backwardness – in Formosa, Misiones, Santiago del Estero, La Rioja - to an intermediate level of development with important market rigidness. Provinces like Entre Ríos have some enclaves of development. They nonetheless

[1] I use the 2002 Index, because there were other indicators in the estimation that highlighted the development gap among provinces. Those indicators are: infant mortality by reducible causes, over age schooling rate, quality of education (PISA assessment), employment and unemployment rates.

have overall unemployment levels and poverty indicators that are similar to Northern provinces.

B) Argentina´s redistributive federalism

This section describes Argentina´s federalism, focusing on the re-democratization experience started in 1983. Despite the structural differences and the historical concentration of economic resources, here I describe how federal institutions devolve political and economic resources to less populated provinces, regardless of their level of income.

This section understands federalism as a complex set of decision-making political institutions that regulate, in practice, the relationships among the different levels of government (Calvo and Abal Medina 2001). Following Tullock (1969), I agree that federal institutions vertically distribute economic and political resources across different levels of government. The way these resources are distributed creates incentives, favors some actors while excluding others and reallocates resources, continuously shaping and re-shaping the outcomes of the political system.

In Argentina federalism was formally established in the first article of the 1853 National Constitution. There were fourteen provinces at the time of the original constitution. These preexisted and constituted the National government. Between 1951 and 1955 eight other provinces were included into the federation. As mentioned above, in 1990 Tierra del Fuego joined the group of provinces. The 1994 constitution granted autonomy to the capital city of Buenos Aires.

The adoption of Federalism as the country's political system was less the product of an idealistic republican principle and more the result of long-lasting civil wars, political conflicts, and institutional gamesmanship (Falleti 2004) over how provinces would dominate one another (Gibson and Falleti 2004). Behind this conflict were the interests of the economically and politically dynamic Buenos Aires versus the stagnating but still politically powerful interior. After independence Buenos Aires aspired to become dominant. The crux of the conflict was the status of the city of Buenos Aires and the revenues coming from its port, the main source of income for the country. Despite the sanctioning of the 1853 Constitution, central power was only legitimized in 1880, when an agreement was reached to federalize the city of Buenos Aires and its port (Botana 1994). Then, a period of political stability was achieved since the national political system was controlled by a coalition of provincial leaders

grouped around the *Partido Autonomista Nacional* (PAN), which ruled the country until 1916. The creation of a central State controlled by a federalized political coalition gave important political influence to less developed provinces from the interior. Since then, the role of governors has been very important in Argentine politics – except during constitutional interruptions, when military regimes unilaterally appointed interventors.

In what follows I analyze two independent but interrelated arenas in which the federal government and the provinces constantly interact: the fiscal and the political arenas. I focus on the two decades following 1983, when provinces regained momentum vis-à-vis the federal government thanks to the decentralization of political and fiscal resources.

1) Decentralization of political resources

When describing political federalism I refer to the constitutional institutions, party system and electoral rules that mediate the different levels of government. In Argentina, these legal frameworks give substantial political capacities and relative autonomy to the provincial level. Argentina is politically organized into three levels of government: the federal level, divided into the executive, legislative and judiciary powers; twenty-three provinces and the Autonomous City of Buenos Aires; and 1,092 municipalities. Each level of government elects their executives and legislatures by direct popular vote. Until the constitutional reform of 1994 there was an electoral college that elected the President of the Republic.

The President is elected in a single district. The legislative branch is bicameral and is elected at the provincial level. The Lower Chamber has 257 seats elected proportionally through the D'Hondt system in 24 provincial jurisdictions. Since 1983, each province has been guaranteed a minimum of 5 legislators with a limit of 70 for the largest constituencies, generating an important distortion to the principle of proportionality. The Senate is the federal institution *per se* and represents provinces on an equal basis, with three senators per province (72 members in total), two representing the majority party and one for the first minority. Until 2001, national Senators were chosen by provincial legislatures. Since then, they have been elected by popular suffrage.

Governors play an important role in Argentine politics, and the relationship between governors and the President has always been difficult. Historically, during the PAN period (1880-1916), the role of governors was crucial, many times as important as that of the President. During that time, governors provided the governing support that the President

needed in exchange for military and economic assistance. The exchange was mainly through Legislative support. The democratic opening in 1916 started a process of difficult coexistence, with the *Unión Cívica Radical* (UCR) controlling national government and the conservatives controlling most provincial governments. The national government typically used the constitutional right of "national intervention" to discipline adverse provincial leaders. In 1930 Argentina started a long process of successive military coups that made the previous political game obsolete. Subsequent democratic openings were short-lived (1931-43; 1946-55; 1958-62; 1963-66 and 1973-76) and typically followed military experiences subject to fraud, impositions and proscriptions that turns very difficult to make a general assessment on how federal institutions worked during that period (Botana 2010: 13).

With the return of democracy in 1983, institutions and actors that were dormant for more than half of the 20th century became real sources of power, dramatically changing the dynamics of intergovernmental relationships (Gibson 2004). Since then a complex set of institutional relationships constrained by the electoral system, the autonomy of local politics and the characteristics of political parties and party system have given a particular pattern to the political system favoring the emergence of provinces as crucial political arenas.

The primary reason for this is that provinces enjoy substantial electoral, policy and political autonomy vis-à-vis the national government. Each province has the right to issue its own constitution, many of which have been recently reformed. Hence, there are many variations regarding provincial internal organization, the number of legislative chambers, the number of legislators, etc. For example, only two provinces do not allow reelection, while three allows one reelection, three do not impose limits and 15 allows one reelection after an interim term.

Electoral rules are crucial for understanding political systems. As Giovanni Sartori pointed out, they not only are "the most manipulative instrument of politics; they also shape the party system and affect the spectrum of representation" (1994: 9). In Argentina provinces serve as electoral districts for all congressional elections. Only 3 of 17 other federations in the world elect all of their legislators in districts that conform to State boundaries (Ardanaz, Leiras et al. 2010: 7). This makes the provincial arena the place where national parties and politicians must go to get political support (Benton 2008).

The first implication of the national electoral system – given the geographic distribution of the population – is that the more populated and developed provinces elect the executive,

and the less populated and developed provinces mainly decide the legislative power. Since presidents are elected in a unique and national jurisdiction (and given that the Province of Buenos Aires alone accounts for approximately 40% of the population), it is reasonable to conclude that this province and a few others decide who will be in charge of the national office.

Table 2.2. Representation in the Lower and Upper Chamber per group of provinces (in percentages)

	Population	Senators	Deputies
Group 1: Buenos Aires, City of Buenos Aires, Córdoba, Santa Fé and Mendoza	67%	21% (15)	55% (142)
Group 2: Río Negro, Neuquén, Chubut, La Pampa, Santa Cruz, Tierra del Fuego	5.5%	25% (18)	12% (30)
Group 3: Tucumán, Entre Ríos, Salta, Misiones, Chaco, Corrientes, Santiago del Estero, Jujuy, San Juan, Formosa, San Luis, Catamarca, La Rioja.	27.5%	54% (39)	33% (85)
Total	**100%**	**100% (72)**	**100% (257)**

Source: Author´s calculations, based on the Ministry of Interior.

However, the electoral rules of the Legislative branch suffer from serious malapportionment that over-represents the smaller provinces. In 1853, the Constitution established that seats in the Lower Chamber would be proportional. This principle was abandoned in the twentieth century, first by the Peronist party and then by military governments. In 1949, under Juan Perón, the National Constitution was reformed, setting a minimum of two deputies per province. The military established a minimum of three and then five representatives per province in 1972 and 1983 respectively. The latter was an open strategy by the military regime under Bignone to favor smaller provinces. The reason is that, because provinces are more conservative, they would counterbalance the more progressive urban centers (Cabrera 1992). This means that provinces like La Rioja, Tierra del Fuego, San Luis or Santa Cruz, with less than 1% of the population, appoint five deputies each. In

contrast, the province of Buenos Aires appoints 70 deputies. This is a proportion of 3 to 1 in favor of small provinces. Similarly, in the Upper Chamber, the 19 smallest provinces, with one third of the total population, appoint four-fifths of the senate and almost half of the lower chamber's deputies. The Argentine Senate is the most overrepresented in the world. Argentina has the most overrepresented Lower Chamber among federal countries (Samuels and Snyder 2001). When grouped together, the developed provinces, where two thirds of the people live, control only one-fifth of the Upper Chamber and half of the Lower Chamber. Less populated provinces (Groups 2 and 3), which have one-third of the national population, control almost half of the Upper Chamber and 79% of the Lower Chamber (see table 2.2).

Argentina´s federal system favors smaller provinces. Electoral rules also have a majority bias in those provinces (Calvo and Abal Medina 2001: 71). The majority bias is due to the fact that representatives in the Chamber of Deputies are elected by D'Hondt system in provincial circumscriptions. This electoral system has the additional effect of party polarization or concentration, depending on the size of the jurisdiction. On the one hand, in a province like Buenos Aires, which elects 35 Deputies per election -70 representatives in total -, the D'Hondt system is fairly proportional, having a polarizing effect on electoral forces. On the other hand, provinces like La Rioja or San Luis, which hold only five seats in the Lower Chamber, only elect two or three deputies in each election. Although D'Hondt is supposedly a proportional system, in small jurisdictions it becomes de facto a majority system. This majoritarian bias is important given that the 50% of the Chamber is elected in districts with that size. In the Senate, this phenomenon is obvious in the sense that each province elects 3 senators and the first majority gets 66% of the seats regardless of their percentage of votes.

Curiously the system tends to favor one specific political party: the Peronist Party. The political base of this party has historically been founded upon alliances with elites from provinces in the interior, especially the less populated (and more conservative) ones. As pointed out by Gibson, Calvo and Falleti, Peronism was built through an alliance with "caudillos" from the small provinces and not with the working class party, as the myth suggests (2004: 183). These alliances, given the overrepresentation of unpopulated provinces, favor the Peronists in the legislative branch. For example, in 1997, both the Alianza Party and the Peronists received 37% of the vote in legislative elections. The latter, however, received five more seats in the Lower Chamber (idem, 184).

Increasing federalization not only happened between levels of government but also within political parties. Argentina´s national political parties were born and have evolved as little more than confederate alliances between largely autonomous and quite powerful leaders of provincial party branches (Leiras 2007). The reason is that electoral rules help to reproduce the autonomy of the party system existing at the subnational level (Gibson and Suarez-Cao 2010).

Until the recent 2009 Law for Political Reform, parties could constitute themselves in one province and present candidates for the national legislative office. To be present in only five provinces was enough to have a presidential candidate. All of this has helped make provinces a crucial arena for political competition (Jones 1997).

Table 2.3. Concurrent governorship elections with national elections

Election	Number of provinces
1983	22 (all)
1987	21 (out of 22)
1991	21 (out of 23)
1995	14 (out of 24)
1999	10 (out of 24)
2003	18 (out of 24)
2007	14 (out of 24)
2011	Primaries: 10 (out of 24) General: 7 (out of 24)

Source: author´s elaboration based on Dirección Nacional Electoral, Ministry of Interior

Provinces are also in charge of setting local electoral calendars. Thus, in most provinces governors can choose to isolate provincial elections from national ones or, to the contrary, take advantage of a popular presidential candidate. Until 2004, they also were allowed to set national congressional election date. Argentina is the only federal country where this was allowed (Ardanaz, Leiras, et al. 2010: 8). Leiras has found evidence that coattail effects are twice as strong with popular governors than with popular presidents in Argentina (2007). National authorities cannot force provincial leaders to hold local elections during national campaigns. Since 1983, only four of fourteen national legislative elections were held on the same date in every province and concurrently with provincial contests. Similar trends exist for gubernatorial elections (see Table 2.3)

The Argentine party system also respects the federal structure in a way that allows for the provincial autonomy of parties. The fact that provincial party leaders determine the rank order of the party list strengthens the position of governors substantially, such that national political careers are structured at the provincial level. Provincial party leaders compose party lists and organize electoral campaigns for governors, provincial legislators, municipal representatives and national legislators. As Jones et al have pointed out, provincial party leaders decide who is going to the National Congress and if that person will be re-elected (2002). Local party leaders manage the career of most politicians in the system. National legislators are more accountable to provincial than to national leaders.

The party system also promotes the fragmentation power within the national party, obstructing a president's coalitional discipline and weakening national party leaderships. This makes national legislators beholden to governors[1]. These features are important because they create incentives for the dispersion of resources within national parties to an extent that allows political power to be territorially structured around local leaders (CEPES 2004: 17). Moreover, presidents often have to negotiate with regional leaders from within their own governing coalition, such as in the case of subsidies to sugar cane producers and to gas consumers in Patagonia (Fohrig 2001). The low "discipline" of political parties in Argentina has led Ana María Mustapic to call the Peronist party "a confederation of local parties" (2003).

Nevertheless, to conclude that the gubernatorial leverage is unlimited would be mistaken. National party leaders have the political prerogative to either intervene in provincial party organizations or to propose an alternative national party list to compete with a provincial list determined by the rank and file (Haggard and Webb, 2004). The result of this is a degree of partisan discipline and relatively strong party leadership depending on the national leader's charisma, regional networking and, notably, the health of the national budget. From 2003 on, Néstor Kirchner was able to restructure a national coalition that coalesced around his leadership. The increasing fiscal strength of the national government, the "success" of the economic model and Kirchner's leadership helped him to rebalance federal-provincial relations. More recently, President Fernández has used her increasing leverage to influence nominations in several provinces to an extent that has not been seen since 1983. This shows

[1] Eaton underlines that this is not completely like that due to the fact that at some extent they still need to account to the national leader. Eaton, 2004, p.126

us that the game can change depending on the relative strength and skills of the players. Structure and rules alone do not determine inter-governmental relations.

One important institutional resource for national governments has been Federal interventions. These constitutionally-endowed interventions allow the national government to take over any or all of the three provincial powers. An intervention or even just the threat of one sets important limits to Governors. However, only six interventions have occurred since 1983 (See table 2.4). This is a meager use of the institutional device when compared to the 22 interventions that took place during the 1954-62 period, 18 during the 1862-80 period, 40 between 1880 and 1960, 33 in 1916-1930, 13 in 1932-43, 15 1946-55, and the 16 of the 1958-76 period (Molineli, Palanza and Sin 1999: 495).

Table 2.4. Federal interventions since 1983

Year	Province	President in office
1991	Tucumán	Menem
1991	Catamarca	Menem
1993	Santiago del Estero	Menem
1999	Corrientes	De la Rúa
2004	Santiago del Estero	Kirchner

Source: Ministry of Interior

2) Redistributive fiscal resources

Fiscal rules of Argentina´s federal system also favor the less populated provinces. Provincial governments are in charge of a large share of total spending in Argentina, yet they collect only a small fraction of taxes.

The National Constitution establishes that the federal government is in charge of foreign affairs, currency emission, commerce, navigation and defense. Also, it establishes that there are shared functions and responsibilities with provincial governments in the areas of justice, education and social security - without much precision on the matter. The vagueness of the Constitution in this matter has allowed for different processes throughout history of changes assigning functions and resources to the different levels of government.

Since the late 19th century and throughout most of the 20th century the National government tended to manage the most crucial functions in the areas of health, education, transportation and energy. However, since the 1970s Argentina experienced an intense

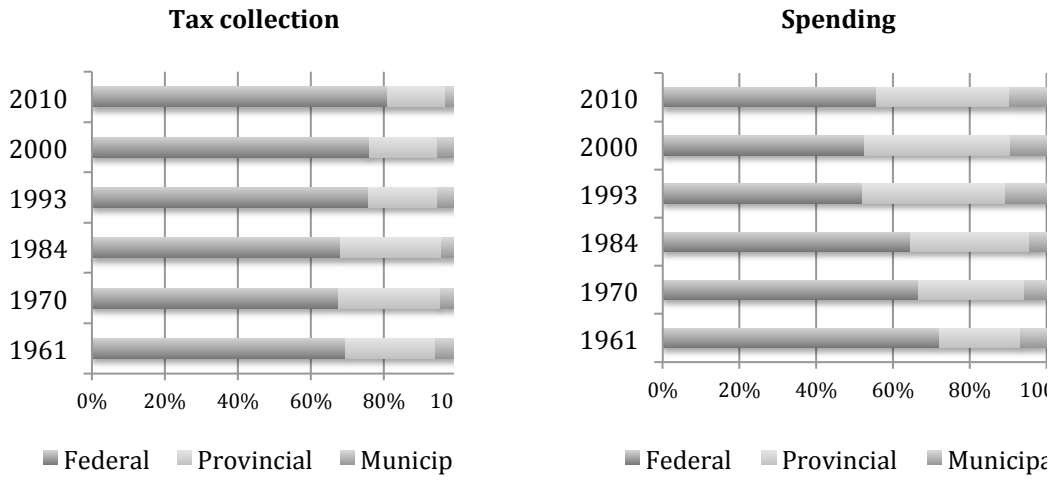
process of the administrative decentralization of responsibilities and functions towards the provinces. Today, Argentina is the most decentralized country in Latin America on this front and among the most decentralized in the world (Falleti 2004: 82).

As result, the federal government has control over the administration of social security, health for higher education, and foreign debt services. Provinces are currently in charge of education and health care, and municipalities are in charge of different utilities. As Cetrángolo and Gomez Sabatini put it, the national government is in charge of the problems of the past while provinces are in charge of those of the future (2007: 16). Provinces must manage crucial areas, such as quality of life and the intellectual development of the population. Differences on this front would exacerbate the differences among the regions.

Regarding funding, the Constitution establishes in Article 75 subsection 2 that indirect taxes are concurrent among the Federal and provincial governments – leaving aside import and export taxes, which are exclusive to the Federal level[1]. Direct taxes are exclusive to provinces. In practice, the historical trend since the 1960s has been that most taxes are collected by the Federal government and then are re-distributed to the provinces. Provinces only collect four main taxes (housing, automotive, stamps and gross income), which allow them to collect around 40% of their fiscal needs on average. This mismatch between fiscal collection and administrative spending – graphically shown in figure 2.3 – has made Argentina one of the countries with the largest vertical imbalance in the world (Ter-Minassian 1997).

[1] After the so-called "Crisis del Campo" of 2009 that pitted President Fernandez against sectors linked to agricultural production, export taxes have been included in the basket of taxes shared with the provinces. The *Fondo Federal Solidario* redistributes 30% of that tax to provinces and provinces must do the same with local governments.

Figure 2.3. Fiscal Structure per Level of Government (in percentages)



Source: Cetrángolo and Jimenez 2004; IERAL 2012

The decentralization of expenditures to the provinces alongside the concentration of resources at the federal level makes fiscal relations among the levels of government very tense. The disparity of income between provinces means that some provinces are in better shape than others to pay for their own fiscal needs. Most, however, are in desperate need of federal funds.

Despite this need, provincial governors pay only a small fraction of the political cost of taxation. If 40%, on average, of provincial fiscal needs come from the provinces themselves, fiscal transfers from the federal government cover the remaining 60%.[1]

i. Federal Tax Sharing Agreement

In Argentina, the difference between spending and revenues is mainly allocated from the federal government to the provinces through the *Ley de Coparticipación Federal* (henceforth called the Federal Tax Sharing Agreement) and its modifications. Until 1935, each province collected its own fiscal resources and thus had to adjust its spending in accordance with what it collected (Porto 2003). As a reaction to the economic crisis of the 1930s, to which the more developed provinces had more tools to react, the government of Agustín P. Justo (1932-38) aimed to strengthen State intervention into the economy and to

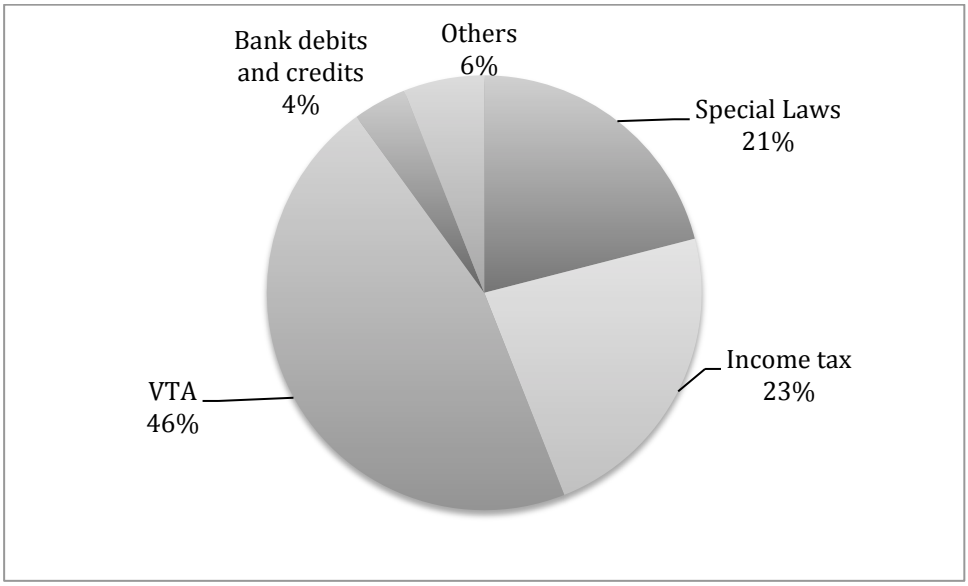
[1] Cetrángolo and Jimenez mention that another recurrent source has been public debt (2004).

support the impoverished provinces of the interior. This is why the government implemented a fiscal structure that centralized collection at the federal level and then redistributed revenues to the provinces. In 1935 a law was issued that established that 30% of nationally collected taxes would be distributed to the provinces. An important increase of the provincial share was made in a 1973 Law, which established an even share of 48.5% each for the Federal government and the provinces and left the remaining 3% for a Regional Development Fund.

This Law establishes which taxes are added to a common pool of resources to be shared by the national government and the provinces; the percentage of these that are distributed to the central government versus the provinces (primary distribution) and the criteria to determine the percentage share that each province will receive from the primary distribution (secondary distribution).

The resources for the Tax Sharing Agreement reside in a basket of fully sharable taxes (which includes taxes from profits; the value-added tax; internal; housing transfers and undivided inheritances; over cooperative´s capital; minimum foreseen profit; gambling, lottery and gaming) and partially sharable taxes (liquid fuels and natural gas; electric energy; personal goods; "*Monotributo*"; banking credits and debits; and some commodity exports since 2009). Each year the central government must transfer the same proportion of funds from the total revenues collected via federally shared taxes. These funds are automatic and are not earmarked. By 2009 around 70% of sharable taxes came from income and value added taxes. An important 21% comes from "special laws" like fuels, education fund, the National Housing Program (FONAVI), among others (see Figure 2.4).

Figure 2.4. Composition of the pool of shared taxes by origin – 2009 (in percentages)



Source: Author´s elaboration based on Ministry of Finance.

ii. Primary distribution

Since 1935, all reforms including the most recent issued in 1988, have increased the participation of provinces in the distribution of resources. The 1973 version of the Tax Sharing Law expired in 1984, but there was no political agreement to issue a new one. This fiscal Law requires consent from the provinces, something that the new democratic regime could not achieve. Thus, between 1984 and 1988 the provinces negotiated fiscal transfers bilaterally with the central government. At the time the UCR controlled the presidency, but the Peronists were much stronger in congress and the governorships. The struggle over resources, therefore, became particularly heated. In the 1987 elections, the UCR also lost its majority in the Lower Chamber. Since then, the Peronist party dominated both legislative chambers and 17 out of 23 provinces.

A year after, in 1988, the PJ-dominated Congress issued a new Law that crystallized that new correlation of forces. The new Law (Nº 23,548) established a clause in which any attempt at reform required the approval of the President, the Congress and all the provinces, a level of consensus that was very difficult to achieve[1]. This Law, which is still in effect, established that 42 percent of the taxes collected under the regime go to the national

[1] The Constitution of 1994 explicitly States that a new Tax Sharing Agreement had to be issued by 1996. By December 2012 this has not being achieved.

government, 57 percent to the provinces, and 1 percent to a special fund to finance provincial crises. The 1980s was an absolute gain for province, period in which provincial share of transfers was increased to 57%.

During the early 1990s with Carlos Menem in office, the economic and political landscape changed allowing him to balance the weight in the federal government's favor. Menem approved two fiscal "pacts" aiming to cut back the fiscal capacities and resources of the provinces. By doing so, he diminished the percentage of primary distribution by 15%. This was possible due to Menem's strong legislative support in both chambers and a majority of the provinces and also because economically the reduction was largely covered by a growth in tax revenues, which gave enough resources to the provinces as compensation. Provinces agreed to this arrangement only because the net amount of transfers increased with the 1992-1994 economic recovery and because the national government guaranteed a minimum to be transferred per year.

2001 crisis and after

After the fall of the "convertibility plan"[1] the currency was devalued and simultaneously international prices of commodities dramatically increased. Both factors made the composition of the economy change completely. Exports and industry recovered changing their share of the national economy. This had an impact on the fiscal structure as well. In absolute terms, fiscal resources received by the provinces dramatically increased from 13.3 billion pesos in 2001 to more than 75 billion in 2009 – an increase of 7.8% yearly (in real terms) compared to 4% during the convertibility period (1990-2000).

Nevertheless, by 2009 these resources represented an inferior proportion of the total national taxes collected by the federal government a decade earlier. The loss of relative weigh of the Federal Tax Sharing Agreement is due to the increase of non-shared taxes like International trade – a sector that changed its weight in the national economy. The increase of Federal resources was at a rate of 10.4% yearly between 2001 and 2009.

A total share of fiscal resources of the economy went from a 16.5% of the economy in 2002 to a 27.2% in 2009 (substantially higher than the 15% average of the 1990s). However, in the last seven years there has been a noteworthy recentralization of tax resources. As figure 2.3 shows, in 2000 the national government collected 76% of total taxes and was in charge of

[1] This plan was issued by President Menem in an attempt to stabilize the Argentine economy through the application of neoliberal reforms. The most drastic of these was pegging the peso to the dollar by law.

48% of spending. In 2010, it collects 81% of total taxes and is in charge of 56% of total spending (IERAL 2012).

Despite backs and forth of centralizing and decentralizing fiscal forces, the entire period since 1983 shows the fiscal dependence of provinces from the central government in which the collect in average around 20-30% of the total fiscal resources but are in charge of more than a half of all public spending. In that gap lays most of Argentina´s main political conflicts.

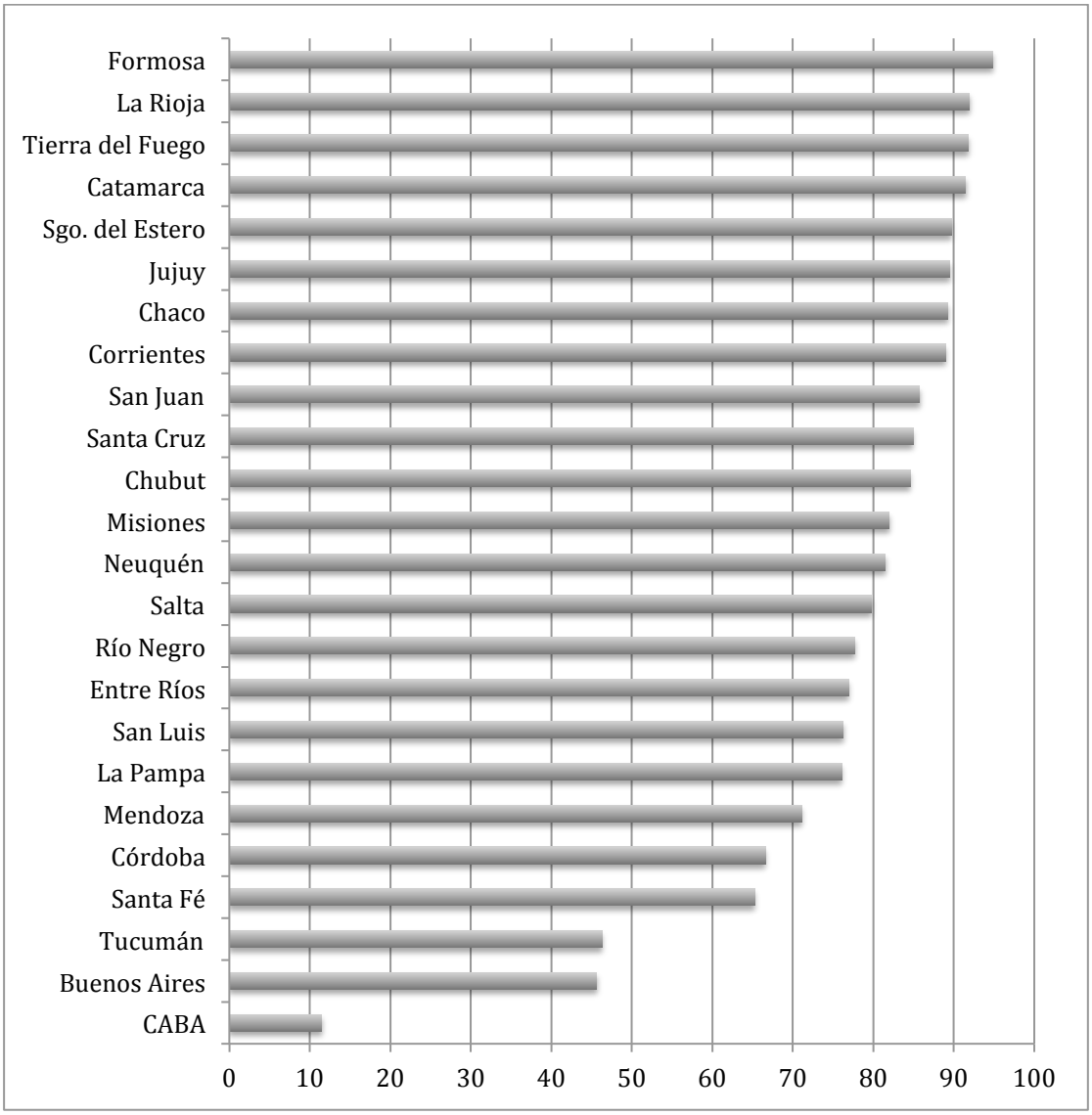
iii. Secondary distribution

The secondary distribution is the share of the primary distribution that is allocated to each province. These coefficients have changed over time. Since the 1935 law and following the 1947 and 1954 reforms (and the 1956 and 1957 amendments), the main criterion for the distribution among provinces was their population size. Other criteria in the 1935 and 1947 laws were provincial spending, as budgeted each previous year, and provincial resources received during the previous year, including loans. In 1954, another variable, provincial production, was introduced into the formula. In 1973, an additional, re-distributive factor, income *per capita*, was incorporated in the division of revenues among provinces.

The 1988 reform introduced provincial coefficients for secondary distribution, eliminating formulas based on socio-economic indicators. The coefficients this time were designed based on the percentages received during previous years and some distributive notions negotiated in an *ad hoc* manner among provinces. This law has also being modified by several others adding complexity to the system (Porto 2003: 52).

Automatic transfers were crucial for most provinces. They represented an average of 69% of all federal transfers in 1983-2004, 42 percent of the total provincial tax revenue and 35 percent of total provincial revenues. The partial exception to this is the City of Buenos Aires and to a lesser extent those districts from the more developed central region. The provinces of Formosa, La Rioja, Catamarca, Corrientes, Santiago del Estero, Jujuy, and Chaco received between 80 and 90% of their total revenue from federal transfers for in 1983-2004. Formosa and La Rioja received over 90 percent in 2005 (figure 2.5)

Figure 2.5. Subnational fiscal dependence – 2005 (in percentages)



Source: Author´s calculations as taken from the Ministry of Finance

It is important to note the low level of discretion of these transfers. The Index of Discretion of Intergovernmental Transfers, developed by the Inter-American Development Bank, classifies Argentina as one of the Latin American countries with the lowest levels of central-government discretion over federal transfers, in terms of both amount and distribution (Inter American Development Bank 1997, 169–70).

Other transfers

As mentioned above, the Tax Sharing Agreement is the most important fiscal transfer to the provinces but it is not the only one. Other transfers have grown at a rate of 33.2% annually between 2001 and 2009, representing by 2009 26% of total transfers (CIFRA 2010).

iv. Legally Mandated Transfers

On top of the Federal Tax Sharing regime, provinces receive other mandated transfers that are regulated by specific laws. Some of the most important are: revenues collected from gas taxes that are shared with the provinces to finance road construction, housing, and infrastructure; revenues to finance education and other transferred services (Laws 23,906; 24,049; and 26,075); and other revenues shared from specific taxes that are not included in the co-participation regime, such as specific transfers from the income tax, the VAT, and the tax on property or personal goods. On average, these other legally mandated transfers, which are different from those allocated through the co-participation regime, represent around a third of the total federal transfers (1983-2004). They also represent 18% of all provincial fiscal revenues and 15% of the total provincial revenue for the same period.

v. Discretionary Transfers

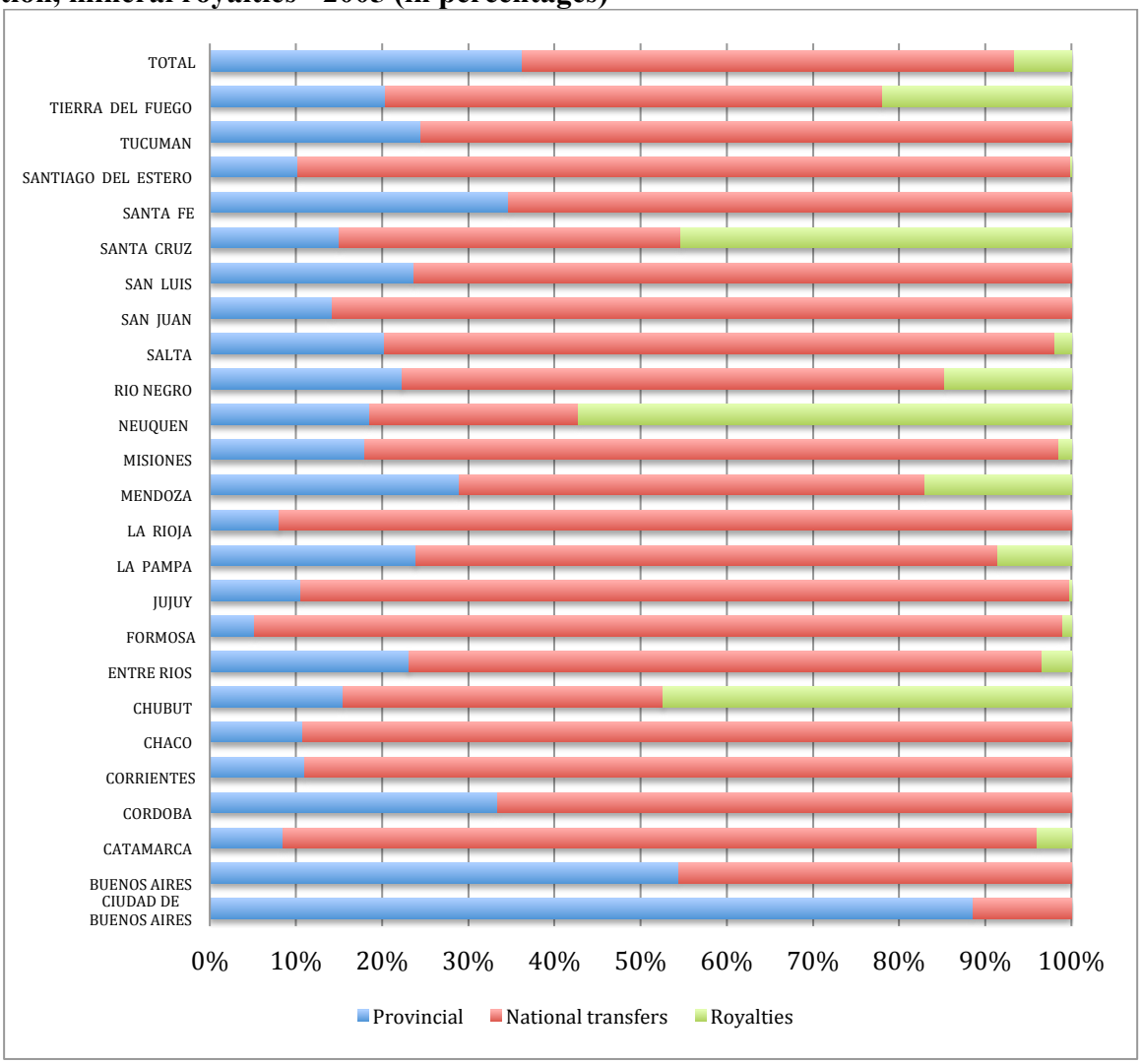
The president also has control of discretionary funds as regulated by the 1988 tax-sharing law[1]. The most important discretionary funds come from Contributions from the National Treasury (ATN). ATN represented an average of 11 percent of the total co-participation transfers in 1985-2004 (or 8 percent of the total fiscal transfers from the central government). They reached 64 percent in 1987, when the co-participation law expired and the Treasury distributed most transfers as ATN. After the 1988 co-participation law (and until 2004), discretionary transfers represented an average of 1.28 percent of co-participation transfers and 0.85 percent of the total fiscal transfers from the central government.

Federal Government Ministries

The federal government also distributes specific funds to provinces, such as infrastructure plans or social programs. Those resources are subject to the Federal budget. They are not regulated by specific regimes since they depend on the will of Congress.

[1] Legally they represent one percent of total funds. However, more recent reforms have increased the amount in practice due to a percentage coming from income tax.

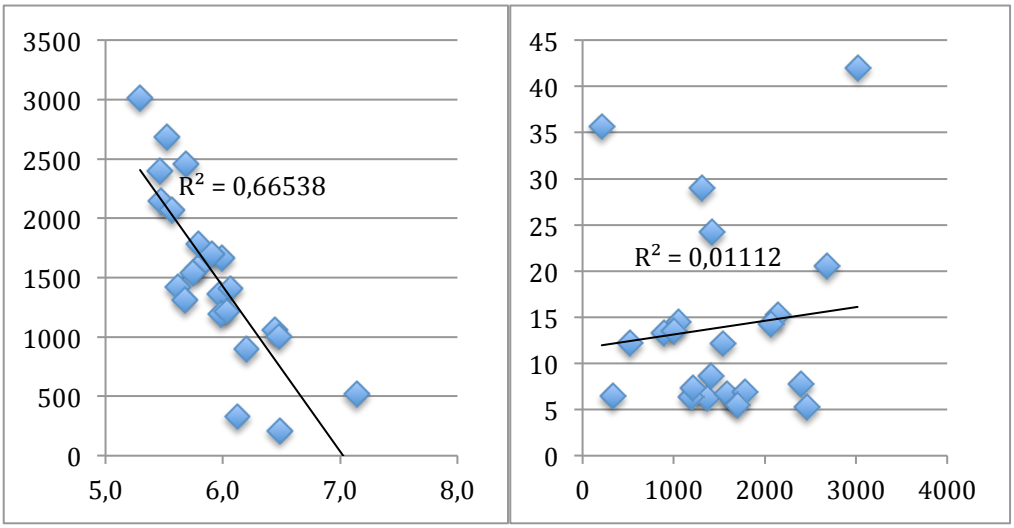
Figure 2.6. Fiscal resources by origin: national transfers, individual provincial collection, mineral royalties - 2005 (in percentages)



The budget law regulates the total amount of these transfers and their federal distribution, and they can be changed each year according to the distribution of power inside Congress. In other words, their distribution is not regulated by specific regimes, as each amount and destiny depends upon congressional approval every year. The federal government, through each of the competing ministries, is in charge of the federal distribution of these transfers, as regulated by the budget law, and may re-allocate these transfers according to the president's political priorities, making use of her legislative powers.[1]

[1] Making use of the so-called "extraordinary powers", the executive can re-allocate budget items. What originally was an extraordinary measure, the "extraordinary powers" has been institutionalized in 2006 by president Kirchner.

Figure 2.7. National transfers and mineral royalties by population (left) and by gross geographical product (ggp) per capita (right)



Source: Author's calculations based on Ministry of Finance.

All in all, this section has shown that most provinces are highly and increasingly dependent on fiscal resources coming from the national government. Some also depend on mineral royalties. Moreover, the criterion for this ever-important redistribution of fiscal resources has not been the level of development of benefitting provinces, nor their fiscal needs or level of development. Instead, the criterion is based on their population. Figure 2.7 shows the insignificant relation between transfers and the level of development while demonstrating the important correlation that exists with population size. That is to say, less populated provinces are benefited, regardless their level of development.

C) The Puzzle of Power Decentralization and Political Underdevelopment

Even though federal institutions have redistributed an important amount of political and fiscal resources to less populated provinces, this section demonstrates that many of these provinces show important limitations when it comes to democracy "tout court" as O´Donnell put it (2010: 49). This is theoretically puzzling, given the expectations of modernization theorists (e.g. Lipset 1960) and decentralization scholars (e.g. Diamond 2004) alike. Modernization theory tells us that greater economic resources should lead to social changes that increase the political rights of citizens. Research on federalism demonstrates that smaller

provinces tend to be overrepresented in electoral systems. A citizen in a less-populated Argentine province, in other words, worths more economically and politically: he/she receives more from the State and has a more influential voice in elections. On both counts, this hypothetical citizen should have more "agency," as theorized by O'Donnell. Yet, as I show below, this is not the case. Democracy and development are much more limited in some of these provinces thanmodernization thoerists would expect.

In the first two decades since the recovery of democracy in 1983, the political game has been defined by provincial governments that desperately need fiscal resources from the national government, and a national government that needs support in the highly federalized legislature in order to implement its political agenda. As described in the previous section, the power of governors during that period dramatically increased and sometimes extended beyond their provincial borders. They exert power over the national arena thanks to their influence in Congress. Provincial governors have leverage due to their overrepresentation and their control of local politics.

From this dynamic two major trends can be discerned. The first, which has been treated elsewhere (Calvo and Abal Medina 2001; Gibson and Calvo 2001), is the consolidation of a pattern of governability –in a restricted sense- where presidents can be unusually strong or dangerously weak, depending on the capacity of the party of the executive to form a strong governing coalition. If the President's coalition is regionally diversified it becomes unusually strong. However, when presidents do not have territorial support there is a tendency for legislative gridlock, deepening economic crisis, and possibly institutional crises (Calvo and Abal Medina 2001). This bifurcated outcome has tended to produce competitive and non-cooperative relationships between the different levels of government. The way intergovernmental relationships have developed since 1983 is through cooptation from the executive and the exercise of veto power in a variety of ways from the provinces. Gibson and Calvo have demonstrated that this generally happens in the poorest provinces (Gibson and Calvo 2001). Two Presidents, Raúl Alfonsín and Antonio de la Rúa, who did not control the provinces or have the fiscal resources to coopt them had to resign before the end of their mandates. On the other hand, in the early 1990s under a growing economy, Menem managed to centralize power, discipline governors and even find sufficient support to reform the National Constitution. Similarly, Kirchner and Fernández, with renewed fiscal muscle since 2004, have managed to reshape power dynamics with governors.

The second trend is what has occurred within the provinces themselves in which we see a wide range of experiences regarding democracy – and this is what I will emphasize in the rest of the chapter.

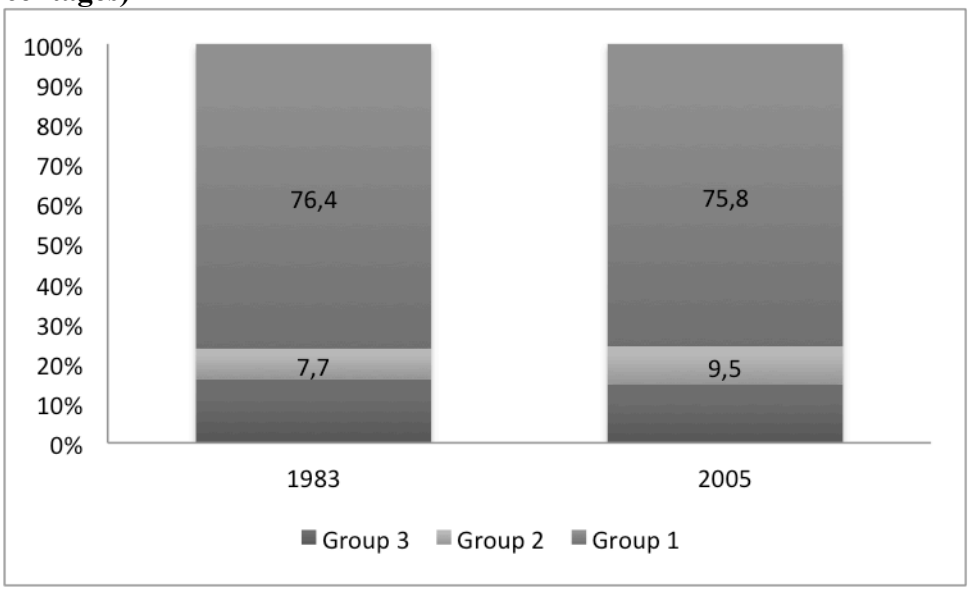
1) Persistence of heterogeneity of political development in provinces

In the last quarter of a century, despite the large quantities of fiscal resources redistributed to less populated provinces, many of these provinces have not been able to catch up to the more developed provinces. In fact, participation in the national economy of the Northern provinces has decreased from 15.9% in 1983 to the 14.7% in 2005 (figure 2.8). The Patagonian provinces have increased their participation by 1.8% in the same period, but that is largely explained by oil-producing Neuquén, whose participation has climbed from 1.6% to 4.4% of the national economy during the same period. Similarly, most provinces that have increased their participation in the national economy are mineral- and oil-exporting countries. As noted above, since 1994, mineral and oil royalties go to provincial coffers. As will be demonstrated in the next chapter, exports of point source resources are not correlated with the productivity of an economy and have a limited impact on the long-term development of societies. And, as I will show here, richer does not always mean more developed. Public employment per 1,000 inhabitants in Patagonia is more than double that of the developed provinces and still 30% higher than in the Northern provinces (see table 2.1).

Northern provinces - Corrientes, Chaco, Formosa, La Rioja, Santiago del Estero, Jujuy, Misiones, San Juan, Entre Ríos, Salta, Tucumán, Catamarca and San Luis (Group 3 in figure 2.2) - have a quarter of the national population, but their share of the economy today is only half of that percentage. This is a heterogeneous group that includes mining and enclave economies like Catamarca, San Juan and Jujuy, and agro-producers like Entre Ríos, Salta and Tucumán. As of 2007, this group has, on average, 20% more poor people than the national level, half of the national gross geographic product *per capita* and half of the national score of the Human Development Index (table 2.1).

The differentials in investment on infrastructure and human capital continue to be very important as well. For example, most Northern provinces invest less in education than Central provinces, despite receiving substantially more than double the fiscal resources *per capita* (Rivas 2010). The benefited provinces also continue to have economic rigidness and structural problems in their productive areas (UNDP 2002).

Figure 2.8. Evolution of the participation in the national economy per regions 1983 – 2005 (in percentages)



Source: Author´s based on Ministry of Finance

Marina Albina Pol (2010) prepared a ranking of the Argentine provinces based on health, education and life expectancy. Systematically the same core group of provinces remains at the bottom of the list. Provinces like Jujuy, Salta, Formosa and Chaco have lower life expectancy than Paraguay (Rivas, 2010: 32). Catamarca, La Rioja, Formosa, and Santiago del Estero have the lowest percentage of high-performing students from public schools (idem).

Table 2.5 . Provincial rankings in health, education and life expectancy 2008

Province	Group	HDIA	Health	Education	Life expectancy
Buenos Aires	1	0,629	10	14	13
Ciudad de Bs As	1	0,867	3	1	3
Córdoba	1	0,685	9	8	11
Mendoza	1	0,58	4	4	8
Santa Fe	1	0,634	7	13	17
Chubut	2	0,515			
La Pampa	2	0,632	15	12	6
Neuquén	2	0,556	2	11	4
Río Negro	2	0,457	8	20	5
Santa Cruz	2	0,603	6	6	1
Tierra del Fuego	2	0,653	1	5	2

Catamarca	3	0,374	19	7	14
Chaco	3	0,309	22	22	16
Corrientes	3	0,227	21	3	20
Entre Ríos	3	0,527	12	19	10
Formosa	3	0,156	23	21	9
Jujuy	3	0,167	17	15	22
La Rioja	3	0,402	18	10	15
Misiones	3	0,339	16	23	12
Salta	3	0,339	20	2	23
San Juan	3	0,444	14	9	18
San Luis	3	0,51	11	18	7
Stgo. del Estero	3	0,419	5	16	19
Tucumán	3	0,4	13	17	21

Source: Author´s based on Pol (2010) and HDIA from UNDP (2002).

When looking at the Human Development Index for 2002, we see that developed provinces range from 0.86 to 0.58 (where 1 is the most developed), while northern provinces range from 0.52 to 0.15. It is important to note that Formosa, Jujuy, Chaco, Misiones and Salta have indicators only comparable to those in Sub-Saharan Africa. The opportunities for citizens from those provinces are severely more constrained than those from provinces like Buenos Aires, Córdoba or Santa Fé.

2) Heteregeneity of political regimes and institutions

The most evident result for the post-1983 period is the increasing heterogeneity of the subnational regimes that exist within Argentina's national borders. Almost two decades ago O' Donnell called attention to the presence of "brown areas", referring to provinces within Argentina that, despite the democratization process that the country was undergoing, lacked effective State bureaucracies and rule of law and where corruption and clientelism prevailed (1993). The growing need to "scale down" (Snyder 2001) in the last decade has become evident in the literature on federalism and subnational politics. Because Argentine provinces are in charge of issuing their own constitutions, laws, police, judiciary power and electoral systems, there is considerable room for variation on different levels of functioning of subnational regimes. The considerable autonomy of provincial politics granted by federal

institutions and funded by fiscal transfers, allows the coexistence of national democratic regimes with other, less democratic subnational regimes.

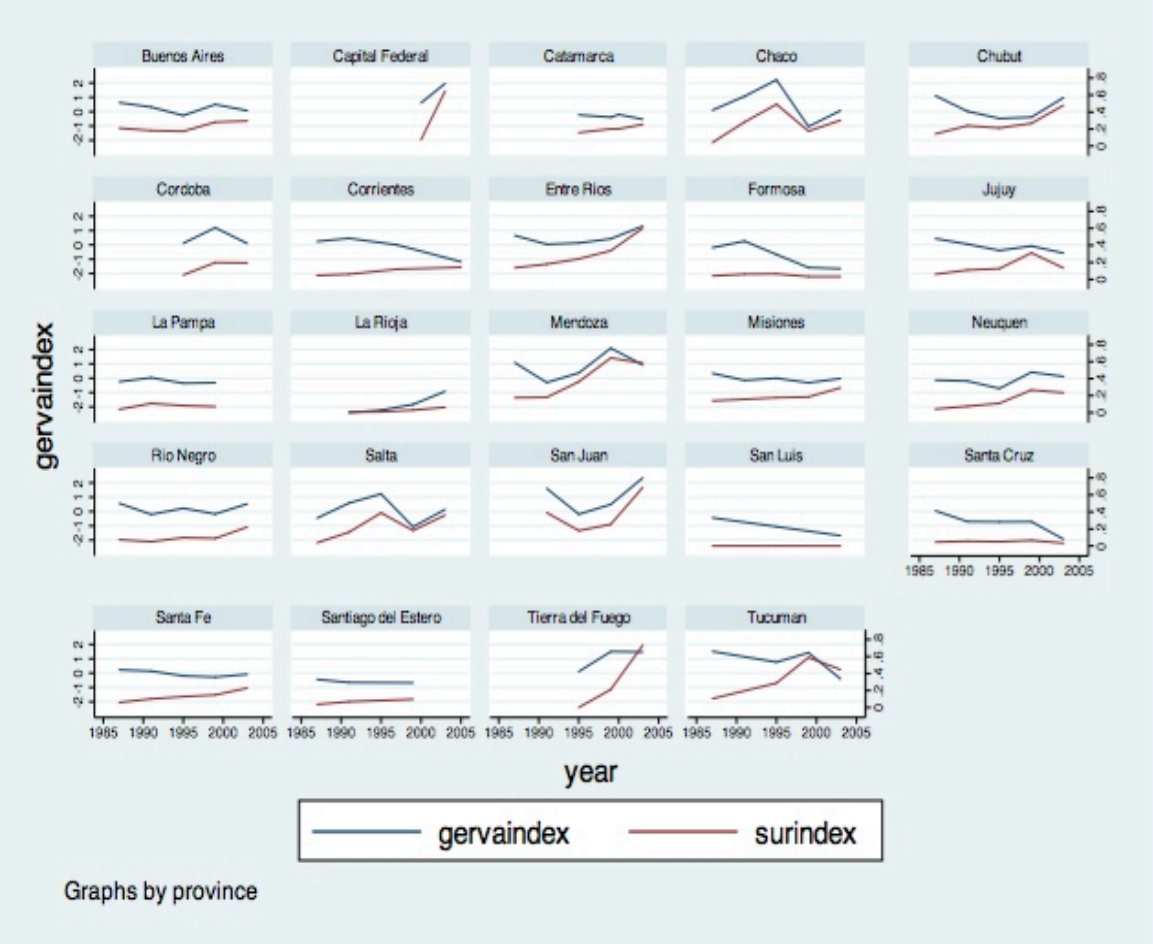
Every scholar calls these regimes something different. Gibson calls them "authoritarian" (2004), while others like Gervasoni use terms like "hybrid" (2010a), "undemomocratic" (Giraudy 2010), "neopatrimonial" (Trocello 2008) and "closed games" (Behrend 2007, 2011). Each of these emphasizes different aspects of the same phenomenon: the failures of Argentina´s subnational democratic regimes. In the last decade or so, scholars have analyzed divergent subnational regimes in Argentina by focusing on different, specific provinces. Trocello (2008) examines San Luis; Gibson (2005) and Dargoltz and Gerez (2006) look at Santiago del Estero; Behrend (2008), Corrientes and San Luis; Chavez (2003) compares San Luis and Mendoza, and Zicodillo and Montenegro (1991) look at Catamarca.

Despite the proliferation of scholarship, limited advances have been made in terms of measurement. One important contribution has been Gervasoni´s work (2010b and 2011), who builds two cross-sectional indices of subnational democracy for Argentina. One of them is an index that includes electoral and liberal dimensions of democracy. Even though it only accounts for the 2003-2007 period and is based on the un-systematic perceptions of experts, it is the most important contribution to the measurement of subnational democracy in the field[1]. In his index, San Luis, Santiago del Estero, Formosa, Santa Cruz and Salta have the highest limitations to exercising citizen rights. Expanding the period under consideration, he also built an "objective" index – the subnational democracy index - that measures executive and legislative levels of contestation, succession control, legislative control by the incumbent and the term limits for the 1987-2007 period (Gervasoni 2010b: 316-317). Weakly performing countries are, again, Formosa, La Rioja, San Luis, Santa Cruz and Santiago del Estero.

Agustina Giraudy (2010) built an additional index comparing subnational regimes in Mexico and Argentina. Her measurement is based on a Schumpeterian procedural conceptualization of democracy with a longer measurement range (1983-2006). As with Gervasoni´s index, San Luis, Santa Cruz, Santiago del Estero, Formosa and La Rioja rank at the bottom of the list. Not only are they the least democratic, but their scores remain stably low for the entire 1983-2006 period. On the other side, Mendoza, the City of Buenos Aires, Chubut and Entre Ríos have followed a positive democratization trajectory over time, and other provinces, like Chaco, Jujuy and Salta, have done so more timidly.

[1] The Survey of Experts on Provincial Politics (SEPP) was built from 155 experts in 24 provinces (Gervasoni 2011).

Figure 2.9. Comparison of Gervasoni´s and Giraudy´s indexes of democracy.



Source: Author´s based on Gervasoni (2010b) and Giraudy (2010).

Despite the fact that both indexes measure somewhat different indicators, both attempt to capture the same phenomenon, which is the level of democracy of subnational regimes. Both show problems in several subnational regimes. It is important to note that when compared, both indexes are highly correlated at 0.6723 with a significance of 0.001.

The provincial heterogeneity of experiences applies not only to the democratic regime but to other political institutions as well. CIPPEC carried out a study (Straface and Page 2010) assessing the institutional quality of Argentina´s provinces with objective and subjective (i.e. expert-based) indicators. Regarding accountability – measured as the governor's adherence to the rule of law and a citizen's right to sue the State – Santa Cruz, Catamarca and Neuquén ranked at the bottom. When measuring access to public information – that is, the existence and effective use of regulation – Santa Cruz, Formosa, Tucumán, San Luis and La Pampa

were the worst. And regarding norms for access to public positions and for public purchases and contracts, Formosa, Jujuy, San Luis, Neuquén and Tierra del Fuego were at the bottom of the list.

Even though most provinces effectively grant electoral rights to citizens, there are provinces that show important limitations to the practice of citizenship and political rights. Macondo[1]-style scandals linked to provincial judiciary powers occur regularly. In San Luis in the 1990s the provincial government attacked the Supreme Court daily through the main media sources, forcing the judges' resignation. Similarly, there is evidence that, to keep judges loyal to the government, they had to present a signed resignation letter at the time of taking up their position (Trocello 2008). Similar scandals have occurred in Neuquén (2006), Tucumán (2006), and Catamarca (1990), to mention just a few. All of these highlight the lack of autonomy of the judiciary branch. Importantly, these institutional limitations always favor the ruling incumbent.

D) The rising power of Governors

All in all, the decentralization of fiscal and political resources has resulted in the centralization of power in the hands of governors. The enormous political autonomy granted to provinces via constitutional and electoral rules has benefited the less-populated provinces and especially their governors. While the national arena – with limits and setbacks – was making it ways toward democratization, the cornerstone of some provincial political systems became governors, who were essentially feudal in their governing behavior.

Table 2.6. Reforms of Provincial Constitutions (1983-2011)

0	**1**	**2**	**+ 2**
Santa Fe (1962)	Entre Ríos (2008)	Formosa (1991/2003)	Salta (1986/1998/2003)
CABA (1996)	Buenos Aires (1994)	Santa Cruz (1994/1998)	Santiago del Estero (1997/2002/2005)
Tierra del Fuego (1991)	Chaco (1994)	Córdoba (1987/2001)	La Rioja (1986/1987/1998/2002/2008)
	Chubut (1994)	Corrientes (1993/2007)	

[1] I refer to García Márquez "A hundred years of solitude".

	Río Negro (1988)	La Pampa (1994/1998)	
	Catamarca (1988)	Neuquén (1994/2006)	
	Jujuy (1986)	San Juan (1986/2011)	
	Mendoza (1997)	San Luis (1987/2006)	
	Misiones (1988)	Tucumán (1991/2006)	

Source: Liendo (2011)
Note: Mendoza has only reformed an article related to the Consejo de la Magistratura, the rest of its Charter is from 1912.

There are important institutional sources of power that have helped the provinces gain autonomy from the national government. Provinces dictate their own constitutions, including electoral rules. Governors, have used this autonomy to concentrate power in their hands. Of 24 provinces, 22 have reformed their constitution between 1985 and 1998, introducing electoral changes such as gerrymandering or the creation of a second legislative chamber. Between 1983 and 2011 provinces carried out 40 Constitutional reforms (see table 2.6). Twenty-nine of these have been related to the reelection of Governors. In 1983 there were no reelections allowed at the provincial level. By 2007 only three constitutions continued to prohibit re-election (Almaraz 2010). Research conducted by Ernesto Calvo demonstrates that most of those reforms carried out between 1983 and 1999 have been designed to strengthen the electoral coalition of the reforming governor and to impede fragmentation of the party system (Calvo, Szwarcberg et al. 2001: 71). That is to say, politics at the provincial level exacerbate the characteristics of the electoral system at the national level. The main tools have been the implementation of the majority electoral system and smaller electoral districts. These measures have created unified governments at the local level and legislators beholden to governors. Meantime the effective number of parties has tended to decrease. As an example, in the province of San Luis the governing coalition obtained 60% of the deputies with 49% of votes in 1985. After the constitutional reform in 1987, it obtained 65% of the seats with only 44% of the votes. In that reform an upper Chamber was created, where the governing party usually wins all nine seats – 100% of representation. Since that Chamber was created in 1987 only two provincial Senators has been of a different political party. This electoral dominance is the reason why Governors enjoy more stability and continuity than presidents and

legislators. Family names like the Rodriguez Saá in San Luis, the Juárez in Santiago del Estero, the Saadi in Catamarca, or the Romero in Salta, have managed to enjoy practically unlimited re-election for themselves and their factions by pulling the strings of local politics without leaving room for any real opportunity for change (see table 2.7).

When comparing groups of provinces, we see that the developed provinces have, on average, changed their ruling party twice during the 1983-2011 period and have changed governors five times (see table 2.7). The Patagonian provinces have only changed party rule once on average and have had four different governors since 1983. The Northern region shows the same alternation ratio as that of Patagonia.

Table 2.7. Provincial governors and parties (1983-2011)

	Province	1983-1987	1987-1991	1991-1995	1995-1999	1999-2003	2003-2007	2007-2011
1	**Buenos Aires**	A. Armendáriz	A. Cafiero	E. Duhalde	E. Duhalde	C, Ruckauf	F. Solá	D. Scioli
1	**CABA**				D. De La Rúa	A. Ibarra	A. Ibarra (1)	M. Macri
1	**Córdoba**	E. Angeloz	E. Angeloz	E. Angeloz	P. Mestre	J. De la Sota	J. De la Sota	J. Schiaretti
1	**Mendoza**	S. Llaver	J. Bordón	R. Gabrielli	A. Lafalla	R. Iglesias	J. Cobos	C. Jaque
1	**Santa Fé**	J. María Vernet	V. Reviglio	C. Reutemann	J. Obeid	C. Reutemann	C. Reutemann	H. Binner
2	**Chubut**	A. Viglione	N. Perl	C. Maestro	C. Maestro	J. Lizurume	M. Das Neves	M. Das Neves
2	**La Pampa**	R. Marín	N. Ahuad	R. Marín	R. Marín	R. Marín	C. Verna	C. Jorge
2	**Neuquén**	F. Sapag	P. Salvatori	J. Sobisch	F. Sapag	J. Sobisch	J. Sobisch	J. Sapag
2	**Río Negro**	O. Alvarez	H. Massaccessi	H. Massaccessi	P. Verani	P. Verani	M. Saíz	M. Saíz
2	**Santa Cruz**	A. Puricelli	R. Del Val	N. Kirchner	N. Kirchner	N. Kirchner	S. Acevedo (8)	D. Peralta
2	**Tierra del Fuego**			J. Estabillo	J. Estabillo	C. Manfredatti	J. Colazo (11)	F. Ríos
3	**Catamarca**	F. Saadi	V. Saadi (2)	A. Castillo	A. Castillo	D. Castillo	E. Brizuela	E. Brizuela
3	**Corrientes**	J. Romero Feris	R. Leconte	R. Romero Feris (3)	P. Poccard (4)	R. Colombi (5)	A. Colombi	R. Colombi
3	**Chaco**	F. Tenev	D. Baroni	R. Tanguinas	A. Rozas	A. Rozas	P. Nikisch	J. Capitanich
3	**Entre Ríos**	S. Montiel	J. Busti	M. Moine	J. Busti	S. Montiel	J. Busti	J. Irribari
3	**Formosa**	F. Bogado	V. Joga	V. Joga	G. Infrán	G. Infrán	G. Infrán	G. Infrán
3	**Jujuy**	C. Snopek	R. De Aparici	R. Dominguez	G. Snopek	W. Fellner	W. Fellner	W. Barrionuevo

3	**La Rioja**	C. Menem	C. Menem	R. Arnaudo	A. Maza	A. Maza	A. Maza	L. Beder Herrera (6)
3	**Misiones**	R. Barrios	J. Humada	R. Puerta	R. Puerta	C. Rovira	C. Rovira	M. Closs
3	**Salta**	R. Romero	H. Cornejo	R. Ulloa	J.C. Romero	J.C. Romero	J. C. Romero	J. M. Urtubey
3	**San Juan**	I. Bravo	Gómez Centurión	J. Escobar	J. Escobar	A. Avelín (7)	J. Gioja	J. Gioja
3	**San Luis**	A. Rodriguez Sáa	A. Rodriguez Sáa	A. Rodriguez Sáa	A. Rodriguez Sáa	A. Rodriguez Sáa	Al. Rodriguez Sáa	Al. Rodriguez Sáa
3	**Sgo. del Estero**	C. Juarez	C. Iturbe	C. Mujica (9)	C. Juarez	C. Juarez	G. Zamora (10)	G. Zamora
3	**Tucumán**	F. Riera	J. Domato (12)	R. Ortega	A. Busti	J. Miranda	J. Alperovich	J. Alperovich

Note: Peronist Party affiliates are in dark grey; UCR and its allies are in light gray and all other provincial parties are in white.
Source: Almaraz, et al , 2010. (1) Impeached in 2005, replaced by J. Telerman; (2) Died in 1988, replaced by his son R. Saadi, federal intervention in 1991 (3) 1992-1993: Federal Intervention, served as governor 1993-1997 (4) Served as governor 1997-1999, Federal intervention 1999-2001; (5) Served as governor 2001-2005; (6) Acting for suspende Maza to 11 December (7) Impeached in 2002, replaced by U. Acosta; (8) Resigned n 2006, replaced by C. Sancho; (9) Federal Intervention 1993-1995; (10) Elected in 2005, adter federal intervention in 2004 replaced M. Aragonés Juarez; (11) Impeached in 2005 and replaced by H. Coccaro; (12) Federal Intervention in 1991.

All these factors have helped to turn governors into the most important political actors in the less-populated provinces. Moreover, the success within their own provincial boundaries allows them to enjoy a privileged position in the national arena. From 1983 to 2011, three out of five Presidents have been provincial governors (see Table 2.8). This figure takes into account Alfonsín (1983-89), who came after a military regime. Compared to the 1853-1983 period in which only four out of 18 Presidents were previously Governors, this number is impressive (Dalla Vía, 2010).

Table 2.8. Elected presidents and runner-up from 1983 to 2011.

Election	Elected President	Runner-up
1983	Alfonsín	Luder
1989	Menem (Governor La Rioja)	Angeloz (Governor Córdoba)
1995	Menem (Governor La Rioja)	Bordón (Governor Mendoza)
1999	De la Rúa (Chief Government Buenos Aires)	Duhalde (Governor Buenos Aires)
2003	Kirchner (Governor Santa Cruz)	Menem (Governor La Rioja)
2007	Fernandez de Kirchner	Elisa Carrió
2011	Fernandez de Kirchner	Hermes Binner (Governor of Santa Fé)

Source: Author´s based on Ministry of interior

E) Conclusion

The uneven development of the different Argentine regions and the political structure within each province are crucial factors that explain governance in Argentina since independence. The interplay between local politics, federal institutions and economic development constantly shapes national governance and, at the same time, re-defines political structure within each province.

This chapter has shown three important sources of power that favor less populated provinces. Provincial governments issue their own constitutions and have their own justice system, police and so forth. Additionally, the electoral rules allow for an increased federalization of the political game. Finally, the enormous fiscal transfers that less populated provinces enjoy increase their power.

All of these sources have increased the autonomy of provincial politics, but instead of pluralizing the political game, as Lipset would predict (1959), they have done the opposite. They have concentrated power in the hands of governors, turning them into the most important political figures in the country after the President. Cases such as San Luis, Santa Cruz, Formosa, and Santiago del Estero are emblematic.

Some studies suggest that the principle reason for the extraordinary gubernatorial powers is that political and economic benefits go to "traditional" provinces ruled by long-standing families, and thus the decentralization of resources reinforces these 'feudal' leaders (Macor and Tcach 2003; Behrend 2008). But this argument does not explain the concentration of power by individuals in newer provinces like Santa Cruz or Neuquén, where the population is relatively new.

We could think that the phenomenon happens in "poorer" provinces where the provincial State is the center of the economy and the population is hostage to social plans or public employment, and that is would be less likely to happen in wealthier provinces. However, evidence seems to falsify Lipset´s modernization theory for the Argentinean case, not only because larger sources of power haven´t provided higher levels of "plurality" within provinces, but also because there are provinces that are amongst the wealthiest in the country –Santa Cruz and Neuquén – where citizens are far from fully enjoying their political rights.

Evidence also shows that "undemocratic" or "illiberal" practices are not circumscribed to one political party. But the Rodriguez Saá in San Luis, Colombi in Corrientes, Zamora in

Santiago del Estero or Sapag in Neuquén show that the phenomenon goes beyond party membership.

Because, as André Siegfried (1995) has warned us, there is no unique explanations, no single key to open all locks, and there is no one argument that fully explains the patterns of political development, it is crucial to look for causal variables and to understand the mechanisms that help explain differential outcomes across provinces. This will allow us the capacity to better understand the past, and it will also shed light on policy reforms that could effectively bring greater meaning to democracy for citizens from these less-populated provinces.

The next Chapter will explore the causal mechanisms that connect the decentralization forces of Argentina´s federalism to the stagnating democratization processes in some provinces.

III Subnational rentier States and democracy: looking for mechanisms

> "*The spirit of people, its cultural level, its social structure, the deeds its policy may prepare – all this and more is written in its fiscal history, stripped of all phrases. He who knows how to listen to its message here discerns the thunder of world history more than anywhere else"*
>
> *- Joseph A. Schumpeter (1954: 7)*

Introduction

Chapter 2 has shown the puzzle of a group of provinces that have not been able to follow the path of democratization like the rest of the country despite being enormously favored by political and economic resources distributed through federal institutions. This puzzle is an invitation to seek a better understanding of the political economy of provinces in order to grasp in depth the role of federal institutions in the divergent political and economic development of provinces.

In looking for explanations, I examined a corpus of literature dedicated to the paradoxical situation of natural resource exporting countries – particularly point source natural resources such as oil and minerals. Led by scholars who specialize in Middle East studies, social scientists increasingly have concentrated their efforts in trying to understand the undesired effects of exporting point source natural resources. Drawing from their postulates, my argument is that the redistributive structure of fiscal resources that Argentina´s federalism entails, instead of being a source of development as intended, has fostered rentier subnational States. Thus, it must be expected that they will tend to suffer from similar effects as oil exporting countries.

In making this argument, I stand on the shoulders of Carlos Gervasoni (2011), whose doctoral dissertation has accurately demonstrated the connection between fiscal rentierism and subnational illiberal regimes in Argentina. I aim, however, to explore this phenomenon in further detail. This chapter makes one contribution toward that goal: to disentangle the linking mechanisms through which the "curse" operates at the subnational level in Argentina. I will

approach the phenomenon doing case study analysis. This will allow me to advance in two directions.

First, in identifying the mechanisms and learning how they operate, we will understand in more detail how subnational fiscal rentierism works in practice. Large N-analysis assumes certain relationships. We will address those relationships head on. This is important because, as I show below, rentierism interacts with structural factors like geography, institutions and culture. These interactions are difficult to see with large-N analyses, not to mention the quality of comparative data of Argentine provinces. In this chapter I identify the mechanisms, and in Chapter 4 I show how they operate in the case of San Luis.

The second contribution, which arises from the first, will be to learn from provinces that have managed to escape the "curse". Just as there are a few rentier countries that have been remarkably successful in the last decades, some provinces, like Tierra del Fuego, Chubut and, to a lesser extent, Río Negro, have experienced more sustainable development and more competitive politics than other rentier provinces. Instead of treating those cases as outliers, I will examine one case of curse avoidance – that of Chubut – to uncover omitted variables that could bring more light to the phenomenon. Studying the case of Chubut has enlighten another explanatory variable – geographical competition of spaces - that is examined in detail in Chapter 5.

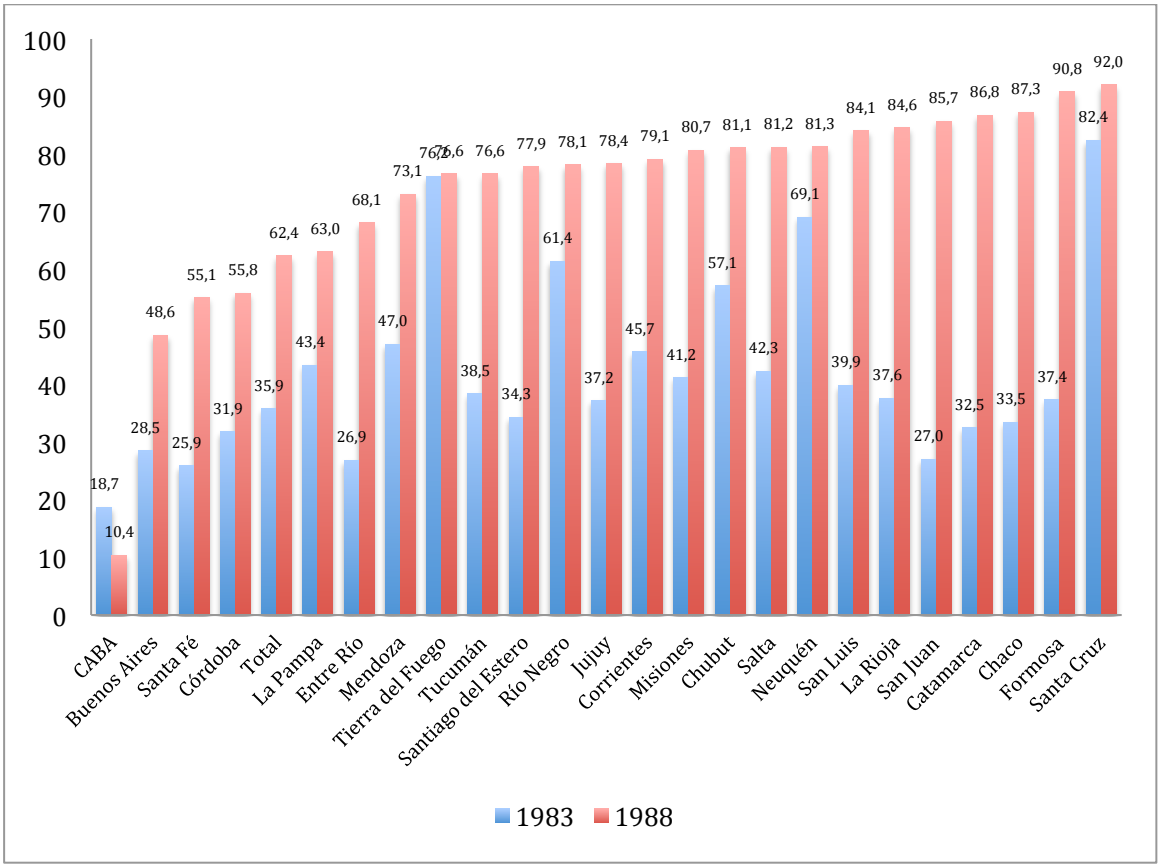
This chapter continues as follows. First I review the literature and evaluate the experiences of point source natural resource exporting countries. Using this literature, I disentangle the mechanisms through which rentierism operates at the country level. Next I work deductively to identify those mechanisms that should apply to the subnational level and, consequently, to fiscal federalism in Argentina. I demonstrate that three mechanisms work to redistribute power resources within provinces. Fiscal federalism: (1) weakens social actors, (2) hinders the autonomy and efficiency of the State and (3) promotes the political use of public funds. All three mechanisms help to turn provincial Governors into the only player in town.

A) Explanation of the puzzle: fiscal dependence

In Argentina, as shown in Chapter 2, a large group of provinces has been unable to catch up with the rest of the country in terms of political and economic development, despite fiscal and political resource advantages. This puzzle is an invitation to better understand the

political economy of provinces in order to grasp the role of federal institutions of the divergent development of these provinces.

Figure 3.1 - Fiscal dependence – 1983 and 1988 (in percentages)



Source: Own calculations based on Ministry of Finance.

Note: the calculation is (Current and Capital transfers + mineral royalties) / total provincial fiscal revenues.

Something that all poor performing provinces identified in Chapter 2 have in common is that they heavily "depend" upon fiscal revenues that they do not directly collect. This was particularly important during the 1980s. After half a century of successive *coups d'état*, which made Argentina the region record-holder on the matter[1], governors regained the political leverage to acquire more funds – and even a very favorable tax-sharing agreement – from an increasingly weak President Raúl Alfonsín. By the end of his term, almost all of the non-central provinces – except Entre Ríos and La Pampa - depended for more than three-quarters

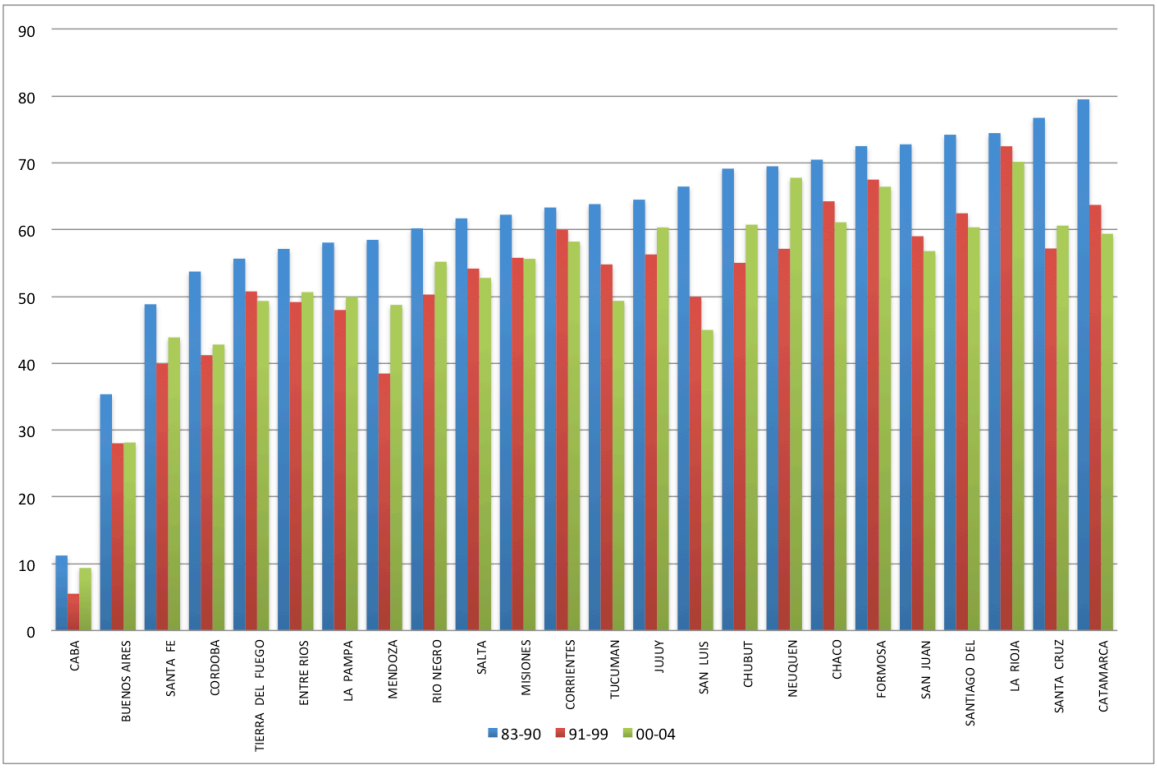
[1] According to Przeworski, Álvarez, Limongi and Cheibub (2000) Argentina holds the world record in the 20th Century with 8 regime changes from democracy to dictatorship. Ghana and Pakistan had 4, Honduras 5 and Guatemala and Perú 6. Their dataset accounts from 1950 to 1990.

of their fiscal revenues on fiscal transfers and mineral royalties (See Figure 3.1). For Formosa and Santa Cruz these funds represented more than 90% of their revenue, and, for San Luis and Chubut, the cases that I treat individually in the next two Chapters, they represented more than an 80%.

It is important to clarify the difference between abundance and dependence. It is tempting to include all countries – or provinces in our case - that receive windfall revenues in the same sack. In the case of oil and mineral exporting countries, the drawback of considering only abundance – that is, the size and value of production or reserves – is, of course, that they do not reveal the actual economic impact of exporting natural resources. A country like the United States, for instance, has large deposits of all kinds of natural resources. It is the second main oil and gas producer in the world (UNCTAD 2007). However, these resources make up only a relatively small share of its overall economic activity and of its exports. This is part of the reason why a resource curse is very unlikely to occur there. Relating natural wealth to some measure of economic activity is useful to put the role of natural resources into perspective. Not every country has the same scope for diversification, and policy makers often have only limited room to create incentives for complementary industries. Tiny Kuwait for instance owns about one tenth of the world's proven oil reserves. Its absolute and comparative advantage in oil production is so significant that diverting resources from it would probably do more harm than good. It thus has much less of a choice in designing economy policy than, say, Belgium. Similarly, Canada is almost as oil-rich as Saudi Arabia but depends much less on it (WTO 2008).

In their frequently cited study, Sachs and Warner (1995) used natural resource exports as a share of total exports and as a share of national income to measure dependence. This allowed them to distinguish between countries like Denmark and Argentina on the one hand and Chad, Equatorial Guinea and Brunei on the other. All of them have about the same amount of oil but depend on it to different degrees. Therefore, it is important to draw the line about whether a country is abundant in or dependent upon the revenues coming from a particular source. Michael Ross (2001) uses various measures for measuring country dependence on exogenous rents. One is the percentage of government revenue collected through taxes of goods, services, consumption, and capital gains. Rentier States are those in which fiscal revenues come, to a large extent, from external fiscal sources.

Figure 3.2 - Average fiscal dependence per decade (in percentages)



Source: Own calculations based on Ministry of Finance.

Note: the calculation is (Current and Capital transfers + mineral royalties) / total provincial fiscal revenues.

A similar measure can be used for subnational fiscal dependence. In absolute figures the City of Buenos Aires and the provinces of Buenos Aires, Córdoba, Santa Fé, Mendoza and Entre Ríos receive almost half of all fiscal resources (42% in 1988) from fiscal transfers. The province of Buenos Aires alone received seven times more fiscal revenues than Santa Cruz for the same period. Yet, the share of fiscal revenues transferred by the Tax Sharing Scheme for the province of Buenos Aires was less than half, whereas in Santa Cruz this share represented 9 out of 10 Australes[1].

Another way to show the uneven dependence of provinces is by examining total net fiscal transfers[2], which includes the following in its calculation:

[1] Argentina´s national currency from 1985 to 1992.

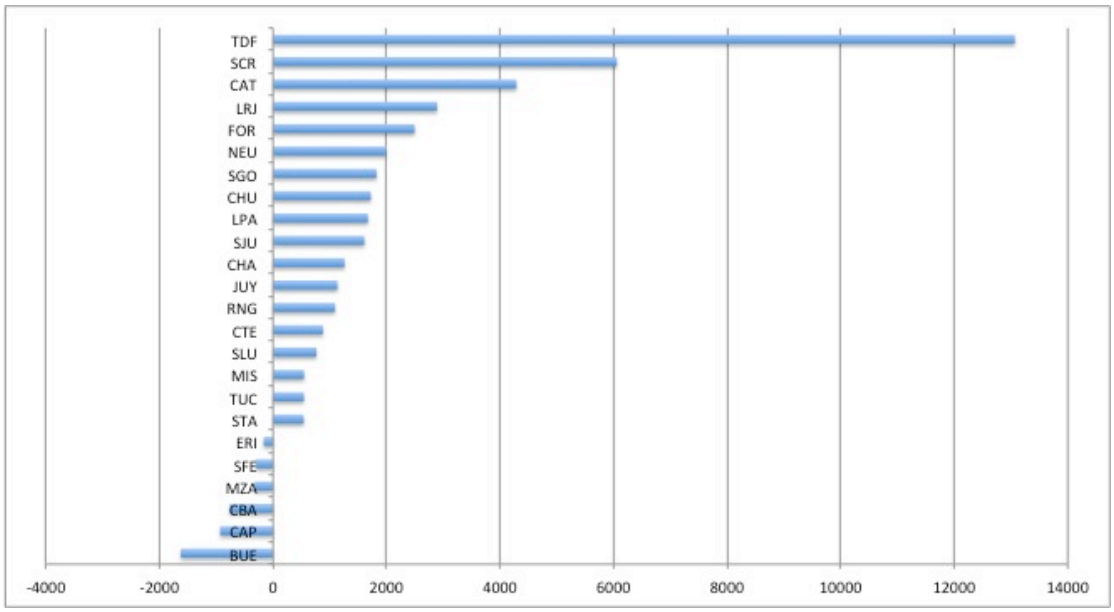
[2] This calculation comes from the Economic Commission of the Professional Council of Economists from Córdoba (CPCEBA). I took it from Capello el al. (2008). Regrettably this datasets only exists for the 2001-2006 period.

a. Net fiscal transfers from the Co-Participation Law: the taxes collected by the national government in the provincial territory that are then deducted from the fiscal transfers that each province receives;
b. Retirement funds; and
c. Own taxes from the national government.

I also added mineral royalties (*per capita*), which, under Argentina's fiscal federalism, directly accrue to the provinces of origin. I include these royalties because their revenues, as will be explained in the next section, are not related to the productivity of the provinces and thus represent windfall revenues.

Figure 3.3 shows that the City of Buenos Aires and the Provinces of Buenos Aires, Córdoba, Mendoza, Santa Fé and Entre Ríos are net fiscal contributors, while the rest are beneficiaries. The cases of Catamarca, Tierra del Fuego and Santa Cruz are particularly outstanding, in that they receive 2,000 pesos *per capita* more than what they contribute in taxes.

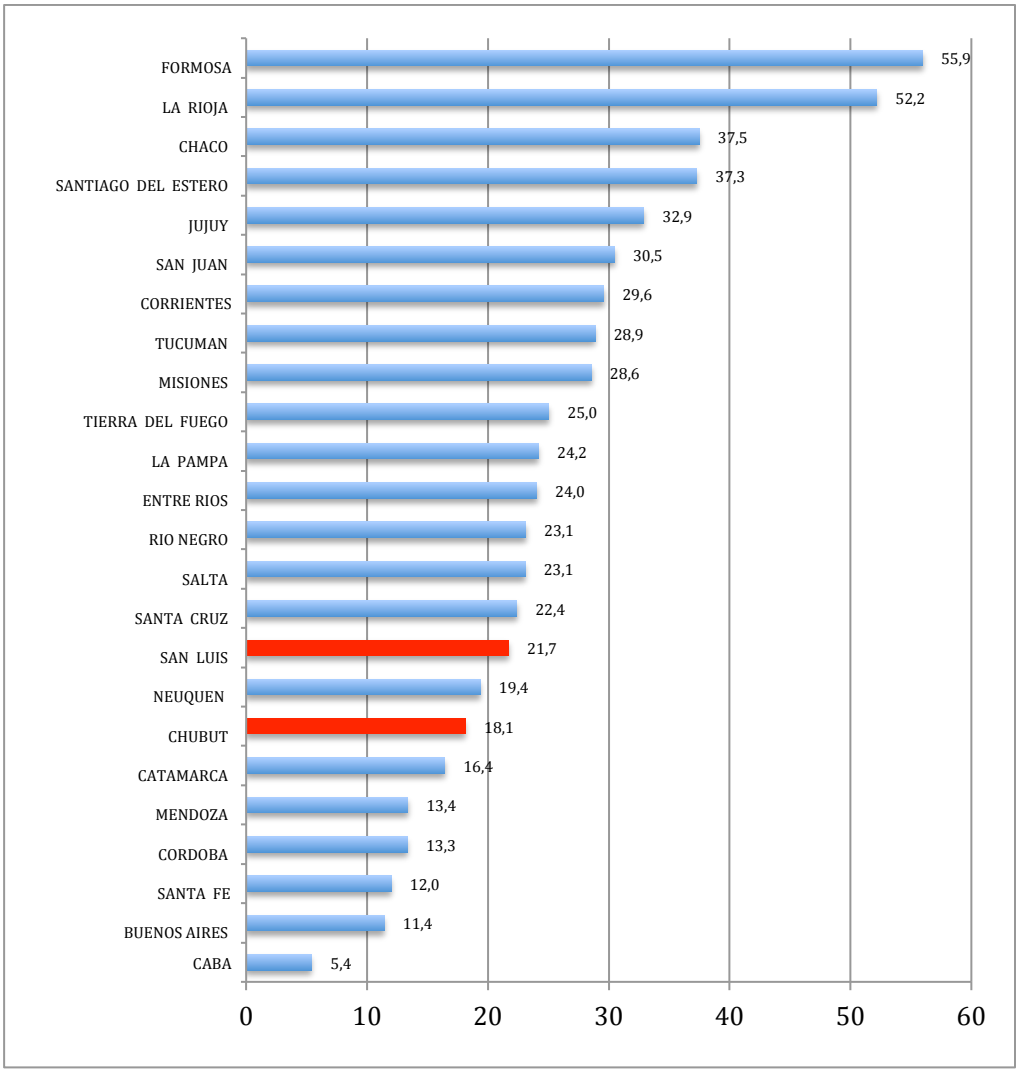
Figure 3.3 - Net fiscal transfers *per capita* 2005. (in pesos)



Source: Economic Commission of the Consejo Profesional de Ciencias Económicas de Córdoba (http://www.cpcecba.org.ar/). Mineral royalties from Ministry of Finance (2005). Population from INDEC 2001.

Another measure that Ross proposes is to examine the share of the economy accounted for by government activity (2001). There is no clear-cut agreement about the level of dependency that "dependent" countries have. Economically "dependent" countries are both resource rich and economically reliant upon revenues coming from the exportation of those resources. Dependent countries are those where natural resource exports represent more than 20% of their gross domestic product.

Figure 3.4 - Fiscal rentierism (transfers + royalties /GGP) - 2005



Source: Author´s calculations based on Ministry of Finance and IMF.

In the case of the Argentine provinces, we take into account the fiscal transfers coming from the national government and add the mineral royalties. In core provinces, these windfall revenues represent less than 15% of the economy, while for the remaining provinces the average is 25%, peaking in La Rioja (52.2%) and in Formosa (55.9%). These provinces are as

dependent – or more - from "external" resources as the most oil dependent countries. San Luis and Chubut, for example, have the same level of dependence as Venezuela, at 18.9% of the economy (Ross 2001: 326), and La Rioja and Santa Cruz are at the level of Kuwait or Nigeria, at 45% (Ross *idem*).

Fiscally dependent provinces are as dependent as the most oil dependent countries, be it as a share of State fiscal revenues or as a share of their economy.

1) The workings of "The paradox of plenty"

Time and again throughout history hope of "El Dorado" dream has been ignited. Sadly, for many countries that dream has not been realized. Bolivia, Ecuador, Honduras, Gabon, the Democratic Republic of Congo, Nigeria, Zimbabwe, Cameroon, Libya, Papua New Guinea, Saudi Arabia, Iraq, the United Arab Emirates, Venezuela, Kuwait, Syria, Iran and Qatar have all suffered stagnating or even declining standards of living in the last three decades. Increasingly social scientists have sought to understand why exporting natural resources produces such undesired outcomes. In examining the so-called resource "curse", this multidisciplinary literature notes that countries that are economically "dependent" on natural resource exports not only tend to grow less (Warner and Sachs 1995). They also tend to be more authoritarian (Ross, 2001; Acemoglu, Robinson and Verdier, 2004), more corrupt (Sala-i-Martin and Subramanian, 2003; Collier and Gunning, 1999), have weaker institutions (Auty, 2001; Tornell and Lane, 1999) and even suffer more civil wars (Ross, 2004; Collier and Hoeffler, 1998) than their non-dependent counterparts. Moreover, all of this has occurred against a backdrop of rising standards of living in the rest of the world.

One of the things these countries have in common is that they are extraordinarily rich in fossil fuels, minerals and metals and have experienced windfall revenues during the past decades. This "paradox of plenty" – as Terry Lynn Karl called it - has left social scientists perplexed. Why does a country's natural resource wealth undermine its long-term growth prospects? Why can it make politics unstable and violent? And, if it does, how? Even if all revenues derived from exporting natural capital would be squandered, why are resource-rich countries not at least as well-off as their resource poor counterparts?

This paradox is not a new preoccupation. Natural resources have long been perceived to play a central role in the development or impoverishment of peoples. In the 16th century, world trade dramatically increased with the emergence of Atlantic seafaring. This was the

time when armadas of wooden ships seeking gold, silver and spices embarked from Western Europe to the New World, Africa and Asia. These episodes, which brought splendor to a few and war, oppression and disease to many, are well documented. The boom of silver and gold extracted from America was the most spectacular single act of capital accumulation to date and changed the nature of world economy, allowing the emergence of mercantilism in Europe (Karl, 1997: 32-43). While native populations were dismembered and subjected, the country appropriating most of those resources, the Kingdom of Spain, became the superpower of the 16th century. It is interesting to note that, a century later, even before the influx of metals declined, Spain demonstrated its inability to manage that wealth, and found itself on the verge of economic and political collapse.

The colonial chains were cast off in the 19th century for most of Latin America and in the middle of the 20th century for Africa and parts of Asia. Many of these poor but newly sovereign peoples hoped that selling their natural resources could raise national income and even cut corners on the path to national prosperity. This conventional wisdom was supported by mainstream orthodox economists who argued, along the lines of comparative advantage theory, that economic specialization would produce efficiency in global trade and thereby maximize national income in the trading countries (Viner 1952; Lewis 1955). Building upon the experience of Australia, Canada and Argentina in the second half of the 19th century, and the boom of commodity prices during WWII, natural resources were seen as a boon to economic development because poor countries with natural wealth could most easily obtain foreign capital by exporting their raw materials. Developing countries could thus finance public goods conducive to economic development such as infrastructure projects, education and health sectors. Rostow (1961) went further in this direction, pointing out that in exporting their natural resources, poor countries would even emulate the rapid, natural resource-fuelled industrialization that Europe and North America have experienced before.

That view was challenged in the 1950s by a small group of economists, led by Raul Prebisch and Hans Singer. Drawing on the disappointing performance of Latin America under the highly volatile and changing international context of the first quarter of the 20th century, these economists pointed out that countries dependent on exports of natural resources held serious disadvantages. An international division of labor where poor countries provide basic commodities and raw materials while rich countries produce and export industrial and high-tech products would exacerbate global income inequalities. The Prebisch-Singer hypothesis

postulated that the terms of trade of commodities relative to manufactured goods would decline over time, because demand for manufactured goods responds more strongly to changes in income than demand for primary commodities. So as income rises over time, countries that specialize in producing manufactured goods would gain relatively more than those with primary commodities. Under this scheme, the best way to combat the declining terms of trade was through active policies of industrialization. The relative failure of Latin American import substitution industrialization and successful export oriented strategies in South East Asia gave renewed impetus to orthodox postulates in the 1980s.

The development problems of resource-rich, and especially oil-rich, countries came to the forefront of international attention again with the dramatic rise of oil prices in the 1970s – the only comparable boom was with the aforementioned discovery of gold and silver in the Americas four centuries before – and its subsequent fall in the 1980s. In 1993 Richard Auty developed the concept of "resource curse" to capture the new conventional wisdom by which countries rich in natural resources do not succeed in transforming them into economic and political development. The curse explained how oil-rich Venezuela, which had the highest GDP *per capita* in Latin America in 1970 and a stable democracy within a sea of epidemic military dictatorships, at the beginning of the new millennium had a lower *per capita* income, a large, impoverished population and a political regime that was highly unstable. Thus, once again the conventional wisdom changed after the late 1980s. Natural resource-exporting countries were perceived to be cursed rather than blessed.

The idea that economic dependence on natural resources is bad for development is now widely accepted by scholars and by public officials at international organizations, governments and think tanks. One key development in the literature over the last two decades has been to test hypotheses using statistical methods. Hundreds of cross-regional studies have emerged that test the link between resource abundance and economic development. The first and most influential cross-country examination of whether the economies of resource-rich developing countries perform worse on average than those of their resource-poor peers was carried out by Jeffrey Sachs and Andrew Warner in 1995. They classified 97 developing countries according to their relative resource-abundance in 1971 and then looked at their growth rates over the subsequent 18 years[1]. After controlling for other factors that would also

[1] Sachs and Warner (1995) used four measures of a country's resource intensity, all in 1971: (1) the ratio of primary exports to GDP, (2) the share of mineral production in GDP, (3) the ratio of primary exports to total exports, and (4) the logarithm of land area per person.

likely influence growth rates (i.e. initial *per capita* income, trade policy, government efficiency, investment rates), Sachs and Warner find that an increment in one standard deviation in a country's share of resource exports in GDP is associated with a lower annual growth rate of *per capita* income of almost one percentage point. Even when excluding Africa from their calculations[1] the authors found the same result: resource-abundant countries in Latin America, Southeast Asia, the Caucasus and elsewhere all grow less rapidly, on average, than do their resource-poor peers.

Subsequent studies have largely confirmed these findings. For example, using a somewhat different methodology, and extending the sample to 125 countries and the time period to 32 years (1960-1992), Gylfason et at. (1999) find that countries with more workers employed in the production of natural resources tend to develop more slowly. This idea has been also supported by Bravo-Ortega and De Gregorio (2002) and Papyrakis and Gerlagh (2004).

These results have sparked a lively debate. Even after more than a decade of research, empirical evidence for the resource curse is difficult to obtain, mainly because the data available are not always reliable[2]. This academic dissent among econometricians notwithstanding[3], there can be no doubt that large segments of the population in many resource-rich developing countries have not only failed to benefit from their countries' natural treasures. They have actually fallen deeper into poverty since the discovery of those resources.

It is not just poor economic performance that has plagued these countries. Most studies focus on how they tend to have weaker institutions (Auty 2001; Ross 1999, Gelb 1988, Tornell and Lane 1999). Leite and Weidmann (1999), for example, find that the presence of natural resources significantly increases corruption by creating greater rent-seeking opportunities. Similarly, Sala-i-Martin and Subramanian (2003) claim that natural-resource-abundance has a "deleterious impact" on such key institutions as private property and the rule of law, ideas supported by Ades and Di Tella (1999), Collier and Gunning (1999) among

[1] The reason is that Africa, which is visibly the region most susceptible to poor growth associated with resource wealth, might be different from other regions for reasons not directly caused by resource abundance.
[2] As Caselli and Cunningham (2007: 2) put it, "Establishing [the resource curse] with cross-country data involves formidable measurement, specification and identification problems".
[3] For studies supporting Sachs and Warners findings, see for example Gylfason et al. (1999), Bravo-Ortega and De Gregorio (2002), and Papyrakis and Gerlagh (2004).

others. Dependence on natural resources are claimed to discourage entrepeneurship (Sachs and Warner 2001; Torvik 2002; Gylfason 2001) and also to increase inequality (Ross 2008).

Many scholars have demonstrated that resource-rich countries tend to have enduring civil wars (Ross 2004; Collier and Hoeffler 2002) and tend to suffer brutal dictatorships (Ross, 2001; Tsui, 2005; Acemoglu, Robinson and Verdier, 2004; Wantchekin and Lam, 1999). Those that are already authoritarian will use windfall revenues to strengthen their rule while those that are not may become authoritarian in reaction to distributional conflicts. However, whether authoritarianism in turn leads to poor growth is still heavily debated. Collier (2006) suggests that the growth impact of authoritarianism (versus democracy) crucially depends on such things as ethnic fractionalization.

Today, more than half of the world's poor live in countries that are richly endowed with natural resources (Collier 2007). Leaving aside the already mentioned case of 16th century Spain and contemporary Russia, the resource curse has been largely absent in OECD countries. European States were not founded upon rentierism. Why is the resource curse a poor countries problem? Michael Moore tells us that the higher tendency to suffer the "curse" in poorer countries is a product of globalization (2003: 13). A bi-polar world has emerged in which some countries are 40-50 times richer than other countries. Additionally, better communication and transportation make economies and States more vulnerable to the influence of leading States (in terms of trade, military, politics, finance, etc.).

In sum, an abundance of natural resources has said to be the cause of many, many things. Important and illustrative as these contributions are, they still represent a very diverse corpus where there is not much agreement on why and how the resource curse occurs. In the sections that follow, I draw from this broad literature in order to uncover the processes through which resource dependence hinders democracy 'tout court' at the subnational level. In this way, I shed greater light on one very specific effect of resource dependence.

2) Comparing attributes: Can natural resources be compared to subnational fiscal rents?

It is appealing to apply these concepts to the political situation of the Argentinean provinces. Some provinces that are highly dependent on fiscal transfers from the federal government, through taxes, public investment and discretionary transfers, as well as from mineral royalties, tend to be economically less dynamic, and their regimes show important

limitations to democracy. They tend, in other words, to suffer from the effects of fiscal resource dependence.

Are all resources the same? It is important to point out that not even all natural resources are homogeneous, and the geography of the country where they are produced, the physical properties of the resources, and the conditions under which they are produced and traded, have a significant impact on the way they influence a country's political economy. It is a "commodity lottery", as Victor Bulmer-Thomas put it, referring to the combination of the physical properties of the resources, the environment where they are extracted and the cultural and political environment where this happens (2003: 14-16). Applying the mechanisms of natural resource dependence to fiscal federalism may therefore be perceived as an even braver step.

So far, our concern has been exclusively with natural resources that are relatively scarce, non-renewable and abiotic matter. Specifically the interest is on "point source" resources that are extracted from a relatively small geographic or economic area (which decreases the cost of control and protection), such as oil or minerals. Natural resources are essentially all raw – i.e. not produced by mankind – materials that the earth provides. This implicitly excludes any form of industrial or agricultural product such as processed meat and flour but also refined petroleum and various alloys. Natural resources are thus soils, water and air but also the world's flora and fauna. These definitions exclude most renewable resources including most plants, air, livestock, water and soil. So we essentially look at fossil fuels, minerals and metals. Tropical hardwood is among the very few biotic and renewable matter that fulfill our criteria and is thus implicitly (though not as prominently as the non-renewable resources) included in the analysis.

Then, is it the same to be economically dependent on the export of a resource such as oil as it is to be dependent on fiscal transfers? In this section I heavily rely on Gervasoni´s doctoral dissertation, where he has made an important conceptual contribution that levels fiscal federalism with natural resource rents. He States:

> *"Natural resource rents (the point of departure of the "rentier State" literature) and "fiscal federalism rents" should, I argue, be united under the same conceptual umbrella, along with rents based on other sources, like unconditional foreign aid."* (2011: 49)

Moving up Sartori´s "*ladder of abstraction*" (1970), Gervasoni proposes to use "fiscal rents" as a more abstract – i.e. with fewer attributes – concept that can be applied to more cases without stretching the meaning. Fiscal rents:

> *"are revenues accruing to a State from an external source, they do not depend on broadly taxing the domestic economy, and they are not necessarily proportional to its size. These characteristics imply that incumbents who collect any of them enjoy the political benefits of spending without facing the political costs of taxing."* (idem: 50).

Then, he goes down the ladder of abstraction again and includes Argentina´s fiscal federalism as a sub-type of fiscal rents.

Yet, there are other attributes of natural resources that are overlooked by Gervasoni but that I argue are useful for comparing them to Argentina´s fiscal federalism. The natural resources that we are interested in – non-renewable, valuable and geographically concentrated – have some distinct attributes that should be explicit. Specifically, they are non-renewable; they have external origins; and the rents from them accrue directly to the State.

i. Non-renewable.

A resource that is non-renewable can be depleted only once. One important consequence of this non-renewability, as per Mumphreys, Sachs and Stiglitz (2007), is that instead of receiving income from those resources, natural resource exporting countries are essentially depleting capital. That is to say, a country is not richer extracting natural resources; it only changes the composition of its asset base. A country, therefore, could have a high standard of living but at the high costs of depleting their natural endowments. This is why a country's standard of living is now increasingly measured by the Genuine Savings Indicator. It goes back to works by Solow (1974) and Hartwick (1977), who were concerned with so-called "green" adjustments to national accounting by including measures of environmental degradation. It was further developed by Kirk Hamilton at the World Bank. In its present form it aims to measure changes in all forms of capital, including natural capital, human capital and social capital[1].

[1] As data on social capital is difficult to obtain, most weight is put on produced, natural and human capital, the latter being proxied by years of schooling. The GSI estimator provides a crude estimate of the sustainability of a country in adding up all kinds of capital and looks at changes over time. Investments into education would thus enter as a positive in the equation while natural resource depletion and environmental pollution, proxied by the amount of CO_2 emitted, enter as a negative. An important assumption of the GS estimator is thus that different forms of capital are substitutable among each other, meaning that if a country depletes its natural resources but invests the proceeds in human capital, its total capital stock will not change over time.

The important message that the GSI estimate conveys is that almost all resource-rich countries are running down their assets and will most likely be unable to sustain their already low standards of living in the future. So short-term growth rates (or, for that matter, even long-term ones) conceal the fact that "growth" in most resource-rich countries comes from depleting natural capital but not from increased productivity. Resource-rich countries with stagnating national incomes over the past decades have thus effectively become poorer over time while countries with modest growth have not undergone genuine progress but have merely transformed natural capital into consumption.

In the case of fiscal federalism the conclusion about renewability is mixed. The national Constitution establishes that provinces are owners of subsoil products and thus mineral royalties go to provinces. Extractive companies directly negotiate with provincial governments for the details of the agreements. These resources are non-renewable. On top of that, payments are made through notarized declaration by extractive companies. There are important concerns on how reliable those declarations are and the quality of the control implemented by governments.

On the other hand, the taxes included in the tax-sharing scheme (or coparticipation) are linked to the country's production. The most important taxes are the value added tax and income tax. These represent the main source of fiscal revenues for most provinces, and they are arguably renewable. Still, the declining productivity of fiscally dependent provinces and growing regional inequalities certainly hinder the output perspectives of Argentina in the long term.

ii. External origin.

Point source mineral resources are difficult to get, scarce and/or strategic – factors that make them very valuable in terms of weight/volume value ratio. Thus, countries exporting diamonds, gold, oil, or any of these types of resources rely on a resource that is capable of generating extraordinary rents with an almost inelastic demand. Of note is that the value of these resources is not "natural" and is instead derived by the particular market organization, such as DeBeers in the case of diamonds or OPEC (Organization of the Petroleum Exporting Countries)in the case of oil.

This means that the rent coming from these resources are extraordinary rents that have nothing to do with the productivity or innovation on the part of the local economy but instead depend on the external organization and demand from the international economy. Most of the

time, poor and developing countries have no influence on the prices of these commodities (Mumphreys, Sachs and Stiglitz 2007).

The fact that these are not produced but instead "extracted" and geographically concentrated, means that economic activity around natural resources can happen without the participation of other sectors of the economy or society that are not directly related to their exploitation. The most important natural resources in many developing countries are oil, gas, coal, and various types of metals. All of these have very little spill-over into the rest of the economy (South Center 2008).

An ideal natural resource would create forward linkages to the rest of the economy through processing and industrialization, and backward linkages through the use of local inputs, taxation and so on. Some natural resources are better suited than others for attracting complementary industries. Wringley explains how England became the superpower of the 19th Century because coal was the crucial input for the steam engine and, therefore, the Industrial Revolution as a whole (1987). Copper in Chile generated forward linkages due to the refining process, providing higher tax incomes to the State, and higher wages to local employees (Havro and Santiso 2008). Nevertheless, those cases are the exception than the rule.

In general natural resource extraction is very limited in terms of job creation, because the small amount of labor needed is very skilled. Additionally, international companies prefer to expatriate engineers and technicians rather than train local workforce, because the former is easier and cheaper. On the other hand job creation suffers in other sectors, because of the underprivileged position of agriculture and manufacture within the economy. The results are enclave economies where most of the society is unable to directly benefit from the extracted wealth.

Like oil-exporting countries, fiscal revenues in most provinces have an external origin that is not connected to the local economy. As mentioned in Chapter 2, the Tax Sharing scheme (or co-participation) is the main source of funds for most provinces. These resources are thus not inherently disconnected to the local economy as in oil exporting countries, because an important proportion of sharable taxes are collected from the provinces themselves. Nevertheless, when looking at net fiscal transfers – see figure 3.3 in this Chapter – we see that most provinces do not contribute as much as they receive. The upshot for these fiscally dependent provinces is therefore similar to oil-exporting countries: the bulk of the revenues they receive are disconnected from their local economies.

On top of the revenues coming from the Tax Sharing Scheme and the mineral royalties, I also include other sources of fiscal benefits. The outstanding case is the Industrial Promotion Law, which is fully explained in next Chapter, a scheme that specifically benefited San Luis during the 1980s and 90s. Despite encouraging the settlement of industries in unindustrialized provinces, which challenges the conventional wisdom about economic development, it did so in a rentier-like manner. It basically meant large tax exemptions for industry settlements without the support of policies that would have encouraged greater connections to local economies. In the end, it created incentives for cronyism on the part of industries looking to avoid taxation. Most did not even move their production from the main industrial centers and only shipped their merchandize to San Luis for labeling. Local government charged companies in a variety of ways to permit this arrangement. Still, as tax-exemption incentives declined, so too did the number of industries that settled in San Luis. While 2,000 industries existed in 1990, only 186 were left by 2005 (Ministry of Industry 2009).

iii. Rents accrue to the State

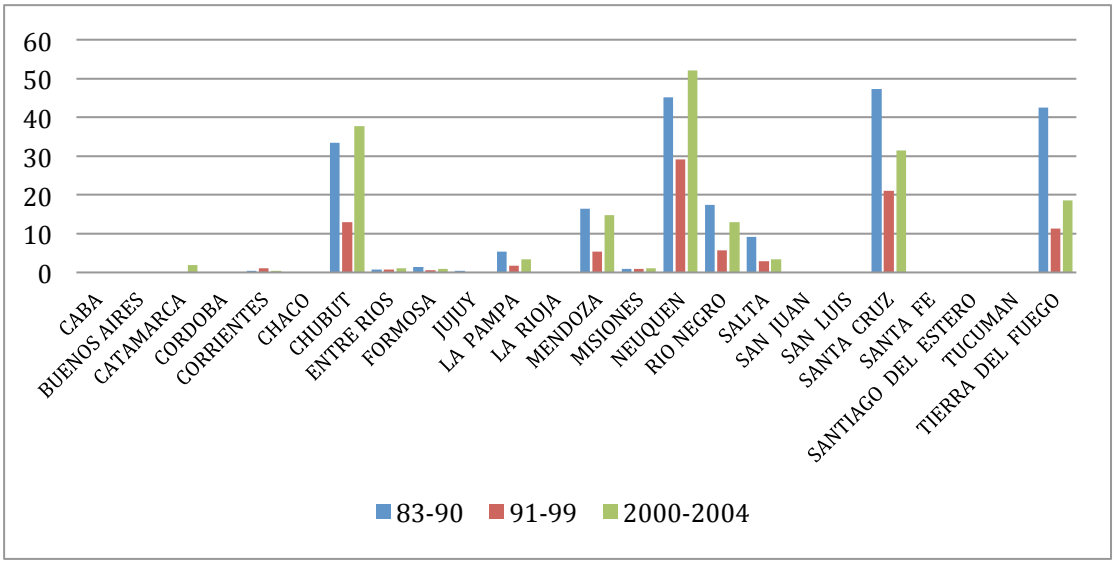
Point source resources have a limited impact on the non-export economy. While oil may fuel a large variety of industrial activity, many poor extractive countries do not have the technology or the human capital to profit from them. They therefore tend to rely on multinational corporations to do the job, as was the case of Venezuela until nationalization, Angola, Guinea, Ecuador, Papua New Guinea and so on and so forth. Most investment goes to developing and operating expensive and sophisticated hardware, storage and transportation. Many other countries have created – or nationalized – companies that monopolize the extraction of resources. In both cases, the revenues related to extraction that actually stay in the country are mainly through taxation. Therefore, most of the resources that stay in the country go directly to State coffers.

The fiscal redistribution that fiscal federalism entails benefits provincial States directly. The tax-sharing scheme automatically credits funds to a bank account with the name of provincial governments. Regarding mineral royalties, extracting companies pay provincial governments directly. As Figure 3.5 shows, for some Patagonian provinces, those resources are the main source of funding for the State, representing between 30-50% of total fiscal revenues in the case of Santa Cruz, Neuquén and Chubut.

The characteristics of the channels through which those resources – tax-sharing and mineral royalties – are funneled to the provinces are crucial. As Edward Gibson puts it in his

recent book, *Boundary Control* (2012), it is the fiscal dependence that is important *per se* but the way those resources are distributed. In Argentina, the Co-participation Law and mineral royalties accrue directly and unconditionally to provincial governments. Governors are not accountable for those funds and thus, their abundance – relative to the provincial economy - modifies the balance of power within the territory. This provides them, ironically, with relative economic autonomy without paying any of the costs of it[1].

Figure 3.5. Mineral royalties as a share of fiscal revenues per decade (in percentages)



Source: Ministry of Finance

As this section has demonstrated, there are slight differences in the attributes of natural resource versus fiscal federalism rents (see table 3.1 below). We should therefore expect that these differences will produce similar but nonetheless nuanced dynamics in the political economy of provinces compared to those of mineral exporting countries. I examine those differences in the following section.

[1] Gibson makes a similar argument, comparing Argentina to other countries like Mexico, which have different arrangements of federal fiscal transfers. He States that higher conditionality in Mexico provides for greater political plurality (2012: 166). This argument must be nuanced as the economic weight of Argentine provincial governments in the local economies is much larger than the ones in Mexico.

Table 3.1. Comparing attributes of fiscal and natural resource rentierism.

Natural Resource Rents	Fiscal Federalism Rents
Non-renewable	Tax sharing scheme is renewable – Mineral royalties are non- renewable
Income is not generated by production	Income is not generated by production (to a large extent)
Accrue to the State	Accrue to the State (provincial)

Source: Author´s own elaboration

B) The perverse mechanisms of the resource "curse"

The attributes of natural resource and fiscal federalism rents are similar. Because of this, it is reasonable to suspect that the mechanisms that hinder democratization in fiscally dependent provinces will be similar to those that hinder democratization in oil exporting countries. In this section, I examine the mechanisms that have been hypothesized to stymie democracy in oil-producing countries and examine their applicability to the subnational level.

1) The Dutch Disease

Economists have led the discussion of the resource curse. They tend to link it to the economic performance of countries, focusing on how the sectors interact with the domestic economy and with international trade markets. Among the most popular explanations of poor development in resource-rich countries is the so-called "Dutch disease" after the title of a 1977 article in *The Economist* on the macroeconomic problems of the Netherlands. Little more than a decade after the discovery in the 1960s of enormous offshore natural gas deposits, the Dutch economy entered into a period of recession and rising unemployment that lasted into the mid-1980s.

What happened? Corden and Neary (1982) were the first to develop an economic model demonstrating how a booming resource sector can easily undermine a nation's overall growth performance. Assuming free movement of capital and labor within an economy, they showed that a booming resource sector has two distinct effects. One was to attract labor and capital away from the non-resource sector into the resource sector, causing the non-resource sector as a whole to contract. This was called the "resource movement effect".

The other mechanism - called the "spending effect" - occurs *within* the non-resource sector, between internationally traded and non-traded activities. As foreign currency earned from resource sales is converted into local currency and spent domestically, the exchange value of the local currency builds up, and labour and capital tend to shift away from internationally traded activities (e.g. traded manufacturing goods) into other domestic activities (e.g. non-traded goods and services) which do not compete with imports or on international markets. Driving this "spending effect" is the fact that the prices of traded goods tend to be more determined by world markets than those of non-traded goods and services, which adjust more to domestic supply and demand conditions. A rise in domestic demand for both traded and non-traded goods and services produced outside the resource sector, driven by the boom in resource-export income converted into local currency, thus tends to increase the domestic prices of non-traded goods and services relative to those of traded ones.

Both the "resource movement" effect and the "spending" effect of the resource export boom tended to weaken export performance and the profitability of the non-resource *traded*-goods sector (e.g., manufacturing).

In the short-term, this "restructuring" of the economy may not be a bad thing for the nation's economy, because the country's labour and capital are employed where their marginal product is highest. But this transfer of resources, which increases with the strength of the spending effect in a given country, also weakens the economy's long-term manufacturing and other non-resource export capabilities – a fact that became visible in the Netherlands in the 1970s. In the long term, the shift of factors of production to the resource sector may therefore have more negative than positive effects. Manufacturing tends to have "external factors" like greater human skills that are more likely to promote innovations and more advanced technologies beyond the manufacturing sector. Moreover, because building a competitive manufacturing sector is never easy, it may prove difficult, costly and take a long time for the country to achieve a "reverse adjustment" after the resource boom fades.

Another cause, connected to the former ones, is price volatility. In 1999, Angus Deaton observed that "what commodity prices lack in trend, they make up for in variance" (Deaton, 1999: 27). Prices of globally traded natural resources sometimes change by as much as 50 per cent in a given year (Cashin and McDermott, 2002). This was especially the case after the collapse of the Bretton Goods fixed exchange rate system in 1971. Resource-rich countries that have shifted their economic activity from exporting manufactures to exporting natural

resources may be highly exposed to external shocks brought about by price volatility for natural resources.

Why are prices for natural resource so volatile? Discovering and developing new hydrocarbon, mineral or metal deposits is an expensive and time-consuming high-tech venture. It often takes a few years to go from the discovery of new deposits to building a mine or an offshore oil rig, sometimes involving complicated political, social and environmental issues aside from the more technical ones. Supply is thus inherently slow to adapt to demand. As there are few realistic alternatives to oil, gas, coal, copper or iron ore for industrial production, the demand side is also relatively inelastic. Still, a sudden increase in global economic activity, due to for example the rapid growth of the BRIC countries, provokes a corresponding rise in demand for the major natural resources. A relatively small increase in the demand for copper, for instance, led to a doubling of prices from 2005 to 2006 as output failed to keep up with demand. Once new production capacities have been created, prices tend to level out. But they sometimes fall dramatically, especially when demand contracts just as supply increases.

As many developing countries derive much of their foreign exchange earnings from exporting fuels, minerals and metals – the prices of which are highly volatile due to relatively inelastic supply and demand conditions – they are in a situation of high exposure to high volatility. Sub-Saharan Africa, for instance, derives more than three quarters of its export earnings from primary commodities which have become ever more volatile over the past decades.

But many developing countries are not only highly vulnerable to volatile foreign exchange earnings. They are also the least prepared to manage adverse shocks. Most developing countries, with their poor technical institutions, usually decide to either wait for prices to rebound and suffer economic malaise along the way or to increase production even more in order to compensate for incurred losses. Of course, increasing production creates even more dependence and thus greater exposure to adverse shocks. Moreover, as most natural resources are globally traded commodities, exporters with similar problems may decide to increase production simultaneously, thus aggravating the problem of volatility (Aizenman and Pinto, 2005).

How does the Dutch Disease apply to Argentine provinces? Capello et al. (2008) have applied the mechanisms of the Dutch Disease to what has happened at the sub-national level

in Argentina using the fiscal transfers foreseen by the Co-Participation Law. In their paper, the authors used public employment as a proxy for the spending effect. This is how they show that fiscally "dependent" provinces suffer the disease, because it incentivizes a disproportionate creation of public employment and higher salaries than would otherwise correspond to local productivity. They argue that this has hindered local manufacturing production and long-term development in these regions.

I see important limits, however, to applying the two effects of the Dutch Disease to the provinces, because they refer to the interaction of domestic economies with international trade markets. The most outstanding difference is that provinces in Argentina are not sovereign and, thus, do not have independent monetary policies. The main mechanisms of the Dutch disease – currency over-valuation and volatility of commodity prices – cannot therefore be applied to the provinces. Fiscally dependent provinces individually represent between 1% and 3% of the national economy and, as a group, 25%. For example, Chubut is as dependent on fiscal transfers and mineral royalties as Venezuela is on oil exports, and also suffers from some market distortions of non-tradable goods - like expensive housing - and substantially higher salaries in the oil industry than in the rest of the economy. Yet, the province is part of a country where other attractive economic sectors exist, diminishing the importance of this resource movement. The impact on the overall competitiveness of the country is low. On the other hand, the Central Bank is in charge of managing monetary policies in Argentina. The real impact that windfall revenues have at the provincial level does not translate to the national level, because Chubut represents less than the 2% of the national economy. Therefore, the "spending effects" are limited as well, as currency will not be overvalued.

Finally, the main source of the tax benefits that provinces receive come from the Tax Sharing scheme. These benefits are not earmarked and therefore do not depend on prices set by international markets. Therefore, those resources are not volatile and tend to be stable over time. The mechanisms of Dutch Disease, therefore, do not seem to be applicable to the provincial level.

2) The Rentier State

Appealing as it is, the Dutch Disease mechanisms are also unsuccessful at explaining why some countries – including copper-rich Chile, diamond-rich Botswana, and oil-rich Norway and Malaysia - have successfully avoided the "symptoms" described in the previous

section. In fact, the technical toolbox to combat the symptoms of Dutch Disease is widely available. The tools that can mitigate the effects of Dutch Disease, including the control of real exchange, economic diversification policies, tax exports, stabilization funds, etc, have all been used by the above-mentioned countries (Bianchi forthcoming). One must ask, then, why some countries have implemented these measures and others have not. Moreover, why has Chad implemented a stabilization fund – the exact copy of the Norwegian fund – but with completely divergent results?

Questions like these have led growing numbers of scholars to argue that the "curse" is not a curse as such and that the reasons for divergent experiences lie in the political realm. Mehlum, Moene and Torvic argue that the key factor to explain variation in outcomes relates to how rents are distributed through institutional arrangements (2005). From their standpoint, natural resources put institutional arrangements to the test, so the "curse" only appears in countries with inferior – "grabber-friendly" in their words - institutions. This would explain why developing countries tend to suffer more than developed ones.

Other authors argue that the problem is not only that the "curse" exists when institutions are bad, but also, that dependence itself creates incentives for decision-makers to be less transparent, less democratic, and to avoid productive investment. This was Terry Lynn Karl's argument in her seminal work on Venezuela, "The Paradox of Plenty" (1997). Thus, that which in principle may be perceived as policy mistakes by misguided leaders, are in fact rational political strategies induced by resource rents (Robinson, Torvic and Verdier, 2005: 3).

The key lies behind the fiscal structure of States. Fiscal dependence creates "rentier States". The meaning and use of "rentier State" has changed over history. Michael Ross points out that the concept was first used by European economists to refer to countries that extended loans to other countries (2001). The current use of the concept is widely credited to Mahdavy, who in 1970 aimed to explain why some Middle East countries were experiencing an increasing dependence on oil exports. He coined the concept referring to States that received substantial rents from foreign individuals, concerns or governments (1970: 428).

Fiscal sociology is the discipline that provides powerful arguments to understand why the fiscal structure of a country is important for politics. Following in Schumpeter's footsteps, this sub-discipline understands – as Edmund Burke put it in his classic intervention in the British Parliament - that State resources "are" the State (in Karl 1997: 222). Therefore,

understanding the fiscal structure of the State opens the window to understanding economic and political change of societies (Moore 2003).

The core idea behind the "rentier State" is that rentier States live largely off unearned income, hindering the emergence of State capacities and disregarding productive activities. This happens because the revenues of point source resources directly accrue to the State. Those resources become the main source of income in a country. This may lead to misguided economic policies with varying degrees of adverse effects. As will be explained in more detailed below, the resource wealth provides the financial means to create and to sustain harmful policies. It creates incentives that hinder the emergence of State capacities; political struggle becomes harsh and violent, hindering the emergence of credible commitments between political and social actors; it increases geographical and social inequalities; and it weakens the relationship between the State and society.

The extraction of point resources is both geographically concentrated and valuable. Therefore, for governments it is easier to concentrate their efforts on controlling the extraction process and controlling rents through taxation. The government becomes the "honey pot" where resources are distributed. As poor and developing countries tend to have less diverse economies, these taxes become the central, and many times unique, structure of revenues for States (Lewis, 2004). Governments controlling those resources become the sole holder of political power in the country.

The concept of rentier State has a long-standing use in Latin America. Michael Mann points out that since their formation, Latin American States – due to their longevity and their liberal constitutional structures – have traveled similar paths to North-Atlantic democracies (1994). Nevertheless, he shows that States from the region present a distinct characteristic that makes them different: their fiscal structure. Due to different motives the region has historically developed a fiscal structure closely linked to the extraction of rents, and their consolidation as Nation States in the late 19th century coincided with their insertion into the world economy as suppliers of raw materials to industrial North-Atlantic countries (Bulmer Thomas 2003, Thorp 1998). Therefore, their fiscal structures focused on foreign trade, as it was the main economic activity.[1] Mann (1994) points to this as the crucial explanatory factor for weak "infrastructural" capacities of Latin American States.

[1] Due to the power that export sectors had and also to their larger economic dynamism taxes focused on imports. See Cortés Conde (2011) and also Bulmer-Thomas (2005) for the larger picture of Latin America.

However, little is known about how rentierism actually operates. This is especially the case at the subnational level. The perverse mechanisms through which rentier States operate are the following:

i. Rentierism hinders citizen´s autonomy

Intellectuals from different disciplines, including Evans (1995) and Migdal (1997), agree that effective States are to a large degree the product of bargaining and exchange between the State and organized groups. There is a large bibliography coming from Barrington Moore (1966) and his followers that explains how modern democracies were born through a fiscal contract between absolutist monarchies that needed resources for wars and the growing bourgeoisie that wanted civil and political rights (Tilly 1983, 1990). In rentier States this contract does not emerge.

Beblawi suggests that a rentier State also implies that "only a few are engaged in the generation of this rent (wealth), the majority being only involved in the distribution or utilization of it" (1987: 51). The mechanism works as follows: yielding taxes from natural resources allows the State to fulfill its fiscal needs without relying on the taxation of its population. In the case of resource rich countries, because the government does not need to tax societies to perform its functions, the State-society balance breaks and thus the State does not need to respect, to create or enhance citizen rights. What takes place is a process of redistribution of power resources within the State and society favoring the former. There is a vertical concentration of power resources in the State, to the detriment of citizens that finds themselves hopeless when negotiating with or making demands on the State.

Also, higher resource rents make it easier for decision makers to use those "cheap" revenues to buy off political challengers and build political support (Acemoglu, Robinson and Verdier, 2004). Lightly taxed, the citizenry only weakly demands representation in government, thereby stunting the development of democratic institutions and attenuating political accountability (Mahdavy 1970; Ross 2001). Indeed, decision makers use the resources to maintain the political status quo.

An iron-clad control over knowledge and information are important in all polities but crucial in weakly institutionalized societies (Chabal and Daloz 1999). Weak States plus growing inequalities means that social actors do not have the capacities to exert pressure for "good" rules and institutions, because those are permeable to *de facto* powerful sectors. Thus,

productive sectors, NGOs, and other social actors are in a weaker position to influence the decision making process, and the judiciary power is less independent.

All of this hinders what O´Donnell calls citizens' "agency". An agent is:

> "*someone who is normally endowed with sufficient autonomy for deciding what kind of life she wants to live; has the cognitive ability for deciding what to reasonably detect the options available to her; and feels herself to be, and is construed by others as, responsible for the courses of actions she takes*." (O´Donnell, 2004: 13)

A similar mechanism operates in Argentina´s rentier provinces. As seen in figure 3.1, provincial States managed to increase and capture a larger proportion of fiscal resources in the 1980s. Thus an important redistribution of resources occurred not only between levels of government but also within provinces. Those resources dramatically increase the participation of provincial State apparatuses in the provincial economy, enabling the people in charge of the executive to gain leverage over the rest of society.

As in oil exporting countries, the State-society democratic contract weakened in most provinces. The principal-agent relationship that connects taxpayers to representatives changes in that government officials look to the national government as its main source of rents. Citizens become less important for the survival of incumbents, and thus the latter become less accountable to their voters and more to the national government.

We can see the use and abuse of the executive's increasing power through attempts to institutionalize that increasing power of incumbents via constitutional reforms and electoral rules favoring incumbents (chapter 2). Additionally, if Governors want to increase their share of funds coming from the National government, they must increase their power within their province. This is for two reasons. First, they will have more representatives in the National Legislature and more control over them. Controlling more national legislators – chapter 2 mentioned how they are nominated at the provincial level – the Governor has more bargain-power with the national government. Second, this growing control provides Govenors national projection. The 42 constitutional reforms registered from 1983 to 2011 – and mentioned in Chapter 2 - must be understood as a part of this strategy to influence and, if successful enough, to dominate the national arena (Calvo and Micozzi 2005; Liendo 2011). Thus, while the State-society contract weakens, the tension of the political game concentrates in the nation-provinces dynamics. Pork and barrel becomes more important than grassroots politics.

Yet, despite provinces gain concentrating power within borders, there is not realistic threat to completely subvert the democratic regime. Provinces are part of a democratic country, and the national government is constitutionally empowered to intervene in provinces where the constitution is violated. Even though this right has only been used five times since 1983, it has set an important limitation for larger political abuses.[1] Other times, the threat of federal intervention works as a restraint.[2]

Non-democratic governors still need to call for elections and provide a sense of fairness to the electoral process. If not, intervention by the national executive is likely to occur. Votes still matter, as many scholars have pointed out. Thus, increasingly, the literature uses the concept of "hybrid regimes"[3] in the Argentine provinces (Gibson 2005, Behrend 2008, Giraudy 2010, Gervasoni 2010b).

Nevertheless, the impact of rentier dynamics goes beyond electoral competition and the regime. When looking at the "micro level" of democracy (O´Donnell: 2004) we see that within a context of a rich State with a poor society, instead of the creation of a principal-agent bargain, we see the development of a patron-client one. Because the public budget is the main source of economic activity in most provinces, the provincial government becomes the first employer within provincial borders. Even without an increase in the productivity of the economy that larger funds entail, the approach to public employment and public investment is clientelistic. It is not surprising then to note that public employment is much higher in rentier provinces than elsewhere. In 2005, the central provinces – the City of Buenos Aires, Buenos Aires, Córdoba, Santa Fé, Mendoza and Entre Ríos – had an average 36.9 public employees for every 1000 inhabitants. The remaining provinces average 55 public employees per 1000, peaking in the Patagonian provinces at 69.7/1000. Actual figures are much higher if social plans are taken into account (Capello et al. 2008). Kelly McMann (2006) arrives to a similar

[1] For example, the ruling elite in Catamarca was evidently involved in the shocking murder of María Soledad Morales in 1990. The son of a national legislator, two sons of the capital's Mayor, and the son of the chief of police actively participated in the homicide. After the Judiciary branch gave them protection, Menem decided to intervene in the province, overthrowing the powerful Saadi dynasty that had controlled the province for decades.

[2] In 2000 the governor of San Luis sought to divide the capital city in four. The capital had always been a stronghold of the opposition. The threat of intervention made Rodriguez Sáa reverse his decision, in order to avoid the nationalization of a local conflict (Gibson 2005).

[3] These authors refer to the impossibility to refer to full fledge authoritarianism as the national democracy sets a bar in which elections and constitutional rules have to be fairly respected.

argument after studying post soviet republics. There, she finds that the "economic autonomy" of citizens is crucial to the practice of democracy (2006: 4)[1].

The provincial State also becomes the main investor and spender in the province. In the face of powerful Governors, private entrepreneurs have incentives to become cronies of the ruling elite. Construction firms and government suppliers tend to be the most important private sector actors, and both tend to be related – many times by blood – to the ruling elite. These are *testaferros* (front men) who put their names on businesses that actually belong to the Governor.

There are other rentier dimensions that hinder citizen´s capacity of "agency". The most outstanding one is probably the source of information that citizens consume. Media survives with advertisements from private and public sources. If the private sector is weak and crony, it will tend to advertise in line with the government. Not surprisingly, in poorer regions the public sector is the main source of ads. In these provinces it is more likely that local newspapers, radios and television will be biased towards incumbents.

For example, Wiñazky (1995) has convincingly demonstrated that the Rodriguez Saá brothers in San Luis – Adolfo (Governor) and Alberto (National Senator) - retired all public funding from the main newspaper soon after winning elections in 1984. Shortly after, the newspaper was acquired by the latter. For two decades this newspaper was the only one in the province and it is currently directed by the daughter of Adolfo Rodriguez Saá. Similarly, Ruiz (2009) has shown that in less extreme cases, the fear or direct threat of losing public advertisement in places like Santiago del Estero has led to self-censorship. Mochkofsky (2003) has shown similar trends in Santa Cruz.

ii. Rentierism hinders State capacities

Rentier States tend to be large and to gain power *vis-à-vis* society. They also tend to be weak. The "cheap" source of resources poses little incentives to develop State capacities (Moore 2003). As the needs of the State are funded with little organizational or political effort on the part of State apparatus and political actors, this hinders any initiative for institutional

[1] Behrend (2005) shows that particularly in the case of San Luis, the most important sources of protests in the 1990s and the early 2000s were actually governmental employees: public university employees and school teachers. However, it is important to note that the public University of San Luis is legally autonomous and financially depends from national funding. Public schools were nationally funded until the 1990s and, also, had national unions. Despite the fact that they are currently at the provincial jurisdiction, they enjoy stronger unions – relative to the other government employees – and keep important national networks of support.

development.

Zuvacic, Iacoviello and Rodriguez Gusta (2010) propose an analytical framework composed of two variables – autonomy and capabilities – that is useful for our purposes (table 3.1). They show four ideal types of bureaucratic structures and roles. One is called "administrative," in which meritocracy is not always implemented and the recruiting criterion is more political. The second is called "meritocratic" which recruits according to skills and functionalities. Both types have high or relatively high levels of autonomy from political power in the sense that Peter Evans states (1992). The other two are applicable to rentier States, as they imply lower levels of autonomy from the incumbents. One is directly called "clientelistic" in which the main goals are political and public employees tend to have short-term contracts that persist only if loyalty and partisanship is guaranteed. The last one is the "parallel" bureaucracy, which functions with highly paid and trained consultants that are not members of the regular bureaucracy. These tend to be hired to perform technical tasks for particular public policies.

Table 3.1. Type of bureaucracies and roles

	Low Capabilities	**High Capabilities**
High Autonomy	Administrative	Meritocratic
Low Autonomy	Clientelistic	Parallel

Source: Zuvacic, Iacoviello and Rodriguez Gusta (2010).

The authors mention that different types of bureaucracies can coexist in the same territory and within the same government.[1] A very different bureaucracy, for example, may function in the Ministries of International Affairs or Defense than in the Ministry of Interior.

Rentier mechanisms operate in two ways. First, political leaders do not need to create technical capacities to gather information on the economic activities to be taxed in order to create more sophisticated taxes. Therefore, they tend to approach the use of the State

[1] These authors mention, without evidence nor explanation, that most provincial bureaucracies in Argentina fall in the clientelistic category.

apparatus with a political rationale, in order to ensure their own political survival. Bureaucracies develop with a clientelistic rationale rather than a technocratic/meritocratic one, weakening its "autonomy" from the political power (Evans 1992). Not surprisingly, in the survey carried out by Straface and Page (2010), when State accountability at the provincial level was measured, oil rich Santa Cruz and Neuquén, and mineral rich Catamarca ranked at the bottom. Here is one rather extreme but nonetheless pertinent example, which will be fully described in the next Chapter. Due to the expiration of the Industrial Promotion Scheme in San Luis, the Government launched a "Social Inclusion Plan", which included 45,000 beneficiaries (around 30% of the economically active population) performing all kinds of public jobs from cleaning the streets, to administrative tasks and even security activities. In practice, the Plan essentially downgraded public employment: providing less pay, less stability and less autonomy. As will be shown in Chapter 4, there are several accounts on how these "beneficiaries" were the main stronghold of the provincial government for participating in public acts and even confronting opposition activities (Trocello 2008).

Second, since it is not necessary to establish the human and institutional capacities required to manage a complex tax system or to establish the controls for an effective use of resources, States will not develop "infrastructural capacities" – as Mann conceptualizes it (2004). They will therefore be unable to monitor or regulate economic activities or to promote industrial activities beyond short-term interests, and they will fail to have a geographical presence all over the country. Similarly, rentier provinces have less incentives to put organizational or political effort into improving the quality of the State apparatus. Some countries use parallel bureaucratic structures for delivering policies. The outstanding case is Venezuela when after the 2002 *coup d'état*, Chavez created the Missions in order to regain political legitimacy. He needed them to be efficient and to be implemented fast. Therefore, he created a parallel bureaucracy funded directly by the State-owned oil company, PDVSA (Bianchi forthcoming). There is no registry of a case like this in Argentina´s provinces. However, CIPPEC points out that the norms for the recruitment of public positions do not exist in some places and, when available, their implementation is weak (2010). A review of public purchases and contracts revealed the same pattern: there was a low level of regulation and, when available, weak implementation. Santa Cruz, Formosa, San Luis and Neuquén ranked at the bottom on this point.

Nevertheless, there are outstanding cases like Mendoza, Santa Fé, and even the rentier province of Río Negro, which tend to have higher levels of autonomy and capabilities. INVAP in Río Negro is a world-class State owned company that produces nuclear technology and exports satellites. Rentierism is likely to hinder State capacity, but – as the case of INVAP in Río Negro suggests – this is not always the case. In Chapter 5, I examine another case of a rentier province exceeds democratic expectations.

iii. Rentierism incentivizes waste and White Elephants

Resource abundance decreases the costs of the unproductive allocation of resources. With available windfall revenues decisionmakers tend to want to maintain the status quo and profit from it (Mumphreys, Sachs and Stiglitz 2007: 200). Why should an incumbent save for future generations, if the following ruler will have the power to set the institutions to his own interests and to spend the resources according to how he sees fit? Why would he invest in productive initiatives if the economic future of the country does not rely on it? Even when a political leader would prefer to spread spending evenly over time, uncertainty about the future creates an incentive to spend more than needed. This "honey pot" hinders the emergence of credible commitments and incentivizes short-sighted policies, misallocation of resources and waste. In a widely cited paper, Tornell and Lane explain that under these circumstances the redistributive struggle between social actors is higher than the rate of return, and hence the aggregate economic growth rate of the economy deteriorates (1999: 2).

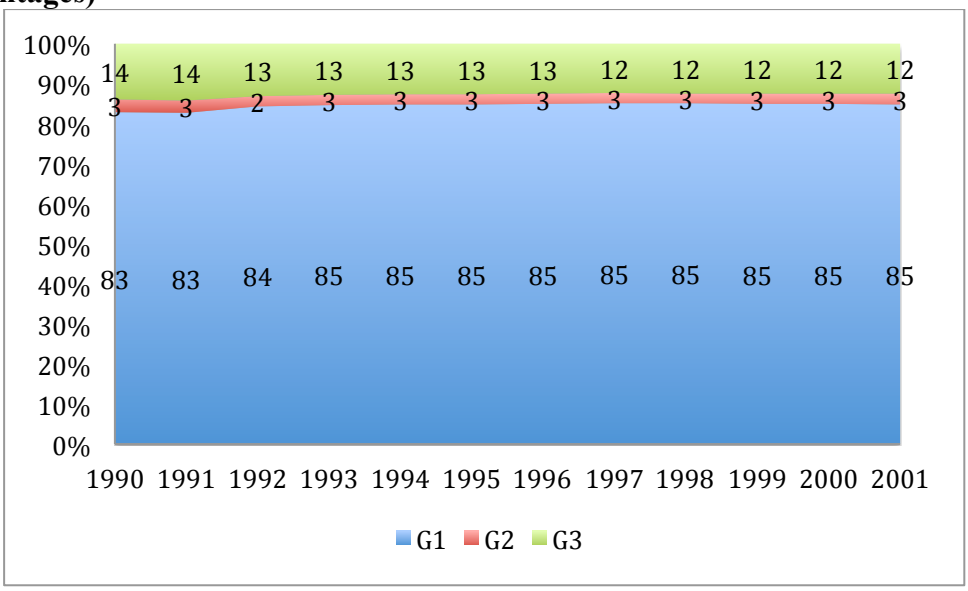
Similarly, economic actors are drawn into clientelistic relations with State leaders in order to receive contracts for public works. Rentier behavior in the private sector impedes the emergence of innovative and value added industries, thus negatively impacting the long-term productivity of the country. McMahon (1997) has shown that resource rich countries overspend and invest in inefficient ways that non-mineral rich nations do not. The lack of accountability, and the low involvement of society in the extraction process, makes the whole process obscure. Investing in large infrastructure initiatives that are economically inefficient but political profitable is coherent with the winner takes all political game.

After the oil crisis in 1973, prices increased, producing windfall gains for many exporting countries. Gylfason mentions that oil exporting countries heavily invested during that decade – Nigeria's capital investments multiplied by nine - but it did not created long

term growth – OPEC countries decreased 1.3% a year in average between 1965 and 1998 (2001). Gelb (1988) studied six oil exporting countries and discovered that they invested half of oil rents domestically. He also found a disappointing growth performance in the long run. The explanation for Gavin is the ‘‘the tendency for governments to invest in projects with high prestige or political payoff, but with little economic rationale’’ (1993). Countries build large scale damns, enormous highways, non viable industrial projects and so on and so forth.

All of this is sustainable in the short term because the government has the liquidity to continue its activities. Moreover, early on the economy grows as construction and consumption boon. We see this in highly benefited provinces like Neuquén, Santa Cruz or San Luis – provinces that have an income *per capita* far higher than the median, and rank amongst the highest in the country. The level of activity in the economy is maintained by consumption and construction sectors, but these activities have a more limited impact on the long-term productivity of the economy than manufacturing. They have an important short term impact in the level of employment and general activity, but this evens out and eventually drops in the long term. Regrettably, we do not have data that span the entire period from 1983 until 2012. But what can be seen is that from 1990 to 2001 the central provinces have increased their share in the national industrial production while the rentier provinces have stagnated or even diminished their share (figure 3.6).

Figure 3.6. Share of national industrial production by group of provinces (in percentages)



Source: Ministry of Interior.

As this mostly government-led spending tends to grow very rapidly, funds often are directed to inefficient but politically attractive pharaonic projects – "white elephants" as Robinson and Torvik put it (2005). San Luis, with 1% of the national population holds 30% of all highways of the country, some of them leading to nowhere. In the last two decades they built: the first floating floor basketball stadium, even though there is no team currently playing in the major league; a football stadium that is never used; a replica of the original national *Cabildo*; and a government site that cost 300 million pesos (80 million USD). They also implemented a "Cinema Promotion Law" subsidizing movie production. It is difficult to account for the long-term contribution to society of building large cultural or entertaining infrastructure projects. It could be argued that the expansion of cultural options or a more aesthetically pleasing city could increase creativity and concentration at work. However, like any other public policy, large infrastructure projects must be part of a more comprehensive strategy. In this case, white elephants appear to be the political status quo. In the next chapter, I show how in San Luis the building of the largest basketball stadium and the hiring of the best national players to play for the local team did not include sports education programs or even basketball training programs. Similarly, the Cinema promotion law was not connected to local productions or theater schools whatsoever.

A second mechanism that induces waste in rentier States is that they are practically immune to default. Resource rich countries, it was often believed, possess enough collateral to insure them against bankruptcy. Especially during the 1970s, when many developing countries enjoyed windfall gains due to the exceptionally high commodity prices and developed countries had financial liquidity due to the deposits of petro-dollars, access to credit was easy and cheap. Some countries not only consumed their proceeds from their natural capital but also borrowed against future revenues, using their resource deposits as collateral.

When, in the 1980s prices for oil, coal and iron ore dropped sharply, many developing countries, especially in Latin America, could not sustain their relatively high level of domestic consumption and experienced debt crises: in the midst of a worldwide recession, they had to impose particularly severe measures to meet interest payments on their loans. As shown by the public finance literature, government expenditure is very difficult to reverse, so borrowing tended to increase (McMahon, 1997). The pattern of borrowing during booms and

failing to meet obligations during busts sharply increases an already high exposure to volatility and thus heavily disrupts economic activity and political stability.

Something similar happened during the 1990s with provinces like San Luis. This province held an AAA+ rating in the international markets, dramatically superior to Argentina overall. The reason is that the Industrial Promotion scheme, along with other fiscal transfers, allowed the province to invest in infrastructure without taking loans, while the rest of Argentina growing increasingly impoverished. Thus, it had the potential for starting a process of borrowing and then bail out. However, provinces in Argentina do not have the possibility to borrow abroad without the permission and sponsorship of the national government. Therefore, this part of the mechanism is unlikely to occur.

iv. Vulnerability to violence

One of the crudest aspects of the paradox of plenty is the unusually high vulnerability to violence that these societies experience. Over the past decade and a half, there has emerged a quite extensive literature analyzing both statistically and theoretically the potential link between natural resource-abundance and civil war. Several econometric studies have shown that the strongest positive correlation for civil war is resource abundance (Collier and Hoeffler, 1998; and Ross 2004). A much reported finding by Collier and Hoeffler (1998) reports that, for a sample of 125 countries between 1960 and 1999, the risk of civil war rises from one in 100 to one in four when resource exports as a share of GDP increase from zero to one-third.

The distribution of resources in society is an inherently conflictual and, therefore, a political issue (Acemoglu, Robinson and Johnson, 2004: 8). In poor countries where natural resources are the largest singlehanded source of revenues and are very valuable, groups with political power will try to keep control over that resource at any cost. Similarly, opposition groups cannot commit to not using their force to change the distribution of resources in their favor. This leads to major commitment problems. How do you trust opponents if they will overthrow you at the first chance? How do you cooperate with a government that controls almost everything? This context leads politics into an increasing spiral of violence. Moreover, mineral revenues provide the financial resources for armed forces. Venezuela was unable to build a stable government and State after the war of independence. It was only after the discovery of oil in 1908 that Vicente Gomez – the dictator of the time – had the resources to

build a national army, to buy off opposing caudillos and to strengthen the centralized State (Karl 1997).

Not surprisingly some of the most devastating civil wars in recent times have been motivated and financed by natural resources. For example, the central role of diamonds in Sierra Leone, Cote d'Ivoire, Angola, Liberia and the Democratic Republic of Congo have helped to coin the expression "blood diamonds".

Conflict over natural resources can take several forms. One is a secessionist movement in the producing area, where locals aim to prevent sharing the resource revenues with the wider nation or try to resist sending resource revenues to a central government. The horizontal inequalities that are created between resource rich and resource poor regions foster competition among groups (or leaders from different regions) for the distribution of those resources. In contexts of already existing ethnic, cultural, religious or geographical differences, abundance of resources tend to exacerbate those differences, making conflicts even worse. The case of Biafra is paradigmatic. Britain put together a multiethnic colony that became Nigeria after independence. Not many years after independence, the region of Biafra tried to secede in order to profit from its own oil fortunes. The reaction of the Federal government was to unleash a civil war that caused 2 million casualties. See table 3.2 for other paradigmatic cases.

Table 3.2. Secessionist Movements and Resource Abundance

Country	Region	Duration	Resource
Angola	Cabinda	1975-2002	Oil
Burma	Hill tribes	1949-	Tin, Gems
Congo (DR)	Katanga/Shaba	1960-65	Copper
Indonesia	West Papua	1969-	Copper, Gold
Indonesia	Aceh	1975-	Natural Gas
Morocco	West Sahara	1975-88	Phosphates, Oil
Nigeria	Biafra	1967-70	Oil
Papua New Guinea	Bougainville	1988-	Copper, Gold
Sudan	South	1983-	Oil

Source: Ross (2003)

Another form of conflict, also at the local level, can result if the production of natural resources has significant negative side-effects for the local community, such as polluting the environment, destroying the social fabric through the use of migrant workers, or by changing the nature of the local economy and thereby causing unemployment in some groups. This latter form is often described as the "grievance" face of natural resource wealth.

Finally, there is a form of conflict that is more complex than the other two and relates to the overall political and institutional nature of the country. When resource-rents accrue directly to the central government, as they often do, a "honey pot" is created, as Karl puts it. Capturing those rents increases political competition, sometimes at any cost. Windfall revenues increase the potential benefits for political opponents trying to overthrow the incumbent. Of course, the higher the resource revenues and the larger the number of rival factions, the higher the expenditures on arms and the greater the risk of violent conflict.

An important issue to consider in this literature is that different resources may have a different impact on the nature of the conflict. While some are more prone to *initiate* one of the above types of conflict, others are more important to *sustain* a conflict. Resources that initiate conflicts may for instance be oil or metals that are expensive to produce, difficult to transport and potentially harmful for the environment (Soysa, 2002). By contrast, alluvial diamonds, gemstones or narcotics are easily "lootable" and thus ideal for financing and thus sustaining a conflict (Fearon, 2004).

In the case of subnational rentierism, it is difficult to see these mechanisms at work. Provinces are not sovereign and thus do not have military resources. Of course, Biafra is a province in Nigeria, which did not stop it from experiencing a civil war. The difference between these two cases is that mineral royalties already go to extractive provinces in Argentina, the same ones that are net recipients of the Tax Sharing scheme. Therefore, there are no incentives for seceding from the Federation. However, there are incentives for non-cooperative behavior between Governors and the National government. Governors need to show force and strength in order to get more funds from the central government. Notably, those provinces that benefited the most from fiscal transfers in the 1980s were provinces controlled by the opposition party, the PJ (Falleti 2004: 73).

In the last couple of years there have been social demonstrations and protests that belong to the second, environmental kind of conflict as they are related to environmental issues for the contamination of open pit mines.

In sum, there are five mechanisms through which natural resource rentierism operates (see Table 3.3). Of these five, I argue that three should have applications to provincial rentierism. Provincial rentierism should hinder citizen autonomy and capacity, and it should incentivize spending on white elephants and waste. The other mechanisms, including Dutch Disease and vulnerability to violence, do not apply to the provincial level. In the first case, provinces do not interact with international markets. In the second, incentives to violence are mitigated due to the nature of windfall accrual.

Table 3.3 – Comparing Mechanisms

Natural resource rentierism	Provincial rentierism
Dutch Disease • Spending effect • Resource movement • Volatility of prices	**NO.** • There is no interaction with international markets, and the main source of revenues – Tax Sharing Schemed – is stable.
Hinders citizen autonomy • Media control • Political control • Cronyism • Clientelism	**YES.** • The media is controlled. • There is cronyism and clientelism. However, there are institutional limits to regime break by undemocratic governors: the threat or actual use of federal interventions.
Hinder State Capabilities • Autonomy from government • Technical capabilities	**YES.** • Both mechanisms – less technical capabilities and less autonomy – coincide in "clientelistic" bureaucracies. No evidence of "parallel" bureaucracies.
White elephants and waste • Inefficient allocation of resources • Borrowing	**YES.** • There are incentives for unproductive allocation of resources, but waste is limited because of fiscal responsibility law and limited borrowing.
Vulnerability to violence • Geographical capture of rents	**NO.** • Mineral royalties already accrue to the State, and the most important source of revenues – the Tax Sharing Scheme

	– comes from other provinces. There are no incentives for violent movements. However, there are incentives for competitive behavior.

C) Resdistribution of power within provinces.

The mechanisms listed in the previous section do not amount to a general model of the political and economic consequences of point source natural resource exporting countries. The section listed the primary causal mechanisms that operate under different circumstances and the extent to which these operate in rentier provinces. The key lesson is that States that survive on windfall revenues have incentives for bad political behavior that may condemn millions to poverty, abuse, and violence. Provinces that survive on similar revenues are prone to oppression and decaying living standards. The mechanisms work in such a way as to redistribute power resources within provinces. Taken together, they concentrate power in the hands of the incumbent governor, hindering democracy.

The causes for the development of societies are complex and varied, ranging from cultural, ethical and psychological to institutional and political ones. Nevertheless, North and others have made an important contribution holding that institutions are the key variable for development (North 1990: Rodrik 1999, 2004; Acemoglu, Johnson and Robinson 2004). There is an important consensus on this subject within the literature on development. However, there is no such agreement when addressing why some societies have better institutions than others, or why the same institutions perform differently in different societies.

One source of divergence likely comes from the Liberal tradition that has been dominant in the field of social sciences. For this school of thought the market and the State are separate entities, the former being a self-sufficient and autonomous entity governed by universal rules. Thus, "good" institutions are the ones protecting private initiative that will ultimately bring common goods to the entire society. This private initiative also includes democratic rules. Some scholars explain institutional differences, like Coarse´s theorem, arguing that societies choose the institutions that are efficient for them. The problem with this approach is that if societies are able to do so, they would have the best institutions possible; thus differences will not be institutional but determined by social structures. Moore and Houtzagger (2003) explain that under the liberal perspective, which is shared to a certain

extent by post-structuralists, politics and power are irrelevant to economic institutions and, therefore, development.

A different current of thought is more closely related to the ´polity approach´ represented by the writings of Theda Sckocpol and Charles Tilly. Under this approach, the market, which is to say the capitalist economy, is not an autonomous entity but a particular mode of production historically defined by particular institutions. That is to say, institutions – economic and others- are endogenous to society and inherently represent a conflict of interests within society. Not only Marxists subscribe to these ideas. Others like Acemoglu point out that, as institutions distribute benefits and punishments, not all individuals and groups will prefer the same institutions. Consequently, their definition – or construction- depends on the power of each group to influence the process (Acemoglu, Johnson and Robinson 2004: 4).

In this sense, power is a central concept for analysis, and in this dissertation functions as the independent variable. Curiously philosophers and epistemologists have used power as an analytical tool far more than political scientists have. This difficulty is probably linked to challenges of methodology, given its difficulty of measurement using current academic standards (Caputo 2006). Acemoglu et al. (2004) hold that power, as a resource, is derived from two sources. One is *de jure*: the power coming from political institutions. Political institutions operate the same way as economic ones in terms of distributing resources -i.e. to a monarch or to a president, to a president or to a parliament, majoritarian vs plural electoral rules, etc. These institutions, or the people who work in those institutions, have the capacity to build and reform economic institutions.[1] The second source of political power is *de facto*, individuals or groups that have the capacity to influence political institutions. The most important among this group are, according to the authors, the ones with economic resources, because these enable them to co-opt supporters and/or to use or omit political institutions, among other activities.

Both political institutions and economic resources shape political power and the rules that then define the distribution of resources. This must be understood as a dynamic process that feeds back into the political system. I am underlining this because the outcomes of political decision-making processes can reshape the institutional structure, creating a new balance of power that could lead to institutional reforms redistributing resources. The same

[1] This point of view does not pay attention to the role of epistemic communities in the diffusion of institutional designs; it may be analyzed in a future version. For a discussion on the topic see Thatcher (2002).

can be said about institutions that favor some economic activities and distribute economic resources in a certain way that directly impact *de facto* political power, and so on. Thus, it is a dynamic and ever changing system.

When dealing with democratic systems, power has particular dynamics that have not been fully explored. Ian Shapiro points out that theorists of power (from Marx and Weber to Mill and Arendt) did not pay much attention to democracy and, conversely, theorists of democracy have paid too little attention to power (2001). Traditionally, democracy has been related to the division of power: the Hobbesian monolithic conception of power, the republican division of powers, or the American idea of check and balances. Shapiro underlines that more recently only the empiricist group related to Schumpeter and the new Schumpeterians like Przeworski or Dahl do work on power (Shapiro 2001: 6). They do not, however, capture the complexity of the processes and the different actors involved and the historical context in which they are embedded.

There have been theoretical advances. Author´s like Whitehead recongnizes that democracy is no longer a pre-determined end-State but an "essentially contestable" concept (2002: 14) and, the democratization of societies becomes a "complex, long term, dynamic and open ended process" (p. 27). In this sense, an important contribution has been made by Guillermo O´Donnell , who defines democracy "tout court" (2010: 29) – in contrast to the Schumpeterian or Dahlian "polyarchy" or "procedural" democracy[1] – as a particular way of organizing power in society (also 2004). In a democratic regime, power is delegated from society to the State, in which the latter has to perform two important tasks: elected representatives must accomplish the mandate delegated through the vote and these representatives also must respect and increase citizen´s rights.

[1] I am referring to Schmitter and Karl (1993) recapitulation of Dahl´s definition of polyarchy. Their polyarchy definition includes the following conditions: 1) Control of Government decisions about policy is constitutionally vested in public officials, 2) Elected officials are chosen in frequent and fairly conducted elections in which coercion is comparatively uncommon, 3) Practically all adults have the right to vote in the election of officials, 4) Practically all adults have the right to run for elective offices in the government, 5) Citizens have a right to express themselves without the danger of severe punishment on political matters broadly defined, 6) Citizens have a right to seek out alternative sources of information. Moreover, alternative sources of information exist and are protected by law, 7) Citizens also have the right to form relatively independent associations or organizations, including independent political parties and interest groups, 8) Popularly elected officials must be able to exercise their constitutional power without being subjected to over riding opposition from unelected officials, and 9) The polity must be self-governing: it must be able to act independently of constraints imposed by some other overarching political system.

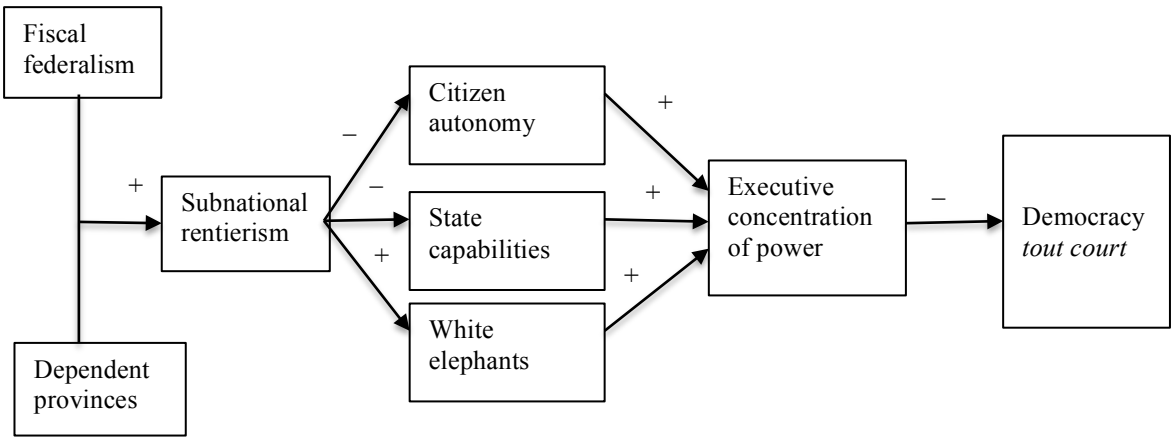
The figure of the State is crucial to understand the regime and is absent in Acemoglu´s framework used here so far. It is important for the simple reason that there cannot be a democracy or a capitalist economy without a State. The State is important for democracy – by any definition - because not only the idea of citizenship and rights must be written in the laws of the State in order to exist but also the capacity of the State is needed in order to make them enforceable. Similarly, there are no capitalist institutions without a State that is able to organize markets, to protect contracts, to issue currency, to frame labour relations, to tax and so on. In real life, as Nún underlines, we see a wide range of States and democracies, in the same way that we see different kind of economic relations. This is a changing matrix - constituted by different institutional frameworks and power dynamics – that are defined in each particular polity (Nún 2004: 166). Therefore, democracy – as a way of social organization - is not a pre-determined end-State but an "essentially contestable" concept and, its construction becomes a "complex, long term, dynamic and open ended process" (Whitehead: 14-27). This is the reason why O´Donnell proposes to talk about democratization rather than democracy.

Within democracies, the way resources are distributed has a direct impact on the way capital is accumulated and the relations of production. Scholarly work on organizational and societal trust emphasize the importance of a relatively equal distribution of resources (political, economic, information, etc) for economic development (Putnam 1993). Relations *inter pares* will tend to make credible commitments and will take a risk with a partner (cooperate, share information, invest, etc) increasing not only individual performance but that of the whole group. From Putman to Acemoglu there is agreement that in an egalitarian environment, social actors will agree to create institutions that protect innovation and initiative and encourage relatively equal access to economic resources for broad sectors of society (Acemoglu, Johnson and Robinson 2004: 40). Fairer distribution of resources is coherent with the rule of law and democracy. Therefore, a democratic State will tend to be part of this process, protecting and increasing citizen's rights, and respecting an open political game.

On the other hand, when power is unequally distributed important challenges appear to the political system. The concentration of power resources in the hands of elites creates incentives for the violation of the rule of law and the issuing of reforms to concentrate power. This is the logic behind the mechanism of the rentier State.

The strong distribution of resources within rentier provinces – all favoring the provincial incumbents – create enormous incentives to pursue bad political practices. As mentioned above: they hinder State capacities, limit autonomy of the citizenry and, last but not least, induce a bad allocation of resources. See the diagram below (Figure 3.7), which includes the causal variables and the mechanisms that link subnational rentier States to less democracy (*tout court*) in Argentina.

Figure 3.7. Diagram with causal mechaninsms of subnational rentierism



Source: Author´s own elaboration.
Note: The + means there is a positive relationship between the two variables joined by the arrow. The – means there is a negative relationship.

The mechanisms of the subnational rentier State perform in a way that the centrifugal distribution of fiscal resources induces centripetal concentration of political resources within provinces. They are not, as above mentioned, exactly the same as in oil exporting countries given the differentiated attributes of revenues (see table 3.1). The mechanisms of the Dutch Disease do not apply to provinces. Provinces mostly do not interact with international markets, they do not have monetary policies and the main source of revenues – Tax Sharing Scheme – is fairly stable. Also, provinces do not have incentives for large-scale violence or to start secessionist movements. Mineral royalties already accrue to the State and the most important source of revenues – the Tax Sharing scheme – actually is a net contribution from larger provinces. Therefore, we cannot see incentives for violent movements. However, there are incentives for damaging competitive behavior as incumbents are in constant bargain with the national executive for more fiscal transfers or benefits.

In examining the workings of rentier mechanisms, we can understand how they negatively affect the three major components of democracy: the State apparatus, the regime and citizenry. The "curse" at the subnational level in Argentina operates in a way that concentrates power resources within provinces reversing democratization process at the three levels of Democracy mentioned by O´Donnell: the political regime, the State and society.

In all three arenas rentierism reinforces the power of governors:

i. Societal:

At the microlevel – or societal level - citizens seem to have less autonomy or, in O´Donnell´s words, "agency".

> *"(An agent is) someone who is normally endowed with sufficient autonomy for deciding what kind of life she wants to live; has the cognitive ability for deciding what to reasonably detect the options available to her; and feels herself to be, and is construed by others, a responsible for the courses of actions she takes.*" (O´Donnell, 2004: 13)

Here, there are two movements that simultaneously interact. First, the provincial State gains power over society as it is the main investor, employer and consumer. Second, because this happens in weakly institutionalized States, it tends to build hierarchical and authoritarian relationships. Citizens that are employed in weakly institutionalized States and/or are subject to clientelistic relationships, a media subsumed to political power, and entrepreneurs that are more cronyist than anything else, will have a reduced capacity for "agency".

ii. State:

When a State that does not need its society, also does not need to deliver. The rationale of the "rentier State" is reduced to the interests of the Governor. The governor captures the State apparatus to serve his interests. Therefore, the policies implemented and even the recruiting system will be guided by the particular interest of the incumbent whose main goal is to stay in power. The decaying technical capacities of provincial States and the decreasing autonomy of the political elite is only viable when budgetary needs are satisfied by windfall revenues.

iii. *Regime*:

Last, but not least, the political regime – the core of any democracy that claims itself as such – is also under important stress. Levels of horizontal accountability become irrelevant as the local Legislature and the Judiciary are overtaken by the Executive. The Legislature is where "friends" go and also a marginal proportion of opponents in order to maintain some

sort of appearance of democracy. The Judiciary – as shown in Chapter 2 – is where the most severe strategies are focused. The rentier State implies a largely political game, where surpassing the rule of law when needed becomes important. Therefore a "friendly" Judiciary power is crucial. Regarding vertical accountability, this too decreases as the government needs to control the provincial power in order to better bargain resources at the national level. Institutional reforms taken place in the 1980s and 90s reinforce this tendency.

Table 3.4. The outcome of the mechanisms.

Level	Distribution of resources
Regime	- Governor sole political actor - Executive gains over Judiciary and Legislative - Elections less contested
State	- lesser quality - lesser autonomy
Society	- lesser autonomy - Weaker middle class - Clientelistic working class - Crony capitalists

Source: own adaptation of Vargas Cullell (2011)

D) Conclusion

In this chapter I have exposed my main theoretical arguments explaining the bad performance of fiscally dependent provinces. Learning from the experience of natural resource exporting countries I have adapted the theoretical that explain the political economy of rentier State. I have also shown that this is not an economic « curse » but rather a redistribution of power resources in the hands of provincial governors and the weakening of the autonomy of other actors.

In Chapter 4 we will see how the above mentioned mechanisms operate in detail. San Luis is taken by some analysts as an outlier as it experience economic growth through rapid industrialization and has low levels of public employment (Capello et al. 2008). However, I will demonstrate that its industrialization was as rentier as any other form of rentierism, and

the availability of windfall revenues was the key variable for a formidable accumulation of power resources in the hands of the Rodriguez Sáa brothers.

Nevertheless, there are provinces like Chubut, Río Negro and Tierra del Fuego that are as rentier as the rest and, yet, seem to resist the concentration of power in the hands of governors. In 8 elections since 1983, Chubut has changed its ruling party 4 times, has had 6 different Governors and even has managed to resist the autocratic intentions of one particular governor, Das Neves (2003-2011). Tierra del Fuego has changed of its ruling party 4 times in 6 elections (it became a province in 1990), and has changed governors 4 times. Río Negro, despite changing parties only once, in 2011, has had 5 different governors. Chubut also has had at least 5 different newspapers and a wide range of independent radios.

We will explore in Chapter 5 an omitted variable that has played a crucial role in resisting the concentration of power in Chubut: geography. This province has developed into three distinct regions that are more than 500 kilometers apart from each other and have differentiated economic activities. This has permitted a regional autonomy that has been crucial at the time of elections, as well as for the production of information and distribution of resources. These factors have hindered the concentration of power in an almighty governor, and has promoted the emergence of competing actors in the political arena, the diversity of information and the greater autonomy of economic actors.

IV Rentier provinces in Argentina: the case of San Luis

Introduction

This Chapter makes a contextual analysis of a crucial case, San Luis, in order to better understand the workings of subnational rentier States. By the time the democratic game was restored in Argentina in 1983, San Luis was one of the poorest provinces in the country after suffering a century of decay. It had a weak middle class, one of the highest poverty levels in the country, and a weak political system dominated by a 19th century social structure.

That same year, the national government issued an Industrial Promotion Law – what Donato claims has been the most important regional policy of industrialization ever undertaken in Argentina (2002) - with enormous fiscal incentives for new industrial settlements in the province. Between 1984 and 1988, 2,000 factories settled in the province meaning an economic impact that can only be compared to an oil boom.

Simultaneously, this province has experienced an important process of political concentration, as San Luis has been governed by the same family since the restoration of democracy.[1] The political regime evolved from an oligarchic rule organized around a set of traditional families to a personal concentration of power in the hands of two brothers. They managed to control the State and its different powers as well as the media, and they subsumed most social actors to a patron-client relationship. Since 1983 this province has shown the lowest levels of political contestation.

San Luis is an interesting case because many analysts take it as an outlier of the general pattern of northern provinces: the province has experienced economic growth through rapid industrialization and has low levels of public employment (Capello et al. 2008; Guiñazú 2003). It therefore appears to falsify rentier theories that foresee processes of deindustrialization alongside a growing public payroll. However, I will demonstrate in this chapter that industrialization through tax exemptions is a subtype of rentierism that has the same symptoms as any other form of rentierism. This "subsidized industrialization", plus the important increase in the fiscal revenues transferred by the national government, provided windfall revenues crucial for the formidable concentration of power resources in the hands of the Rodriguez Sáa brothers.

[1] In 2011 Rodriguez Saá´s protégé, Claudio Poggi, was elected governor.

With the decline of fiscal benefits in the 2000s, most of factories left the province – as any oil company would do when they run out of oil. Since then, the province has suffered economic stagnation, and a large proportion of the working force has relied on a Social Inclusion Plan. The Government – still highly dependent on fiscal transfers - adapted to the new situation without changing the rentier dynamics of patrimonialism, cronyism and the widespread of white elephants.

A) San Luis: A "Traditional Province"

Even though San Luis is one of the oldest provinces in Argentina, for most of its history this province has remained out of the economic loop. Located in the center of the country, in colonial times it was one compulsory "posta" (stop) between the ports of the Atlantic and the Pacific. During the war of independence, San Luis was a prison for captured loyalists and a place where traitors to the revolution were sent into "exile".

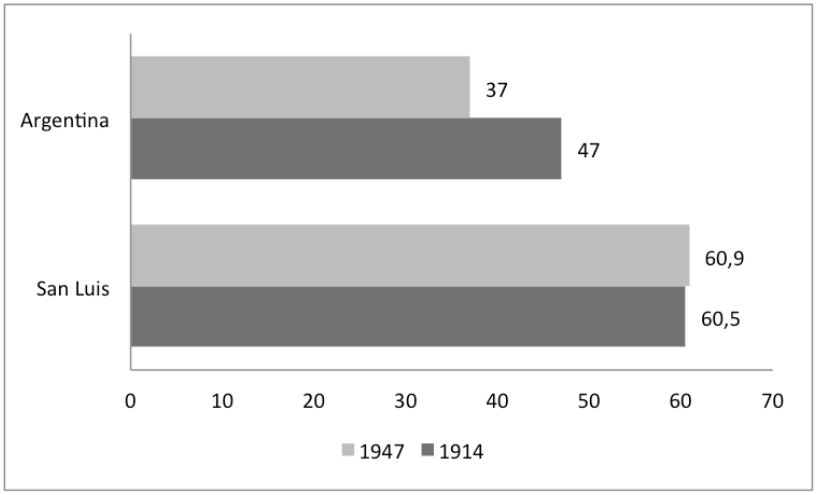
Despite being economically marginal, San Luis has actively participated in all the major events that led to the creation and institutionalization of modern Argentina. It made a notable contribution to the war of independence from the Kingdom of Spain. General San Martín organized the Army of the Andes in San Luis before crossing to Chile and then on to Perú in the liberation quest. There, San Luis contributed 4,000 men – out of a total population of 16,000 people in the province – to the *Libertador'*s army. The human and material contribution to this quest is referred to by *Puntanos*[1] as the major cause for the long-term stagnation and decay of the province – a stagnation that is much more visible compared to neighboring Mendoza and San Juan, which, along with San Luis, form the Cuyo region (Samper 2006).

With more than half of its territory as arid or semi-arid, along with a mountainous north and the tail-end of the Pampas in the south, San Luis did not have the fertile soil needed to participate in the fabulous economic expansion that the Pampas experienced after the mid-19th century, with the exports of agricultural products to industrialized countries. During this period San Luis remained a peripheral region of small cattle-raisers like most of the northwest, northeast, and west of the country (Rofman and Romero 1974).

[1] The people from San Luis are called Puntanos referring to the "Punta de los Venados" (Peak of Deers) a hill neighboring the city.

By the 20th century San Luis was absent from the process of modernization, which meant the development of more service-oriented and industrialized economies in the metropolitan regions of Argentina.[1] While Argentina undertook a radical transformation of its economy and society - especially after the implementation of active import substitution industrialization policies - with an increasingly urbanized and industrialized society receptive of immigrants and a growing middle class, San Luis remained a marginal and rural province. By the 1950s San Luis still had 60.9 percent of its population living in rural areas – even more than thirty years earlier – while in the rest of Argentina the figure was one third of the population (see figure 4.1).

Figure 4.1: Rural population in San Luis and Argentina (in percentages)

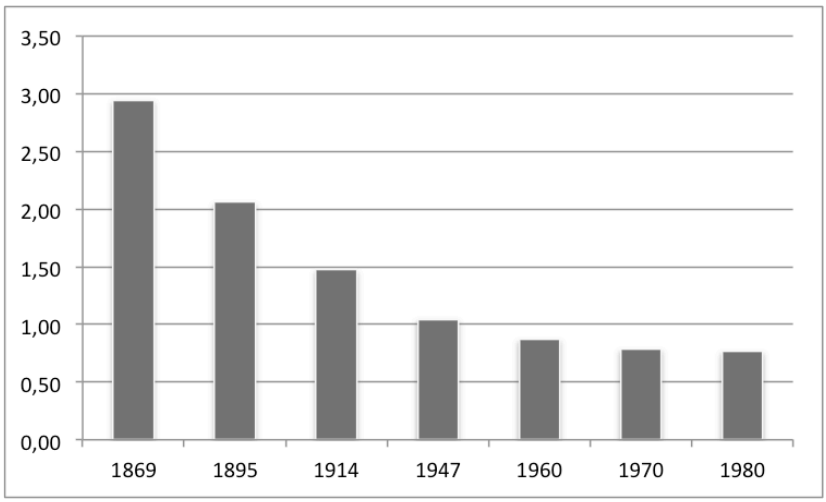


Source: National Censes 1914, 1947

Similarly, the province did not receive important contingents of immigrants. While, by 1914, in Argentina more than one third of the population was born overseas, in San Luis only 8.5% of the population was foreign-born.[2] Moreover, for most of the 20th century, the province not only did not keep up with the pace of growth of the national population, it also suffered the expulsion of its population, which left looking for more prosperous regions. It is indicative that in 1865, Puntanos represented 2.94% of the national population. By 1914 it represented 1.47% of the population, and by 1980 it only accounted for 0.77% (see figure 4.2).

[1] Despite the 1947 census show that secondary production represented the 16% of the economy, must be considered that handcrafts like carpentry, construction and bakery were considered in that economic sector.
[2] Like La Rioja, Catamarca and other provinces from the semi-arid west, mostly Arab – commonly referred as the "turkish" - from Syria that by those years was part of the Ottoman Empire (Samper 2006).

Figure 4.2: Population of San Luis as a share of the national (in percentages)



Source: National Censes (Ministry of Interior 2011)

Just as the provincial economy and society did not experience important changes since the third quarter of the 19th century – at least compared to other provinces – neither were there changes in the political realm. Pavón Pereyra, a historian of San Luis, described it as a "restricted province," where politics was a family matter in which a system of nepotistic succession was transferred from one family to the other, and politics was limited to small clubs or parties in which no more than thirty people resolved the political future of the province (Pavón Pereyra, Maqueda et al. 1993).

There are not many reasons why things should have been different. The lack of economic dynamism and industrial production hindered the emergence of the middle class, labor unions, and the reception of immigrants – groups that were the agents of major and novel political movements in the late 19th and 20th centuries in the metropolitan areas.

Hence, the political history of San Luis during that period was associated with the rule of conservative families that were descendants of San Luis' founders. First the Videlas and the Calderón ruled, then it was the turn of the Mendozas, which, starting in 1878 under the governorship of Toribio Mendoza, ruled the province for 25 years. The "Era of the Mendozas," or the "Unicato" as it is commonly called, was associated with the National Autonomist Party (PAN) – a coalition of conservative provincial elites that dominated Argentine politics from 1880 until the democratic opening of 1916 (Botana 1994). The

Mendozas were overthrown in 1904 by a coalition of members of other political families that accused them of the over-concentration of power.

Two parties dominated the first half of the 20th century. One was the Liberal Party (called the Liberal Democratic Party since 1932), formed by a faction of the PAN in San Luis along with another sector coming from the Mitrism[1]. From 1922 to 1942 they won every single election, starting as the more progressive *Unión Cívica Radical* (UCR) was leading a process of political opening at the national level allowed. This opening was made possible by the 1912 Saenz Peña Law, which guaranteed secret and universal male suffrage. The Liberal Party based its electoral base in the rural and even poorer interior of the province.

The other, far less important party was the UCR, which had participated in the coalition overthrowing the Mendozas and had their first governor in 1916. This party had a more urban, white-collar profile and, as in the rest of the country, based its electoral support in the two major cities – San Luis and Villa Mercedes. However, it is important to note that the members of the UCR in San Luis were also members of traditional families. Samper and Samper show that most of these were doctors, lawyers and land-owners – who, in a province like San Luis, were among the highest wage-earners - and some traditional families, many whom had national lineage and had been a part of Mendoza´s administration before splitting off (Samper and Samper 2008: 32). Nevertheless, the UCR lacked an electoral base, as the conservatives maintained control of the vast majority in the rural areas in a province that remained rural until the 1970s.

The conservative Liberal Party finally lost its power with the rise of Peronism. When Perón took office in 1943 San Luis was intervened. Nevertheless; in San Luis, like many other similar provinces, local elites managed to maintain power while they formed alliances to stay in power (Gibson 1996). Without a developed working class or unions, Perón lacked social bases, and thus his main allies in San Luis were former Radicals, a faction known as the *Junta Renovadora*.[2] In the 1946 elections, Zavala Ortíz was elected governor even though the presidential ticket lost. This suggests that voters followed the local leader more than the national one. In the end, Peronism in San Luis meant a change of alliances and the return of a sector of the elite that was marginalized during the previous two decades.

[1] Mitrism refers to the followers of Bartolomé Mitre, president between 1862-68 and leader of the "Unitarios" that confronted the "Federales" for the fisrst half of the 19th Century.

[2] It is interesting to note that the year in which the conservatives left power in 1943 coincided with the year in which industrial production surpassed for the first time agricultural output (Rock 1994).

With all of the institutional interruptions of the 1950s, 60s and 70s - due to the successive military interventions - the sporadic elections indicate that the Radicals won in 1958 and the Liberals won their last election in 1963. Traditional families only marginally participated during military rule. The reason has more to do with the common practice of the military, which in general preferred to use retired military or civilian professionals (Samper 2006). Still, there was an important participation of *Puntanos* in coups at the national level – most notably Jorge Rafael Videla, descendent of one of the dominant families of the 19th century, who was the head of the Military Junta from 1976 to 1981.

The Peronists won their first election in 1973. The party had enlisted two young men, Adolfo and Alberto Rodriguez Sáa, members of one of the most traditional families in the province that had migrated to Peronism from the Liberal Democrat Party.

Two important long-term political continuities can be seen in this brief history of San Luis. First, political leaders were on the conservative side of the national political spectrum. While the rise of the UCR and then Peronism were breaking points in national politics in the 1920s and 1940s and 50s respectively, San Luis was always remained conservative. Second, we see a fairly stable political continuity of traditional families – disregarding their party affiliation – that ruled the province during this time.

1) Politics as a family affair: From "el Pampa" to "el Adolfo"

Adolfo Rodriguez Saá, the elected governor, was a member of one of the most traditional political families in San Luis. His family´s role in politics can be traced back to the mid-19th century, and, since then, this name has occupied top positions in provincial politics ranging from the highest military officers to governors and national senators.[1] With these two groups we cover a century and a half of provincial politics. In total, five governors come from the immediate family, and ten more come from within the extended family of the Saá, Rodriguez Jurado and Arancibia Rodriguez (see table 4.1). It is interesting to note that they achieved elected office through different parties.

[1] The clan includes the Páez Montero, Saá, Arancibia Rodriguez and Rodriguez Jurado.

Table 4.1: Members of the Rodríguez Saá family in government, 1860-2010

Year	Name	Position
1860	Colonel Juan Saá	Governor
1867	Colonel Felipe Saá	Provisional governor
1888	Benigno Rodríguez Jurado (brother in law of the first Adolfo Rodríguez Saá)	Cabinet minister (Liberal)
1893	Teófilo Saá	Governor (UCR)
1904	Benigno Rodríguez Jurado	Governor (Liberal)
1909	Adolfo "El Pampa" Rodríguez Saá	Governor (Liberal)
1913 1914 1916	Adolfo "El Pampa" Rodríguez Saá	Cabinet minister (Liberal)
1922	Humberto Rodríguez Saá	Interim governor (Liberal)
1926	Alberto Arancibia Rodríguez (nephew of "El Pampa")	Governor (Liberal)
1926	Humberto Rodríguez Saá	Cabinet minister (Liberal)
1928	Alberto Arancibia Rodríguez (nephew of "El Pampa")	Governor (Liberal)
1930 1931	Humberto Rodríguez Saá	Cabinet minister (Liberal)
1934	Ricardo Rodríguez Saá	Governor (Liberal)
1938	Isaac Páez Montero (uncle of Alberto and Adolfo R. Saá on maternal side)	Cabinet minister (Liberal)
1942	Isaac Páez Montero	Cabinet minister (Liberal)
1942	Carlos Rodríguez Saá Father of Alberto and Adolfo Rodríguez Saá	Police chief
1944	Agustín Rodríguez Jurado	Federal interventor
1964	Alberto Arancibia Rodríguez	Cabinet minister (Liberal)
1967	Rodolfo Rodríguez Saá	Cabinet minister
1973	Adolfo Rodríguez Saá	Provincial deputy (Peronist)
1980	Hipólito Saá	President of the Provincial Supreme Court
1983	Adolfo Rodríguez Saá	Governor (Peronist)
1983	Alberto Rodríguez Saá	National senator
1987	Adolfo Rodríguez Saá	Governor (re-elected)
1987	Alberto Rodríguez Saá	National senator (re-elected)
1991	Adolfo Rodríguez Saá	Governor (re-elected)
1993	Alberto Rodriguez Saá	National Senator (re-elected) (resigned in 1994)
1995	Adolfo Rodríguez Saá	Governor (re-elected)
1999	Adolfo Rodríguez Saá	Governor (re-elected)
2000	Alberto Rodriguez Saá	National Senator
2003	Alberto Rodríguez Saá	Governor (Movimiento Nacional y Popular)
2003	Adolfo Rodríguez Saá	National deputy
2005	Adolfo Rodríguez Saá	National senator
2007	Alberto Rodríguez Saá	Governor

Source: Núñez (1980), Behrend (2007) and data gathered by the author.

By those years contemporary Adolfo was a young activist of the Liberal Democrats and founder and editor of "La Voz de San Luis" an anti-Peronist magazine. However, when he and his younger brother, Alberto, went to study Law in Buenos Aires, they returned converted

to Peronism. Adolfo became the attorney of the Party, and in the 1973 elections, he was elected provincial legislator at the age of 26.

The family's capacity to adapt to different political circumstances has been impressive. The family has participated in politics as governors of the conservative party, opposition leaders against the Mendozas and then their allies again, as founders of the UCR, leaders of the Liberal Party, and currently the central figures of the Peronist Party.

B) Return to Democracy

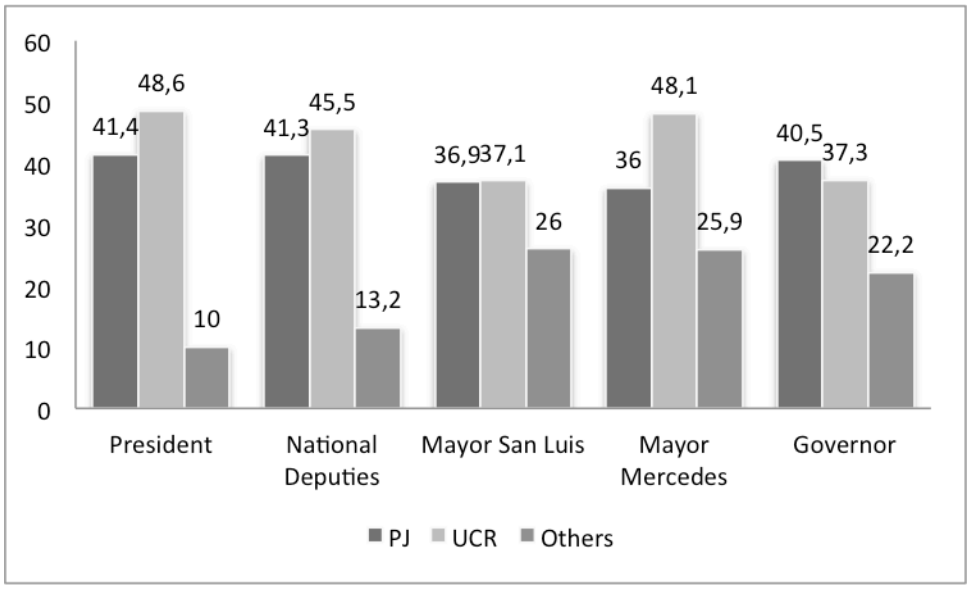
As described in Chapter 2, this unpopulated province, like others, was politically and economically favored with the restoration and the reinforcement of Federal institutions after 1983. At the provincial level, where congressional elections take place, each province dictates its own constitution and controls nominations and provincial elections (Benton 2003). The relative political power of poor and unpopulated provinces like San Luis was then stronger, because their representation in the National Legislature is far beyond their share of the population. Internally, Governors are stronger than in more developed provinces, because in these provinces the State is the first employer and primary investor in the province.

1) The 1983 Elections

There was some fortune favoring Adolfo Rodriguez Sáa in 1983. In the 1970s, the young Adolfo became close to the union leader, Oraldo Britos, who under Isabel Perón´s presidency, was appointed *interventor* of the Party. Therefore, Brito and his protégé were in privileged positions within the party ranks when the electoral game was restored in 1983.

"Why would an important union leader protect two very young members of the old conservative elite?" - Behrend asks herself (2007: 169). Her conclusion is that the Rodriguez Saá name would be less threatening to powerful sectors of society – the Catholic Church, the party, union leaders. This can be seen in the 1983 results. In 1983, Adolfo Rodriguez Saá was elected Governor by a close margin of 3% (3,873 votes), while the UCR got every other major elected position. In the province the UCR won the presidency (48.6% against 41.4%), the National Deputies (45.5% against 41.3%), as well as obtaining the mayoralties of the two major cities – San Luis and Villa Mercedes. Rodríguez Saá was the only Peronist to win in that election.

Figure 4.3: Electoral results 1983



Source: Ministry of Interior

2) The Economic Miracle: Industrial Promotion Law

How does a person build the most profound and longstanding domination of a province after winning the governorship by only two percentage points, losing all other important political positions, and being of a different party than the national government? The turning point for the unparalleled concentration of power was the implementation of the Industrial Promotion Law, which provided the newly elected governor the opportunity to capture enormous rents and benefits at no cost. Just after Rodriguez Saá took office, San Luis was among four provinces that benefited from a national Law of Industrial Promotion.[1] The Law was originally drafted in 1973 in the framework of a "Historical Reparation Act" referring to the effort that Catamarca, La Rioja and San Luis made during the Independence War, which made them lag behind the rest of the country.[2] The Law established a set of benefits that mainly consisted of tax exemptions on final products, including VAT on purchases and sales,

[1] The other provinces were Catamarca, La Rioja and San Juan. In the case of San Luis Law 22.702/82 issued in 1982 – but only implemented under the administration of President Raul Alfonsín (1983-1989).

[2] It is more likely that this policy responded more to Perón´s political need to secure support from certain regional leaders like Saadi in Catamarca who had important ascendance over neighboring San Luis and La Rioja. This also explains that later San Juan – not a particularly poor province – was included in the Promotion law. The implementation by Alfonsín is also explained by his need of support from Peronist governors in the Legislative power.

income taxes and deferral of taxes to profits. A time frame of 15 years was included with benefits declining over time.

One of the key aspects of the regime was the delivery of the Implementation Authority to provincial governments. Thus, benefitting provinces became fiscal "free riders," as they were granting decrees on federal taxes and thus getting enormous benefits, even as costs where distributed among the rest of the provinces.[1] This provided a great deal of power to benefited governments as it enabled them not only to receive the political and economic benefits of being those individuals responsible for industrializing their provinces, but, even more importantly, it gave them an opportunity to capture enormous economic benefits at no cost.

Donato (2002) argues that this policy has been the most important regional policy of industrialization ever taken. The implementation of this scheme meant a radical transformation of the economy of the benefited provinces and especially in San Luis, where two thirds of the industries settled. The government led by the young Adolfo reacted very quickly to the Industrial Promotion Law, creating the Ministry of Industry, which aimed to make the bureaucratic process faster. [2] Without any experience or industrial planning, the provincial government issued ad hoc authorization decrees. Benefits were so large that some industrialists claimed that they recovered their investment in three months (Bianchi 2008).

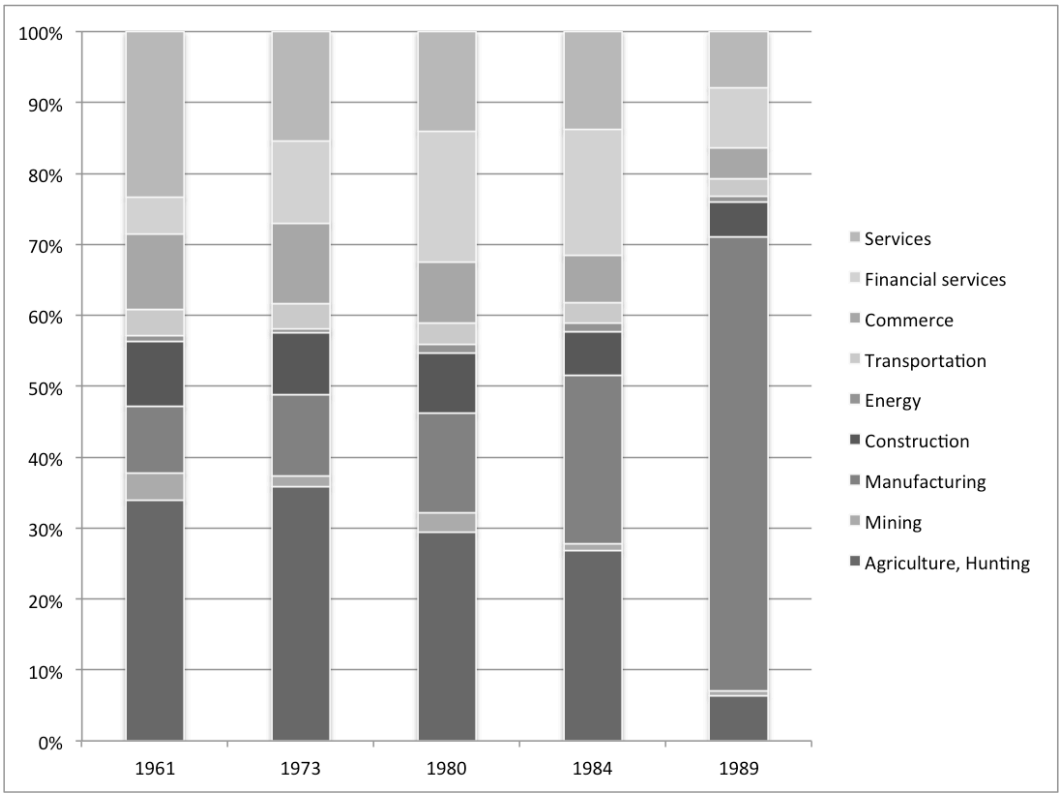
The results of industrial promotion were impressive. Around 2,000 industries settled in San Luis in the first two years of promotion. Industrial production grew at 556% in the first ten years, while Argentina´s national industrial production was of only 12%. Industrial production became the engine of the economy. In 1983 it represented 16.2% of the Gross Provincial Product. In 1990 it was 63.4% (see Figure 4.4).

[1] The most important of the exempted taxes is the VAT, which is one of the pillars of Argentina´s fiscal structure and is re-distributed to other provinces through the scheme of Federal Co-Participation.

[2] The reason for a higher impact in San Luis is argued by Guiñazú as a response to theexpedite and efficient provincial government issuing authorization decrees and bureaucratic support (2003). Contrary to this governmental efficiency argument, an entrepreneur in San Luis argued that the main reason was that San Luis is located in the 'energy circle' of Argentina and the other promoted Provinces not. Also, San Luis is located on the Route 7 that connects Santiago of Chile with Buenos Aires, and is 500kmts closer to the main national market, Buenos Aires (Interview with Ing. Cortázar 2007).

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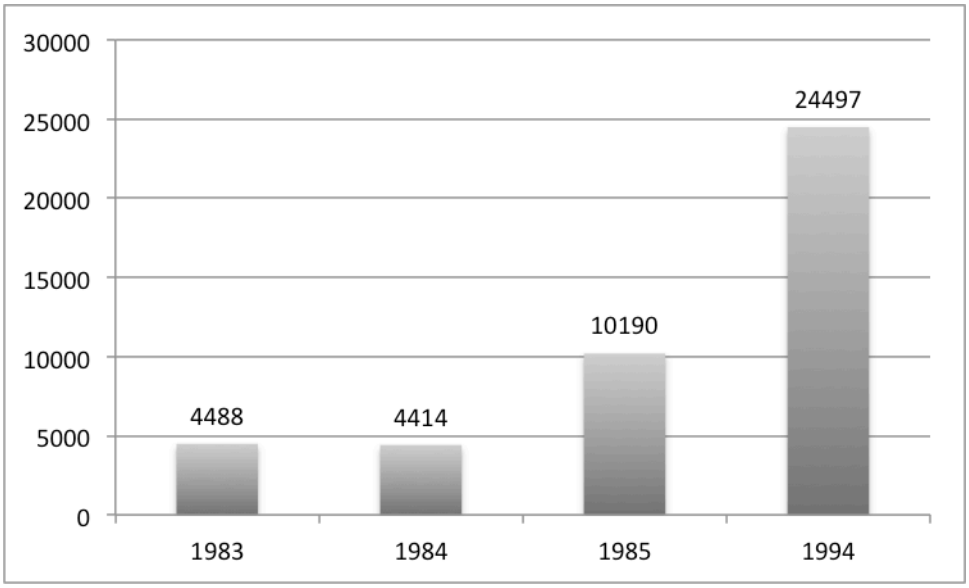
Figure 4.4. Composition of provincial economy by activities (constant 1970 prices)



Source: Samper (1998) based on INDEC

Society dramatically changed along with the economy. The labor market changed. 25,000 jobs were created in an economic active population of 120,000, which meant a growth of 434% in the first ten years (figure 4.5). San Luis very quickly moved from being a mostly rural province to an urban and industrial one. These figures are even more impressive when taking into account context. San Luis industrialized itself just after the Mexican debt crisis in 1982 and the beginning of the ´lost decade´ in Latin America, when Argentina started a process of deindustrialization.

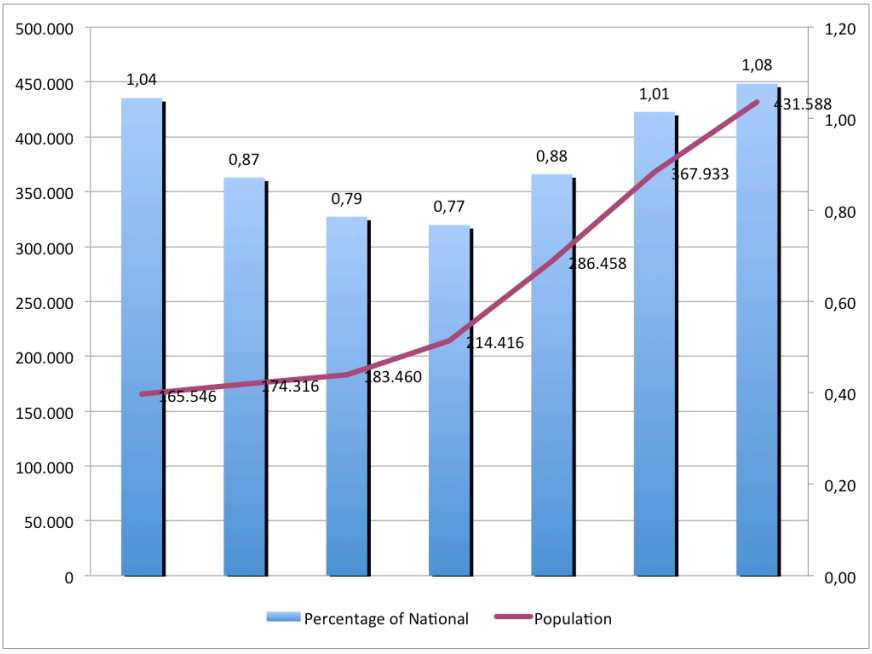
Figure 4.5. Industrial jobs 1983-1994 in San Luis



Source: Ministry of Industry, San Luis, 2009

The 1980s was a decade of unparalleled prosperity in San Luis history. The population has doubled since then. San Luis and Villa Mercedes received migrants from neighboring provinces, reversing a century trend of negative population growth (see figure 4.6).

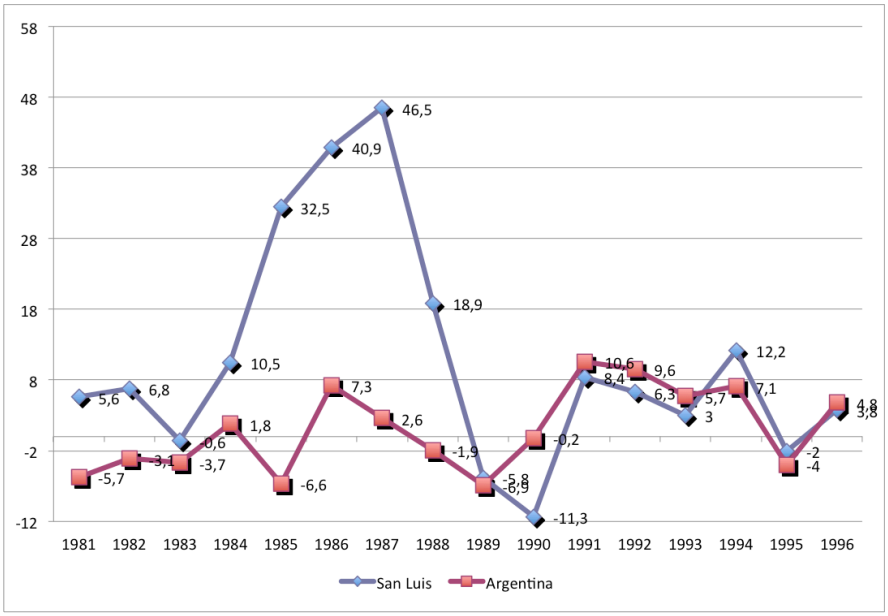
Figure 4.6. Population of San Luis (numbers), as share of Argentina (percentages).



Source: Censuses 1947, 1960, 1970, 1980, 1991, 2001 and estimated for 2010. Provinfo data from INDEC

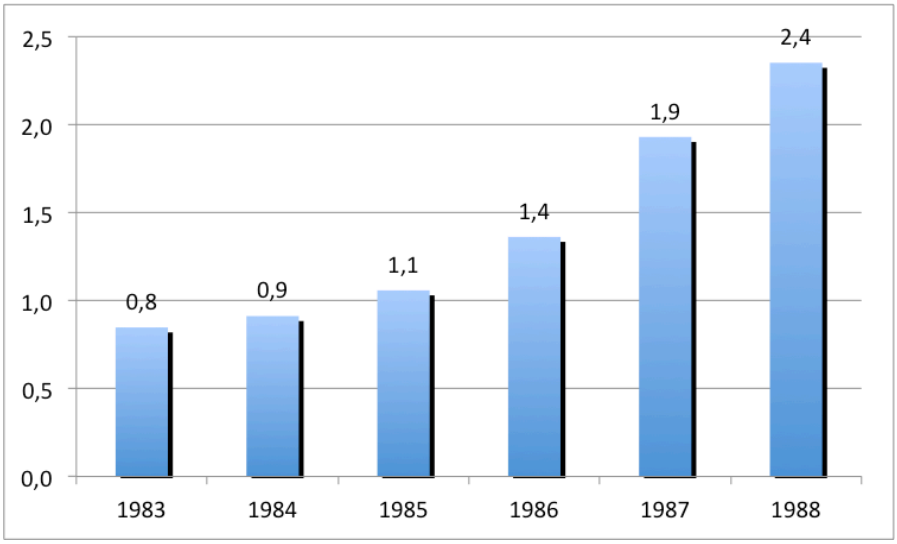
The impact on the overall economy can only be compared to an oil boom (see figure 4.7). Industrial growth led the process of economic expansion, which had an important impact on the service economy, including in transportation, communications, finance and other professional activities. In only ten years, gross geographic product tripled, and so San Luis' participation in the National economy jumped from 0.8% in 1983 to 2.4% only four years later (figure 4.8).

Figure 4.7. Evolution of San Luis and Argentina´s economies– (1986 constant pesos)



Source: Author´s based on INDEC (1994).

Figure 4.8. San Luis economy as share of National economy (in percentages at 1970 constant pesos)



Source: Ministry of Interior

C) Subsidized industrialization as a subtype of fiscal rentierism

In only ten years San Luis was blessed by economic growth. This occurred in a very short period of time and with no previous record in the province or in any other province in Argentina. The reason is that the fiscal benefits were on top of the already high fiscal transfers of the Co-Participation agreement. The economic impact analytically similar to an oil boom and with very similar characteristics to countries exporters of "point source" natural resources (see Chapter 3).

The characteristics of the Tax Sharing Law were described in the previous chapter. Here, I will focus on the Industrial Promotion Law, which further fostered rentierism in the province.

1) External source

Benefits of the Industrial Promotion Law were external to the province. First, this was a National Law. Exempted taxes were also national. Similarly, there was no Industrial plan, national nor provincial. Thus, the settlement of industries was only fueled by fiscal exemptions, and these were national taxes. One important consequence is that the benefitting provinces became fiscal "free riders" as provincial executives were granting decrees on federal taxes and thus getting enormous benefits, even as costs where distributed among the

rest of the provinces. The most important of the exempted taxes was the VAT, which is one of the pillars of Argentina's fiscal structure and is re-distributed to other provinces through the scheme of Federal Co-Participation.

An independent survey has estimated that the direct and indirect loss of tax income due to the Industrial Promotion Law in San Luis was of no less than 31.4 billion dollars[1] for the period 1983-2010 (Dagnino Pastore 2007). That is to say, the rest of the country was implicitly funding, at a very high cost, the industrialization of the province.

2) Not linked to production

As paradoxical as this may sound, this process of industrial settlement has had no links to the endogenous development of the province. In theory, industrial growth leads to spillovers, as industries need suppliers and a whole set of network of services around them (Krugman 1995). Similarly, industrial growth also tends towards specialization increasing the productivity of a region, as industries associate among themselves in order to lower costs and enlarge markets. However, nothing of that happened in San Luis. The main reason is that the most important fiscal benefits were on final products – i.e. VAT – and were large enough to fulfill all the economic needs. This creates important incentives for creating "industries with wheels" – those that are ready to leave when tax benefits are levied, just as oil companies leave countries when they run out of resources.

This industrial rentierism has hindered the creation of local suppliers, or intermediary productions, which are so necessary for the development of clusters. In an interview, a former director of the Industrial Association of San Luis mentioned that many of the industries kept producing in Buenos Aires or Rosario, and they brought the production to San Luis only for the "Made in San Luis" label and then went back to their main consumer markets. Factories that settled in San Luis were characterized by their light infrastructure. The explanation given by an expert is that most firms were part of large industries already operating in Buenos Aires. They transferred some of their activities to San Luis as modest branches of their main plants that could be closed at low cost (Aspiazu and Basualdo 1990). On top of that, there was no industrial plan from the Provincial Government, which was more interested in delivering as many authorization decrees as possible, since it knew that the rest of the provinces were

[1] The number is in Current Net Value (CNV).

paying for it. The amount of corruption associated with issuing these authorization decrees was broadly known (Wiñazki 1995; Trocello 2008).

Proof of the lack of an industrial plan is that the industrial offer is distributed in almost perfect shares between textiles, machinery, food and beverages and chemicals. Compared to other industrial regions – notably Rafaela in Santa Fé - governance over industrialization has been a top-down discretionary process (Bianchi 2008). There has not been a developmental project, and the kind of industries created has been small and medium enterprises with no specialization. This kind of diversification is not coherent with the small size of the market. The lack of specialization, the lack of clustering, and the distances from the main markets (500 kilometers from Córdoba, 700 from Rosario and 900 from Buenos Aires) made industries incur important diseconomies. This did not pose a policy problem as the rest of the country was paying for it.

Without clear policies for productivity, innovation and support of start-ups, it is understandable that a provincial entrepreneur class has not emerged in San Luis. Local citizens worked for the incoming firms, but the creation of new firms has been limited. Not surprisingly, with the decay of the fiscal benefits, most of factories left. By 2009 only 215 industrial projects remained out of more than 2,000 during the precious decade. 82 of these are operating with expired benefits from the Promotion scheme.[1] That is to say that more than 90% of the industries closed down their activities in the province.

3) Poor people, Rich State

One of the key aspects of the regime was the delivery of Implementation Authority to provincial governments. This provided a great deal of power to the recipient governments as it enabled them to receive the political and economic rewards for industrializing their provinces. Even more importantly, the State now had many more resources thanks to this subsidized economy without having to tax their own constituents.

If we add the resources from the Co-participation Law agreement to the implicit transfers implied in the industrial promotion Law, by 1989 San Luis was the second most favored province in Argentina. With less than 1% of the national population, it was receiving more than 7.4% of the total fiscal transfers of the country (table 4.2).

[1] Information provided by the Secretary of Industry, Government of San Luis

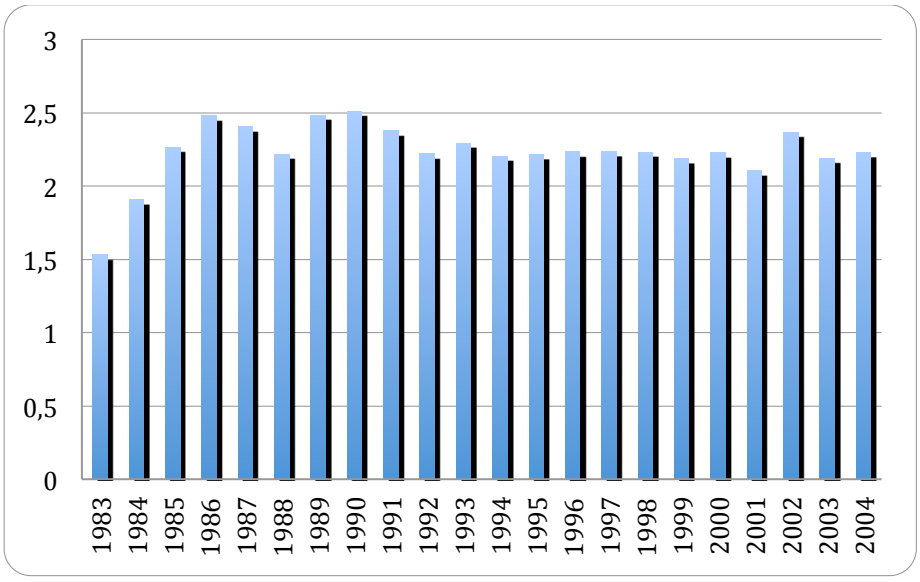
Table 4.2. Selected Indicators San Luis and Santa Fe

	San Luis	Santa Fe
Population 1990 (% of National)	0.88%	8.6%
Contribution to National economy (1984)	0.8%	9.7%
Industrial Subsidies (% National)	32.8%	6.5%
Fiscal Co-participation 1988	2.3%	5.1%
Fiscal benefits (co-participation + Industrial Promotion) 1988	**7.4%**	**7.1%**

Source: Guiñazú (2003) and author´s.

In San Luis, the Industrial promotion Law was not the only source of rentierism. It added to the benefits of the Co-Participation Law, which San Luis, like other scarcely populated provinces, received. The Industrial Promotion Law coincided with the increasing participation of smaller provinces in the distribution of federal fiscal resources. In 1984 the 1973 Co-Participation Law expired. Until the new Law was issued in 1988, most of the transfers were established in a bilateral arm wrestling between each province with the National Government. As shown in Chapter 2, provinces used that window of opportunity to increase their share of fiscal transfers, and San Luis was among the top recipients. From 1983 to 1985 San Luis increased its share from 1,5% to 2,5% of total national fiscal transfers (figure 4.9).

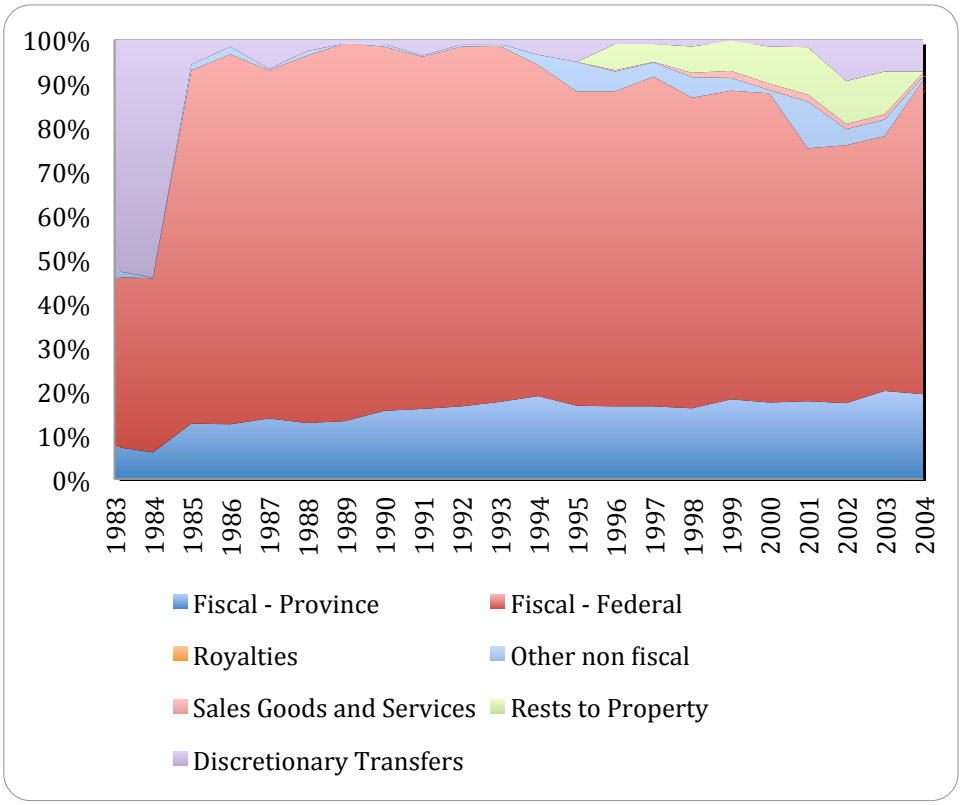
Figure 4.9. National fiscal transfers to San Luis as a share of the National total (in percentages)



Source: Ministry of Finance

Figure 4.10 shows how national fiscal transfers in 1983 accounted for less than a half of total fiscal revenues, while two years later the share represented more than 90%.[1] Local tax collection in San Luis dramatically increased as the provincial economy grew due to the subsidized industrialization. Provincial general fiscal collection grew 353% and gross income tax grew 541% between 1983 and 1991 (FUNIF 2000).

Figure 4.10. Fiscal revenues of San Luis by origin. 1983-2004 (in percentages)



Source: Ministry of Finance

D) The Workings Of A Rentier State

By 1986 the economic benefits became evident in San Luis, and the profits of the economic miracle were at the disposal of the ruling elite. The windfall fiscal revenues coming from increasing tax collection, increasing fiscal transfers and the growth of economic activity in general allowed the provincial government to simultaneously address several issues on the public agenda of this lagging province. The cornerstone of the agenda was an ambitious

[1] It is important to note that fiscal benefits of the Industrial Promotion are not included in the official figures as these are tax exemptions – not paid – and its impact is an estimation.

investment plan in infrastructure, housing and social programs. All of this occurred as public employment reduced its share of the budget from 76% to 59% between 1983 and 1991 (FUNIF 2000). Adolfo Rodriguez Saá managed to change the profile of the Province without any internal costs, an arrangement that cultivated enormous political dividends for him.

At that moment, San Luis already had weak institutions and a patrimonial State dominated by a group of families that alternated in and out power without a consolidated democratic culture. However, the capture of the enormous fiscal benefits gave the means to concentrate power in the hands of the governor in a way that had never happened before.

Adolfo was the Governor that industrialized the province, providing employment opportunities for the society while still having the fiscal resources to undertake the most ambitious public works and housing program in Argentina. Therefore, it is not difficult to understand why he was unbeatable in the electoral arena. Nevertheless, the nature and characteristics of these funds incentivizes the governor to go beyond winning elections to fully control the party, the State, society and even the own history of the province.

He used the windfall fiscal revenues to coopt adversaries, to suffocate or to acquire independent media, to build a crony bourgeoisie and to build strong electoral clientele.

1) Weakens institutions

"You cannot rule for 40 years without family and friends"

Adolfo Rodriguez Saá (in Multisectorial 2006; Samper 2006)

One of the major outcomes of unearned windfall revenues has been the deterioration of institutions in the province with the Governor not only concentrating resources in the executive but also progressively invading other institutional arenas. The concentration was such that divisions among the party, the government and the regime became blurred. In essence, a process of redistribution of power resources within the State and society has taken place. On the one hand, there is a vertical concentration of resources in the State vis-à-vis society, and a concentration of power in the hands of the executive within the provincial State. As in the case of many oil-exporting countries, the State-society balance breaks and thus the State is less compelled to respect, create or enhance citizen rights.

The party

The first two years of government were not easy for Adolfo. He appeared to be a weak Governor. As seen in figure 4.3, in 1983 he won by a scarce margin, but he did not fully control the legislature. Additionally, the two major cities were controlled by the opposition party, UCR, which was also in charge of the national government. Thus, he had to heavily rely on the support of the Party, mainly Oraldo Britos in the province and Leonidas Saadi at the national level. A hint of his weakness was reflected in 1984 when Adolfo tried to privatize a hotel in Potrero de los Funes that belonged to the Government – an insignificant fact compared to what would come in the following decade – and after negativereactions from the opposition and social demonstrations he had to abort the initiative.

Since he took office, the governor made changes within the party in order to co-opt politicians from other sectors and thus gain autonomy from Britos and other strong party members. The rapid economic growth allowed the governor - as Acemoglu, Robinson and Verdier point out - to use those "cheap" revenues to buy off political challenges and build political support (2004). Even though the economic effects of the Industrial plan were not yet fully visible in 1984, they were enough to build a new coalition. Decrees that allowed for industrial projects in the province were allegedly handed out for a fee of between 50,000 and 100,000 dollars.[1] No less than 2,000 decrees were issued in the first two years of government, which gives no less than 100 million dollars to the ruling family to redistribute among their aides, consulting firms and law firms close to the family.

This is how Adolfo co-opted other people into the government. Some of them were members of the alternative Peronist list that he beat in the primaries – i.e. Myriam Agundez and Roque Torres Morales. Others came from his older party, the Liberal Democrat Party, and still others were important lawyers and accountants that were not party members but were politically significant. This is the case of Carlos Sergnese, appointed by the dictatorship to oversee the 1983 elections. Since then he has been one of the closest collaborators of Rodriguez Saá.[2] This way Adolfo became less dependent on Britos and other traditional leaders of the party.

[1] Calculation is based on personal interviews and other publications Wiñaski, M. (1995)., Samper, J. (2006)., Ortiz, C. F. (2007).

[2] In 1983 there were rumors of fraud favoring Rodriguez Saá and the inclusion of Sergnese in the government has been a confirmation for many.

Observers from that period mention how the governor held in check the ambitions of other political figures in the party. They were left aside if they attempted to show some sort of autonomy.[1] Their dependence was due to the full control of incoming resources by the Governor and his small group of close collaborators. This is how in a short period of time Adolfo and his brother Alberto became the only political leaders of the party (Samper 2006).

Therefore, despite the fact that the PJ had been important in their ascendance in power, since the 1990s the consolidation in power of the Rodriguez Saá was independent of the Party. Samper points out that the party only works 30 days before elections and concludes its activities just after them, and candidates are not organically chosen but appointed by the Governor (Samper 2006: 202). Moreover, in order to gain more independence from national Peronist authorities, the Rodriguez Saá brothers created different parties and coalitions like PUL (Partido Unión y Libertad) and the MNP (Movimiento Nacional y Popular), which were used in elections to gain autonomy.

The regime: Constitutional Reform

Still, the provincial arena was highly contested. In the 1985 mid-term elections the Peronist Party lost the elections to the UCR party. Adolfo fell into a depression and his collaborators had to create a "come back campaign" (Ortiz 2007: 33). Nevertheless, 1986 was a turning point in San Luis. The UCR managed to reach a stalemate in the Legislature after 1985. The legislature had to nominate a National Senator in 1986, a fact that almost ends in a federal intervention.[2] Neither side had enough votes to impose its candidate so in a fraudulent maneuver provincial legislators proclaimed Oraldo Britos Senator.[3] The provincial leaders of the UCR wanted to invalidate the voting, and even asked the national government to intervene on the Legislative power.

Nevertheless, President Alfonsín did not intervene because did not want to oppose Peronist governors that could potentially provide support in the National Assembly. Adolfo, and his younger brother Alberto – National Senator at the time – were protégées of Vicente Saadi, one of the most important Peronists in the National arena. The solution found was a

[1] Interview with Néstor Menendez (2009)
[2] Provincial Legislatures elected National Senators until 2001. The 1994 Contitutional Reform included a third Senator by province and also the direct election.
[3] Adolfo´s Legislators took advantage of a situation in which UCR legislators left the Assembly and nominated a new Legislator – replacing another that was elected National Legislator – and with that new counting organized the voting.

call for a plebiscite in order to settle the dispute. The vote also included the possibility to reform the Provincial Constitution in the ballot box.

By early 1986 the economic effects of the Industrial Promotion were evident for the population as no less than 1,000 decrees had been approved the year before. Public finances were booming, because the provincial State had tripled its own tax base in two years (Ministry of Finance, San Luis, database) creating a stark contrast to the failed Plan Austral at the national level.

This is how the Rodriguez Saá managed to win the two components of the plebiscite – the Constitutional Reform and the National Legislator. This was also supported by the implementation of double simultaneous voting.[1] The Constitutional reform of 1987 ended up being crucial for the concentration of power within the provincial State.

There were two main components of the reform that further supported the institutional concentration of power in the hands of the provincial executive. One was the inclusion of indefinite election of the Governor, which opened the door for Adolfo to stay in power for five consecutive periods.[2] The second was the creation of a Provincial Senate, with one member per district, that overrepresented the first minority and the interior of the province – traditionally the stronghold of the conservatives and now of Rodriguez Saá. From 1987 to the present, partisans of the PJ have occupied all seats in the Senate with the exception of two Senators who managed to be elected in 1999. Thus, they had assured the full control of this branch of the legislative power.

The economic boom helped the government to gain momentum and to pursue institutional reforms that allowed for an enormous concentration of power in the hands of the Executive.

Intergovernmental relations

Rentier provinces highly dependent on fiscal transfers from the National government, relate to the latter as if it were "oil wells". Therefore, the main political principal-agent relationship is not between the provincial State and its constituents but the one between the Provincial Governor and the Federal government (Bianchi and Caputo 2007). As the literature on the resource curse predicts, the main agent in politics is no longer society because

[1] This is commonly referred as the Ley de Lemas in Argentina. This election has been the only one using this rule in the Province.
[2] Only left the governorship when he was appointed President in December 2001.

resources do not emanate from it. This situation hinders democracy.

One key difference of rentierism at the national level and the sub-national level is that in the latter there are institutional limits to the accumulation of power. One limit is related to electoral democracy and republican principles. In extraordinary cases the Federal Government can intervene into the province. Nevertheless, Presidents are dependent on the support of national representatives from provinces (see chapter 2). Therefore negotiations are flexible depending on the strength of each actor. Electoral democracy has been an anchor for Federal interventions so far, but violations against the independence of the media and the judiciary, as well as other constitutional violations, have regularly been overlooked by national governments.

In the case of San Luis, the viability, continuity and even extension of the Industrial promotion Law has been constantly under negotiations with the National government. There was too much at stake. The issuing of the Industrial Promotion Law must be understood along those lines. The original Law responded to Perón´s political need to secure support from certain regional leaders. This also explains why San Juan – which is not a particularly poor province – was later included. Then, the implementation by Alfonsín in 1984 can also explained by his need of support from Peronist governors in the Legislative power. Saadi from Catamarca - Rodriguez Saá´s protector – was the chief of the Peronist bloc in the National Upper House and managed to give the delegation of the Implementation Authority to the provinces, which ended up being the cornerstone of the scheme. Similarly, Rodriguez Saá resisted the aggressive campaign that Mendoza was leading in the late 1980s against the Industrial Promotion Law.[1] The relative strength of Rodriguez Saá was crucial in 1986 when the Government of Alfonsín was seriously considering a federal intervention after the crisis in the Provincial Legislature.

Similar negotiations occurred with the Co-participation Law. As described in Chapter 2 the 1973 Law expired in 1984 so from then on each province had to negotiate on a bilateral basis the transfers from the Federal Government. With a weaker Alfonsín, in 1988 provinces managed to get a larger primary distribution. This is how San Luis, which received 1.6 percent of national fiscal resources, climbed to 2.5 percent in 1988 (see figure 4.5).

The downside is that the way governors grow their power is by having muscle in the province and controlling national representatives – i.e. the incentive is to concentrate political

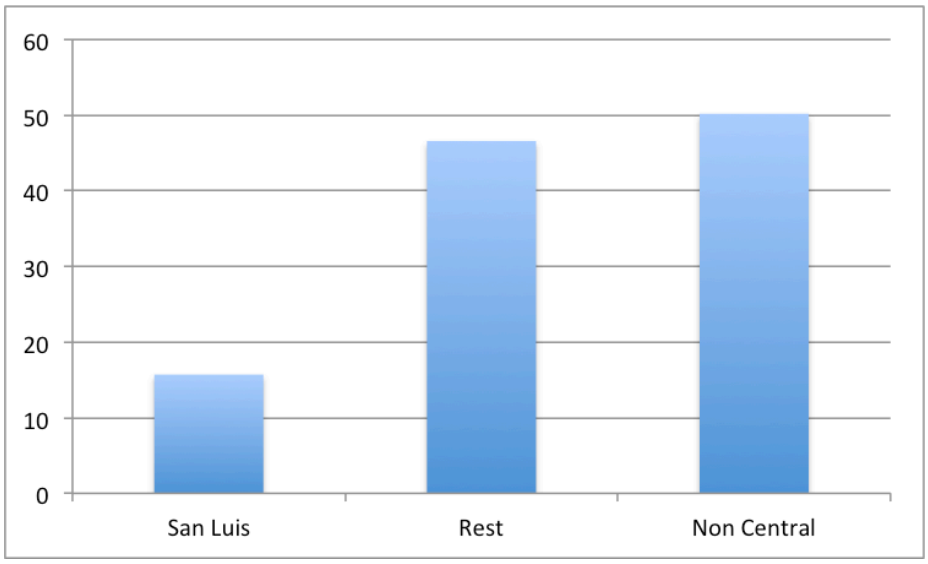
[1] Mainly under the administration of Governor José Octavio Bordón (1987-1991) that Mendoza implemented an aggressive campaign against the tax exemption scheme arguing that its industries were leaving the province.

power in the province. Similarly, as shown in Chapter 2 Presidents tend to negotiate with smaller provinces because they are cheaper places to obtain political support (Gibson and Calvo 2001). The power of Presidents is – to a large extent – to be able to transfer funds and investment to provincial governments.

The case of San Luis is outstanding in this sense. The Industrial Promotion scheme provided fiscal autonomy from the Federal Government. Similarly, the increase of provincial tax collection strengthened the Provincial State. On top of that, employment – which was still subsidized – was nevertheless located in the private sector. This diminished the role of public expenditure on salaries as a percentage of total spending (chart 4.18). San Luis is the province where public employment grew the least in Argentina between 1983 and 1993 (Latina 1996). In that period, public employment increased by 14% in San Luis, but it almost doubled in the rest of the provinces, and is even higher if the central provinces are set aside (figure 4.11).

All of this helped the government to incur large fiscal surpluses, which increased its autonomy from National governments at a time when most provinces were being bailed out.

Figure 4.11: Increase in public employees 1983-1991 (in percentages)



Source: (FUNIF 2000)

Thanks to the province's successful economic performance and a relatively low amount of administrative spending, Adolfo came to be considered a "good manager" at the national level. He was even widely proclaimed as the "Milagro Argentino" and "Quinta Provincia". Thus, since the early 1990s he started flirting with the Presidency – just as Menem and

Kirchner, as governors, did in different periods. Due to the presidential aspirations in 1995, the Rodriguez Saá brothers openly opposed the Constitutional reform of 1994 that Menem was pursuing. Menem tried to convince them by making San Luis one of the provinces that received the most ATN funds that year. Alberto, then head of the Peronist bloc in the Upper Chamber, was the only Peronist Senator who voted against the reform to enable Menem´s re-election. Almost simultaneously, Adolfo suffered a kidnapping that was a national scandal, an event that some observers linked to Menem (Wiñaski 1995).

Still Rodríguez Saá continued his strategy to get more leverage at the national level. He managed to become third vice-president of the Peronist Party National Council from 1995 onwards, and when Menem had already left office, he was elected president of the *Consejo Federal de Inversiones* (Federal Investment Council), an institution that groups provincial governors. There, he became the spokesman for the league of Peronist governors in negotiations with De La Rúa´s administration (1999-2001).

The State: fencing in the province

It is said that after he lost the wrestling against Menem, Adolfo Rodriguez Saá turned his attention back to the province. After these events Adolfo claimed "now I will fence in the province" (Behrend 2007: 197). Just as the threat of a Federal intervention in 1986 changed the politics of the province, the events of 1995 made Adolfo take a new twist, tightening even further the control of provincial politics. From then on, the Executive started to initiate actions to trespassing the Judiciary power and then the Municipality of the capital city, two institutions that had shown some sort of independence from time to time.

In rentier States, full control over revenues is the main goal. Therefore control over other areas of the State is crucial, and the uncertainties that are part of democracy must be diminished – as Chabal and Daloz (1999) have pointed out studying African politics. There is a need to exert control and to even invade other powers that could threaten the full control of the political agenda. Rodriguez Saá attempted to exert this control in a variety of ways, as the following sections show.

Justice

The concentration of power has meant, in part, the trespassing of limits between the different powers of the State. Legislative power was dominated, mainly after the

constitutional reform of 1987. Then came the judiciary. In a context of windfall wealth entering the province, the government implemented rapid and large public investment in infrastructure and the already mentioned dubious approval process of authorizing decrees for the Industrial Promotion. Since the late 1980s the regime started to exert pressure on the judiciary power and there was a straightforward political strategy to control it. In the case of San Luis former directors of the family-owned newspaper *Diario de la República* - Maqueda, Fourcade and Amitrano – were later nominated as judges or members of the Supreme Court. Being part of the newspaper was a demonstration of loyalty.

However, the intromissions of the Executive over justice dramatically increased in the mid-1990s after several Laws aimed at controlling Judiciary power were issued – an excellent survey was carried out by the prestigious human rights organization, CELS (2002). In 1995 the Provincial Legislature approved laws undermining the salaries of judges and opened the possibility of making them vulnerable to removal.[1] The same year the Government reduced the salaries of all judges and court officials. After many judges appealed the measure, the Legislature passed a bill of Economic Emergency justifying the reduction. It is interesting to note that the province had fiscal surplus at the time, a fact that was made known in public propaganda. Therefore, it was evident that the so-called Economic Emergency was an excuse to undermine Judiciary independence.

All but one member of the Provincial Supreme Court resigned in December 1996. The government designated new judges who had close links to the provincial executive and even had previously held positions in the executive (CELS 2002). One of those was Carlos Sergnese, who later became President of the Supreme Court. Sergnese was in charge of the electoral authority of San Luis that overruled all the claims of fraud in the 1983 elections in which Adolfo was proclaimed governor by a minimum margin. In the 1980s he was the President of the local PJ, personal attorney of the Governor, Minister, and *interventor* of the Provincial Bank – among other outstanding positions. He became the President of the Supreme Court without any previous judiciary experience. Contradicting the Provincial Constitution, which States that the Presidency must be rotated among its members, Sergenese was re-elected President until he was elected National Senator in 1999. The second new member of the Supreme Court was Elvecia del Carmen Gatica, former employee at the *Casa*

[1] Note that one of the guarantees of Judges´ independence from the Executive is the intangibility of their salaries and that they can only be removed through impeachment.

de San Luis in Buenos Aires. The third member, José Catalfamo, worked in the Executive as president of the Accounts Office.

The following year, in 1997, the *Colegio de Abogados* (Bar Association) of Villa Mercedes called for a federal intervention. Judges and court authorities also signed the declaration. The governmental reaction by Rodriguez Saá was to dissolve all *Colegios* in the province. In 1998, the Supreme Court fired 12 court representatives that had presented appeals on the reduction of salaries. Three independent judges were impeached and the case was taked by CELS to the Inter-American Commission for Human Rights (CELS 2002; Taurant 2004).

This submission of the legislative hindered the horizontal accountability to the Executive, the latter now having the hands untied to do at will without controls.

Municipalities

Another centralization of power within the State has been the control of Municipal governments. Because Municipalities are relatively autonomous, it is plausible that Mayors could build a power structure of their own and then aspire to political careers that could help them attain independence from the governor or even to replace him.

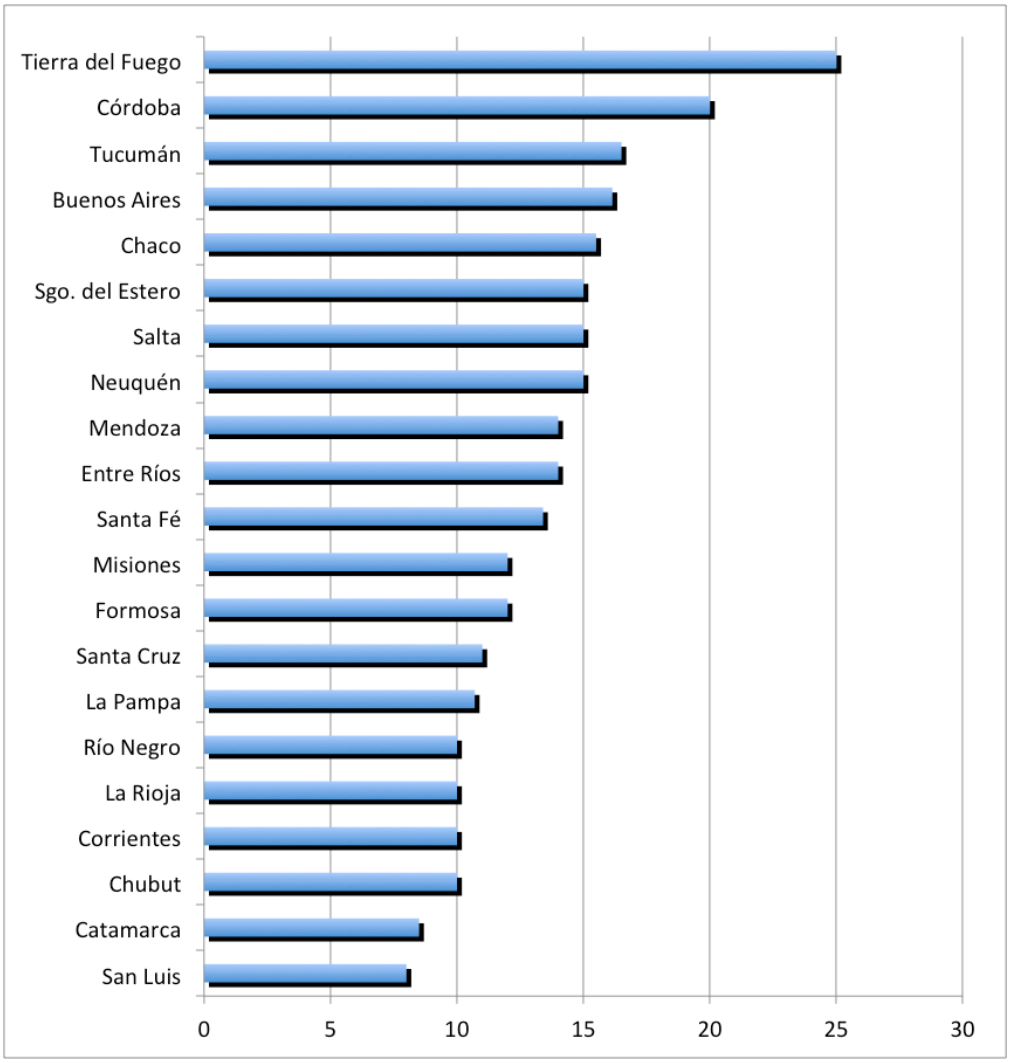
Therefore, one of the strategies has been to centralize economic resources in provincial hands. One way of doing this has been to lower the fiscal resources distributed to provinces. San Luis only redistributes 8% of all the sharable taxes to municipalities, compared to 14% and 20% in neighboring Mendoza and Córdoba respectively (Figure 4.12). This is the lowest rate in Argentina and it makes municipalities vulnerable in front of the provincial government. And, unlike poor provinces facing the federal government, municipalities do not have bargaining power. "We need to ask for resources from the province in order to garden in the public spaces" a former mayor mentioned.[1] On top of that, the Municipal Co-Participation Law was changed in 1998 to include a clause specifying that the Government designated how, who and when those resources would be spent. That is to say, Municipalities are not rentierist; they are simply subject to the provincial governments will.

Yet, the ruling family has often neglected the provincial capital city. In 1995 another Peronist, Carlos Ponce, governed the Municipality of San Luis, creating conflicts between the mayor and the Governor. One initial confrontation started over the technical inspection of

[1] Interview with Daniel Pérsico 2009.

cars. The inspection is a profitable business – car owners must pay for it – and so Rodriguez Saá tried to put a friend in the position in order to control the concession. Ponce refused.

Figure 4.12. Fiscal Co-Participation to Municipalities (in percentages)



Source: (Gastaldi and al 1999)

Towards the end of 1997 the relationship became more intense, and the provincial government presented a project to divide the city into four districts. Thus, the dispersion of voters along with the gerrymandering of new electoral districts would enable Rodriguez Saá to control the city and further isolate the already weak opposition.

Ponce reacted strongly and started to lead social protests and public marches that ended up on national TV due to the violent nature of the confrontation. The government finally abandoned the idea and instead decided to build a new city, Ciudad de la Punta, 16 kilometers

away, which was accompanied by the largest sports stadium in the province, the creation of a provincial University, an hippodrome and a replica of the Buenos Aires Cabildo.

The political crisis was revived in 2003 over the elections of a new Mayor for the city. The provincial government wanted to make elections coincide with the national ones. Adolfo was running for the national Senate and the concurrence would potentially draw many votes. However, the Mayor of the city has the prerogative to call for elections, and so he chose an alternative date. The provincial Supreme Court, controlled by the provincial executive, ruled that the valid elections date were the ones established by the province, not the municipality. In a completely unusual situation, two separate elections for Mayor were held, with each candidate running on a different date.

The result was that Daniel Pérsico, Ponce´s aide, was elected Mayor on the 9 November 2003, while Torrontegui, Rodriguez Saá´s aide, was elected on the 23rd for the same position. The Provincial government improvised offices for the "new" municipality, while the other party used the traditional building as their barrack. The National Supreme court ruled in favor of Ponce in 2005, giving legitimacy to Pérsico as Mayor.

2) Weakening citizenship

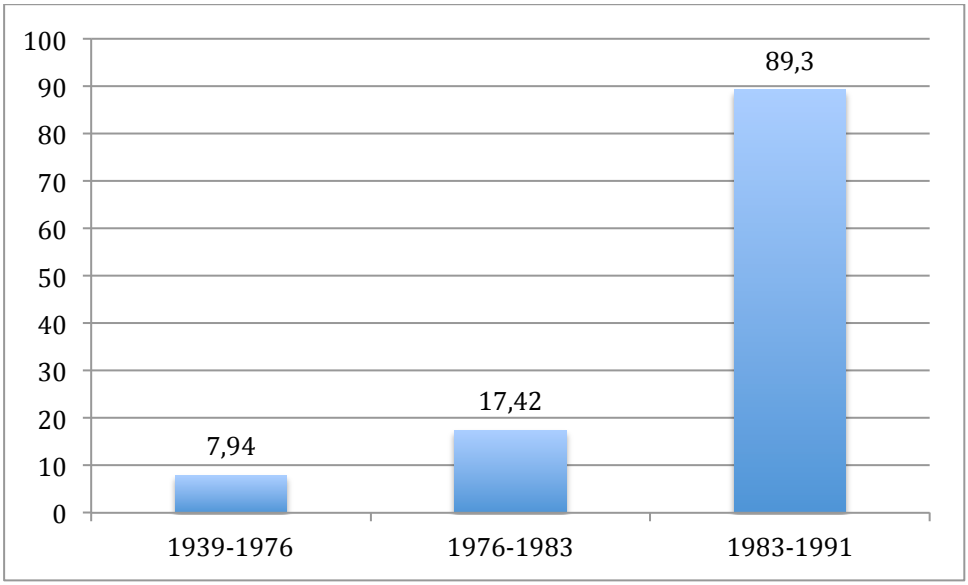
In order to have a provincial patrimonial State it is also necessary to have a weak citizenry. In Argentina there is a saying: "it takes two to tango." This serves as a useful metaphor for the case of San Luis. Scholars from different disciplines, like Evans (1995) and Migdal (1997), would agree that "effective States" are to a large degree the product of bargaining and exchange between the State and organized societal groups. Fiscal rentierism, on the other hand, allows the State to fulfill its fiscal needs without relying on the taxation of its population. Similarly, scarce social participation in the generation of provincial wealth makes civil society less autonomous and hinders the emergence of contesting actors. Be it through crony entrepreneurs or clientelist networks, citizens have lesser autonomy regarding the State and the ruling elite.

Crony Bourgeoisie

Barrington Moore (1966) and his followers explain how modern democracies were born through a fiscal contract between absolutist monarchies, who needed resources for wars, and the growing bourgeoisie that wanted civil and political rights (Tilly 1992; Moore 2003).

In San Luis the bourgeoisie has historically been very week, and although it has grown larger since 1983, it remained too dependent on the ruling family. Even if more than 2,000 private factories settled - industrial production accounted for almost two thirds of the provincial economy by the 1990s – there was not an emerging entrepreneurial class as such. One of the reasons is that much of this class was still under the control of political power. This was a heavily subsidized sector, dependent on the political will of the incumbent. Because Implementation Authority – i.e. the sole capacity to grant decrees and to oversee the implementation of the Industrial Promotion Law – was in the hands of the Governor, Rodriguez Saá had a powerful tool for creating cronies.[1] On top of that, due to the characteristics of the Promotion scheme described above, most of "entrepreneurs" did not settle in the province. They kept their headquarters in Buenos Aires, Rosario or Córdoba.

Figure 4.13. Pavement constructed - in average kilometers per year



Source: Mapa Productivo Provincial (2007)

The second most important economic activity in the province has been in public works, mainly in infrastructure, which is desperately needed in the area. Investment in infrastructure has been the most important in history by far. To give just one example, in the period, 1939-1976, less than 8kms of pavement per year were constructed (see figure 4.13). Almost 18 kms per year were built during 1976-1983. The figure for the first two periods with Adolfo as Governor was 89,3 kms per year – almost 5 times more than the previous period.

[1] It was compulsory to financially contribute to the Governor´s campaign, to participate in provincial affairs and even to buy annual season tickets to follow the Alberto´s basketball team.

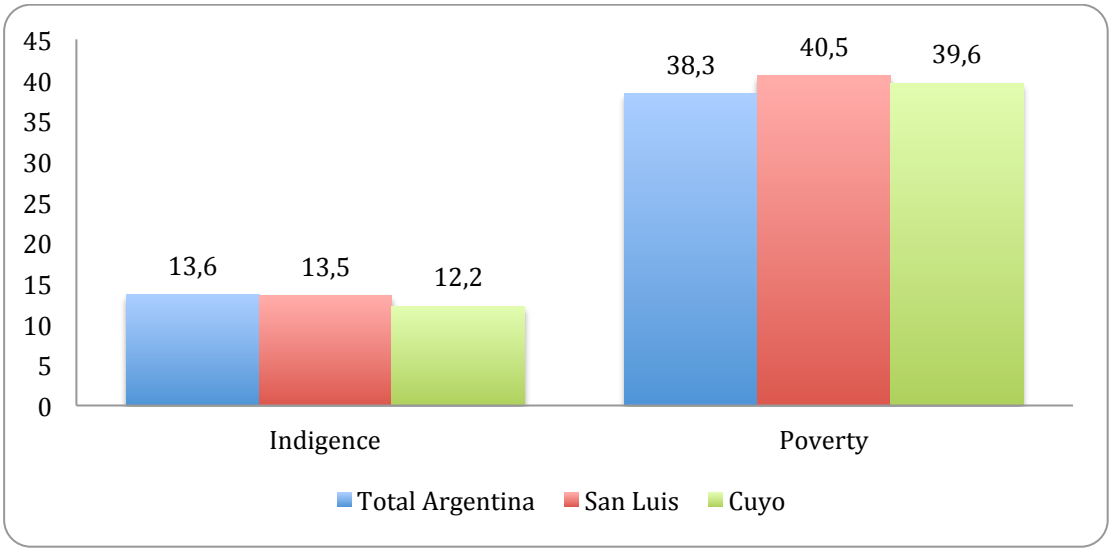
Infrastructure has been another way to co-opt the local economic elite and to build a new cronyist one. An emblematic case was Metalcivin, a construction and real eState company created in 1987, just a month after Adolfo´s reelection.[1] Since then, Metalcivin has been responsible for a large proportion of public works, ranging from Ave Fenix Stadium, aqueducts, and public housing. This company had among its statutory authorities Fernando Salino (Alberto´s brother-in-law), and Julia Cuffini (the sister-in-law of María Julia Rodriguez Saá –Adolfo and Alberto's), and the company's legal address in San Luis was that of Adolfo and Alberto´s mother (Wiñaski 1995: 111). Other cases like this include Espartaco, Banco de Previsión, Rovella y Carranza among another dozen and have been documented (Wiñaski 1995; Multisectorial 2006; Ortiz 2007).

Weakens social actors

Even though macroeconomic growth has been impressive in the last two decades, multiplying by several factors the performance of the overall national economy, some social indicators show that there was a limited social penetration of wealth just as Ross (2007) shows in oil exporting countries. By 2000 poverty was still higher than the average in the rest of the country, and indigence was at the same level but still higher than in neighboring provinces (figure 4.14). Similarly income inequality remained very high. In 2000, the first quintile received half of the pie while the two last received less than 15 percent (in Trocello 2008).

[1] This information relies mostly on the journalistic research of Wiñazki Wiñaski, M. (1995).

Figure 4.14. Levels of poverty and indigence by 2000 (in percentages)



Source: INDEC

When a weak State is combined with growing inequalities, social actors do not have the capacity to demand policies, because they are vulnerable to *de facto* powerful sectors (Ross 2007). A situation of a poor society with a rich government provides the setting for patron-client political relationships. This situation was further nurtured by Adolfo Rodriguez Saá's particularly charismatic personality. He used to take the time to personally hand out internships, governmental posts, scholarships, food, and specially the diplomas of social houses. All of this helped to consolidate the patrimonialization of the provincial State.

Simultaneously, productive sectors, NGOs, and other social actors are in a weaker position to influence decision-making processes. Even with all of the visible cases of corruption and institutional violations, social protests were marginal until the opening of the new century, when industrial benefits started to decline. Only then did reactions to the 2000 case of gerrymandering in the capital city and the Multisectorial in 2003, explained in the following section, begin to take place. It is interesting to note that one of the most important contesting institutions since 1983 has been the University of San Luis, whose budget depends on the Federal government (Menéndez, interview 2009).

The reinvention of history

The ruling family also made an important effort to build a symbolic myth of a province of success and prosperity, without social problems. Since 1987, in Adolfo´s public speeches

there has been a discursive strategy to emphasize "San Luis: the Miracle" and "San Luis: the fifth province" (after Buenos Aires, Santa Fé, Córdoba and Mendoza), when in fact in terms of gross geographic product it was not above the 15th position and its industrial production only accounted for 3 percent of the country's national industrial production. Yet, even the basketball stadium built in 1991 was named "Ave Fenix" referring to the province's mythical reemergence from the ashes.

There was real support for this myth, since, by the 1990s, the provincial economy had grown at Chinese rates while the rest of the country was surviving the "lost decade" of the 1980s. The discoursive contruction was that "El Adolfo" managed to make "his" province grow in the middle of a decaying country. By 1998 San Luis was on top of the ranking of fiscal solvency in Argentina (Plan Mil, 2000), a fact that has been acknowledged by most members of the opposition.

Media

A tight control of the media has been crucial in the concentration of power around the Rodriguez Saá brothers. The political economy of independent media implies the need for autonomous private advertisers. These are unlikely to emerge in the context of crony capitalism, a weak middle class, and a patrimonial State. Therefore it is not surprising that in San Luis the media performed a particularly important role in supporting the ruling political family.

Provincial newspapers are the main source nurturing political debates in the provinces – at least until the emergence of digital blogs and news websites in the second half of the 2000s. National newspapers from Buenos Aires do not arrive until noon, giving provincial papers the morning advantage. And, for provincial newspapers, the provincial governments tend to be the main advertisers.

By 1983 there were three newspapers in San Luis: "La Opinión", an evening newspaper; "El Diario de San Luis", the one with the largest distribution in the province, and "Impulso" from Villa Mercedes. Only a couple of months after Adolfo took office, in September 1984, his brother bought the Diario de San Luis using his political leverage.[1] Later

[1] The owner was Mario Pérez, an older man with health problems and who ran the newspaper during a period of important financial problems. During the negotiation period, the government of the province – the paper's main advertiser – stopped its official advertising in order to suffocate the newspaper. Shortly after, Mr Pérez agreed to sell the newspaper to Alberto Rodriguez Saá.

they bought La Opinión, which was closed down in 1994. A similar future followed for Impulso after the economic asphyxia exerted by the government. At the same time, the Diario de San Luis received public advertising without prior negotiations, and the government paid between two and three times more than private advertisers (Wiñaski 1995: 107). Moreover, since the 1990s the Official Bulletin of the Province is printed in El Diario, and most official books are printed through its editorial, Payné S.A.

One clear goal of the Rodriguez Saá was to use the paper as a tool for their political construction. The design and printing of the newspaper was modernized, and the houses of "noble" families in San Luis and Villa Mercedes were acquired for the newspaper's headquarters.[1] Moreover, the ruling family closely controlled the Diario (see table 4.3). The first director of the company was Luis Amitrano, a close aide of Rodriguez Saá. Amitrano was Minister of Production, arguably the most coveted Ministry in the 1980s, and Minister of the Supreme Court, among other positions. Carlos Maqueda was the editorial chief, and had been, among other things, Minister during the Dictatorship and Judge of the Supreme Court of San Luis. Since the mid-1990s, family members have directly controlled the newspaper – Adolfo's sister, Zulema, from 1996 to 2003, and his daughter, Feliciana, from then until the present.

By the 1990s El Diario was the only newspaper left in the province. At that time, its name was changed from the "Diario de San Luis" to the "Diario de la República," in accordance with Adolfo's Presidential ambitions. In sum, the paper adds to the brothers' political power and further demonstrates how the institutional borders are blurred in the case of San Luis.

Table 4.3: Authorities of "El Diario de San Luis" / "de la República"

Name	Position	Posts in the Provincial Government
Luis Amitrano	Director (1984-1986)	-President of the provincial bank. -Industry and Production Minister. - Provincial Supreme Court justice. -Trustee of the provincial bank. -Member of the board of directors of Edesal (electrical power concessionaire for the province).
Raúl Fourcade	Administrator (1984-1986)	-San Luis Federal Judge. -Member of the Federal and Penal Oral Court.
Carlos Maqueda	Director (1987-1992)	-Provincial Social Welfare Minister

[1] The Mendoza in San Luis and the Cacace in Villa Mercedes.

		during the military dictatorship (under the de facto government of Brig. Hugo Di Risio). -Justice of the provincial Supreme Court. -Director of the provincial Senate library. -Judge at the San Luis Labour Appeals Court.
Guillermo Celi	Director (1992-1994)	-Director of Centro FM radio, which belongs to the provincial bishopric. -Employee of the Peronist caucus in the Senate.
Ángela Gutiérrez de Gatto	Director (1994-1996)	-Secretary of the Rodríguez Saá brothers' law office until 1984. -Secretary for Youth with ministerial rank. -Provincial deputy (whilst director of the newspaper).
Zulema Rodríguez Saá de Divizia	Director (1996-2003)	-Adolfo and Alberto´s sister. -Women´s secretary with ministerial rank. -President of Municipal Council
Feliciana Rodriguez Sáa	Director (2003-2011)	-Adolfo´s daughter

Source: Arias, 1998 and data collected by the author.

El Diario has played a decisive political role for the provincial government, since it is the most read newspaper in San Luis. As the main source of information feeding political debate in the province, it is present in every café and can be read for free in every public office. The contents provide wide coverage of the inauguration of public works, the distribution of plans and food, and the governor´s agenda. It also shaped – and still does - the interpretation of public events. In its pages, a reader was increasingly exposed to official propaganda of the "miracle" and the "re-birth" of the province, emphasizing the "good management" of the governor.[1]

In stronger confrontations, the editorial line of the newspaper did not hide its partisanship and took a confrontational attitude against opposing actors. In 1996, when the executive was committed to changing the Provincial Supreme Court, the newspaper was relentless in its support. On a daily basis the members of the Court were accused of idleness, waste, nepotism and so forth. On the 26 November 1996, the front page had a photo-montage with the Ministers of the Supreme Court only in their underwear and wearing a military hat under the title "when the ridiculous has a judiciary face"[2]. Two weeks later, three of the five Ministers had resigned and another had started the process of retirement.

[1] For an exhaustive analysis of the role of El Diario in the consolidation of Rodriguez Saá´s rule see Trocello, G. (2008).

[2] The original title was "Cuando el ridículo tiene la cara de la Justicia".

Some years later, in the midst of the confrontation with the Mayor of San Luis, the newspaper actively promoted a campaign for a "Christmas without Ponce". On 9 November 2003, the day the municipality called for elections during the electoral dispute with Rodriguez Saá, the headline of El Diario read "The elections are on November 23". After the elections that the provincial government called, the newspaper headline claimed as "shameful" and "damaging to democracy" the behavior of the opposition, which did not want to participate in the elections.

Something similar happened with television. Channel 13, the only open channel in the province, is managed by the Government, and all political shows have a similar, militant profile. "Carolina Cable Color" (CCC) and "Televisora Color" (TVC), the two cable providers, are also close to the government. CCC was independent until 1991, when it was bought by a close collaborator of the Governor (Ortiz 2007).

Radio is different in ownership to TV or newspapers, basically because it needs less investment and has low broadcasting costs. There are plenty of independent radios, and even the National University has its own radio. The University has always been dominated by the UCR. Still, dissident voices only have marginal radio forecasts. More recently internet blogs dedicated to politics have emerged. This is a phenomenon from the second half of the 2000s, and it may deserve further attention.

3) White elephants – the GEPU syndrome

With available and easily capturable windfall revenues, decision-makers tend to be impatient to maintain the status quo and profit from it (Mumphreys, 2007: 200). Why should they save for future generations if the following ruler will have the power to set the institutions to his own interests and to spend the resources according to his own will? Uncertainty about the future creates incentives to spend more and to do it now. McMahon has shown that resource-rich countries overspend and invest in inefficient ways that non-mineral rich nations do not (1997).

Moreover, because wealth is not linked to local production, why should the province invest in productivity or innovation? The lack of accountability and the low involvement of society in the extraction process make the whole process obscure. Investing in large infrastructure initiatives that are economically inefficient but political profitable is a crucial part of the provincial government's strategy. Because spending tends to be led by

governments, they often are directed toward inefficient but politically attractive pharaonic projects – "white elephants," as Robinson and Torvik put it (2005) .

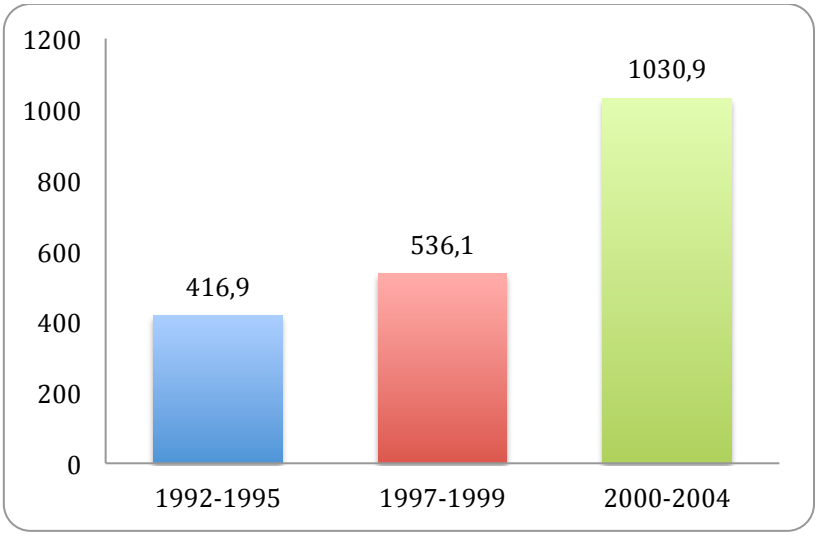
In this economic structure, actors are drawn into clientelistic relations with State leaders in order to receive contracts for public works. Rentier behavior in the private sector also hinders the emergence of innovative and value-added industries, thus negatively impacting productivity in the country. Similarly, these actors find their autonomy vis-à-vis the government hindered.

I will show in the following lines how Rodriguez Saá used the unearned fiscal resources and the economic benefits of the subsidized industrialization, to consolidate his power creating a crony entrepreneurial class and to build infrastructure and monuments that were more symbolic icons than productive.

Public Works

The increasing resources received through the Co-Participation[1] and, also, the increasing subsided economic activity, provided important budgetary surpluses that could be used for public works. The reason is that private employment was largely subsidized (by the industrial promotion Law) and thus these resources could be spent on other activities and not on social or unemployment programs as in the rest of the provinces that were suffering increasing unemployment and rising poverty.

Figure 4.14. Investment in Public Works in San Luis (million pesos)



[1] In the 1988 Co-Participation Law, San Luis increased its share of the total sharable funds to 2.5%.

Source: Plan de Obras Múltiples (2007)

Adolfo underwent by far the largest investment in infrastructure in San Luis' history. Spending on infrastructure multiplied several times after 1983, and it more than doubled from 1992 to 2004 (see figure 4.14). Direct *per capita* investment in 1999 was 601.7 pesos (1 peso = 1 dollar), while the average in Argentina was 66.7, nine times smaller (FUNIF 2000).

This is how dam capacities (in hm) in the province doubled between 1983 and 2003. 2,500 kilometers of aqueduct were built in this province, which only had 30 km in 1983. 2,000 kilometers of pavement was built in a province that previously had less than 400 kilometers, and between 1983 and 2000 alone, 43,202 houses were built by the government.

It is difficult to disregard the social benefits of such infrastructural investment. Still, it has played an important role in the concentration of political and economic power in the hands of the Rodriguez Saá family. Several sources pointed out that an informal rule that was that every company that won a public contract knew that 7% of the total costs of the project would be collected by a close collaborator of the Government. Ortíz calculates that of the no less than 10 billion pesos that have been invested in public works in more than two decades of government, no less than 700 million pesos were collected in this way (Ortiz 2007: 28). This has allowed the ruling family to redistribute among elites without any costs. Additionally, because they were not taking money from public coffers, they reinforced the government's image of "good management". As a notary close to the Rodriguez Saá told me several years ago, "the brothers never took a penny from the pocket of Puntanos, and that is what makes them different to the rest of politicians in Argentina". The money did not come from Puntanos; it came from the rest of the country via fiscal transfers.

Since the 1990s, the governor has been accused of not only taking "contributions" from the contracted firms, but also of being owners – through figureheads – of the contracted firms.[1] Legal and illegal economic resources were at disposal of the governor to redistribute among the traditional elite of the province while implementing public policies.

Investment in public works fit perfectly into governmental strategies. They created political profits, produced economic gains and, many times, even included social benefits.

[1] Adolfo Rodriguez Saá has been judged by illicit enrichment twice and his brother Alberto once. Both have been absolved.

GEPU

An archetypical white elephant has been the GEPU (Gimnasia y Esgrima Pedernera Unidos) basketball club. In the late 1980s Senator Alberto Rodriguez Saá acquired a basketball team in San Luis with the goal to make it participate in the newborn National League and thus gain national attention. The provincial government paid for the salaries of the players and even bought their flight tickets (Ortiz 2007). Also, the government paid for the construction of the "Ave Fénix", the most modern basketball stadium of the country at the time. The construction was requested without tender to Metalvicin, which was owned by governor´s relatives and held its legal address at the house of the Governor´s mother. Thanks to the official support, the club hired most of the country's basketball stars and managed to win the national leagues in 1991-92 and 1992-93 and come in second in 1993-94. The Diario de la República included in the front page "San Luis Champion" with a large picture of the Rodriguez Saá brothers. They even received national public attention, reinforcing the idea of the brothers as "successful" managers.

Nevertheless, no policy was implemented in order to promote the sport in schools, to strengthen a local league or to build endogenous capacities. In 1994 the franchise was sold and the stadium currently does not even have functioning showers.

This case, which is emblematic of a repetitive pattern in the province[1], shows how the ruling elite shamelessly uses public resources in order to make economic and political profits.

Housing

One of the flagship programs of the Adolfo era has been a massive housing program. 43,202 public houses were built from 1983 to 2000, and there were no prerequisites to attaining access to one of them. The government and the newspaper issued advertisements saying that every 8 hours a house was built in San Luis (Ortiz 2007: 28). The social and political impact was evident. The government delivered houses for no less than one-third of the provincial population, and the Governor was personally in charge of delivering them individually in pompous events.

[1] Other examples are car race GT, the Chess World Cup, Rio de Janeiro´s carnival, and the Movie propotion Law, among others. All have in common that there were no previous record on the province that could fit into a broader strategy for developing that activity. Without that I cannot see other objective than gaining national attention and rising local political support.

This is one of the main sources of the public appeal of "el Adolfo". The newspaper "El Diario de la República" and the public television always provided wide coverage to the inauguration events in which "el Adolfo" personally handed the diplomas to the beneficiaries. Nevertheless, these funds have a national origin – FONAVI (National Housing Fund) – for building subsidized houses that are implemented by provincial governments.[1] The efficient use of those funds allowed San Luis to apply for more funds. In 1983 the province was the second lowest in housing investment after La Rioja, representing 0,7 of the total National Housing Fund. By 1991, investment had climbed to 5,1% of the total and San Luis ranked 7th out of 24. This was a smart move from the Rodriguez Saá that took care of public housing – that the national government was paying for. My argument is that this was not necessarily a white elephant because housing is socially crucial. However, the fact that the Nation was paying for them, and the economic needs for coalition building of the ruling brothers were covered by the tax sharing scheme, industrialization and so on, they used this as a flag-ship policy.[2]

E) "El Alberto"

The goal of this chapter is to show the construction of a rentier subnational State, which happened in San Luis in the first two decades after 1983. By 2003 some things had changed in San Luis: the decay of industrial promotion law, the devaluation of the currency that made infrastructure more expensive, a new governor with a different personality, and a new national administration that was fiscally solvent. However, political behavior did not change.

Since 1999 benefits of the Industrial Promotion scheme started to expire and, as expected, most of the firms started to leave the province. By 2009 less than 10% of industries stayed in the province. Without the fiscal benefits, staying in San Luis was not competitive, and the Government did not implement in two decades any policy for building competitiveness in the province. A historical opportunity was lost.

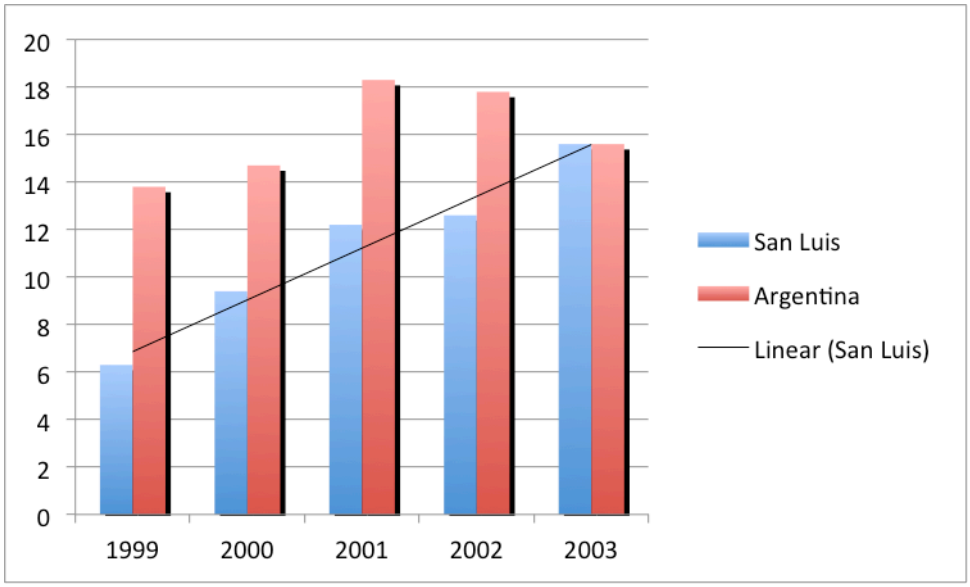
Without the benefits of industrial promotion, the province began to suffer the same harsh reality as the rest of the country. Employment started to decay in the province. The unemployment rate in San Luis, which was half of the national rate in 1999, matched it in

[1] Since 1992, as part of the Fiscal Pacts negotiated by Menem´s administration with the provinces, FONAVI was decentralized and each province was able to apply different criteria for the selection of beneficiaries. The social criteria preciously used was eliminated in San Luis.

[2] The rule of the 7% bribe also applied for this and the construction firms had top pay for that.

2003 (figure 4.15). In just a few years, one of the main pillars of Adolfo´s regime had fallen apart.

Figure 4.15. Unemployment rate in San Luis - urban conglomerate - and Argentina (in percentages)



Source: INDEC quoted from Behrend (2007)

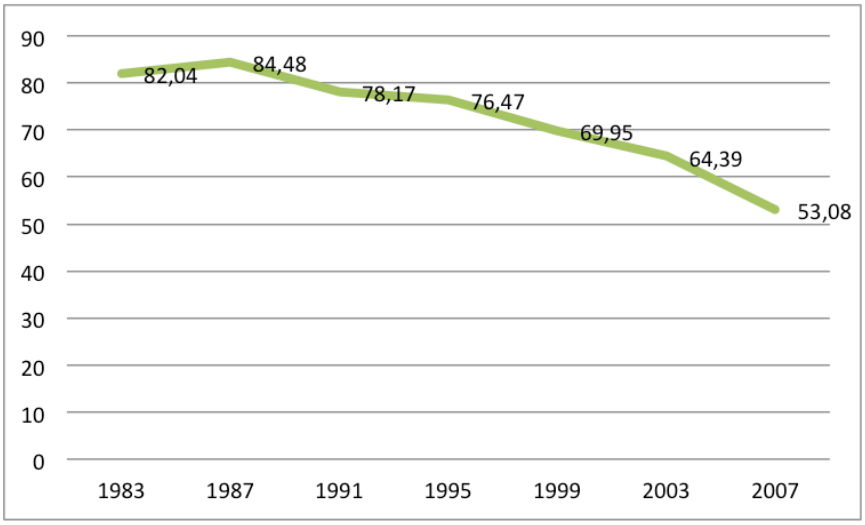
Similarly, the legitimacy of the regime eroded thanks to a combination of other factors. One was the accumulation of conflicts that became increasingly difficult to "buy-off" with the decline of the economy. The other was Adolfo´s failed one-week Presidency in 2001[1], which showed the limits of the "successful manager" myth. Therefore, by 2003, the Rodriguez Saá regime was weakened. Still, there were no social actors capable of changing the by then deeply entrenched political structure in the province.

For the first time in 2003 a new governor was elected in San Luis: Alberto's brother, Adolfo. Even though Alberto was elected Governor with 90% of the votes, the most important political parties of the opposition did not participate in the election, and only 65% of the population voted for a party (see figure 4.16).[2]

[1] After De la Rúa´s resignation in december 2001, the National Legislature voted Adolfo as transitional President – Carlos Chacho Álvarez, the Vice-President had resigned himself the previous year. Without having a solid political support he took measures like declaring default on the external debt. The rest of governors left him alone and had to resign a week later.

[2] Yet, those elections have been also suspected of fraud. The day of counting votes, the first ballot box had all the ballots without bending, meaning that were not introduced in an envelope Ortiz, C. F. (2007).

Figure 4.16. Valid votes in elections for Governor in San Luis (in percentages).



Source: Ministry of Interior

Ironically, Alberto, Adolfo´s younger brother and political partner, presented himself as the change needed to "re-found the province" (El Diario de la República: 26/05/2003). He did re-found the province, but he did so with the same rentier behavior. The re-foing "myth" had to be strengthened as the real economic performance of the province declined along the decline of the Industrial Promotion benefits.

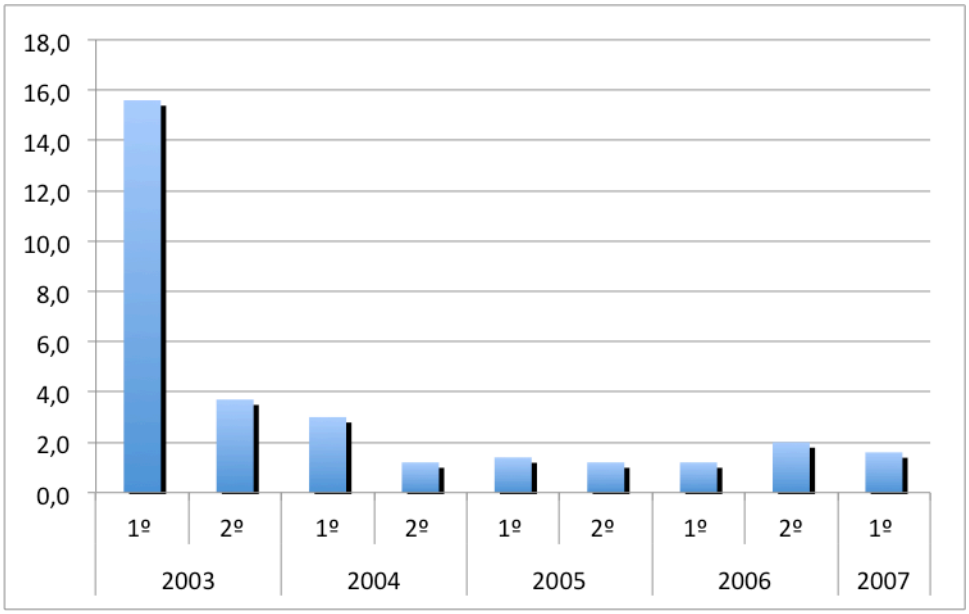
The "Milagro" or "the fifth province" myth had to be sustained in order to hide the cracks in the system. The new brand was "San Luis: Otra República" (Another Republic), built as an opposition to the rest of the country. The main strategies promoted by Alberto have been to foster a Social Inclusion Plan, continue to reinterpret history, and issue a longer sequence of white elephants.

1) Social Inclusion Plan

The pillar of the incoming government of "El Alberto" was a far-reaching social plan called the Social Inclusion Plan. With the decay of the Industrial Promotion Law, unemployment almost tripled in San Luis, growing from 6,3% in 1999, to 15,6% in 2003. Employment became the number one preoccupation in the Province. The plan consisted of a temporary employment program by the Government –benefits were later extended to the

private sector[1] – in exchange for a government stipend. Almost a quarter of the Provincial budget was assigned to this Social Inclusion Plan, which benefited around 45,000 people, or almost one third of the economically active population.

Figure 4.17. Unemployment rate in the urban agglomerate of San Luis - El Chorrillo (in percentages)



Source: Provinfo from EPH (this survey is carried out only in major urban conglomerates)

One important difference with similar National social plans, where only the unemployed heads of households were the beneficiaries, was that in San Luis the Social Inclusion Plan applied to anyone who was unemployed and over 18 years old. The impact was outstanding. Unemployment was lowered to 1.2 percent in less than a year making San Luis the province with the lowest unemployment rate in the country (see figure 4.17).

Beneficiaries were then put to work, clearing the roadsides of weeds, painting electricity posts, planting flowers in public spaces, refurbishing and conditioning public buildings and so on and so forth. Later, beneficiaries also started to perform vigilance tasks. The Community Security program made them perform crime prevention activities, observing and taking note of what was going in close work with the provincial police. They were placed in every corner of the center of every city and town.

[1] There were agreements with the private sector in which the government would pay a portion of the salary.

The program that was supposed to be a short tem solution for the rising unemployment, by 2010 still had around 20,000-25,000 beneficiaries.

The Social Inclusion Plan has had a real impact on the poorest population. If members of the Social Inclusion Plan are not considered, unemployment rate in San Luis for 2006 would have been around 30 percent (Bussetti and Páez 2007). Nevertheless, it is important to mention other aspects of the Plan.

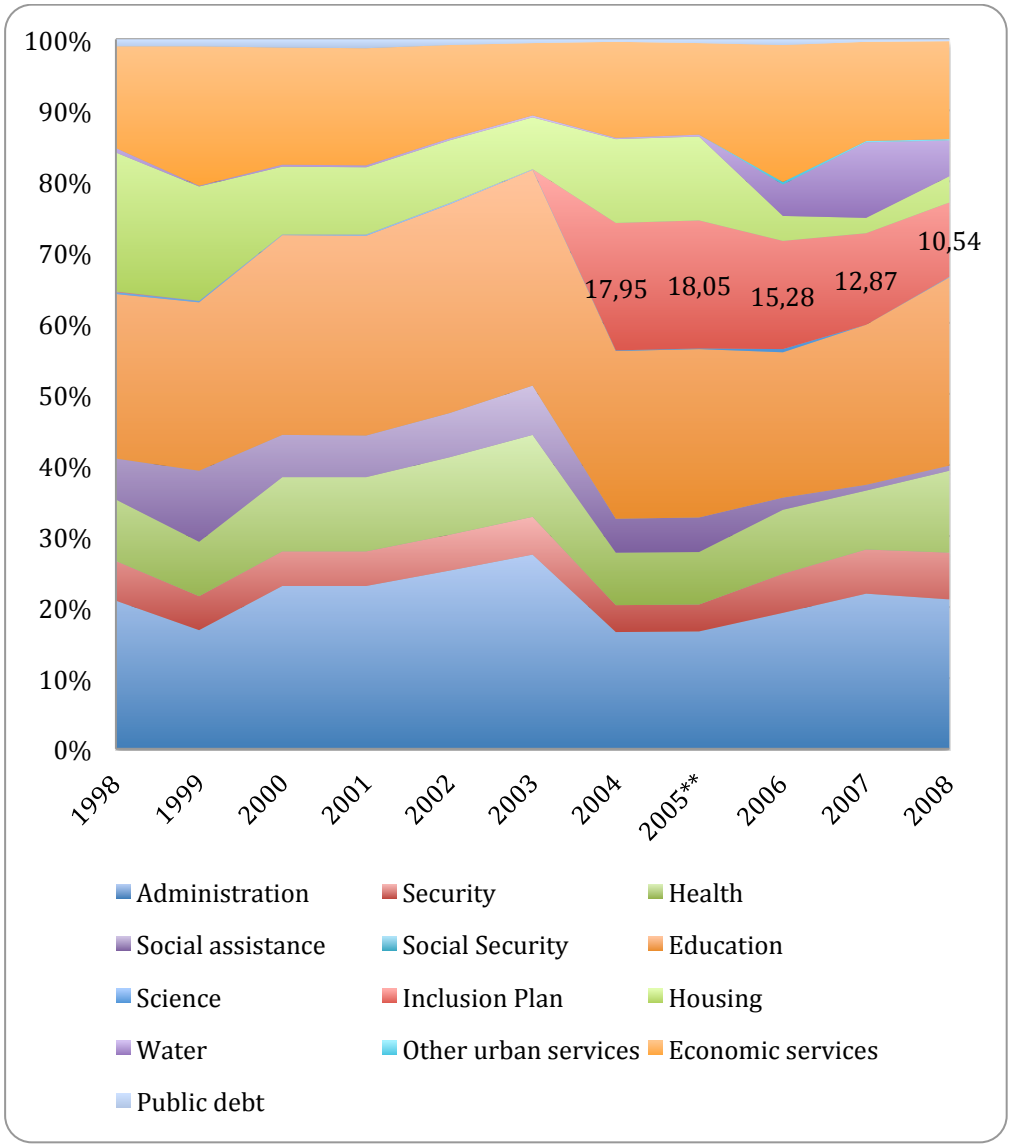
One is the budgetary change. As figure 4.18 shows, the Social Inclusion Plan represented 18% of the provincial budget. Because the budget did not grow, however, spending in other areas had to shrink. The most notable change in priorities has been the decrease in the participation of Education and Health in the budget from 30,4% and 11,5% in 2003, to 20,4% and 7,5% in 2005 respectively. Arguably the two most important components of social capital formation were drastically reduced.

Similarly, the autonomy and technical capacities of the State were further eroded. The money spent on "administration" dropped from 27,4% to 16,5% in only two years. The reason is that the beneficiaries of the Social Inclusion Plan started to replace public employees. In practical terms, this means a more precarious condition for government positions and a degradation of public sector with untrained, badly remunerated citizens performing governmental tasks.

The long-term implications of lower spending on and investment in education, health and public administration are an interesting research topic, but they are beyond the scope of this dissertation. What is evident in the short term is the impact on citizen´s autonomy. The social inclusion plan was a typical clientelistic policy. Members of the Social Inclusion Plan had no access to health insurance[1], union benefits or pension. This contributed to establishing more precarious and worse-paid working conditions.

[1] This was finally granted in 2009.

Figure 4.18. Budgetary execution of San Luis by areas. (in percentages)



Source: Provinfo

Beneficiaries of this plan were called the "included"[1]. The use of passive voice emphasized that the action was performed by the government, more specifically "Alberto," to whom they owed their income. The government even issued a flag and even an anthem for them[2].

The members of the Plan were used by the Government to shut down criticism of the provincial regime. In the middle of the protests that were established in San Luis during that

[1] In public speeches by government officials, in street advisement and in publications by "El Diario de la República".
[2] This is the official website http://www.trabajoporsanluis.4t.com/paginas/bande.htm

period, the Government called to vote for a plebiscite for the continuity of the plan in August 2004. With the sensitivity that creates This goal aimed to put the recipients of the Social Inclusion Plan – as a body of the government – against the opposition.

Similarly, the Government used the beneficiaries of this social plan for political purposes. For example, in the 2004 large manifestations in which education sectors the church and the Municipality coincided, the government used the fear of being fired to compel beneficiaries to participate in a counter manifestation. There were events of violence among both manifestations in which peace Novel price, Pérez Esquivel, was invited to intervene (Iglesias interview 2009). Although the government claimed that the plan was universal, it was a political tool for Alberto to remain in power (Iglesias interview 2009).

2) White elephants

It interesting to note that, while the province had economically stagnated since the decline of the industrial promotion benefits and also suffering the impact of the 2001 national economic crisis, the government never stopped investing in white elephants. A replica of the Buenos Aires Cabildo was built for 14 million pesos (4 million dollars), a new government building was built at the cost of 300 million pesos (roughly 90 million dollars), and 600kms of highways were constructed.[1] All things that are highly visible while the budget for health and education was shrinking (see chart 4.18).

However, the most important elements of the political strategy were linked to sports and culture. Aspects of culture were revived and incorporated as one of the pillars of Government. The government issued a Law for Movie production, spending dozens of millions pesos. The Governor became part of the red carpet circuit, taking pictures with national stars. Again, there was no policy for promoting local acting schools or local production. Additionally, the Carnival from Rio de Janeiro started to perform every summer in San Luis, and national Car races were organized, along with the World Chess Championship, a Bicycle World Tour, and other sport events. All of them had something in common: high national visibility. I argue that they white elephants because there were no complementary policies for promoting those sports or culture as one would expect for a public

[1] I take highways as "white elephants" because by 2010 San Luis had 1/3 of the total of the country and provinces like Córdoba, Mendoza and Santa Fé only had a couple of dozens of kilometers each. I think that investment was disproportional for the size of the population and the economy of the province and is not coincidental that by that time public advertisement in the streets of main cities of the countries were proclaiming "San Luis: another Republic. One third of the total highways of Argentina".

policy promoting those activities. Without that connection building endogenous capabilities, those policies do not promote development and end up being only propaganda looking for national attention.

F) Conclusion

This Chapter aimed at understanding the concentration of political power and the limits of democratization in the province of San Luis from a different perspective than has been previously analyzed. Three doctoral dissertations Trocello (2008) Behrend (2007) and Guiñazú (2003) have explained the political process of San Luis from different perspectives. Trocello have focused on the discourse and explains how crucial it has been in the construction of this "neo-patrimonialist" subnational State. For Behrend, the independent variable has been the construction of a "closed game" of a traditional family like the Rodriguez Saá, situation that would explain, in her point of view, the democratization processes in many other provinces. Clelia Guiñazú, on the other hand, explains the constraints to democracy were a tradeoff of a developmentalist governor, Adolfo, was disciplining institutions for implementing so needed public policies.

Along this chapter I have explained how the structural economic impact that meant the industrial promotion law – important for the other analysis but marginal as explanatory variable – changed the rules of the game from a "traditional province" ruled by a group of families to a personification of the political power in the hands of two brothers. Then, to my understanding, the discourse was a marginal tool building legitimacy of this emerging regime; also, the fact that the Rodriguez Saá were part of the local elite was important at the beginning but does not explain the level of power concentration; and finally, that the economic performance was the result of an unearned fiscal benefit coming from the national government and not of a farsighted political leader.

I have demonstrated that the Industrial Promotion Law performed as a subsidized industrialization creating the same symptoms of rentierism as oil extraction or the Tax sharing scheme – of external source and not linked to local production. Those unearned economic benefits provided the fiscal base for an unparalleled concentration of power in the hands of the Rodriguez Saá brothers. Those windfall revenues – only compared to an oil boon - allowed these two brothers to incrementally break the traditional oligarchic rule and to concentrate institutional power like never before - to coopt opposition within the PJ and from

other parties, to reform the constitution, to invade the Judiciary and to corner any opposing initiative.

The main goal of the ruling family has been the "fencing the province" and to influence the national arena. The mechanisms have been the same ones of rentier States that ended up eroding democracy in the three dimensions I have described. The use of the unearned fiscal resources to coopt opposing politicians, to use the momentum to reform the constitution and then under the potential threat of going to jail, to subsume the judiciary and any other opposing party or institution, have eroded the democratic regime. Similarly, unearned economic boon provided fiscal surpluses that allowed the proliferation of white elephants – cultural and sport events, the replica of the Cabildo, highways even when not needed – that were crucial for the consolidation of the idea of success and leaders of "facts". Finally, those fiscal revenues were also used for manipulating and controlling the media, for widespread clientelistic networks and the consolidation of a crony bourgeoisie that altogether dramatically hindered the "agency" of citizenship. Only marginal social and political groups remained outside of the control of the government.

With the decline of fiscal benefits in the 2000s, most of factories left the province – as any oil company would do when they run out of oil. The ruling brothers adapted to the new situation without changing the rentier dynamics of patrimonialism, cronyism and the widespread of white elephants.

V Geography and Democracy

« D'une façon générale toutefois, je me suis volontairement méfié de l'explication unique, de la clef qui prétend ouvrir toutes les serrures. Je crois au contraire que, dans cette matière complexe, il faut presque toujours recourir à un grand nombre de causes, dont aucune ne serait à elle seule suffisante, mais dont le faisceau apporte de précieuses clartés. »

- André Siegfried 1995, p.57.

Introduction

This chapter aims at learning from those provinces that have managed to escape the "curse" of fiscal dependence. Just as there are a few rentier countries that have been remarkably successful in the last decades, some provinces like Tierra del Fuego, Chubut and Río Negro, have experienced more lively democracies than the other equally rentier provinces. Chubut exports almost a third of all the extracted oil in Argentina and is as dependent on mineral royalties and national fiscal transfers as San Luis or Santa Cruz, but it is far politically more competitive. Since 1983 it has had the highest rotation of the executive both by name and party (6 different governors and 4 party changes from 1983 to 2011). Half of the provincial elections have been disputed with less than a 5% margin of votes separating the winner from the runner up. The same variety can be seen in the provincial legislature and in the municipal governments. Similarly, there is a diversity of newspapers responding to different interests and a plurality of active political and social actors contesting the provincial executive.

Here, instead of treating these cases as outliers, a closer look at the province of Chubut allows me to explore another omitted variable that could restrain the mechanisms through which rentierism operates at the subnational level: geography.

Chubut, which appears at first blush to contradict subnational rentier theory, adds substantial information about structural variables that are often overlooked by institutional analyses. Through the experience of this province, I show the importance of geography as a fundamental variable for theoretical and empirical discussions of democracy and democratization.

The main economic resource in the province is oil, which represents around a third of the provincial economy and its main fiscal revenue – 30% in the 1980s, 25% in the 1990s and since 2003 almost half of the total fiscal revenues. This resource is located in Comodoro Rivadavia – the most populous and wealthy city of Patagonia whose life revolves around that commodity. However, the mineral royalties and other abundant fiscal resources are controlled from Rawson, the provincial capital located 400 kilometers up north that is closely integrated with two dynamic cities that altogether conform the Valley– Trelew and Puerto Madryn. A third pole – Esquel - is located near the Andes and 600 kilometers from the other two regions.

Isolation – no major city is less than 800 kilometers from those cities –, dispersion – each one between 400 and 600 kilometers from the others – and the differentiation of economic activities have created the basis for autonomous economic and political development and are thus crucial for avoiding the concentration of power in the hands of the provincial governors, which has happened in many other parts of Argentina. In Chubut, most political dynamics are related to the intense competition between the economic power of Comodoro Rivadavia and the political power of the Valley. Esquel, despite being substantially smaller and economically less dynamic, has performed as a tiebreaker in the political and economic competition between the first two regions.

The long-term formation of "spaces"[1] with differentiated economic activities, that are relatively autonomous from each other and with different identities and idiosyncrasies, have helped the province to escape the rentier curse. The reason is those spaces have fostered greater inter- and intra-institutional bargains in political competition, a parochial profile of the media and a limited geographical penetration of public employment, all factors that, in turn, have helped to increase the plurality of the political system. I argue in this chapter that all of this has exerted an important counterbalance to the centripetal forces that rentier provinces tend to experience.

I also apply the insights learned in the case of Chubut to other provinces in order to explore the extent to which my hypothesis travels. At an exploratory stage I find that the provinces with higher regional population dispersion, and specially the ones in which the capital city is not the most populated city, are politically amongst the most democratic. I specifically analyze the case of the Patagonian provinces– a fairly homogenous group – and I

[1] I use space rather than geographic region because the former includes social dynamics, economic specialization and cultural identities (see Altimir 1971).

show that the provinces of Chubut, Río Negro and Tierra del Fuego are far more democratic than the monocephalic Neuquén and Santa Cruz.

A) Regional development in Chubut

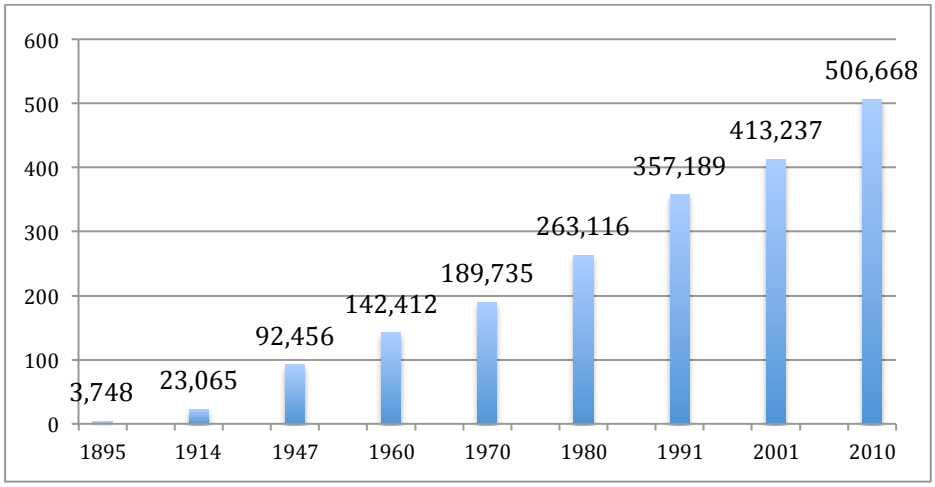
The Patagonia has always been a synonym of the "desert" due to its vast territory, scarce population and rough weather. "Months passed without seeing a person," the chronicler of Magallanes´ expedition noted (Bandieri 2005: 17). Until the late 19th Century, the area that today is known as Chubut remained isolated from Western influence and was still populated by native Tehuelches and Mapuches that disputed control over the territory.

Chubut is a province the size of Great Britain located in the Patagonia region. Even though it occupies 8% of the national territory, it only has 1,2% of the total population - half a million inhabitants. On top of being scarcely populated, this province is characterized by its historical development into three distant regions – each of which is more than 400 kilometers from the others – that are fairly economically autonomous from each other. I argue in this chapter that these geographical factors have had a crucial impact on the political landscape of the province.

1) A New Province

Chubut is a new province. It only gained this status in 1955 (actually its first elected governor took office in 1958), and most of its population is relatively new. This province only represented 0.7% of the national population in 1960, and currently it has 1,26%. As shown in figure 5.1 Chubut almost doubles its population every two decades.

Figure 5.1. Population of Chubut



Source: National Censuses (INDEC)

Democracy is also something new to the province. Until 1958 the inhabitants of Chubut were not able to vote for their representatives – although some cities were allowed to vote for their local authorities (Ruffini 2005). Still, taking into account Chubut's late provincialization[1] and the *coups d´état* of the 1960s and the 1970s, we can agree with Ruffini (2005) and Gatica el al (2005) that until 1983 citizens and political leaders had limited training in the matter.

This is important to highlight because it shows an important contrast to the "traditional" provinces from Northern Argentina that were part of the foundation of the country and have important political "lineages". See, for example, San Luis, where as I showed in Chapter 4, the Rodriguez Saá brothers have dominated provincial politics since 1983 and whose family has been involved in all major political events in the province for the last century and a half.

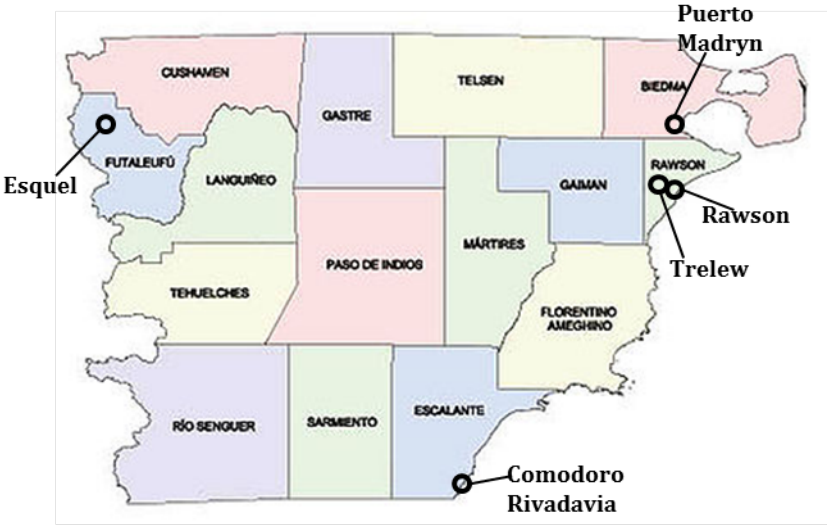
In Chubut, on the other hand, five out of the nine constitutionally elected governors were not born in the province, and some of them even arrived to the province once they were already adults (see table 5.4). That is to say, the idea of politics dominated by traditional families does not apply to Chubut or the rest of Patagonia. One could argue that what could be in place given that is a new province and it lacks of the "traditional" factors as in the case of San Luis and many others. I disregard that argument because in provinces as new as Chubut like Santa Cruz or Neuquén, political power is as concentrated as in San Luis or La Rioja.

[1] Provincialization is the act by which a National Territory is declared a full fledge province with the same rights than the others.

2) Economic spaces

The other important characteristic of Chubut is its tripartite socio-economic development. The most comprehensive study of the economic structure of Chubut was carried out by Oscar Altimir (1971) and funded by the Federal Council of Investments. The survey underlined the tripartite "spatial" configuration of Chubut in which the three main spaces of the province were fairly autonomous from each other. More notably, the three of them were better connected to three different economic regions of Argentina – Esquel in the Andes to the "space" of Bariloche, the Valley to the Pampean economy and Comodoro to southern Patagonia (see map 5.1).

Map 5.1. Province of Chubut with political division and principal cities.



Source: author´s elaboration

The Valley

Until the Argentine State finally controlled the area in the 1880s, several settlement trials failed between the 16th and the 19th centuries (Oriola 2003: 17). Only a Welsh colony managed to build a stable settlement looking to preserve their language and traditions that they felt were threatened by the English (Gatica et al 2005: 10). They established the October 16th colony in 1865 in the northeast – Puerto Madryn – but soon after, looking for fresh water, they moved the colony 100 kilometers south west to Gaiman. Their experience was not easy

and only after several misfortunes, by the end of the 1870s, the colony managed to create surpluses and to start commerce with the outside world (Oriola 2003: 18-20).

At that moment, the colony was on unclaimed soil. Chubut only became controlled by the Argentine State in 1880, after the so-called "Campaign of the Desert," led by General Roca, and as part of the process of the consolidation of the National State[1]. This military adventure meant in fact the "raids and slaughter of the natives" – as Oriola put it (2003: 22) - and the annexation of this territory as a National Territory in 1884, with the capital located in Rawson[2]. Yet, this territory remained fairly isolated, with no trains or roads and located 1,400 kilometers from Buenos Aires. It was also unpopulated: in the first census in which the Patagonia participated in 1895, Chubut represented only the 0.09% of the national population.

With its inclusion as a National Territory, and especially soon after with the 1887 construction of the Central Railway of Chubut, which connected Trelew and Rawson to the port of Puerto Madryn and aimed at exporting the products of the colonies, the Valley's economy started to gain dynamism. Since then, the newborn city of Trelew emerged around the train and the wool and leather industry – the main industry in the province until at least the 1940s.

In a national context of nationalist regimes, and the international context of the Second World War and the Cold War, in the 1940s and 50s successive national governments implemented policies that aimed to develop Patagonia and increase federal control over the territory. The most important policy was the transformation of the National Territories into provinces. Thanks to this policy, Chubut became a full-fledged province in 1958.

In order to strengthen the new provinces, starting in the late 1950s, plans were issued to increase industrial settlement south of the 42nd parallel, which was just at the border of Chubut. Due to local wool and leather production, railway infrastructure and the closeness to the port, the most benefited area was Trelew. In the late 1950s alone, 34 industrial plants settled there. Subsequent promotion laws[3] were implemented in the 1960s and early 1970s, and industrial employment climbed from 600 in 1970 to around 6,000 by the end of that

[1] It is important to note that revisionism challenges that idea of a "desert" because it denies the existence of the native Tehuelches and Mapuches who inhabited the area.

[2] National Territory was an administrative figure created in the 1800s. It fully depended on the National Government, and its inhabitants only enjoyed civil rights. The main objective of the central State was to create sovereignty in territories recently taken from the natives (Vernik 2004). In 1884, nine National Territories were created that coincided with the current provinces: Chubut, Santa Cruz, Río Negro, Tierra del Fuego, La Pampa, Neuquén, Misiones y Chaco.

[3] Industrial plans mostly meant different tax exemption plans for industrial settlement. For a review on this see Laveglia (2005).

decade (Laveglia 2005). This gave an important boost to Trelew, multiplying its population fivefold in two decades, growing from 11,852 inhabitants in 1960 to 54,000 in 1980 (Gatica et al 2005: 53). Nevertheless, in the 1990s the industrial promotion Laws expired, and 25 of the 46 factories working in the Industrial Park of Trelew closed their doors and almost two thirds of the industrial jobs were lost (Laveglia 2005). The decreasing dynamism of Chubut´s second largest city forced it to become a service-oriented economy more connected to government activities. Rawson, the capital city, is located at only 20 kilometers and most of government officials actually live in Trelew.

Rawson is considerably smaller than Trelew and does not have much life of its own beyond public administration. Most public functionaries live and/or play in Trelew. Rawson is actually the smallest Capital city in the country, representing less than the 10% of the provincial population. In 1884 the decision was made to place the capital of the National Territory of Chubut there, and it has been the capital since then. The provincial prison is also located there, as well as some national institutions.

Puerto Madryn is located 70 kilometers to the northeast of Trelew. This port city, which had the first port in the province but then lost its importance compared to Comodoro Rivadavia, has dramatically increased its dynamism and importance in the last four decades. The main reason is that in 1969 the military government decided to produce aluminum and to build the largest factory in Latin America in this port. ALUAR, a private company, started to produce at full capacity in 1981. Today around 2,500 people work directly at the company and several thousands more are calculated to work along the entire supply chain. Some analysts estimate that around half of the economy of the city is directly or indirectly connected to this company (Laveglia 2005 and interviews).

Another growing economic activity in Puerto Madryn is tourism, with an astonishing annual growth rate of 200% between 1991 and 2008 (Nirich 2009). The main attraction is that every year, from January to April, and from October to December, hundreds of thousands of tourists visit the Península de Valdés to do whale watching.

This is how, Puerto Madryn, which had only 3,000 inhabitants in the 1950s, has more than 80,000 currently and has the highest demographic growth rate in the province (see table 5.1).

Comodoro Rivadavia

Another region, or space, is Comodoro Rivadavia, the most populated and wealthiest city in the province and in Patagonia. The history of Comodoro Rivadavia is the history of oil in Argentina. Half a century after oil started to be drilled in Pennsylvania for the first time, the first oil deposits in Argentina were discovered by chance in Comodoro Rivadavia in 1907 when explorers were looking for fresh water. The government rapidly created the National Agency for Oil Extraction in 1910 and President Hipólito Yrigoyen created Yacimientos Petrolíferos Fiscales (YPF) in 1922. Since then, Comodoro Rivadavia has structured its economy around oil extraction and, as a consequence, the pulse of the city runs at its pace[1].

Institutions, politics and society in general have also been shaped by this activity. Not a minor detail is the fact that YPF was the first State-owned oil company in the world, and that Comodoro Rivadavia was the most important – and for some decades the only – production area. Private enterprises were left aside and the State-owned company controlled the entire business (Gatica et al. 2005).

In 1944 the military government of General Farrell created the Military Governorship of Comodoro Rivadavia around the San Jorge Gulf, aiming to more closely manage this strategic resource in the context of the Second World War and under the potential "threat" of Chile (interview Barros 2012). This governorship had the size of Portugal and took half of its territory from southern Chubut and half from northern Santa Cruz. The Military and the State-owned oil company fully controlled the area. A National University was created, the Archbishop was located there, as were all the required institutions for the functioning of this newly created subnational State.

This has given a particular profile to the socio-economic structure of Comodoro Rivadavia – one that is almost completely related to oil production in terms of industry, commerce and construction (Laveglia 2004: 73). As an observer put it "this area is so connected to oil that even towns are identified by the number of kilometers they are from oil wells" (interview Aubia 2012). And it did in a particular way: it performed as an "enclave of State capitalism", like Gatica et al put it (2005: 63), in which society was more hierarchical,

[1] Laveglia argues that the oil industry has shaped all economic activity in Comodoro Rivadavia to an extent that the economic cycles – positive and negative – are completely dependent on the prices and extraction of that commodity. Industry, services, construction and general income level directly depend on the wealth generated from the oil sector. The same author has mentioned that even demographic growth has changed along with the oil industry. Decades of low oil prices have been decades in which Comodoro Rivadavia´s population has grown less than the rest of the province (Laveglia 2004: 225-228 and interview April 2011).

less politically active and where even unions where banned by military rule (Barros 2012). Similarly, salaries are substantially higher than in the rest of the province creating incentives for oil oriented activities and, for example, for disregarding positions in the public sector that are substantially lower paid (interview Ibarra 2011).

Even after the military Governorship was dissolved in 1955 and Comodoro became part of the Province of Chubut, the industry and thus most of the social activity in Comodoro Rivadavia continued to highly depend on a resource that was highly regulated by the government and the State-owned oil company (Laveglia 2005: 221). The market was deregulated in the 1990s and YPF privatized in 1999, changing the scope but not the structure of Comodoro Rivadavia's economy. In this last decade, the city has experienced a new boost with the recovery of oil prices. This is addressed below in section C in this chapter.

Esquel

The third socio-economic space is located by the Andes and lives around the main city of the area: Esquel. This area of extensive valleys with large lakes and natural forest was populated by the Pehuenches. In 1885, a year after the creation of the National Territory of Chubut, an expedition of Welsh settlers moved to the area that they called Trevelin, aiming at extending the October 16th colony, which was already functioning on the eastern coast of the Valley. Then in 1906 the national government decided to plan the main city of the area in Esquel, which is a couple of kilometers from Trevelin.

The history of Esquel has evolved around isolationism. Located in the Andes, far from both oceans and at 575 kilometers from Comodoro Rivadavia and 622 from the capital city, Esquel was isolated for most of the past century. Moreover, amongst the major historical events of Esquel have in connecting it to the world, including with the telegraph in 1906, the railway in 1945 (to Bariloche, a province in Río Negro) and roads much later. One of the most prominent books of the history of Esquel is titled "Esquel…from the telegraph to pavement" (Oriola 2003).

Given the lack of navigable rivers and roads and with the distance from the sea, it was very difficult for Esquel to build strong ties with the other major cities of the province. Since its foundation in 1906, this area has been economically more connected to Bariloche, due to its proximity and economic connectivity (Altimir 1971). In 1945 ties with Bariloche were strengthened thanks to the construction of the railway that connected both cities.

With better connections, since the 1950s Esquel experienced an important process of growth, although less so compared to the coastal cities. As part of the giant project of the aluminum-producing ALUAR in Puerto Madryn, the military government decided to build a damn – the largest in Argentina – in Esquel in order to produce the electricity needed for the factory's functioning.

With the construction of the Futaleufú damn, Esquel profited from better pavement, which connected the east to the coast, and the north to Bariloche, more energy supply and accommodation facilities, and thus the city managed to become an important site for tourism. Today tourism is the most important economic activity in Esquel. Another important industry in the area is forestry, given that Chubut has 40% of all Argentine native forests and Esquel is the main producer.

3) Spatial socio-economic differentiation

The modern history of Chubut is related to its rapid growth. In a few decades it has become one of the wealthiest provinces and one of the main recipients of migration and investment. Also remarkable is its tripartite spatial development, with differentiated economic activities, political traditions and identities.

On top of the rapid demographic growth of the province, it is noteworthy that most of this growth is concentrated in the east coast, where around 80% of the population lives and 90% of the provincial economic activity happens. Esquel, the third region, is still important but less so than half a century ago (see table 5.1).

Table 5.1. Population of largest cities.

City	1960	1991	2010
Puerto Madryn	6,189	45,494	79,915
Trelew	11,852	79,340	99,201
Rawson	3,467	20,674	33,806
Comodoro Rivadavia	56,777	129,229	182,631
Esquel	15,066	30,782	39,848
Total Province	**95,187**	**305,748**	**506,668**

Source: national censuses 1960, 1991, 2010

As noted, there is not only geographical separation of economic activity, but also each region has developed with differentiated economic activities, with an important degree of autonomy and with distance one from the other (table 5.2).

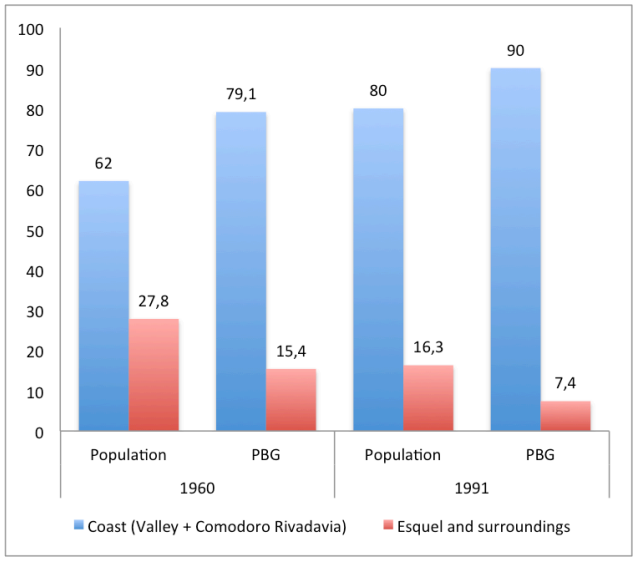
Table 5.2. Main economic activities per region

City	Main activities
Comodoro Rivadavia	• Oil (crude extraction/refineries/production of machineries)
Trelew	• Textile industry • Services
Rawson	• Government
Puerto Madryn	• Aluminum • Tourism • Fishery
Esquel	• Forest industry • Tourism

Source: Author´s elaboration from Laveglia (2005)

On the one hand, on the Northeastern coast of the province is located Trelew, with its industrial and service-based economy; Puerto Madryn, with its industrial port and tourist-oriented economy; and Rawson, the capital of the province which operates around that activity. Also on the Atlantic coast, 400 kilometers south of Rawson, we find Comodoro Rivadavia, the largest and wealthiest city in Patagonia. Comodoro Rivadavia has around 40% of the provincial population and controls the main economic activity of the province: oil. In these two regions are concentrated 90% of the provincial economy (see figure 5.2). Esquel is a third pole and is substantially smaller but still important, with economic activities in cattle rising, forestry and increasingly tourism.

Figure 5.2. Population and GGP per region (in percentages of total Chubut).



Source: Author´s based on Laveglia (2005)

Altimir´s survey underlined a "tripartite spatial configuration" of Chubut, in which the three principal spaces of the province were isolated from one another and connected to three different economic regions of Argentina – the Esquel "space" to Bariloche, the Valley, which faces north to the Pampean economy and Comodoro, which is connected to southern Patagonia. As an indicator of this lack of integration, Altimir showed that less than 10% of all phone calls emanating from each of these cities had a destination in one of the others (1971: 135). Historian Horacio Ibarra even uses the concept "shire" instead of regions because he says that the word "region" implies that they are part of a unit, which in fact they are not (interview 2011).

B) Space, identity and politics: tripartite dynamics in Chubut

One of the consequences of this spatial differentiation is that differences have also been reflected in the identities and political culture of each region. These identities are the perceptions that have regularly emerged in the interviews carried out during the fieldwork.

One of the important aspects of identities in Chubut is that in the first half of the century, political activity has remained marginal and mainly local. Vidoz and Carrizo point out that the National Territory condition – with its lack of political rights – made the

structuration of party politics difficult (n.d.: 10). On top of that, political activity was reduced to local issues, which further strengthened the localism of each space.

While the oil industry was expanding in the 1920s, 30s and 40s, the central State was also increasing its presence providing a particular profile to Comodoro Rivadavia's society. Compared to the other regions, the presence of corporatist institutions – the Church, a major oil company, the military – gave society a more hierarchical profile. On top of that, unions were forbidden for a large portion of the 20th century. Even though Comodoro Rivadavia was a recipient of migration, the military had the deliberate purpose of importing a work force from Catamarca or La Rioja – poor provinces without the tradition of unionism of Eastern or Southern European migrants (Barros interview 2012).[1] In the last decades that has changed, although the disfranchisement of Comodoreans remains largely unchanged. Observers note that historically Comodoro Rivadavia has not been connected to public affairs:

> *"The history of Comodoro does not support the idea of a committed society. Unions were weak since the beginning, completely connected to the State-owned and military controlled YPF… It was Mosconi´s "Perfect Dictatorship"* (Gatica – Trelew - interview April 2011 - historian)

> *"Their corporatist tradition and their wealth hinders the emergence of a public vocation"* (Fernandez Vecino - Esquel - interview April 2011 - attorney of Frente Para la Victoria Chubut)

> *"Eliminating any political activity was a deliberate strategy of the militarized Comodoro, they wanted to protect the strategic resource: oil"* (Barros – Comodoro Rivadavia – interview December 2012 – political scientist).

The lack of interest in public affairs continued after 1983, and experts argue that the reason is that, compared to most provinces, Comodoro does not need State funds for survival.

> "*Comodoro has its own dynamic – large unions, transportation, businessmen, etc - that are far from being subject to the government….they don´t need the government*" (Gatica interview 2011 - Trelew).

Fernandez Vecino points out that Comodoro Rivadavia

> *"… doesn't need the State for survival. It always has played alone. It has more money than the rest so it´s indifferent to public affairs. It always plays alone"* (interview april 2011)

> *"They have a limited "*militancia*" (political activism). They just want the government to take its foot out of them*" (Fernandez Piccolo - Rawson - politician).

[1] Barros in the interview pointed out that he is currently studying the archives from that period containing that information.

Some observers point out that there are not many incentives for being involved in public affairs. On the one hand, due to the high prices of this oil dependent city, government employees earn substantially less than the private sector, and thus school teachers and police officers have a substantially lower standard of living than private sector employees.

On the other hand, a former vice-governor native of Comodoro Rivadavia explained that:

> *"politicians must travel 500 kilometers to work in Rawson, far from families and surrounded by a "hostile" environment of public officials that are mostly from the Valley"* (Aubia – Comodoro Rivadavia – former Vice Governor UCR)

It is opposed to the stereotype of the "Merchantilist", and people that "follow technical careers" (Fernandez Vecino) to the "lazy" (Piccolo) and "white collar bureaucrat" (Barros) from Trelew.

To the contrary, the Valley is more politicized. First, there is a natural affinity as Rawson is and has been the capital city of the National Territory. It is also in the Valley where historically most of the political events have happened: the social protests of the 1920s; the provincialization claims in the 1930s and 40s – a debate that was largely absent in Comodoro Rivadavia (Barros 2012); and human rights activism, especially after the "Massacre of Trelew" in 1972[1].

On top of that,

> *"society from the Valley is more open and more permeable to new people and ideas." ... "People move to Comodoro in order to make money, but they move to Puerto Madryn or Trelew to live, the profile is different"* (Fernandez Vecino, Esquel).

People from the Valley also tend to be more involved in social events and sports Clubs. Most prominent politicians have been part of the management of important sports clubs. Just to mention a few, Viglione (Governor 1983-87) was president of Club Huracán in Trelew, and Dionisio Das Neves (Mario Das Neves father, Governor 2003-2011) was also involved in the politics of the club. More recently Carlos Eliceche (runner up in 2011) was president of Almirante Brown in Puerto Madryn, Ricardo Sastre (major of Puerto Madryn) was president

[1] In 1972 the military government killed 16 political prisoners claiming that they were escaping from Rawson´s prison. This event had international exposure and is considered an important commencement of human rights activism in Argentina, previous to the 1976-82 dictatorship. See "La Pasión Según Trelew" Tomás Eloy Matinez, an elocuent tale of the events (2009)

of Deportivo Madryn and the MacCarthy family has been linked to Racing of Trelew. Historian Pérez Álvarez points out the fact that politicians of the Valley, disregarding party membership, use social clubs as a "springboard for their political careers" (interview April 2011).

Esquel is a "better integrated society, without major economic inequalities that affect other regions… Money is not an issue there (Esquel)," as Fernandez Piccolo pointed out (2012). Esqueleans also have an important involvement in public affairs but in a different way than in the Valley. The tradition of Esquel is more about cattle-raising and agricultural production than industry or government. Therefore, unions have traditionally been weak. Nevertheless, the distance from main urban centers have made the people more involved in public affairs, be it in terms of electricity provision, telephone or the environment. Oriola shows that there is an important proliferation of cooperatives to sell local production and more recently to provide public services (2006: 20-24). Cooperatives would perform the "springboard" role of local politicians as social and sports clubs do in the Valley.

This social activism and participation can be seen in the "No to the mine" campaign, a local movement organized against the installation of a mega-mining project a few kilometers from the city. Riots, campaigning and public demonstrations led the local municipality to call for a plebiscite. The "NO" won in 2003, and since then the movement has been a source of inspiration to other movements in the country. The organization is still in place today and promotes other social claims, which shows the level of involvement of communities in local public affairs.

1) Inter-spatial dynamics

The spatial differentiation and the clash of different economic interests and identities have been crucial for understanding the political dynamics of Chubut, and I would argue, to hinder the concentration of power in the hands of the provincial executive as happens in other rentier provinces.

The game is as follows. The main players, and main actors of the political conflicts, are along the coast, where 80% of the population lives, and where 90% of the economy is produced. There resides, on the one hand, the wealthiest and most populated region that is almost the most politically disenfranchised – Comodoro Rivadavia – along with, on the other

hand, the Valley, which is politically powerful but still economically dependent on the oil royalties.

In the game Esquel serves as a tiebreaker. Even though its demographic and economic weight is not as important, a half century ago it was the second most populated city in the province and remains politically influential. There are stronger historical and blood ties with the Valley. First, Esquel was founded by Welsh settlers coming from the Valley. Second, Esquel is poorer, and so most emigrants end up going to the Valley looking for better economic options. On top of that, there are more connections with the Valley through school competitions, music events, and others than to Comodoro Rivadavia.

Provincialization debate and the location of the Capital

Interregional interactions have spanned most of Chubut's political events in recent history. An illustrative example was the debate over the first provincial Constitution under the process of the provincialization, in which these different "spaces" have collided.

During the provincialization process in which Chubut as well as Santa Cruz, Neuquén and Río Negro were created, one of the debates was about not allowing all oil revenues in the hands of one province. They decided to divide the Comodoro Rivadavia Governorship in two, with half for Chubut and the other for Santa Cruz. Yet, the city and the port remained in Chubut.

Indeed, the writing of the Constitution exacerbated the regional debates. Three commissions were created for drafting it: one in each of the main regions (Gatica et al 2005: 32). There are anecdotes recorded from that period. For example, the Commission dealing with Municipal affairs was in Comodoro and drafted those chapters with concepts and ideas coming from the oil industry. Even religion was part of the debate. In the case of Comodoro Rivadavia, the catholic tradition is strong. There is an active Salesian community, and the Archbishop of the province is located there. Trelew is Catholic as well, but its Catholicism is nuanced by the important presence of Methodists, who came with the Welsh immigration (Gatica et al 2005: 35).

However, the vital debate was over where the provincial capital should be located. The two options were Comodoro Rivadavia, as the main port, economic center of Patagonia and the capital of the Military Governorship (which operated from 1944 to 1955), or Rawson, the capital of the National Territory of Chubut.

Representatives from Comodoro Rivadavia argued that that city already had a University, a military base, and all the infrastructure and services it needed. On the other hand, Rawson claimed its right due to its own history as administrative capital of the National Territory[1]. Rawson won the final vote with the crucial support of Esquel. Yet, Comodoro Rivadavia kept the Archbishop, the Directorate of the National Nniversity "San Juan Bosco"[2] and oil control.

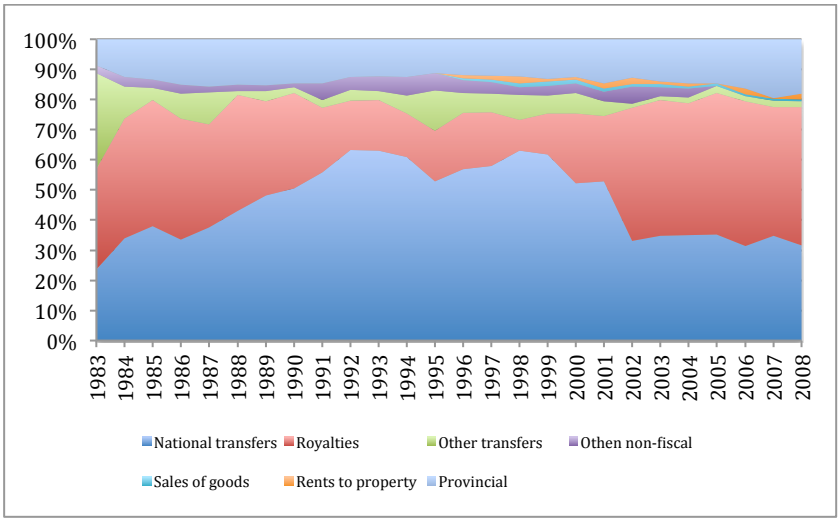
C) Geography, rentierism and democracy in Chubut since 1983

Chubut is today clearly amongst the most rentier provinces in Argentina. It is currently the main oil producer in Argentina (around 25-30% of total national production), and around one-third of the provincial economy depends on oil (Laveglia 2005). This has important implications for the fiscal structure of the province, which, since 1983, has even increased its level of dependence on royalties. Figure 5.3 shows that while in the early 1980s national transfers represented one quarter of total provincial fiscal revenues, in the last decade, after the recovery of oil prices, that percentage climbed to half of the total revenues. When fiscal transfers from the co-participation Law are added, we can appreciate that the aggregated fiscal dependence of Chubut reaches 80%. It is a net recipient of fiscal revenues – the ratio between tax collection and transfers. The fiscal figures show that Chubut is as rentier as any other oil exporting countries like Nigeria, Indonesia, Venezuela and others (Ross, 2001).

[1] Gatica et al also mention that during the debates it was also pointed out that would be very difficult to survive for Rawson without the presense of the State (2005: 42. On the provincialization debates please read (Ibarra, 2003).

[2] Notably the only public university in Argentina holding a religious name.

Figure 5.3. Fiscal revenues of Chubut by origin (in percentages)



Source: 1983-2004 Ministry of Finance / 2005-2008 PROVINFO

When democracy was restored in 1983, we see that this tripartite dynamic among the Valley, Comodoro Rivadavia and Esquel has continued, and even though it makes politics cumbersome, increasing exchanges and multiplying actors, it also counter balances some of the mechanisms of the rentier State. The relative equilibrium between the political power of the Valley and the economic preeminence of Comodoro Rivadavia sets an important limit to an extreme concentration of political power in the hands of Governors.

That dynamic is not restricted to "high politics." It is also present in most institutional arenas, ranging from unions – "the Comodoro office never sticks to strikes, and the Valley office must carry all the political weight, but they still need their votes" (Barros 2012); political parties – "in general the most important electoral positions are taken by the Valley and Comodoro, and we only leave the crumbs to Esquel, and I know this happens in all political parties" (Aubia – former vice Governor – UCR); and even in government – "it is time for a Governor from Comodoro Rivadavia" (campaign lemma in 2011). The clear differentiation of regional interests and the compulsory tradeoffs within institutions hinders the concentration of power in the hands of the political incumbents. All of this ends up oxygenating the province's democracy.

The tripartite dynamic moderates the three main mechanisms of the rentier State that restricts democracy "*tout court*" highlighted in Chapter 3: lower State capabilities, lower citizen autonomy and the proliferation of white elephants.

I will show this in the three dimensions of democracy: regime, State, and society.

1) Regime

As noted in Chapters 2 and 3, in rentier provinces, the political regime finds itself under important stress. Governors have the incentives and resources to concentrate power, sometimes at any cost. Governors then seek to reform the provincial Constitution, and it could also happen that the Executive overtakes the Judiciary and Legislative powers. The Legislature tends to be the place where "friends" go in order to legitimate policies. The judiciary must be under control so that it overlooks excesses.

However, Chubut is the province with the highest rotation in the executive by party and by candidate of all Argentinean provinces (table 2.7 in Chapter 2). Not only that, table 5.3 shows that elections are highly competitive. Half of the elections have been won by less than 10% of the votes. The UCR has won 4 elections and the PJ another 4. Similarly, the effective number of parties in the legislature has been stable over the period and with an important degree of plurality – 2.98 in 1983, 2.23 in 1995, 2.38 in 1999, 2.61 in 2003 and 2.53 in 2007 (Gibson and Suárez-Cao 2010).

Similarly, the provincial Constitution was reformed – by consensus of main political parties (Micozzi 2001) - in 1994 at the same time as the National including only one reelection compared to most provinces reformed theirs in the 1980s and included indefinite reelections like Catamarca, Formosa, San Luis or Santa Cruz (Liendo 2011).

Table 5.3. Elections Governor by party (in percentages)

	1983	1987	1991*	1995	1999	2003	2007	2011
PACh	13.6	5.9	6.6	1.2	8.3	7	5.1	1.2
UCR	40	39.4	31.7	58	51.9**	41.1	13.4	12.6
PJ	39.3	47.7	50.3	32.5	37.7	45.6	76.7***	40.4
FPV	-	-	-	-	-	-	-	40.2
Others	7.1	7	11.4	8.3	2.1	6.3	4.8	5.6
Difference 1 and 2	0.7	8.7	18.6	25.5	14.1	4.5	53.3	0.2

NOTE: UCR (Unión Cívica Radical), PACh (Partido Acción Chubutense), PJ (Partido Justicialista), FPV (Frente Para La Victoria).
*Ballotage: UCR won elections with 52%. **UCR was under alliance with FREPASO. *** PJ (58%) and the ProVeCh (18%) had Mario Das Neves as candidate.
Source: Dirección National Electoral and Atlas Andy Tow

This healthier political competition is the result, I argue, of the tripartite geographic dynamics of Chubut. This dynamic works at the intra-party level and at the level of inter-party

electoral competition, both of which counterbalance the concentration of political power in the hands of the Governor.

Within political parties the main political competition is, again, between Comodoro Rivadavia and Trelew. The most important positions are, first and foremost, the Governorship, national Senators and Deputies and the provincial legislators.

Aubia points out that this dynamic can take different forms: "…sometimes unresolved, sometimes one over the other, but most of the times alliances of two against one" (interview 2012).

In this competition, the Valley is most of the time the victorious space, despite having fewer congressional seats in the political parties. The reason is that Esquel tends to perform as a "tiebreaker" favoring the Valley. Political leaders from Esquel, on top of their cultural and historical affinities with the Valley, also tend to have more connections, as they need to visit the Capital city for favors or public works (Aubia 2012). Note in table 5.4 that 4 out of 9 Constitutional governors were natives from the Valley, surprisingly 3 from Esquel – due to its population weigh - and only two from Comodoro Rivadavia. This is not explained by demographic or economic weight, but instead it is mainly a function of inter-regional dynamics.

Table 5.4. List of Constitutional Governors.

Name	Period	Party	Born	Lived
Jorge Galina	1958-62	UCR	Colón (Entre Ríos)	Trelew
Roque González	1963-65	UCR	Comodoro Rivadavia	Comodoro Rivadavia
Benito Fernández	1973-76	PJ	San Julián (Santa Cruz)	Esquel
Atilio Viglione	1983-87	UCR	Chivilcoy (Prov. of Buenos Aires)	Trelew
Néstor Perl	1987-90	PJ	San Julián (Santa Cruz)	Esquel
Fernando Cosentino*	1990-91	PJ	N/A	Comodoro Rivadavia
Carlos Maestro	1991-95 1995-99	UCR	Puerto Madryn	Puerto Madryn
José Luis Lizurume	1999-2003	Alianza (UCR-FREPASO)	Esquel	Esquel
Mario das Neves	2003-07 2007-11	PJ	Avellaneda (Prov. of Buenos Aires)	Trelew
Martín Buzzi	2011-	PJ	Comodoro Rivadavia	Comodoro Rivadavia

*Vice-Governor of Néstor Perl. Took office after his resignation.

Source: Author´s.

An illustrative anecdote of the variations of these dynamics is the case of Néstor Perl, native from Esquel that unexpectedly became governor in 1987. In 1986 the PJ gathered in Comodoro Rivadavia in order to decide the candidates for the elections of the following year. One participant mentioned that Perl complained because he got the position of Governor while the representatives from Comodoro and the Valley kept for themselves the legislative positions. The reasons were that in 1986 the UCR was in National Government and President Alfonsín seemed unbeatable. A year later, the failing of the Plan Austral and the crescent inflation eroded Alfonsín's legitimacy. The PJ managed to profit from that situation and Perl ended up unexpectedly winning the election[1].

More recently, in 2011 Mario Das Neves was successfully completing his second period as governor, a period that coincided with windfall oil royalties and increasing national transfers (see chart 5.4 below). With greater fiscal strength than his predecesors, Das Neves aimed at confronting the national government – he was candidate for Vice President in a formula against the Cristina Kirchner – and decided to nominate his own candidate for the Governorship of Chubut. Running against the Kirchnerists, Martín Buzzi, Das Neves' protégée, won the elections showing his strength. However, that strength was limited because it was not enough to reform the provincial Constitution and the election was won by the slight margin of 0.2%. Notably, Buzzi is the first elected governor since the restoration of democracy that is a native of Comodoro Rivadavia. Observers like Barros or Aubia pointed out that the reason for this is also geographic. Das Neves, they argue, who is originally from Trelew, understands the lack of professional politicians from Comodoro Rivadavia and knows how difficult it is for them to travel, work, and undertake politics in Rawson. It is believed he chose Buzzi because he thought that he would keep political control, nominating the cabinet and controlling the political agenda[2]. The other Peronist alternatives were mayors from Puerto Madryn (Eliceche) and Trelew (Mac Carthy), each of which had their own political weight. Das Neves promoted the idea of campaigning with the slogan: "it´s time for a governor from Comodoro Rivadavia".

[1] In 1990 Perl found himself without the financial resources to pay the salaries of public employees. He pursued an austerity plan to reduce salaries. These had previously been reduced by 20% and protests were organized around what was then called "Chubutazo". Perl resigned and his vice-governor – Fernando Cosentino – took office.

[2] Actually that did not happen. Soon after taking office, Buzzi got closer to Cristina Kirchner.

2) State

I have shown that in rentier provinces – specifically in the case of San Luis in Chapter 4 – there is a tendency for governors to use windfall fiscal revenues to coopt adversaries through public employment and to build large public payrolls with a large degree of clientelism. This ultimately would increase the discretionary power of the Governor and decrease the technical capabilities of the State.

We observe in Chubut that the State is, indeed, above average in terms of its size. The provincial State employs 59 of every 1,000 inhabitants, an average substantially higher to that of the Central provinces (32) and even higher than the Northern provinces (44).

However, there are no outstanding signs of extensive clientelist networks – at least no more than the standard for Argentine provinces. Moreover, in institutional rankings like open access to public information or the quality of the recruitment process of the public sector, Chubut ranks amongst the top provinces (Straface and Page 2010).

The reason for this, again, is geographic. The geographical distribution of the population makes it difficult to create clientelistic networks of scale large enough to have a decisive presence in the entire province. In Rawson and Trelew, where most public institutions are located, public employment play a crucial role –especially after increasing unemployment since the decline of the industrial promotion schemes in the 1990s. Yet, both cities altogether only account for the 30% of the Chubut´s population. The other 70% is less subject to public employment, and thus, less permeable to the influence of potential clientelistic networks. In Comodoro Rivadavia, where more than a third of Chubuteans live, private sector posts pay much higher wages. Thus there are fewer incentives for working in the public sector or to live off of social plans. In the rest of the province, public intervention is more important but limited due to the distance from the capital city. Yet, this large public payroll has not been sufficient to dramatically influence the electoral outcomes or the implementation of public policies as it is geographically concentrated in one region.

Another factor is that there is an important autonomy of the provincial bureaucracy, which is highly linked to the interests of the Valley. For example, Aubia recalls an anecdote as Vice Governor:

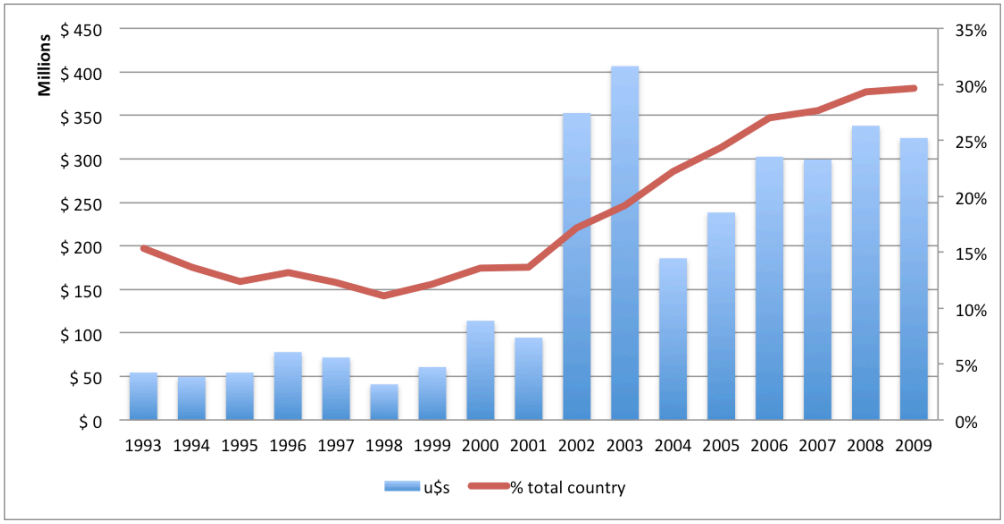
> *"I wanted to build a swimming pool for the handicapped in Comodoro Rivadavia. I had the resources and the project and still they did not allow me to do it. The bureaucracy of the province is too attached to the interests of Trelew. I had to build it in a different city"* (interview November 2012).

Das Neves period (2003-2011): increasing rentierism and geographic resistance

It could be argued Chubut is more democratic because politicians in this province are more democratic and less inclined to concentrate power like in other provinces or even that rentier mechanism in Chubut are weaker. The period of Mario Das Neves as governor (2003-2011) shows that in Chubut the symptoms of rentier are very strong and that the mechanisms in which it operates are similar than any other rentier province. Yet, I argue below, geographic dispersion was strong enough to temper the full concentration of power that other rentier provinces have suffered.

There has been a qualitative change since 2003 under the administration of Mario Das Neves compared to the previous ones. The average income per year of oil royalties in dollars multiplied by five since Das Neves took office – from around 500 million dollars in royalties collected from 1994 to 2001, to the 2,400 million dollars of the following 8 years (see figure 5.4). On top of that, in the first period the currency was pegged at 1 peso = 1 dollar, while in 2002 the peso devaluated. Thus the impact of the oil revenues multiplied its real impact in State coffers. With these revenues Das Neves aimed at changing the rules of the political game concentrating power in his hands like never before.

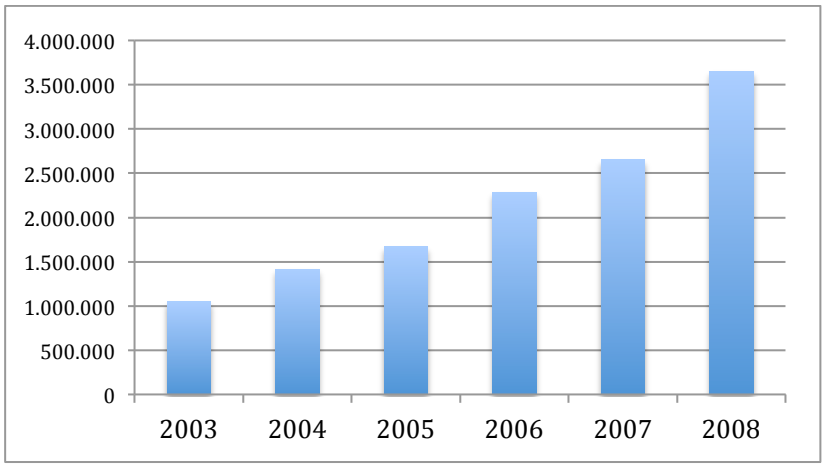
Figure 5.4: Oil royalties Chubut (in US dollars and in percentages)



Source: Provinfo

Under Das Neves' administration, the number of public employees working in construction doubled (Infobae 2011) and public works of the State dramatically increased along with the booming fiscal revenues (see table 5.5).

Figure 5.5. Total fiscal revenues Chubut 2003-2008 (thousand pesos – current prices)



Source: Provinfo

Ibarra refers to the period starting in 2003 as the period of "the affluent State" (Ibarra n.d.: 15). He States:

> *"Such abundance of fiscal means has no parallel in the history of this province. However, there has not been a correlation with strategic objectives for development or any integral plan for the medium and long term. That is to say, these conjunctural windfall revenues have not been capitalized through a substantial improvement of infrastructure for development or through productive and innovative initiatives aimed at the sustainable economic take off of the province"* (author´s translation of Ibarra n.a.: 16)

In this context, Das Neves changed the informal rules of the game that were in place until then. As Fernandez Piccolotto put it "he used the larger fiscal resources for consolidating himself as a Caesar" (interview 2011). In the same line of reasoning, Aubia considered that Das Neves

> *"....concentrated power more than any other and aimed at governing alone – with his son – and no one else...Now they (former political allies) are making him pay for that*" (Aubia 2012).

He broke the implicit contract of regional coalition building. On top of that, "he paid the highest prices in the country for public works" an opposition Senator pointed out (Infobae: 28 August 2012). Barros explained,

> "*he (Das Neves) wanted to govern alone and to use the province as a platform for the national political arena. This has a cost, and now the political elite is making him pay for that*" (Barros 2012).

Making Das Neves pay refers that some corruption scandals are starting to emerge and a couple of his cabinet members are under investigation by judges. Also, he has lost power within the PJ, despite making his protégé win the elections[1].

The tool used was that

> "*since 2007 he started to build smaller public works at the same time that he enforced higher threshold for direct contracts. … He used this increasing discretion as a way to build alliances with the regional political powers*" (Fernandez Piccoloto 2011).

Das Neves used this power to increase his national projection. He started to contest Kirchner publicly and to compete for public works in the province. "The conflicts with the Kirchners were for this growing autonomy of Das Neves " (interview, Fernandez Vecino 2011). Kirchner, as mentioned in Chapter 2, also had higher fiscal power and since 2005 was increasingly combating these autonomies. "The national and the provincial government disputed the use of public works in the province, and this was the mother of battles" (Fernandez Piccoloto).

3) Society

In rentier provinces, there are two dynamics that simultaneously interact against the "agency" of citizens: on the one hand, the provincial State gains power over society as it is the main investor, employer and consumer; and on the other hand, as this tends to happen in weakly institutionalized States, it also tends to build clientelistic and sometimes even authoritarian relationships. Citizens that are employed in weakly institutionalized States and/or are subject to clientelistic relationships, a media subsumed to political power, and entrepreneurs that are more crony than anything else, will have a reduced capacity for "agency".

There are two important aspects I want address here.

On the one hand, the above-mentioned situation of public employment in which most of it is located in Rawson and Trelew. Yet, Rawson, the capital city, accounts for less than 10% of the provincial population, the smallest share of any province. Along with Trelew the two provinces have 30% of the provincial population. The rest of the province mostly relies on

1

private employment. This means that 70% of the provincial population is less likely to be politically subject to the will of the provincial governor.

The reduced dependence on provincial government and, therefore, greated autonomy of the citizenry, leads to the fact that "*the government really needs to deliver to people, even in small towns"* (Aubia 2012) – implying that citizens genuinely judge the social utility of policies and cannot be taken for granted.

The other important factor is related to the larger plurality of media. This is not to say that media is more independent of particular interests than in other regions, it just means that the offer is quantitatively larger and that they represent different interests. Again, the reasons are related to the geographical dispersion, the localism and the prevailing forces in each place.

There are no newspapers that cover the entire territory of the province. The long tradition of isolationism – remember that the "triangle" of paved routes connecting three major cities was only completed in the 1980s – meant that each region developed their own newspapers and broadcasted their own radio shows. It is also important to note that newspapers are typically read and discussed in the mornings, which is the time before the newspapers from Buenos Aires are delivered[1].

The result is that *"each city consumes its own news",* as Juan Carlos Tolosa pointed out (interview 2011). There is a plurality of newspapers and radios whose owners have different political orientations that may or may not coincide with the incumbent government. This is particularly evident in the case of newspapers:

In Trelew, the main news sources are two newspapers: "El Chubut", whose owner and director was Jose María Sáez, former National Senator and leader of the UCR; and the "Jornada", founded by Luis Fekman Josín, a PJ partisan. In Puerto Madryn the main newspaper is "Diario de Madryn" linked to a fishery company and more recently linked to the 2011 candidate for governor from the Frente Para la Victoria, Carlos Eliceche. In Comodoro the most important newspaper is "Crónica," which is linked to local businessmen recently acquired by Ricardo López, a powerful businessman from the city with close political ties with the national government (he is a Das Neves ally). The second is "El Patagónico", a newspaper directed and founded by former governor, Roque González. He founded it the

[1] Today the proliferation of digital news and political blogs means that Argentines have immediate access to news and commentary. It is too early to measure the effects of this on Chubut. Still, the larger point remains that the media marketplace is much more diverse here than in, for example, San Luis.

same year that he decided to leave the UCR and to create his own party Partido Acción Chubutense (PACh) – the third largest party in the province.

In Esquel the only newspaper was traditionally "Esquel" with a local profile and supported by local advertisers. In 1984 this was acquired by José Agustín Morán, who changed the name to "El Oeste". Today this is the largest newspaper of the Andes from Bariloche to the South. It has no clear political affinities.

Since 2003 the increasing concentration of power of Das Neves has also been seen in the media. An observer mentioned *"he exerted important pressure over the media…there were days that you could read the same front page in different newspapers, all favoring Das Neves"* (Pérez Álvarez interview May 2011).

All in all, we have seen that Chubut, as rentier as it is, has the same incentives for rentier behavior as other rentier provinces do. Unlike other rentier provinces, it has been able to escape the symptoms so far. The long-term formation of "spaces" with differentiated economic activities, relative autonomy from each other and with different identities and idiosyncrasies have helped it to escape the rentier curse. The inter and intra-institutional bargains in political competition, the parochial profile of the media and the regional concentration of public employment, all have helped to increase the plurality of the political system.

With the dramatic increase of oil royalties since 2003 the rentier incentives increased and the symptoms of rentierism were stronger. Not casually Gervasoni´s index of subnational democracy shows that Chubut's level of democracy decreases, passing from 0.97, or fifth only to Tierra del Fuego, Buenos Aires, Santa Fé and San Juan, to a -0.9. Yet, the forces concentrating political power were not strong enough, and Das Neves protégée only won for 0.2% the elections, a candidate that soon after changed sides to support Cristina Kirchner. Only to compare to Rodriguez Saá protégé, Claudio Poggi, who won the governorship of San Luis by 32.4% difference. That is to say, the competition of different geographies has been an unintended positive factor tempering centripetal forces of rentier States, and thus fostering democracy.

D) Geography and Democracy

When looking for an explanation about the reasons why some provinces are more democratic than others, I have found support from the fiscal sociology approach and the lessons learned from point source resource rich countries. However, as André Siegfried has pointed out, "there is not a single key that can open all locks" (1995: 57), meaning that there is not a single explanation for social phenomenon, especially for a complex and dynamic concept as democracy.

Mainstream political science deals with humans and institutions, without paying much attention to "the rest", the environment. Even critical theory, linked to Marxism, explains the outcomes of society as a result of the relations between those from above with those from below (Lipietz 1996: 219). The study of the interactions of society and the environment occurs in the interdisciplinary field of human ecology. The goal of this area of study is to have a better understanding of the factors that influence this interaction without restricting itself to one discipline – geography, sociology, ecology, etc[1].

So far in the previous chapters I have dealt with another area of human ecology: the physical properties of point source natural resources and the importance they have for democratic governance. This line of research was opened by André Siegfried with his classic study of Western France at the beginning of the 20th century. He argues that electoral competition was a result of the characteristics of the soil. The author found that the kind of work scheme needed for sharecrops in calcareous soil tended to make the cultivators more dependent on the owners, and thus helped conservative partisans to maintain power (1995).

In the same line of reasoning Richard Corney has found that:

> *"Where land leads to high agricultural productivity in staple food crops, combined to proximity to an ocean port, income is likely to be spread more equitable across society, a vibrant civil society, with numerous civic groups and higher levels of trust is likely to emerge, and the protection of property rights is likely to be more effective and to thereby promote higher economic growth. Thus this promotes (or discourages) the economic and social factors that foster democratization."* (2009: 1)

In this chapter, when addressing the case of Chubut, I have identified another dimension of human ecology, the geographical variable – more accurately space - as crucial

[1] For a full account on the different dymensions of this discipline, see Amos Hawley (1950).

for democracy in this province. This is, to my knowledge, an unexplored dimension of geography related to politics and more specifically to democracy.

Some authors deal with geography, but they do so in relation to electoral studies (Agnew 1996; Johnston 2002) or political geography (Lipietz 1996). However, in this chapter I have identified a particular dimension of geography, the "horizontal" competition of different spaces within subnational units, which, as Lipietz pointed out, does not preclude the relevance of "vertical" relations of domination (1996: 219). Through the case of Chubut I have followed Gibson´s advice on the need to make a "topography" of this province (2005), and this has helped me to explain the nature of its political competition and the positive outcomes for democracy. This argument has the potential to explain the situation of other provinces and could also travel to other countries in the region and elsewhere.

1) Geography and Democracy in other provinces

It is tempting to extend the analysis made for Chubut to the rest of Argentinean provinces and even to other latitudes. The limitation is that it is difficult to undertake the in-depth qualitative work necessary for all 24 different cases in order to identify the unique spaces, identities and particular dynamics in each. However, in this section I will make a more simple analysis of the demographic distribution and the distances of main cities within provinces that provide interesting hints of the potential use of this approach for future research. This is less complete than undertaking a fully "spatial" analysis, including an examination of the historical conformation of societies, their identities and economic structure, but still it is useful at this exploratory stage.

In table 5.5, I have listed Argentine provinces with their two most populated urban centers and their share of the provincial population. This is a good proxy for economic and political weight of urban conglomerates. In the case of Chubut, political competition was undertaken by the two most populated regions that altogether concentrate 80% of the provincial population and 90% of the economy. The table also notes if the two most populated cities are the capital cities or not. The intuition behind the table follows what we learned with the case of Chubut: if the largest city is not the capital city, or if the capital city has less than the 40% of the population, then we should expect similar bi- or tripartite dynamics to emerge and more a pluralist political competition to exist. The key of Chubut´s competition has been the fact that political and economic powers have been geographically separated and in

constant competition. To the contrary, if the capital city is also the most important city and has more than half of the provincial population, and the second largest city has less than 10%, we should expect that most of the economic and social activity is concentrated in the first city. In this circumstance, and given what we know of San Luis, we would expect that he who controls political power in that province will have fewer barriers to concentrating power in his hands.

Here, I leave aside the central districts (Ciudad de Buenos Aires and the provinces of Buenos Aires, Santa Fé, Córdoba, and Mendoza). The reason is, as explained in Chapter 3, that these provinces are not fiscally dependent on external sources, they are economically more diversified and the State represents a substantially smaller share than in the other provinces.

When looking at the remaining provinces, it is remarkable that in 16 out of 19 provinces the largest city is, at the same time, the capital city of the province. Intuitively, this tells us that these provinces are more susceptible to suffer the symptoms of the rentier State, since the political and economic power are located in the same city, and, more likely, the political power is the main economic actor. If this province is, on top, heavily dependent on unearned fiscal resources, it is very likely that incumbent governors will gain unhealthy political powers.

It is interesting to note that the three provinces in which the capital city is not the most populated city are electorally the three most competitive provinces of Patagonia: Río Negro, Tierra del Fuego and Chubut. These three also rank among the top 5 more democratic provinces in Gervasoni´s Subnational Democracy Index[1].

For provinces whose capital is also the largest city, the average electoral rotation from 1983 to 2011 of the executive has been: 0.5 rotations of political parties and 4 different

[1] The other two provinces that are in the top ranking of democracy are: first, Entre Ríos, where the largest city and Capital is Paraná, but this city only represents 23.8% of the provincial population, and is the smallest capital city in Argentina after Rawson in Chubut and Viedma in Río Negro. Entre Ríos is the sixth largest economy in the country and also a net fiscal contributor as shown in Chapter 3. Even though this province´s economic activity is similar to that of Santa Fé, I decided to include it in the Northern provinces group due to the low level of industrialization and the social indicators that are closer to this latter group. The other democratic province whose capital is actually the largest city is San Juan. This province is to Mendoza what Entre Ríos is to Santa Fé. Its economy is based on smaller farmers of wine producers, fruits, small enterprises, just like Mendoza. However, since 2005 large mining initiatives have started to extract minerals, and rentierism has dramatically increased. Not surprisingly, José Luis Gioja is in his 3rd term as governor, the first governor to win three terms in San Juan. This occurred even though the province used to have one of the most important political rotations in Argentina. Yet, rentier symptoms have started to emerge.

individual governors[1]. In contrast, Chubut has had 5 different governors and three changes of political parties; Tierra del Fuego was only included as a full fledge province in 1991 and still has had 3 changes and 4 different governors; finally Río Negro, without changes of political parties but 4 different governors. I will address the cases of Río Negro and Tierra del Fuego in more detail below.

I have also included in table 5.5 the distance separating them in order to identify if cities are at commuting distance one from the other. I have established commuting distance to be roughly under 120 kilometers, which is a 2 hours distance by bus or car from one place to the other. Where the commuting distance is shorter, the potential for inter-city exchanges are greater: radio stations, people living in one place and working in the other, increasing business activities, etc. This is important because for the case of Chubut I have demonstrated that the major cities are at a minimum of 400 kilometers from each other and this has made them more autonomous, not only in economic but also in cultural and political terms.

Table 5.5. Geography and Democracy

Province	City	Population	Percentage of provincial population	Distance kilometers 1 & 2	Largest = Capital	Commuting distance	Capital >40% population
Buenos Aires	La Matanza	1.255.288	9,1	90	No	Yes	No
	La Plata	560.274	4,1				
Catamarca	Santa María	16.142	4,9	312	Yes	No	Yes
	Gran Catamarca	204.000	55,5				
Córdoba	Gran Córdoba	1.403.000	45,7	222	Yes	No	Yes
	Río Cuarto	164.000	5,3				
Corrientes	Goya	86.943	9,4	108	Yes	Yes	No
	Corrientes	357.000	38,3				
Chaco	Presidencia Roque Sáenz Peña	87.010	8,9	167	Yes	No	Yes
	Gran Resistencia	389.000	39,5				
Chubut	Comodoro Rivaravia	143.000	44,0	385	No	No	No
	Rawson - Trellew	129.000	30,0				
Entre Ríos	Gran Paraná	276.000	23,8	269	Yes	No	No
	Concordia	151.000	13,0				
Formosa	Clorinda	47.062	9,7	116	Yes	Yes	Yes
	Formosa	239.000	45,1				
Jujuy	San Pedro de Jujuy	56.845	9,3	64	Yes	Yes	Yes
	Jujuy - Palpalá	308.000	50,3				
La Pampa	Santa Rosa - Toay	121.000	40,4	180	Yes	No	Yes
	General Pico	52.888	17,9				

[1] By rotation I mean that from an election to the next there is a change of name or party that is different from the previous.

La Rioja	La Rioja	181.000	54,2	201	Yes	No	Yes
	Chilecito	42.017	14,6				
Mendoza	Gran Mendoza	901.000	57,0	232	Yes	No	Yes
	San Rafael	173.571	11,0				
Misiones	Posadas	298.000	30,8	98	Yes	Yes	No
	Oberá	54.910	5,7				
Neuquén	Neuquén - Plotier	265.000	43,1	109	Yes	Yes	Yes
	Cutral Có	33.790	7,2				
Río Negro	San Carlos de Bariloche	90.280	16,6	476	No	No	No
	General Roca	77.263	14,2				
Salta	Salta	536.000	44,1	269	Yes	No	Yes
	Orán	71.983	6,7				
San Juan	Gran San Juan	468.000	68,7	23	Yes	Yes	Yes
	Rawson	107.518	17,5				
San Luis	San Luis - El Chorrillo	203.000	47,0	100	Yes	Yes	Yes
	Villa Mercedes	96.355	26,4				
Santa Cruz	Río Gallegos	91.000	46,0	703	Yes	No	Yes
	Caleta Olivia	35.861	18,6				
Santa Fe	Gran Rosario	1.260.000	42,0	173	No	No	Yes
	Gran Santa Fe	505.000	16,8				
Santiago del	Termas de Río Hondo	27.460	3,4	70	Yes	Yes	Yes
Estero	Santiago del Estero - La Banda	370.000	42,3				
Tierra del	Río Grande	51.875	52,7	205	No	No	Yes
Fuego	Ushuaia	44.415	45,1				
Tucumán	Gran Tucumán - Tafí Viejo	809.000	55,9	73	Yes	Yes	Yes
	Banda del Río Salí	64.252	4,8				

Source: Author´s based on INDEC (2001) for population and Guía YPF for distances.

Note: Italics = urban conglomerate

In the case of San Luis distance also matters. Villa Mercedes, the second largest city, used to be more autonomous and important – vis-à-vis the capital city – than it is today. Villa Mercedes is at 100 kilometers from San Luis and is located at the end of the Pampas, along the border with Córdoba, and has traditionally been economically more dynamic than the capital city. However, with the enormous economic growth of the province during the 1980s and early 90s, the political weight of this city declined. One of the reasons is that with the industrial promotion scheme, described in detail in Chapter 4, the political nature of the decrees were negotiated in San Luis. Even though a large proportion of the newly established industries settled in Villa Mercedes, they continued to have their headquarters in their provinces of origin (Buenos Aires, Santa Fé, Córdoba and Mendoza). Since 1983, there were no major interest groups (be them political or entrepreneurial) contesting the increasing weight of the Capital city and the Rodriguez Sáa.

Notably, the three provinces in which the largest city is not the capital are all located in the Patagonia. This makes it easier to compare cases, as all of them roughly have similar structural variables shown in Chapter 2. All are new provinces created in or after the late 1950s. They are scarcely populated, and the region has the highest income *per capita*, similar social indicators and all of them are fiscally dependent. Neuquén, Chubut, Santa Cruz and to a lesser extent Río Negro are highly dependent on oil exports, and Tierra del Fuego, on subsidized industrialization.[1]

Under similar structural factors Río Negro, Chubut and Tierra del Fuego are politically competitive while neighboring Santa Cruz and Neuquén are amongst the least competitive provinces in Argentina and rank at the bottom of institutional indicators such as: access to public information, citizen accountability, effective control over the policies, the former rank amongst the top and the latter at the bottom (Straface and Page 2010).

The most visible difference between these two groups is geographic and demographic. In Santa Cruz, the largest city, with 46% of the total provincial population, is Río Gallegos, which is also the capital city. Similarly, Neuquén, the largest city representing the 43.1% of the total population is also the capital city. I will look at these provinces in more detail below individualizing their spatial composition and political competition within the provinces. I look at two provinces that are monocephalic – Santa Cruz and Neuquén – and two in which political power is separated from economic power.

Santa Cruz

Santa Cruz is the second largest province in Argentina but is only populated by 1 person per square kilometer. This oil-producing province also has the highest income *per capita*, 7 times higher than the average of Northern provinces. In many ways it is Chubut's twin sister, since they share similar characteristics – historical development, immigration, economic dependence on wool and leather production before oil, time of provincialization and isolation. However there is an important difference: when the Military Governorship of Comodoro Rivadavia, which was shared between Chubut and Santa Cruz in equal parts, was dissolved in 1955, Comodoro Rivadavia remained in Chubut. The "oil city" of the San Marcos Gulf that remained in Santa Cruz was the much less important city of Caleta Olivia.

[1] I will leave aside La Pampa which relies more in a Pampean economic structure – agricultural production, more connected to the economies of Córdoba and Buenos Aires - and has no large fiscal rentierism like the other Patagonia´s provinces.

Even though it has grown at a rapid pace, much higher than the rest of the province, the main economic and political activities are decided in Río Gallegos, the capital city that is home to almost half of the provincial population. Néstor Kirchner started his political career as mayor of this city, allowing him to then become governor, and to concentrate power enough to reform the provincial constitution to include indefinite reelection and electoral rules with strong majoritarian bias. Then, he used his strong position at the provincial level as a springboard to the national arena- just as Menem or Rodriguez Saá did before. Subnational democracy and subnational authoritarianism indexes shown in Chapter 2, coincide to rank Santa Cruz amongst the worst performing democracies in Argentina, province with high degrees of cronyism, patron-client political relations, incumbent´s party control in the legislature and so on (Secchi 2010).

Neuquén

The largest oil producing province in Argentina is Neuquén, where one third of the national production is extracted. The level of fiscal dependence is above the 80% (see figure 3.2 in Chapter 3). The capital city, also named Neuquén, represents almost 45% of the provincial population and the second largest – Cutral Có – is too close to the capital to have any sort of autonomy. This geographical concentration of political and economic power has its correlate in the competitiveness of provincial politics. Neuquén has been dominated almost since its birth in the 1950s by a provincial party – the Movimiento Popular Neuquino. This party, created in 1961, had Peronist origins but had to use a different name due to the proscription of the PJ. Favaro (n/d) points out, however, that this party refused to dissolve in 1973 with the legalization of the Peronist Party, as it developed an identity around provincial "interests", which have always been – at least from the 1950s on – based in oil extraction and to defend the fiscal royalties. Founded by Amado Sapag and two of his sons, this party has won every election since 1961. Felipe Sapag has been governor of the province five times. The Sapag, Salvatori and Sobisch families founded the most important newspaper "Diario de Neuquén" in 1985 and a close aide to Sobisch owns the other major newspaper "La Mañana". These three allied families have shared the governorships since 1983.

Tierra del Fuego

On the other extreme of Santa Cruz and Neuquén, Tierra del Fuego is politically the most competitive of all provinces and ranks at the top of democratic indices and all transparency and accountability indicators (Gervasoni 2010b; Giraudi 2010; Straface and Page 2010). Since the first provincial elections took place in 1992, the Movimiento Popular Fueguino, the UCR, the PJ, ARI and the Social Patagónico parties have alternated the provincial executive (table 2.7 Chapter 2). Geographically this province is fairly isolated. It is the most austral territory on earth located at the very south end of Patagonia, at 2,300 kilometers from Buenos Aires. Territorial dynamics are somehow similar to Chubut. It is highly rentier, mainly supported by subsidized industries like in the case of San Luis. Most of those industries are located in the largest and wealthiest city of the province, Río Grande. Usuahia, the capital city, is greener, more cosmopolitan as is more tourist oriented, and where most of the public employment is located. Both are separated by 200 kilometers of cold, snowy and mountainous route. The distance and different economic activities of these "spaces" foster important regionalisms that are crucial for avoiding an unhealthy concentration of power. Observers point out that the composition of electoral formulas for governorship are usually composed by one candidate by each city, list of legislators are also evenly composed, public works distributed and so on. In this bipolar game, Tolhuin – a small town located halfway between Río Grande and Usuhaia, "performs as a political intermediary" (Villena interview 2012). Mass media is evenly distributed in both cities and there is a tendency towards certain independence from the provincial government. "*Most newspapers were even against the provincial government in 2011 and did not want to communicate that Ríos had won the elections"* (Villena 2012).

Río Negro

Another case of regional distribution of wealth and population is Río Negro. This province, located just north of Chubut and east of Neuquén, has developed in three spatial formations located at no less than 500 kilometers from each other. On the one hand is Viedma, the capital city, which represents less than 10% of the provincial population. The entire activity of that city turns around the government. 514 kilometers west is the Valley (which includes Cipoletti, General Roca and Allen) which is the economically the most dynamic region and altogether represents almost half of the provincial population. This is the

most important cluster for fruit cultivation in the country, exporting over 1 billion dollars per year (provinfo 2011). The common perceptions between the Valley and Viedma are similar to Comodoro and the Valley in Chubut: *"the general idea in the Valley is that people from Viedma are lazy and live off of their (the Valley's) money"* (Rulli interview 2012). The third region is Bariloche, the largest city of the province, representing 16.6% of the total population and located 800 kilometers from Viedma and 475 from General Roca. This city is one of the main tourist centers of the Southern cone. It is known that Bariloche and the Valley tend to have a general disregard for the public sector and political activities (Rulli interview 2012).

The unwritten political rule in Río Negro is that governors usually come from the Valley, and many times have been former mayors of the city of General Roca (e.g., Verani, 1995-99 and 1999-2003; Saiz 2003-07 and 2007-11; and Soria 2011). In exchange, candidates from Bariloche tend to lead the electoral lists for the national legislative power. Mariana Rulli points out that the UCR usually included a candidate for vice governor from Viedma (interview 2012). Party members from Roca use their weight to tip the balance in the primaries. Rulli mentions that something similar happens in the PJ. For example, Miguel Ángel Pichetto, an influential national leader and native from Viedma, never managed to be candidate for governor for the PJ. Despite being Menem and then Kirchner´s protégé, he lost the primaries against Soria in 2011– then Mayor of General Roca.

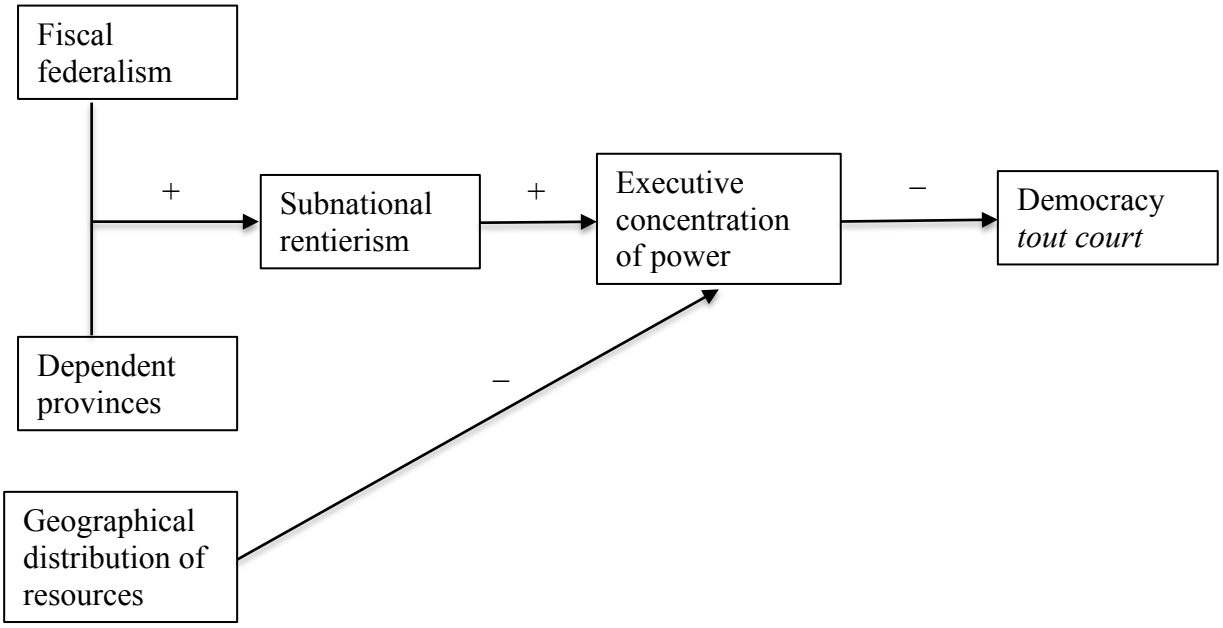
Similar distribution patterns exist regarding newspapers. Horacio Massacessi, a powerful UCR governor in the 1980s and even presidential candidate in 1995, owns "Noticias de la Costa" the main newspaper from Viedma. Despite having important public advertisements – thanks to its party affinities - this newspaper has never managed to penetrate the other regions. The largest and oldest newspaper of the province is "Diario Río Negro". This newspaper, printed in General Roca since 1912, is mainly supported by private advertisement. People from Bariloche read their own publications: "El Cordillerano", "Andino" and "El Ciudadano".

The result is that despite 1983 and 2011 this province has been governed by the same political party, elections have always been highly competitive. In elections for governor only 3 times the difference between the first and the second surpassed the 7% and never more than 20% difference (Ministry of Interior).

To sum up, after comparing the homogenous group of provinces from the Patagonia I have demonstrated that they fulfill the predictions drawn from the case of Chubut. The

separation of political and economic regions in Tierra del Fuego and Río Negro have tempered the concentration of power in the hands of incumbent governors as in the cases of monocephalic Neuquén and Santa Cruz. See below the diagram of causality including the geographical competition of spaces within my analytical framework.

Figure 5.6. Diagram of causallity between variables – including geography.



Source: Author´s own elaboration.
Note: The + means there is a positive relationship between the two variables joined by the arrow. The – means there is a negative relationship.

E) Conclusion

This chapter explored in detail the experience of an, at first sight, outlier of the rentier "curse": Chubut. Analysing in depth this case, I have demonstrated that the long-term formation of "spaces" with differentiated economic activities, relatively autonomous one from the other and with different identities and idiosincracies, have helped to escape from the symptoms of rentierism. These spaces have increased the inter- and intra-institutional bargains, the plurality of sources of information, the lack of territorial coverage of public employment, and all of this, I argue, has exerted an important counterbalance to the centripetal forces that rentier provinces tend to experience.

I have also applied these insights to other provinces in order to explore the travel potential of my hypothesis. This is only an exploratory stage that needs further research and detail. However, I have found that the provinces with higher regional dispersion of population are politically amongst the most competitive ones, specially given the fact that the capital city is not the largest city. Comparing the regional dynamics cases of Río Negro and Tierra del Fuego to Santa Cruz and Neuquén, I have seen how the composition of electoral candidatures, the heterogeneity of media sources, and relative autonomy of regions hinder the concentration of political power in few hands.

The emergence of the geographical dimension of horizontal competition of different socio-economic "spaces" is crucial in the case of Chubut and potentially a revealing dimension to nurture theoretical and empirical discussions of democracy and democratization.

VI Conclusions

With the return to democracy in 1983, the dormant institutions of federalism in Argentina regained vitality, more so than at any other moment in the past century. This revival brought new dynamics to the relationship between the different levels of government and within subnational polities, and thus new policy and political challenges emerged. In this work, I have studied one of those dimensions, the political processes within the provinces, and focused on explaining the puzzle of why many provinces, despite being enormously favored by fiscal and political resources, have been unable to improve democratic life within borders. As I show in Chapter 2, local elites in these provinces have tended to remain in power, have built extended patronage networks and have surpassed the autonomy of other powers, thus stagnating – and sometimes even reversing – the democratization process started in the country three decades ago.

Looking for explanations, I have walked the path opened by Gervasoni (2010a) who has put forth the only theoretically based statistical analysis explaining subnational democracy in Argentina. Fiscal rentierism explains, from his point of view, the proliferation of hybrid political regimes at the subnational level. I have made a key contribution on this topic, exploring the connection he first highlighted in further detail using qualitative methods, an approach that allows us to disentangle the causal mechanisms through which the "curse" operates.

In identifying the mechanisms through which rentierism hinders democratization at the subnational level, I have made two further advances for the literature. First, we now understand in more detail how rentierism works in practice at the subnational level. I have carefully spelled out how they operate in the case of San Luis, and I have demonstrated how rentierism hinders citizen´s autonomy *vis-à-vis* the State, as well as how it hinders the emergence of State capacities and how it incentivizes the unproductive allocation of public resources. I have also identified a particular case of fiscal rentierism, "subsidized industrialization", that provided the means through which the Rodriguez Saá family concentrated power in their hands like no other governor had before in that province.

I have demonstrated in detail that what is at stake is an enormous redistribution of power resources within the rentier provinces that limits or reverses any initiative for democratization. When addressing democracy, I have relied on O´Donnell´s "*tout court*"

definition (2010), in which he includes a well functioning State apparatus that can guarantee the rule of law and increasing technical capabilities; a citizenry with intellectual, physical and material capabilities to exercise their rights; and a competitive and fair political regime. I have shown how the mechanisms of the subnational rentier State negatively affect the three dimensions of democracy: the State, the regime and citizen autonomy. This type of analysis, which may be unique to a province or a group of provinces, needs a kind of contextualized approach that large-N analyses cannot provide. That said, I also understand the limits for measurement of the approach that I have taken for comparative purposes such as indexes or rankings. This is a task for future efforts.

In providing a closer look at the workings of rentier subnational States, I have also identified provinces that have managed to escape the so-called "curse". Just as there are a few point source natural resources exporting countries that have been remarkably successful in the last decades, some provinces, like Tierra del Fuego, Chubut and Río Negro, have experienced more lively democratic regimes than the other equally rentier provinces. Instead of treating these cases as outliers, a case study approach allowed me to highlight other variables that restrained the mechanisms through which rentierism operates at the subnational level. Through the experience of Chubut, I have shown that the development of three fairly distant and autonomous poles within the province has exerted an important counterbalance to the centripetal, centralizing forces that rentier provinces experience. Then, in a final, more explanatory stage, I found that all rentier provinces in Argentina in which the political power is geographically distant from the economically most dynamic region, tend to be politically more competitive.

This finding illuminates the importance of geography, my other main contribution to the literature, a variable that has been disregarded by mainstream political science in general and democratic theory in particular. I have emphasized that this is potentially a fundamental variable for theoretical and empirical discussions of democracy and democratization.

Yet, there are important theoretical and policy questions that are derived from this dissertation, and remain open for future research. This dissertation has focused on theoretical questions related to the institutional and structural factors that condition the lives of people living in peripheral provinces in Argentina. Ultimately, the goal of my research is to find answers that could shed light on much-needed policy or institutional reforms to Argentina´s federal system.

One important theoretical question is related to the important changes in the structure of fiscal transfers that occurred after 2005. In my research I have focused in a fiscal structure that was stable for the 1983-2005 period. That structure of fiscally dependent but politically powerful provinces has unleashed particular mechanisms affecting subnational polities. In the post-2002 economic recovery, strong centralizing forces emerged that changed the balance of the political game. The growing tax base of the economic recovery has relied to a large extent on consumption and export taxes. Export taxes are not sharable, providing the national State with an increase its share of the pie of total fiscal revenues. Given the smaller share that provinces now receive, while facing larger public spending, provinces have become more dependent now on fiscal transfers than before. A second characteristic is that the proportion of ear-marked and direct transfers has been much larger since 2005 (IERAL 2012), and the composition of national spending has changed, increasing the proportion of capital transfers to the detriment of current transfers (Bianchi 2012). These two factors have diminished the fiscal autonomy of provincial governments.

A third element is that since 2005 the National government began to renationalize pension funds, public utilities and even important companies like the flagship airline and the national oil company. With larger funds available, national agencies like ANSES (pension funds), AFIP (taxes) and PAMI (retired social security) have implemented social plans and provided benefits all over the country – i.e. with the delivery of netbooks to schools or the implementation of the universal contribution per child. These initiatives have managed to pass across the provincial "borders". This has in turn diminished the political autonomy of provincial governments.

The current situation has changed the balance of the political game, given the National government stronger muscle within the federal bargain. The availability of plentiful fiscal resources has provided enormous room for the national government to regain agenda-setting power over the provinces and, for the first time since 1983, to impose candidates, calendars and policies within provinces. Yet, whether this situation is positive for subnational democracy or not remains an open question. It is too early to know for sure if new mechanisms have emerged as a result of these post-2005 changes or if there have been structural changes in the multilevel dynamics of Argentina´s federal system.

The second set of questions relate to whether the mechanisms of subnational rentier States operate in other federations with similar fiscal arrangements. We know that Brazil and

Mexico are also strong federations (Samuels & Snyder 2001; González 2012), with important economic differences across regions (Cetrángolo & Gómez Sabaini 2007) and fiscally dependent subnational States. We also know that there are peripheral States like Oaxaca in Mexico (Gibson 2005) and Maranhão or Ceará in Brazil (Ames 2009) where patronage and clientelism is the game in town. However, to know if my arguments travel, we must engage in a deeper study of the particular institutional and structural variables of those countries.

Tied to this previous idea, there is a policy preoccupation regarding the long-delayed reform of Argentina´s Tax-Sharing scheme. The 1994 National Constitution called for a new Law that had to be issued, at the latest, by 1996. By 2013, the Law has not even been on the agenda of Congress and, it is believed, the formal request for unanimity of the provinces is the main obstacle.

Nevertheless, issuing a new fiscal contract in Argentina is probably the most important challenge for the national agenda in the coming years. Issues that I considered in Chapter 2, including the reform of the "Fondo Conurbano", the fiscal unsustainability of certain provinces and the political compensation of provinces rather than their developmental are simply too important to be avoided for much longer.

For that debate, this dissertation provides information not only on the political constraints of fiscal reform, but also and more importantly on the political *consequences* of this reform- or lack of it. I pointed out in Chapters 3 and 4 that the current scheme unleashes mechanisms – incentives for an unproductive allocation of public resources, a less autonomous society and a clientelistic State – that are not the byproduct of fiscal dependence per se, but rather the way those resources are distributed, strengthening the position of provincial incumbents. From this, key policy questions arise: How can tax collection be centralized where there is no economy to speak of? How can spending be decentralized to improve the opportunity of citizens without becoming trapped in the Governors-Presidents unhealthy political game?

One potential solution is to change the basics in the political economy of Argentina´s federal system. For example, by addressing policies for territorial development, rather than fiscal reforms, it is possible to strengthen the capabilities and opportunities of people instead of incumbents.

Policies for territorial economic development have historically been erratic in Argentina. Donato (2002) explains that in general there have not been many. He States that the largest territorial policies for regional economic development have been the industrial promotion schemes, which, as I have explained in Chapter 4, have not increased the overall economic output of the national economy and have had politically regressive effects. My dissertation implies that the solution is not to strengthen economically developed provinces nor the politically powerful ones but instead to implement coherent policies involving different levels of government that can democratize political power and better distribute economic development across the territory. The plurality of economic and political actors will likely to hinder the emergence of almighty Governors.

In the case of San Luis, I have shown that industrial entrepreneurs have behaved like rent seekers looking for the tax benefits from the Industrial Promotion law. Contrary to the governmental efficiency argument, proposed by Guiñazú (2003), I have suggested that such a scheme strengthens the development of a crony capitalism sharing resources rent seekers and the local political elite, leaving aside the rest of the society.

Therefore, the dissertation provides decision makers with several ideas on how to re-frame policies for regional industrial development. One of the key rules of economic geography is that agglomeration is stronger when manufacturing is not linked to natural resources (Krugman 1995). Therefore, territorial policies should not take into account the local natural resources but rather should consider how to build or strengthen the human capital and infrastructure of regions. Improving the connections between national universities and private actors in their provinces is one possibility.

Another strategy would be to include more players in policies. In the case of San Luis, the fact that the authorities depended on decrees from the Governor helped to fortify a dynasty around the governorship. If national level actors, the local Municipalities, or even civil society would have been included in the Industrial Promotion, the outcome might have been different. The national government can provide benchmarks, oversight, transparency, as well as sources of finance and know how. The local government knows the local actors, how they operate and their potential. Civil society can advise, as well provide specialization and accountability.

My final thoughts are related to the political economy of geography and democracy. I have demonstrated in Chapter 5 that the horizontal competition of different socio-economic "spaces" has been crucial for the health of Chubut´s democracy. However, the exercise proposed in that chapter to extrapolate Chubut's experience to the rest of the Argentine provinces is still at an exploratory stage. Hence, its capacity to "travel" as a conceptual tool remains uncertain. Methodologically, it would be important to understand what the indicators are that could measure spatial diversification and, thus, help us to build robust concepts. The proxy I have used in this study is distance and population weight. But these variables do not say much about the "agency" of actors, the relationships among regions and why those dynamics are positive and not negative.

Also, evidence from experiences at the national level shows a different political outcome. In a forthcoming (Bianchi) publication I explain that the geographical concentration of elites in oil-dependent Norway or in copper-dependent Chile has allowed them to build cohesive elite networks and stronger institutions crucial for resisting the negative effects of rentierism. To the contrary, the geographical cleavages in Venezuela in the first half of the 20th century hindered the emergence of credible commitments among the elites who therefore were more vulnerable to the negative effects of the resource curse. In the cases of Nigeria and Papua New Guinea, those geographical cleavages are exacerbated by ethnic cleavages, further fueling chronic political instability and secessionist wars.

The question that arises is: does spatial competition only foster democracy at the subnational level? One hypothesis could be that locally diversified political actors within subnational polities cannot subvert the democratic order because they do not control enough resources to do so. Under this premise, the ceiling for political conflict would be lower, thus forcing political actors to find institutional ways for solving political disputes.

This dissertation has focused on the institutional and structural factors that condition the political economy of subnational democracy in Argentina. It has deliberately omitted other factors such as the capacity of leadership of political leaders like the Venezuelans of the 1950s[1], or the Malayans of the 1970s[2]. This agency of actors is vital to any democratization

[1] In 1958 main political actors agreed in a governability scheme of the country around what is now referred as "Punto Fijo". See Karl (1998).

[2] After several conflicts among the different ethnic groups living in Malaysia - Chinese, Indians and Malays – the political actors reached consensus in a New Economic Policy that would guarantee political and economic

process and may be the only factor capable of changing the structure of unhealthy political dynamics. As I have shown, however, the catch is that incentives abound for agents to behave in undemocratic ways. This agency of actors is vital to any democratization process and may be the only factor capable of changing the structure of unhealthy political dynamics. This dissertation ultimately serves as a call to decision makers. They have the tools that can change the puzzle of Argentina´s federal system and improve the living conditions of millions of Argentines living in those regions. Whether or not they choose or are able to do it is a question that lies in the political rather than in the scientific realm.

inclusion to all sectors. Since then, Malaysia has been able to achieve a stable economic growth, to diversify its economy and to pacify politics.

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