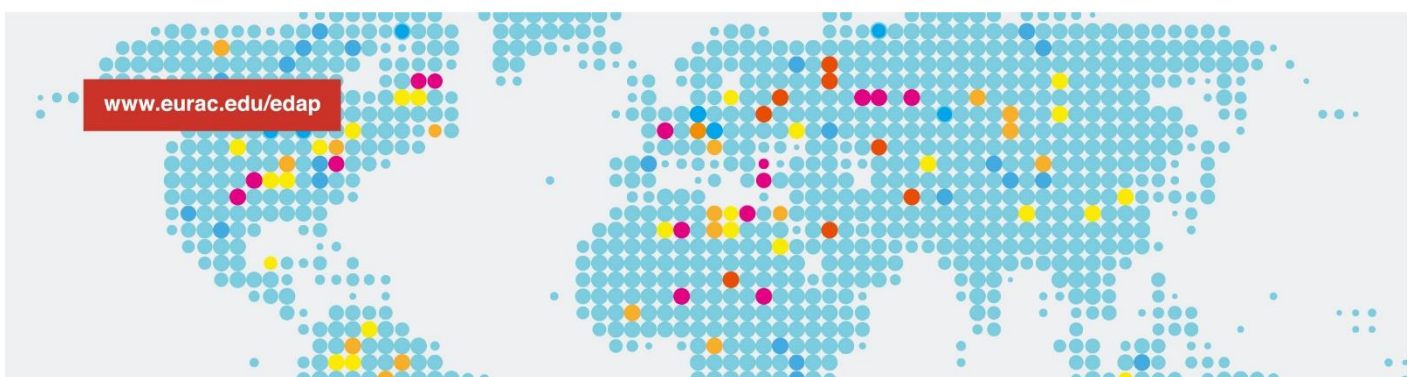


# Comparing Fiscal (De)Centralization and Multilevel Governments in Different Institutional Settings: A comparative study of Argentina and Denmark (2000-2010)

Cristian Altavilla



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## **Abstract**

The magnitude and complexity of the different processes of decentralization that took place around the world in the last five decades, involving all types of states (unitary and federal, as well), has challenged the concepts and the traditional distinction among the forms of the States. Therefore, to get a more complete and comprehensive idea of the whole phenomenon it is necessary to return to a theoretical discussion about decentralization and this requires also comparative studies between federal countries and unitary countries. With this background, the aim of this paper is twofold: first, it discusses some concepts surrounding the idea of decentralization and the different aspect it encompasses; second, it measures and compares institutional and fiscal decentralization in two countries with very different institutional settings, Argentina and Denmark, through six indicators, in order to explore some causal explanations of the role of subnational units in the process of decentralization.

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## **Key Words**

Decentralization, subnational governments, fiscal federalism, local autonomy

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# Comparing Fiscal (De)Centralization and Multilevel Governments in Different Institutional Settings: A comparative study of Argentina and Denmark (2000-2010)<sup>1</sup>

Cristian Altavilla

## 1. Introduction

Decentralization of functions and competences from central governments to subnational units (intermediate and/or local levels) has been a worldwide trend in the last decades. Most of the countries in Europe and Latin America have experienced a strong decentralization process. These processes, however, have not been uniform in all countries, acquiring different forms in different countries and within a same country over the years. Most significantly, decentralization has occurred in different institutional settings, involving not only federal states, but also traditionally unitary states.

Therefore, a comparative study between federal countries and unitary countries is required. The different processes of decentralization (political, administrative, fiscal, spatial, etc.) around the world, involving even traditionally unitary countries, make it difficult to distinguish between decentralized-unitary countries and federal countries. Decentralization, then, is a concept that has transcended the theoretical boundaries between unitary states and federal states. The question of how different federal and unitary constitutional arrangements are in practice arises: “Even in unitary states central governments are rarely as autonomous as the formal institutional set-up might indicate. They depend on the resources of actors in their surroundings for political support, information, expertise or implementation of policies. Formal institutions are

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<sup>1</sup> This work is the result of a postdoctoral research stay at the Institut for Statskundskab, Aarhus Universitet, Denmark (May-July 2016) with a Coimbra Group Scholarship. A preliminary version of this work was presented as a draft paper at the *2016 Public Management Research Conference* organized by the Public Management Research Association (PMRA) and the Institut for Statskundskab, Aarhus Universitet, June 22-24, 2016, Aarhus, Denmark and at the *6th Graduate Student Conference of the European Consortium for Political Research (ECPR)*, held in Tartu University, Estonia, 10-13 July. I thank my colleagues from Aarhus University who provided insight and expertise that greatly assisted the research, although they may not agree with all of the interpretations and conclusions of this paper. I especially thank Peter Mortensen and Jens Blom-Hansen for their comments that greatly improved the manuscript. I also thank Steven Levitsky (Harvard University) for his insights and suggestions

underpinned or supplanted by informal policy networks in which central government actors interact with actors in their surroundings in order to formulate and implement policies”<sup>2</sup>. In federal countries, in turn, the opposite may occur: “In fact, it may be that subnational units in federal systems more often underutilize their constitution-making competency than they overutilize it.”<sup>3</sup>

Being aware that decentralization not necessarily raises the power of subnational governments in all cases, as commonly thought<sup>4</sup>, and beyond normative considerations regarding fiscal decentralization<sup>5</sup>, this paper focuses on the question regarding the degree in which fiscal decentralization has occurred in countries with different institutional settings. This raises the following research questions: to which extent or degree has fiscal decentralization occurred? How has fiscal decentralization operated, and which outcomes have been achieved in different institutional settings? To which extent have the different process of fiscal decentralization increased the degree of fiscal autonomy of subnational governments?

With these questions in mind, the paper intends to compare two different countries: Argentina and Denmark. Subnational units in Argentina and Denmark operate within different political, economic and legal frameworks. Denmark, like the rest of the Scandinavian countries, has decentralized to such a degree that many scholars lump it together with federal states, “because their local governments absorb such high shares of total public expenditure (Ter-Minassian 1997; Fossati and Panella 1999; Wellisch 2000)”.<sup>6</sup> Still, Denmark remains a unitary country according to its

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<sup>2</sup> Blom-Hansen, Jens (1999) “Policy-Making in Central-Local Government Relations: Balancing Local Autonomy, Macroeconomic Control, and Sectoral Policy Goals”, *Journal of Public Policy*, Vol. 19, Issue 03, Sep., pp 237-264, p. 238.

<sup>3</sup> Tarr, Alan (2007) “Subnational Constitutional space: An Agenda for Research”, unpublished paper delivered at the VII<sup>th</sup> World Congress of the International Association of Constitutional Law, Athens, Greece, June 11-15, available at: [www.camlaw.rutgers.edu/statecn/](http://www.camlaw.rutgers.edu/statecn/), p. 18.

<sup>4</sup> See Falletti, Tulia (2005) “A Sequential Theory of Decentralization: Latin American Cases in Comparative Perspective”, *American Political Science Review*, Vol. 99, No. 3, August, pp. 327-346; Cetrángolo, Oscar and Juan P. Jiménez (2004) “Las Relaciones entre Niveles de Gobierno en Argentina”, *Revista de la CEPAL*, No 84, December. pp. 117-134. Santiago de Chile: ONU-CEPAL.

<sup>5</sup> See Tiebout, Charles (1956) “A Pure Theory of Local Expenditures” *The Journal of Political Economy*, Vol. 64, No. 5, (Oct., 1956), pp. 416-424; Oates, Wallace (1972) *Fiscal Federalism*, New York: Harcourt Brace Jovanovich; Oates, Wallace (1999) “An Essay on Fiscal Federalism”, *Journal of Economic Literature*, Vol. 37, No. 3, Sep., pp. 1120-1149; Ter-Minassian, Teresa (1997), ed., *Fiscal Federalism in Theory and Practice*. Washington: International Monetary Fund.

<sup>6</sup> Swenden, Wilfred (2006) *Federalism and Regionalism in Western Europe. A Comparative and Thematic Analysis*, Basingstoke: Palgrave, p. 17.

constitution. The comparison between these two cases will help us understand the similarities and differences between unitary and federal arrangements. I have chosen the period 2000-2010 in order to test the current stage of decentralization in the new millennium and because there is a significant gap in the current literature regarding the last decade.

Considering the legal framework, or the institutional setting, federal countries should be more decentralized than unitary ones. However, as Rodden has noted, empirical studies take issue with this statement<sup>7</sup>. While on the one hand, Argentina has a federal institutional framework that expressly recognizes provincial and municipal autonomy, giving them at the same time a great deal of political authority especially in the decision-making process, the Danish constitution only recognizes the existence of municipalities without any specification about their autonomy or their role in delivering public policies. On the other hand, empirical testing shows much more decentralization in fiscal terms in Denmark than in Argentina. In comparing these two countries I will test my hypothesis which holds that the degree of fiscal autonomy is closely linked to the level of resources and expenditures available to subnational units of government. This does not necessarily correspond with the (unitary or federal) institutional framework, as defined in the constitutional text; nonetheless, institutional framework may appear as facilitator of decentralization. In other words, in some cases, formal institutions may matter less than formal institutions. This is why it is important to highlight the difference between formal institutional settings and actual practices in Intergovernmental Relations (IGR). The paper intends to explore some causal explanations in studying the role of subnational units in the process of decentralization.

The structure of the article is as follow: in the first part, I will discuss some concepts surrounding the idea of decentralization and the different aspect it encompasses; in the second part, I will measure and compare institutional and fiscal decentralization in both countries through six indicators - elaborated on the basis of official data provided by governmental offices, as well as by OECD, World Bank and IMF; finally, the article ends with some conclusions and avenues for future research lines, drawn

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<sup>7</sup> Rodden, Jonathan (2004) "Comparative Federalism and Decentralization. On meaning and Measurement" *Comparative Politics*, Vol. 36 No. 4, pp. 481-500.



from the case studies, considering the subnational levels' role in decentralization processes.

## 2. Part I: Decentralization. Concepts and Measurement

Much has been written about *decentralization*. However, scholars agree in only one thing: the conceptual fuzziness surrounding this term<sup>8</sup>. Moreover, decentralization and federalism “are often assumed to be complementary or even interchangeable”<sup>9</sup>. Decentralization is a comprehensive concept, encompassing different aspects: administrative, political, fiscal, spatial, etc. Much of the literature has focused on *fiscal* decentralization, and most of it has considered only two variables: revenues and expenditures. Among many other effects, the processes of decentralization have restructured the governments' configuration. On the one hand, making intergovernmental relations much more complex than before and, on the other hand, making sub-national governments more important partner in patterns of governance as a whole<sup>10</sup>.

Following Falleti, fiscal decentralization can be defined as “the set of policies designed to increase the revenues or fiscal autonomy of subnational governments”<sup>11</sup>. It can assume different institutional forms such as the increase of central transfers, the capacity to create taxes, or the delegation of tax authority; it also includes the borrowing capacity<sup>12</sup> and the expenditure responsibilities. Garman *et al.* state that “Capturing the extent and nature of fiscal decentralization requires considering the allocation and control over taxing, spending, and revenues across jurisdictions”<sup>13</sup>. In

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<sup>8</sup> See Dickovick, Tyler (2003) “Centralism and ‘Decentralization’ in Unitary States: A Comparative Analysis of Peru and Senegal” *Journal of Public and International Affairs*, Vol. 14, spring, pp. 40-63; Rodden [supra, n. 6]; Schneider, Aaron (2003) “Decentralization: Conceptualization and Measurement”, *Studies in Comparative International Development*, Vol. 38, No. 3, pp. 33-56; Ter-Minassian, Teresa, *Fiscal Federalism in Theory and Practice* [supra, n. 4].

<sup>9</sup> Rodden “Comparative Federalism and Decentralization...” [supra, n. 6].

<sup>10</sup> OECD (1997) “Managing across Levels of Government Part One: Overview”, available on: <http://www.oecd.org/governance/budgeting/1902308.pdf>.

<sup>11</sup> Falleti, [supra, n. 3], p. 329.

<sup>12</sup> See Watts, Ronald (1996) *Comparing Federal Systems in the 1990s*, Kingston, Ontario: Queen's University, Institute of Intergovernmental Relations, p. 68.

<sup>13</sup> Garman, Christopher, Stephan Haggard, Eliza Willis (2001) “Fiscal Decentralization: A Political Theory with Latin American Cases”, *World Politics*, Vol. 53, No. 2, Jan., pp. 205-236, p. 215.

turn, Bertolini *et al.* defined intergovernmental fiscal frameworks as “the allocation of responsibilities and resources across government levels”<sup>14</sup>.

There are two major forms of decentralization process: a top-down and a bottom-up process of decentralization. When decentralization is decided at the centre, decentralization would be the result of top-down planning. A bottom-up decentralization results when subnational units pressure the centre to migrate authority or/and resources to them. The first one is more likely to happen within a federal setting, where subnational units already enjoy some (considerable) degree of autonomy, especially political autonomy, which is at the same time, guaranteed by the constitution. Political decentralization could be defined as a set of “reforms designed to devolve political authority or electoral capacities to subnational actors”, opening “new-or activate existing but dormant or ineffective-spaces for the representation of subnational polities”<sup>15</sup>. However, this concept is narrow and only specifies the pre-requisites of political autonomy. What is important about this concept is the capability of subnational units *to decide which policies to implement and how*. It would make little sense if subnational units were capable to popularly elect their representatives if at the same time these representatives did not have decision-making power over any policy field.

The second form of decentralization would be expected to occur in unitary countries, where the central government decides what, how, when and to which extent to decentralize, and the result is probably the configuration of subnational units according to the central preferences and needs. Negotiations may occur - as the Danish case has proved - but they will be restricted to questions regarding, for instance, the way in which decentralization will occur. This presumption does not mean that top-down decentralization may not occur in federal countries, or the other way around, bottom-up process in unitary states.

From an *administrative perspective*, the most widely accepted analytical framework is provided by the “dominant Type-Function Framework”, elaborated by

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<sup>14</sup> Bertolini, David, Sibylle Stossberg and Hansjörg Blöchliger (2016): “Fiscal decentralization and regional disparities”, OECD Economic Department, Working Paper No 1330, p. 7.

<sup>15</sup> Falleti, [supra, n. 3].

Cheema, Nellis, and Rondinelli<sup>16</sup>. Their approach “is based on the analytical classification of decentralization by *form* and *type*. Briefly, *forms of decentralization* are classified on the basis of objectives: political, spatial, market, and administrative. Each form is then divided into types”. *Political* decentralization is “the transfer of decision-making power to lower-level governmental units or to citizens or their elected representatives”<sup>17</sup>. *Spatial* decentralization seeks to promote regional growth poles in different areas of the country. The *market* form of decentralization occurs when the production and provision of some goods and services are left to civil social organizations (firms, cooperatives, associations, etc.). Finally, the *administrative* form of decentralization refers to the “hierarchical and functional distribution of powers and functions between central and non-central governmental units”<sup>18</sup>. In turn, *administrative decentralization* is subdivided in three types: *deconcentration*, *devolution* and *delegation*.

In this work I will focus on two forms of decentralization: *political* and *administrative*. Within the administrative form of decentralization, I will focus only on the “devolution” type - understood as the transfer of authority from the “central governments to local-level governmental units holding corporate status granted under state legislation.”<sup>19</sup> Since my work does not take into account other types of organizations and/or institutions (for instance, civil society), I will focus only on these two forms (and one type of the second form of administrative decentralization) because these are the only concepts involving levels of governments<sup>20</sup>.

At first glance, *devolution* (as a type of *administrative decentralization*) and *political decentralization* seem to be equal. However, after a more in-depth

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<sup>16</sup> Cohen, John M. and Stephen B. Peterson (1997) “Administrative Decentralization: A New Framework for Improved Governance, Accountability, and Performance”, *Development Discussion Paper 582*, Harvard Institute for International Development, p. 30.

<sup>17</sup> *Id.* p. 29.

<sup>18</sup> *Id.* p. 29.

<sup>19</sup> *Id.*

<sup>20</sup> “Deconcentration”, for instance, involves, according to Cohen and Peterson “different levels under the jurisdictional authority of the central government” [supra, n. 3, p. 20], so the decision-making, financial, and management functions are still being concentrated in only one level of government (for instance, the central government). In turn, “delegation” is understood, following the same authors, as “the transfer of government decision-making and administrative authority and/or responsibility for carefully spelled out tasks to institutions and organizations that are either under its indirect control or independent” (p. 30). This occurs when the central government *delegates* some specific tasks to semiautonomous organizations, for instance, state owned enterprises.

consideration, we can state that there is a crucial distinction: *devolution*, like *political* decentralization, implies the transfer of authority (decision-making) by central governments to subnational levels. However, unlike political decentralization, the decentralization of authority is granted under state legislation. Therefore, devolution may occur in both federal and unitary countries, while political decentralization may occur only in federal countries through the national constitution. However, unitary countries - without modifying their centralist constitution - may operate a decentralization located at some point between the two concepts. In short, the difference between *administrative devolution* and *political decentralization* lies mainly in the type of legislation through which decentralization is done: constitutional or ordinary legislation (be it central or subnational).

If decentralization occurs by means of a constitutional disposition, it should be understood as an inherent power recognized by the subnational level and that the centre cannot (unilaterally) revoke local authorities. These different degrees of decentralization set subnational units in different positions regarding the central level: “Regions of a *regionalized state* stand in a weaker position relative to the centre than regions in a federal state. However, they are in a stronger position than the subnational entities in a unitary decentralized state. Like regionalized states, the subnational entities owe their strength to the centre. Most likely these subnational entities also have directly elected councils and executive bodies”<sup>21</sup>.

Other literature focuses on decentralization from an *intergovernmental relation* approach<sup>22</sup>. Intergovernmental Relations (IGR) are a very important dimension of decentralization. Focusing on decentralization from the IGR perspectives implies to bring into the analysis the different types of governments and the distribution of responsibilities between them: “there is great conceptual difference between «federal states» and «unitary states». Their political traditions and the «theoretical» capacity of subnational governments differ greatly in both cases, although some similarities between the two can then appear when reviewing the operation of certain

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<sup>21</sup> Swenden [supra, n. 5].

<sup>22</sup> Among others, Jordana, Jacint (2002) *Relaciones Intergubernamentales y Descentralización en América Latina. Casos de Argentina y Bolivia*, INDES –European Community Working Paper, June, Washington: Inter-American Development Bank; Wright, Deil (1988) *Understanding intergovernmental relations*, Pacific Grove, CA: Brooks-Cole.

public policies”<sup>23</sup>. When there are three levels of governments (central, intermediate and local), which is most common in federal states, IGR are more complex than when there are only two levels (central and local), which is typical in unitary countries. Indeed, with three levels three different axes of relations (local-intermediate, intermediate-central and local-central) may occur, whereas with two levels, there is only one axis of relations<sup>24</sup>.

Focusing on an IGR approach of decentralization, the issue of division of responsibilities gains importance in the analysis. Cohen and Peterson propose a model based on how specific task-related roles are shared by levels of governments, and identify two institutional formulas: Distributed Institutional Monopoly and Institutional Pluralism<sup>25</sup>. In a *Distributed Institutional Monopoly formula* there is an explicit division of responsibilities between levels of government within each one of the public policies, with segments decentralized to subnational units and others that remain centralized at the central unit<sup>26</sup>. Jordana, following Cohen and Peterson’s 1997 work, identifies these two formulas of decentralization with two specific models of IGR, in an analytical coincidence between *decentralization, public policies* and *IGR*. The *Distributed Institutional Monopoly formula* corresponds with an IGR model of separation of powers, and consequently, relations between levels of governments are rare. This is due to the existence of “big areas of responsibility separated according to the nature of public policies.”<sup>27</sup> All components of the same policy (decision-making, implementation, evaluation, etc.) are located at one level of government. This model fits with the so-called *dual federalism*, “a model of allocating exclusive legislative and administrative power in a policy field”<sup>28</sup>, followed by most Anglo-American federations, in which each level of government acts autonomously and independently. The *Institutional Pluralism formula* matches the IGR intertwine model, in which relations occur more often between levels, due to the existence of

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<sup>23</sup> Jordana [supra, n. 21] p. 11.

<sup>24</sup> Id.

<sup>25</sup> Cohen and Peterson (1997) “Administrative Decentralization...” [supra, n. 3] p. 20.

<sup>26</sup> Jordana [supra, n. 21].

<sup>27</sup> Id., p. 13.

<sup>28</sup> Thorlakson, Lori (2003) “Comparing Federal Institutions: Power and Representation in Six Federations”, *West European Politics*, Vol. 26, N° 2, p. 7.

several concurrent competences and the need for coordination<sup>29</sup>. Within this formula exists an explicit division of responsibilities between levels of government within each one of the public policies; some elements of the given policy are decentralized to subnational units, whereas others remain centralized at the central level<sup>30</sup>. This formula fits with a *cooperative federalism* model, most typical in European and Latin-American federations<sup>31</sup>.

Finally, the leading scholar in IGR, Deil Wright, presented three models of IGR: The *coordinate authority model*, in which competences between the state and subnational units are clearly separated and the distinct boundaries separating the levels of government. The second is the *inclusive authority model*, in which IGRs are characterized by the predominant role of the national level, in a hierarchical relationship. The third is the *overlapping authority model*, in which intergovernmental relationships are structured in a set of overlapping competences among national, state, and local units simultaneously. Bargaining and negotiations are the most characteristic feature of this third model<sup>32</sup>.

**Box 1. Different approaches of Decentralization**

Institutional formulas of Public Policies (COHEN and PETERSON 1997)	IGR Models (JORDANA 2002)	IGR Models (WRIGHT 1988)	Federal traditions (THORLAKSON 2003)	Constitutional perspective	MLG (HOOGHE and MARKS 2003)
Distributed Institutional Monopoly	Separation of powers	Coordinate authority model	Dual federalism	Exclusive competences	Type I
Institutional Pluralism	Interweaving model	Overlapping authority model	Cooperative federalism	Concurrent / shared competences	Type II
		Inclusive authority model			

Source: Own elaboration based on Cohen and Peterson [supra, n. 3]; Jordana [supra, n. 21], Wright [supra, n. 21], Thorlakson [supra, n. 27], and Hooghe, Liesbet and Gary Marks (2003) "Unraveling the Central State, but How? Types of Multi-level Governance", *American Political Science Review*, Vol. 97, No. 2, pp. 233-243.

<sup>29</sup> Jordana [supra, n. 21], p. 13.

<sup>30</sup> Id.

<sup>31</sup> Thorlakson "Comparing Federal Institutions..." [supra, n.27].

<sup>32</sup> Wright, Deil (1988) *Understanding intergovernmental relations* [supra, n. 21]; see also Agranoff, Robert and Beryl Radny (2014) "Deil Wright's Overlapping Model of Intergovernmental Relations: The Basis for Contemporary Intergovernmental Relationships", *Publius: The Journal of Federalism*, pp. 1-21.

All these conceptualizations and classifications are, to some extent, related and linked to those proposed by legal approaches, in particular constitutional and administrative perspectives<sup>33</sup>. Both perspectives emphasize a distinctive element: the ability to decide - or not - upon certain competencies or policies, and they differentiate two concepts: *autonomy* and *autarky*, depending on the type and range of authority which is decentralized. *Autonomy* implies political decentralization and what is displaced is the political power; it comprises a dismemberment of the political power, thus, the distribution comprehends the higher powers of authority that characterize the modern state. This kind of decentralization can only be done through a formal Constitution. *Autarky*, in turn, is a widely used term in administrative law and it implies a displacement of some administrative functions necessary to activate some functions of the political power. However, this decentralization does not imply the transfer of functions that are typical of the modern state (public security, justice administration, law-making, etc.), tasks that characterize it and, consequently, cannot be displaced to other units - otherwise it would imply recognizing these other units as new levels of government.

Finally, these conceptualizations are in line with the notion of *autonomy* proposed by specialized literature on local government. *Autonomy* is defined, according to Pratchett, as the exercise of (some) degree of discretion, translated into “freedom from” and “freedom to”; the first one is a constitutional and legal perspective, it means “the degree of discretion that local authorities have from central government”<sup>34</sup> and the second kind of freedom is the real impact of that (theoretical, formal and legal) autonomy, the consequences of such freedoms<sup>35</sup>. Clark identifies, “using the language of contemporary legal theory”, two primary principles of local autonomy: the *power of initiation* “which refers to the actions of local governments

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<sup>33</sup> See, among the constitutionalists, Hernández, Antonio M. (2003) *Derecho Municipal. Parte general*, México: Universidad Nacional Autónoma de México; Bidart Campos, Germán (2006) *Manual de la Constitución Reformada*, Vol. 1, Buenos Aires: Ediar; Sagüés, Néstor P. (2003) *Elementos de Derecho Constitucional*, Vol. I, Buenos Aires: Astrea; and among administrative scholars, Marienhoff, Miguel S. (1965) *Tratado de Derecho Administrativo*, Buenos Aires: Abeledo-Perrot; Dromi, José R. (1998) *Derecho Administrativo*, Buenos Aires: Ciudad Argentina; Gordillo, Agustín (2009) *Tratado de Derecho Administrativo: Parte general*, Buenos Aires: F.D.A.

<sup>34</sup> Pratchett, Lawrence (2004) “Local Autonomy. Local Democracy and the New Localism” *Political Studies*, Vol. 52, pp. 358-375, p. 363.

<sup>35</sup> Id. P. 365.

in carrying out their rightful duties”<sup>36</sup> and the *power of immunity*, understood as “the power of localities to act without fear of the oversight authority of higher tiers of the state; [the possibility of] local governments to act however they wish within the limits imposed by their initiative powers”<sup>37</sup>.

As can be appreciated, there is room for an interdisciplinary dialogue among political science’s neo-institutionalist and IRG approaches, on the one hand, and legal perspectives, especially from public law and constitutional law, on the other hand. Indeed, Pratchett and Clark’s conceptions of autonomy come from political science, however, both, as they recognize, rely upon legal perspectives.

Decentralization implies the devolution of authority and enhanced flexibility and changed relationships with other levels of government. These processes, however, have brought with them tensions between levels of government: “Fiscal issues are, therefore, at the heart of many of these tensions, and in many countries fiscal and financial pressures have been the major factor in seeking more decentralized modes of governance”<sup>38</sup>. Fiscal decentralization could be defined as the “set of policies designed to increase the revenues or fiscal autonomy of subnational governments”, be it by means of transfers from the central government, the creation of new subnational taxes or by the delegation of tax authority that was previously national<sup>39</sup>. However, in order to pursue a proper theoretical approach, it is necessary to consider public expenditure and, consequently, determine the competences subnational governments are empowered to pursue. On the one hand, it is necessary to consider the level of expenditure that these competencies demand with respect to their own resources (own resources and central resources). On the other hand, it requires determining whether such competences are simply administrated by subnational entities (administrative decentralization) or whether subnational governments have some power to decide upon those policies (political decentralization).

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<sup>36</sup> Clark, Gordon (1984) “A Theory of Local Autonomy” *Annals of the Association of American Geographers*, 74 (2), pp. 195-208, p. 198.

<sup>37</sup> *Id.*

<sup>38</sup> OECD [supra, n. 9] p. 15.

<sup>39</sup> Falleti [supra, n. 3] p. 329.



## 2.1 Measuring decentralization

The methodology employed in this work is analytical and empirical regarding fiscal decentralization in each one of the selected case studies. On the one hand, this project conducts a comparative analysis between Latin American and European countries, and on the other hand, between decentralized unitary and federal countries, comparing, therefore, fiscal decentralization in different institutional settings. The study of decentralization implies to address the concept of autonomy of subnational governments. In this respect, autonomy is a construct that can be measured through some indicators. These indicators are useful to measure the degree of decentralization *vis-a-vis* the fiscal autonomy of subnational governments. On the basis of data supplied by countries' official sources and international organizations (FMI, World Bank, OECD), I have elaborated a series of indicators - expressed in quantitative terms (percentages) - applied to characterize fiscal decentralization, to indicate its most particular specific characteristics and to highlight similarities and differences between the cases under study.

These indicators could be classified in two main groups (according to the source of information): a first group is made using the constitutional and legal texts (indicators 1 and 2) in order to study the formal structure of each country. The second group of indicators is elaborated on the basis of official data regarding financial and fiscal information (indicators 3 to 6). These six indicators are:

- (1) *Constitutional allocation of competences and powers* that measures *the size* of subnational government within the country. What we need to consider here is which competences correspond to each level of government according to the constitution (federal states) or legal dispositions (unitary states).
- (2) *Constitutional allocation of revenue-raising capacity* between levels of government measures the formal or institutional decentralization of autonomy's fiscal aspect and the scope of provincial power taxation. The information needed is about which kind of taxes constitutionally or legally correspond to each level of government.

- (3) *Revenues* directly raised by each level of government, excluding central transfers, measures the degree of fiscal autonomy of subnational governments, considering, therefore, the *effective exercise* of such powers. The degree of fiscal autonomy translates into the independence of subnational government about what to expend and to what extent. This indicator measures the effective exercise of fiscal power, given that constitutionally or even legally provisions not always are consistent with reality (for instance, in the Argentine case the constitutional distribution of taxation power was left aside through intergovernmental agreements between national and subnational levels of government).
- (4) *Transfer Mechanisms of central funds* to subnational units and others form to finance subnational expenditure. Considering subnational own-resources plus central transfers we can have an index to measure the total amount of resources at the disposal of subnational governments. The existence of central or federal transfers implies the insufficiency of local resources to afford their responsibilities - and consequently a lesser autonomy in what and how much to expend. It is necessary therefore to consider the size and character of these transfers (conditional or unconditional, discretionary or non-discretionary) in order to measure the extent of dependency in administration of their competences and delivery of public services.
- (5) *Total expenditure* of each level of government combined is another useful index to measure the *size* of subnational administration of competences and public services. It is also complementary to the former index (central/federal transfers) to measure the degree of dependency or autonomy with which levels of government perform their responsibilities<sup>40</sup>. In this respect, it is necessary to distinguish to what extent subnational units cover their expenses with own resources and which percentage with federal transfers.

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<sup>40</sup> Watts, Ronald (1996) *Comparing Federal Systems in the 1990s*, [supra, n. 11] p. 68.

- (6) Finally, variables (3), (4) and (5) lead us to another index, the sixth variable (6) *fiscal imbalance* that measures the gap between the federal transfers and the total subnational spending.

These six aspects of fiscal decentralization are used as *quantitative variables* to measure the degree of subnational autonomy (expressed as percentage). The two first variables are legal and measure the degree of *institutional* decentralization. Aware of the fact that constitutional prescriptions may not apply in practice, these two variables have to be taken carefully<sup>41</sup>. The remaining variables measure different aspects of decentralization and are elaborated with official data provided by countries and international organizations' official databases (such as OECD, World Bank and IMF).

In order to conceptualize these institutional structures, I rely on a legal/constitutional perspective, i.e., according to how territorial organization is defined in each country in their constitutional texts, as well as through legislative reforms (infra-constitutional) producing changes in the territorial organization. According to this classification, federalism does not necessarily mean more decentralization. Constitutionally unitary countries may have a degree of decentralization equal or even greater than federal countries. With this caveat in mind, the term "multilevel government" proposed by Hooghe and Marks<sup>42</sup> is useful to refer to decentralized countries, encompassing federal as well as unitary countries. The authors have defined the term Multi-Level Government (MLG) as *the dispersion of authoritative decision-making across multiple territorial levels*. The broadness of the concept encompasses the idea of continuum describe above, and federal and

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<sup>41</sup> Whether or not the constitution establishes that a competence is concurrent, this does not imply necessarily that in practice both levels of government implement and administrate this competence in an independent fashion. Intergovernmental coordination between levels of government (including municipalities) may distribute the different aspects of a single public policy between levels. For instance, as occur in most federations, when a competence is allocated by the constitution to both levels, federal governments generally reserve to themselves the formulation (or at least the minimum national standards) of a policy, whereas subnational levels (states and municipalities, or both) remain in charge of its implementation. The same may occur with the constitutional allocation of fiscal and taxation powers. On the other hand, federal government may centralize (encroaching upon the jurisdictions of the states) or decentralize (shifting burdens away from the centre) some competences in a way that in practice, only federal government or only the states manage the competence – despite the constitutional definition of the competence as a concurrent one.

<sup>42</sup> Hooghe, Liesbet and Gary Marks (2001) *Multi-Level Governance and European Integration*, Lanham: Rowman & Littlefield; Hooghe, Liesbet and Gary Marks (2003) "Unraveling the Central State, but How? Types of Multi-level Governance", *American Political Science Review*, Vol. 97, No. 2, pp. 233-243.

unitary countries could be located in one point of the line according not to the formal institutional framework, but according to how task and functions are distributed and redistributed between levels of government.

Finally, and given the diverse terminology used by different countries to designate units of government, it is necessary to clarify and unify concepts to avoid confusion. In this paper, the term “intermediate level” will be used to refer to provincial (Argentina) and regional (Denmark) levels of governments, and the expression 'local' when referring to municipalities. The term “subnational unit” will be used to refer to both the *intermediate* and the local levels.

### 3. Part II: Measuring and Comparing Decentralization in Argentina and Denmark

In the following section I will compare the degree of institutional and fiscal decentralization in Argentina and Denmark through six variables/indicators described above and summarized in Table 1.

**Table 1. Degree of Decentralization in Argentina and Denmark.**  
*All percentages in average between 2000 and 2010.*

	(1)		(2)		(3)	(4)			(3) + (4)	(5)	(6)
	Policy implem.		Tax. power			Federal transfers					
	General	Soci al	No	%		Total	Non-Earm	Earm .			
Argentina	58%	86%	4	11%	18	60	48%	11%	48	49	0,37
Denmark	42%	86%	6	20%	30	41	18%	32%	59	62	0,48

Considering both subnational levels: Argentina (provinces and municipalities) Denmark (Regions and municipalities).

(1) Percentage of Policy Implementation over a 19 policy areas.

(2) Subnational tax autonomy. Argentine municipalities actually do not levy any tax (despite the national and provincials constitutions recognize them tax autonomy). Regions in Denmark are no longer allowed to levy taxes since the 2007 reform. Still, the percentage of subnational levels remains the same.

(3) Subnational Tax resources, without central grants or transfers.

(4) A. Total Transfers as percentage of total subnational resources; B-C. Non-earmarked and earmarked central transfers as percentage of total subnational resources, both as percentage of total subnational resources.

(3) + (4) Overall amount of available subnational resources (own-resources plus central -non-earmarked and earmarked - transfers) as percentage total country resources.

(5) Total subnational expenditure as percentage of total country (general government) expenditure.

### 3.1 Variable One: Competence Assignment

The territorial organization of both countries recognizes three levels of government: central, intermediate and local. The last two are subnational levels. Intermediate levels in Denmark are the regions (*regioners*) or counties before the 2007 reform, and provinces (*provincias*) in Argentina. In both countries local tiers are called municipalities (*kommuner* in Denmark and *municipios* in Argentina). In both countries, the two subnational tiers have directly elected representatives. However, in Denmark they do not have institutional participation at the central decision-making arena, that is, in the national parliament, while Argentine provinces have representation both in the senate and the chamber of deputies (since the last one is divided in districts coinciding with the provincial boundaries).

In unitary countries, intermediate and local levels are regulated by ordinary laws. This would suggest that decision-making remains at the central level only. In Denmark, article 82 of its Constitution - entitled “local autonomy” - prescribes “The right of the municipalities to manage their own affairs independently under the supervision of the State shall be laid down by Statute.” This constitutional disposition has been unchanged since the Constitution of 1849. According to our theoretical framework, this constitutional disposition is a clear example of *devolution* type of administrative decentralization, since the central state transfers authority to subnational governmental levels by means of state legislation, which means that the political power to decide whether or not to transfer (or even to implement the service) remains, ultimately, at the central level of government. As a unitary country, subnational levels do not have autonomy guaranteed by the constitution.

However, Denmark has a long tradition of subnational self-government since the nineteenth century or even before<sup>43</sup>. After the 1970 reform, and “following the amalgamations, a reform of local government functions was carried through over the next ten or twenty years. New tasks were transferred to local governments from the central government, and increased autonomy was introduced in the welfare areas that

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<sup>43</sup> Blom-Hansen, Jens and Anne Heeager (2011) “Denmark: Between Local Democracy and Implementing Agency of the Welfare State”, in Loughlin, John, Frank Hendriks and Anders Lidström, eds. *The Oxford Handbook of Local and Regional Democracy in Europe*, Oxford: Oxford University Press, pp. 222-240, p. 223.

municipalities and counties already administrated”<sup>44</sup>. In 2007 a structural municipal reform took place, replacing the previous legislation from 1970. Therefore, there are two differentiated periods in the Danish case: 1970-2007 and 2007-2010. The reform of 1970 (in force until 2007) allocated more competences to subnational levels (municipalities and counties). In the 2007 reform “the old counties were stripped of almost all functions, which were divided between the central government and the new large municipalities”<sup>45</sup>. Both reforms were legislatives, i.e., decided and implemented by means of central ordinary laws. The 2007 reform, for instance, was made through 50 major laws. The 2007 reform has three specific purposes: firstly, to reduce the number of regions and municipalities (passing from 271 to 98 municipalities and from 14 counties to 5 regions), secondly, to redistribute functions and tasks, and finally, the implementation of a new financing system. Regarding the territorial government structure, the reform implied an amalgamation of municipalities and regions. Concerning the functions and tasks, it allocated more functions to municipalities and to the central government, reducing simultaneously the functions of the (new) regions. Consequently, the expenditure share of the new regions decreased, and central and local shares increased.

### ***Distribution of tasks and competences between levels of governments***

In the distribution of competences in both countries, central governments reserve for themselves the traditional functions related to defence, foreign affairs, army, economy (control of the money supply and of the financial system), etc., whereas subnational units are in charge of implementation of social policy areas.

Table 1.1. Implementation of public policies

Competence		Argentina	Denmark	
			1970	2007
1.	International relations <sup>46</sup>	F	C	C
2.	Army / Armed forces	F	C	C
3.	Citizenship	F	C	C
4.	issue currency, monetary and measures systems	F	C	C
5.	Telecommunications services	F	C	C

<sup>44</sup> Id., p. 222.

<sup>45</sup> Id., p. 224.

<sup>46</sup> Including declaration war, making peace, ensure national defence, etc.

6.	Air and aerospace navigation	F	C	C
7.	Work / labor policies	Concurrent	M	M
8.	Health	P	R	R/M
9.	Culture, education and science	Concurrent	M	M
10.	Primary education	P	M	M
11.	Secondary and high education	P	R	C
12.	Universities	F	C	C
13.	Environment	Concurrent	C/R	Concurrent
14.	Housing	Concurrent	M	M
15.	Formation of new subnational units	Concurrent	C	C
16.	Immigration	Concurrent		M
17.	Foreign and interstate trade and communication	F	C	C
18.	Road	Concurrent	R	M
19.	Police and security services	Concurrent	C	C

Distribution of competences is shown in Table 1.1. Although this information involves a fair amount of discretion, it is still useful to highlight the degree of decentralization in policy implementation. In Argentina, eight competences are exclusively federal (42 per cent), three exclusive provincial (16 per cent), five are concurrent (26 per cent) and three are shared (16 per cent). In Denmark, eleven competences are exclusively central (58 per cent), seven are exclusive subnational competences (37 per cent) and one is concurrent between central and subnational (5 per cent).

Among those general competences, eight were classified as *social policies* (printed in dark): in Argentina, three are concurrent (38 per cent), one is shared (13 per cent), three are exclusively provincial (38 per cent) and one is federal (13 per cent). In conclusion, over social policies, provinces are in charge of most of them (88 per cent of social policies fall into provincial jurisdiction). In Denmark, subnational units are in charge to implement six of seven. Between them, health is a divided policy between municipalities and regions (being the regions in charge only of hospitalization services). Danish Subnational levels are in charge of implementing 85 per cent of social policies, and only 15 per cent the central government (secondary and university education -recentralized in the 2007 reform, passing from the former counties to the central government). Considering both exclusive subnational and concurrent competences, subnational units in Argentina are in charge of 58 per cent of general public policies, and 42 per cent in Denmark. Regarding social policies, both countries show the same percentage: 86 per cent.

**Table 1.2. Degree of Decentralization in Policy Implementation**

	Exclusive Fed/Central		Exclusive Subnational		Concurrent		
	No	%	No	%	No	%	
Denmark	11	58%	7	37%	1	5%	19
Argentina	8	42%	3	16%	8	42%	19

Subnational units in Argentina are constitutionally endowed with a wealth of authority, making it a highly decentralized federation at the political and/or institutional aspect. The national constitution reserves residual power upon the subnational units (art. 121, CAN). When the *residual clause* is in favour of subnational units, the constitution endows to the central government with enumerated and limited competences. The Argentine federation has this principle of distribution of power: “The provinces reserve to themselves all the powers not delegated to the Federal Government by this Constitution, as well as those powers expressly reserved to themselves by special pacts at the time of their incorporation” (Art. 121). Consequently, federal government’s competencies are enumerated (expressly or implicitly) in the constitutional text.

However, as Thorlakson warns, “constitutional allocation may mask the underlying reality of power allocation in the state”<sup>47</sup>. Argentina is an *integrative federalism*<sup>48</sup>, in the sense that the provinces- through a constitution - created a central government and delegated to it a set of competencies and authorities (similar to the cases of USA, Switzerland and Germany). This federal design is similar to the German, Australian and Swiss federations, in where “concurrent powers are used extensively”<sup>49</sup>. Those federations have as common feature that they have relatively few policy fields falling under *exclusive state* competence. In this respect, all these countries are institutionally more decentralized to others developed federations such as United States or Austria, where constitutions provide fewer concurrent competencies<sup>50</sup>.

<sup>47</sup> Thorlakson [supra, n. 27], p. 11.

<sup>48</sup> See, Hernández, Antonio M. (2011) *Sub-National Constitutional Law in Argentina*, BV, Netherlands: Kluwer Law International.

<sup>49</sup> Thorlakson [supra, n. 27], p. 9.

<sup>50</sup> Id.; also Watts, Ronald (1999) *The Spending Power in Federal Systems: A Comparative Study*, Kingston, Ontario: Queen’s University, Institute of Intergovernmental Relations.



### 3.2 Variable Two: Tax Power Allocation

This second variable is an institutional variable too. The allocation of revenue-raising capacity between levels of government measures the formal or institutional decentralization of autonomy's fiscal aspect and the scope of subnational power taxation. What we need to consider here is which kind of taxes constitutionally or legally correspond to each level of government. Taxation power represents the genuine resources subnational governments could enjoy, and the consequent freedom to expend them. The formal or institutional decentralization of an autonomy's fiscal aspect refers to tax autonomy, understood as "the various aspects of the freedom sub-central governments have over their own taxes"<sup>51</sup>.

Following OECD's classification and taxonomy of tax autonomy, taxes are classified in terms of the kind of autonomy they provide to state and local governments<sup>52</sup>. From this institutional aspect, is possible to see that regardless the percentage of subnational levels over the total tax revenue in a country, subnational governments (depending on the particular fiscal arrangements in place) may have or have not limited influence over taxes which are assigned to their jurisdiction. We can observe that unitary countries are very different from federal countries in this respect. In principle, federal countries set the tax autonomy in their own constitutions, whereas unitary countries regulate it through national laws. As we can observe in the Danish case, subnational governments do not enjoy full autonomy over their "own" taxes, which are provided by national legislations. In Argentina, on the contrary, subnational governments (both, provinces and municipalities) do enjoy full autonomy, being able to set different kinds of taxes. However, institutional autonomy differs from the actual autonomy over power taxation.

In principle, in Denmark taxing power remains at the central government, since the constitution does not provide any tax power to a different level of government. All taxes (central and local) are legislated by national laws and collected by central government. As in the rest of Scandinavian countries, "financing is centralized and

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<sup>51</sup> OECD (1999), "Taxing powers of state and local government", OECD Tax Policy Studies No. 1.

<sup>52</sup> Id., p. 9-10.

dominated by regulated income tax revenue sharing and central government grants”<sup>53</sup>. The 2007 reform further centralizes this competence: among the functions that were highly centralized, it was included tax administration, “which was a shared responsibility before the reform and now is a fully centralised function under the Ministry of Taxation”<sup>54</sup>. However, in the evolution of the Danish system of tax financing, central government allowed municipalities and counties to set freely the rate of income taxes (*corporate* income taxes and several *personal* income taxes). Following the OECD 2009 taxonomy of tax autonomy, municipalities in Denmark have some degree of autonomy regarding two groups of taxes: Taxes group A which encompasses tax on certain public corporations and the municipal land tax (market value), in which the tax base is set in national legislation, but tax rate is set by the municipalities. Taxes group B encompasses four types of personal income tax and most of the corporate taxes. These are shared between central government and municipalities. In these taxes, tax base and tax rates are set in legislation, and the central government is legally free to change both the tax base and the rate, although that never happens in practice without previous negotiations and an explicit consent of local governments.

Before 2007, Counties had some degree of tax autonomy, yet minimal. Counties were able to set the rate tax of personal income tax, but this power was limited according to the level of outlays (falling into category B in the OECD 1999 taxonomy). Counties also share a percentage of two other taxes: the property taxes (market value) and the counties’ property tax, but “the tax base of the property taxes (market value) and the tax rate for the counties’ property tax are defined in legislation” (1 percent of property tax). County land tax fits Category E of the OECD classification, the lesser degree of tax autonomy - just before Category F, which means no-tax autonomy<sup>55</sup>. Currently, and after the 2007 reform, the new regions (the former “counties”) do not

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<sup>53</sup> Rattsø, Jørn (2005) “Local tax financing in the Nordic countries”, *Economic General Report for the 2004 Nordic Tax Research Council meeting in Oslo*, forthcoming in *Yearbook for Nordic Tax Research*.

<sup>54</sup> LGDK (Local Government Denmark) (2009) “The Danish Local Government System” p. 22. From 1 November 2005 until 2007, “the formerly divided Danish tax administration became a unity administration joint in the Ministry of Taxation”. The tax administration consisted of a state tax administration with regional offices and a municipal tax administration (OECD, n.d., “Tax Policy Reform in Denmark”, available on: <https://www.oecd.org/tax/tax-policy/37154664.pdf>, p. 12).

<sup>55</sup> OECD (1999), “Taxing powers of state and local government...” [supra, n. 50] p. 32.

have any power taxation, falling into category F of OECD 1999 taxonomy, being financed by central government grants according to the level of expenditure regarding some few functions they presently are in charged after the reform. The difference between both periods are considerable. looking at the level of expenditure and own resources (analysed in the next chapters). Considering each tax individually, in many of the direct taxes municipalities have some degree of autonomy: property tax, tax on the value of land (land tax) and corporate taxes. The central state levies direct taxes as health contributions, labour market contributions and property value tax, and almost all indirect taxes, such as value added tax (VAT), green taxes, excise duties and customs duties. Municipalities also levy fees and duties, such as the duty on building certificates, some fees including publican's licenses and entertainment taxes - e.g. on slot machines -, duty for meat and foodstuff control. Most of these fees are fixed in legislation or subject to some restrictions, such as an upper-bound, set in legislation<sup>56</sup>. However, they represent a very low percentage in local budgets.

As in many federations, the Argentine constitution adopts a *current tax system* regarding internal taxes. According to the constitution, provinces are endowed with power to levy direct and indirect internal taxes. The exercise taxing power over indirect taxes (the Value Added Tax among the most important) is concurrent with the federal government (Art. 75.2), whereas the federal taxing power over direct taxes (income tax, property tax) is only an exceptional competence. According to Art. 75.2 federal government is authorized to levy direct taxes for a specified term and proportionally equal throughout the national territory, only when the defence, common security and general welfare of the State so require it. In spite of this constitutional mandate, federal government has created and collected direct taxes in a permanently and continuously fashion since 1930 to present. Art. 75.1 attributes exclusively to the federal government the power to lay import and export duties, being forbidden to provinces (Art. 126). However, Argentine provinces actually levy only four taxes as exclusive competence. This is because specific agreements through intergovernmental coordination<sup>57</sup>. Just the opposite of the Danish case, where

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<sup>56</sup> Id., p. 33.

<sup>57</sup> These intergovernmental agreements were based in different formal pacts signed by the President and Governors in early and in the late 1990s.

informal (non-institutionalized) agreements and negotiations between levels of governments allow subnational units to enjoy more financial power over the years, in Argentina formal agreements between federal government and provinces were utilized to restrain provincial and municipal power taxation, centralizing tax legislation and tax collection in the federal level. In short, the current and practical assignment of revenues in Argentina is as follows: federal government collects: (a) income tax; (b) VAT; (c) Excise taxes; (d) import and export duties; (e) liquid fuel and energy taxes; (f) gross assets tax; (g) personal assets tax; (g) social security taxes (just to mention the most important). Provinces in turn collect the following (only) four taxes: (a) automobile taxes; (b) tax on immovable property; (c) stamp duty and (d) gross receipts tax<sup>58</sup>. Municipalities only collect charges and administrative fees, even though the national and provincial constitutions recognize them a broad tax power. This is mainly a consequence of coordination between federal and provincial governments on fiscal authority distribution. In general, federal government collects all taxes (which are subject to revenue sharing with provinces), except those four taxes which are currently collected by provinces and import and export duties.

### ***Measuring tax autonomy***

Measuring tax autonomy is a complex issue. In order to simplify this matter, I follow the OECD 1999 taxonomy of subnational tax autonomy. Argentine provinces fall into the Category A.1 regarding all internal taxes (direct and indirect taxes), and Category F regarding import and export duties, while Danish municipalities fall into Category B (Municipal land tax and tax on certain public corporations) and into Category D.3 (Personal income tax and corporate taxes). As we can observe, tax autonomy in Denmark is limited at the institutional level. Municipalities have no freedom to introduce (or to abolish) any tax or to define the tax base, but only to set the tax rate over some kind of taxes (categories B and D). However, the real functioning of the financing system is quite different from institutional design in both cases.

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<sup>58</sup> Schwartz, G. And Liuksila, C. (1997) "Argentina" in Ter-Minassian, Teresa, ed., *Fiscal Federalism in Theory and Practice*. Washington: International Monetary Fund, pp. 387-422.

**TABLE #2.1 Tax Autonomy over Current taxes by level of Government**

Level	Argentina		Denmark			
	No.	%	Before 2007		After 2007	
No.			%	No.	%	No.
Central	31	89%	20	67%	20	67%
Intermediate	4	11%	4	13%	-	-
Local	-	-	6	20%	6	20%
	35	100%	30	100%	30	100%

Source: Ministry of Economy and Public Finance of Argentina Databases and Ministry of Finance of Brazil (2002).

As shown in Table 2.1, and regardless the institutional framework, actually subnational levels in both countries have limited autonomy in a lower percentage comparing with central levels. In Denmark, even though the central government is legally able to unilaterally change tax legislation (tax and rate tax) and the share of subnational government, this did not happen without previous negotiations with municipalities, and they share much of the most important taxes. Considering that municipalities do not enjoy institutional autonomy over taxation, in practice they have some degree of autonomy over six individual taxes over a total of thirty current taxes in the country (a twenty percent). In Argentina, although the constitution recognises subnational tax autonomy, in practice provinces only levy four of 35 current taxes in the country, and municipalities do not recollect any tax - only charges and administrative fees<sup>59</sup>. The remaining internal taxes (direct and indirect taxes) are levied by the central government, but ultimately shared with provinces through a shared system, known as co-participation regime, in which central government legislates and recollects most of the taxes and subsequently shares some percentage with provinces. As this regimen is considered as a transfer in national and provincial budgets, I will analyse it in the “transfers” section below.

Both outcomes were reached through agreements; however, while in the Danish case those agreements sought to increase local tax autonomy, in the Argentine case, provinces have preferred centralized tax administration (self-limiting their own taxation power). Subnational levels in Argentina enjoy autonomy over a limited number of taxes (eleven per cent) compared to the Danish case.

<sup>59</sup> It is true that in some provinces, municipalities are allowed to collect some taxes or they share some provincial taxes, but the general principle is that municipalities do not introduce any tax.

### 3.3 Variable Three: Subnational Own-Resources

Variable three intends to capture the amounts of resources that are genuinely subnational. This excludes transfers or grants derived from the central government. In other words, this variable considers the *actual exercise* of fiscal power, which may be different as provided by the institutional setting. As we can observe in Table 3.1, subnational governments in Denmark almost double Argentine subnational governments, considering in both cases intermediate and local governments.

**Table 3.1.** Subnational governments' share in total country revenue (intermediate and local levels)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	AVG
Argentina	22%	21%	20%	18%	17%	17%	18%	17%	17%	19%	18%	18%
Denmark	31%	32%	34%	34%	32%	31%	31%	24%	25%	26%	27%	30%

Sources: Own elaboration base on OECD Database (for Federal and provincial levels) and Ministerio de Economía, Dirección Nacional de Coordinación Fiscal con las Provincias (for municipalities only).

Over the last ten years, subnational governments' share in Denmark shows an average of 30 percent. The table shows a decrease since 2007, passing from 31 per cent in 2006 to 24 per cent in 2007, and since then it rises again. Only in 2007, local governments decreased seven points in their own-resources. This is due mainly to the 2007 reform, which took away resources from regions and redistributed them between central and local governments. Argentine subnational governments instead show a continue declining line, ranging from 22 per cent in 2000 to 18 per cent in 2010, losing 4 per cent of own resources, with an average of 18 per cent. Table 3.2 shows the percentages corresponding to each of the two subnational levels, and we can see the striking difference between municipalities and regions regarding provincial and municipal level in Argentina and Denmark, respectively.

**Table 3.2.** Own-Resources of Intermediate and local levels of government as Percentage of total Country Tax Collection

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	AVG
Argentina	Prov.	21%	20%	20%	18%	17%	17%	18%	17%	17%	19%	18%	18%
	Local	0,5%	0,5%	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,33%
Denmark	Reg.	10%	10%	11%	11%	10%	10%	10%	0%	0%	0%	0%	7%
	Local	21%	22%	23%	23%	22%	21%	21%	24%	25%	26%	27%	23%

Sources: Own elaboration base on OECD Database (for Federal and provincial levels) and Ministerio de Economía, Dirección Nacional de Coordinación Fiscal con las Provincias (for municipalities only).

Argentina is more centralized given the low participation of provinces in the overall tax collection structure, and the almost insignificant participation of local governments. According to the data provided by the Argentine Ministry of Economy, municipalities represented on average 0.33 per cent between 2000 and 2010. In Denmark we can observe a turning point in 2007, when regions lost their taxation power. Since then, the regional level is financed by central government grants. Municipalities represent a share of 23 per cent in average of total tax resources, whereas Argentine provinces have an average of 18 per cent.

### 3.4 Variable Four: Transfers

Variables 2 and 3 do not show the total revenues at subnational levels' disposal. Due to the process of decentralization operated in most countries, the fiscal structure and intergovernmental relations gets more complexity, and consequently a series of different mechanisms of intergovernmental transfers - usually called *central* or *federal grants* - are required in order to fix fiscal autonomy with policy decentralization. In this section, I will first analyse the transfers system in each country, considering the percentages of total central transfers according to the *type of grants*. Second, total subnational resources *after* transfers as a share of subnational and central total resources. And thirdly, I will consider transfers by type according to each kind of subnational units.

Within the vast range of central transfers there are of two kinds: *earmarked* and *non-earmarked* transfers. *Earmarked* funds affect the expenditure autonomy of subnational governments, since these funds must be spent on specific tasks previously decided by the central government - whereas a *non-earmarked* one does not, increasing consequently the degree of subnational autonomy spending. The recent literature has developed a more complex categorization of central transfers systems<sup>60</sup>.

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<sup>60</sup> See Mau, Niels Jørgen (2010) "Grant design in Denmark and factors behind the use of grant earmarking", in Kim, Junghun, Jørgen Lotz and Niels Jørgen Mau, eds., *General Grants versus Earmarked Grants Theory and Practice*, The Copenhagen Workshop 2009, published by Korea Institute of Public Finance and the Danish Ministry of Interior and Health, pp. 285-317; Blom-Hansen, Jens (2010) "The fiscal federalism theory of grants: Some reflections from political science", in Kim, Junghun, Jørgen Lotz and Niels Jørgen Mau, eds., *General Grants versus Earmarked Grants Theory and Practice*, The Copenhagen Workshop 2009, published by Korea Institute of Public Finance and the Danish Ministry of Interior and Health, pp. 107-125, OECD (1999), "Taxing powers of state and local government" [supra, n. 50].

However, in order to measure and compare fiscal decentralization, this paper will only consider the basic classification of earmarked and non-earmarked transfers.

### ***Subnational Resources (own-resources plus transfers) as percentage of total country resources***

As shown in Table 4.1, with all federal transfers, between 2000 and 2010, Argentine provinces increased the amount of total revenues at their disposal (including own resources) on average up to 48 per cent regarding the federal government<sup>61</sup>. According to Schwartz and Liuksila, between 1991 and 1995, percentages were similar as in the previous decade<sup>62</sup>. Subnational units in Denmark, instead, increased their total amount of resources on average up to 59 per cent- almost ten points of difference with Argentina. Adding transfers to own subnational levels' resources, subnational levels significantly increased their total amount of resources at their disposal nearly the double. As Table 4.2 shows, both subnational levels in Denmark increased from 30 per cent up to 59 per cent in average between 2000 and 2010, whereas the central level shows a proportionally inverse trend (from 70 to 41 per cent).

**Table 4.1. Argentina and Denmark. Subnational Government's share of total country resources (after transfers)**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>AVG</u>
Denmark	55%	58%	58%	59%	58%	55%	57%	57%	59%	65%	68%	<b>59%</b>
Argentina	n/d	n/d	47%	47%	48%	49%	49%	48%	47%	50%	50%	<b>48%</b>

Source: own compilation based on Argentine Ministry of Economy and OECD Statistics.

### ***Transfers by type***

Despite the increase in resources due to central transfers, it is necessary to consider the nature and type of these grants. As stated before, earmarked and non-earmarked grants makes a difference in the degree of subnational spending autonomy. As shown in Table 4.2 there is a significant difference between both countries regarding the

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<sup>61</sup> Data from 2012. Compilation based on National Direction of Fiscal Coordination with Provinces, Ministry of Economy of Argentina, databases, [www.mecon.gov.ar/hacienda/dncfp/](http://www.mecon.gov.ar/hacienda/dncfp/) and OECD Statistical Database, <http://stats.oecd.org/>.

<sup>62</sup> Schwartz and Liuksila [supra, n. 57] p. 390.



type of central grants: In Argentina, provinces enjoy more spending autonomy since non-earmarked grants represent on average 48 per cent of the total subnational resources (65 per cent of total federal transfers), whereas non-earmarked grants in Denmark represent 18 per cent of the total subnational resources (35 per cent of total central transfers). This autonomy ultimately translates into a further decision-making power regarding their available resources.

**Table 4.2. Argentina and Denmark. Own Resources and transfers by type as percentage of total subnational resources**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	AVG
<b>Argentina</b>												
Own-Res.	n/d	26%	41%	38%	35%	35%	35%	34%	35%	36%	35%	41%
Earm.	n/d	36%	10%	11%	8%	7%	8%	8%	8%	12%	14%	11%
Non-Earm.	n/d	38%	49%	51%	57%	58%	58%	58%	56%	52%	51%	48%
<b>Denmark</b>												
Own-Res.	56%	57%	57%	57%	55%	55%	54%	42%	42%	40%	39%	50%
Earm.	33%	32%	32%	32%	32%	32%	31%	32%	32%	32%	32%	32%
Non-Earm.	11%	11%	11%	11%	13%	13%	15%	25%	26%	28%	29%	18%

Source: own compilation based on Argentine Ministry of Economy and OECD Statistics.

The Argentine system of transfer may be classified in two main categories: on the one hand, there is the so-called *co-participation regime*, a sharing-system grant legislated and recollected by central government and subsequently shared with the provinces, and on the other hand, there are a number of individual transfers from the national budget to provinces, with a clear and specific purpose to finance some policy areas (education, health, infrastructure, etc.). The evolution of fiscal intergovernmental relations shows an increase in federal transfers accompanied by a decrease in the total amounts of *co-participation regime*<sup>63</sup>. While in the beginnings of the 1980s, two-thirds of federal transfers came from the RCFI<sup>64</sup>, amounts of RCFI represent on average 68 per cent of total federal transfers between 2002 and 2012 (Table #5). The remaining 32 per cent is complemented with other specific federal funds.

<sup>63</sup> Within these federal transfers, the most important are: Education Transference Funds, Infrastructure Fund, Provincial Road Fund, F.E.D.E.I. (Special Interior Electric Development Fund/Fondo Especial para el Desarrollo Eléctrico del Interior), FO.NA.VI. (National Housing Fund), ATN (National Treasury Contributions), the Basic Social Infrastructure Fund, and the most recent, the Federal Solidarity Fund (composed with 30% of export duties collected of soybean).

<sup>64</sup> Id., p. 401.

**TABLE 4.5: Argentina. Evolution of Coparticipation and Others Federal Transfers (2000-2010)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	AVG
RCFI	n/d	37%	64%	65%	70%	72%	71%	72%	70%	65%	62%	65%
Other Transfers	n/d	63%	36%	35%	30%	28%	29%	28%	30%	35%	38%	35%

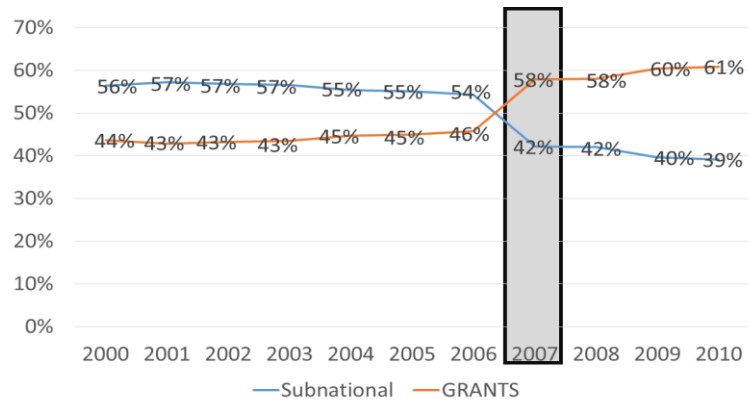
Source: own compilation based on Argentine Ministry of Economy

As shown in Table 4.5, Co-participation regime (despite it decrease in the last years) remains the most important transfer from the centre. From a constitutional perspective, it is necessary to clarify that all taxes composing the Federal Tax Sharing System's fund belong in an equal measure to the federal government as well as the provinces. Hence, co-participated transfers cannot have a specific expenditure allocation determined by federal government. It is therefore a non-discretionary and non-earmarked transfer. This has not, however, prevented opportunist behaviours from the national government. The municipal level instead covers 93% of its budgets through federal and provincial transfers, on average between 2000 and 2010 (only 6 per cent of own resources). This is due mainly to the consequence of fiscal arrangement between both federal and provincial levels.

In Denmark, we also find important changes after the 2007 municipal reform. As stated before, one of the main aims of the reform was to remove regional taxes and to introduce one general block grant, replacing the existing grants. Regions, since they cannot impose taxes, depend only on central grants. Consequently, regions are financed by central government grants and to some extent by municipalities through a small contribution when its inhabitants utilize the regional care system<sup>65</sup>. In 2007 central grants surpassed subnational resources, reversing the relationship from 46 per cent of grants and 54 per cent of own taxes in 2006 to 58 per cent of grants and 42 per cent of own taxes in 2007. Since then, central grants increased their share up to 61 per cent in 2010.

<sup>65</sup> "All Danish inhabitants pay a recent introduced health tax (8 percent of the taxable income) to the central government which partly finances the central government grant to the regions" (LGDK [supra, n. 53] p. 15).

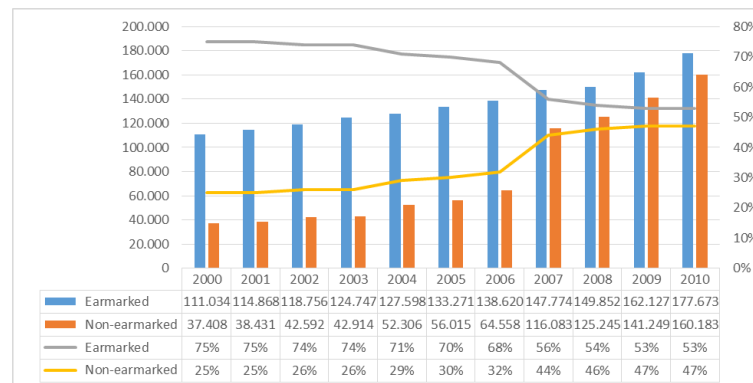
**Graph 4.1. Central Grants and Subnational Tax Revenue Evolution 2000-2010**



Source: Own elaboration based on OECD Statistics.

Regarding non-earmarked grants, we observe a systematic increase since 2007, whereas earmarked grants remain unchanged. Non-earmarked grants increase ten per cent in only one year, from 15 per cent up to 25 per cent and reaching a 29 per cent (almost a double) in 2010. On the contrary, earmarked grants range between 31 and 33 per cent. Comparing the total amounts of earmarked and non-earmarked grants, we can observe, on the one hand, a trend in which both types of grants tend to be equated (in percentage of total grants amounts, observable in the lines on the left axis on Graph 4.1) and, on the other hand, an increase in the total amount of grants transferred (in billions of kroner, columns in right axis on the graph).

**Graph 4.1. Evolution of Earmarked and Non-Earmarked Grants (Kr Bn and %)**

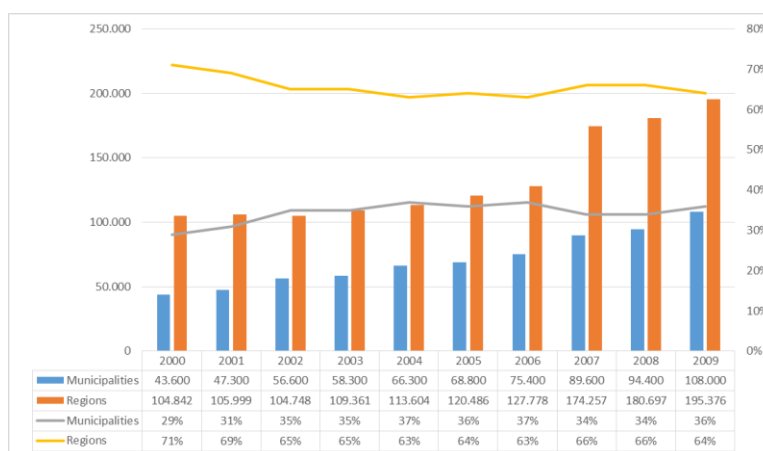


Source: Own elaboration based on OECD Statistics.

### Central grants by level of Government

According to Graph 4.2, central grants transferred to regions decreased from 71 per cent in 2000 to 64 per cent in 2009. However, the total amount significantly increased in 2007, from 127 billion of kr. in 2006 up to 174 billion of kr. in 2007. These variations are due to two significant changes regarding the role of region in the public sector: First, regions are no longer able to levy any kind of tax and secondly, the 2007 reform removed some regional competencies (being transferred to the central and/or the municipal level).

Graph 4.2. Central Grants by Level of Govt. (Muni. and Regions) (Kr Bn and %)



Source: OECD Database and MAU 2010.

### 3.5 Variable Five: Expenditure

Decentralization of public spending is a worldwide trend, even in unitary countries<sup>66</sup>. In Argentina, the most important turning point in the evolution of public expending between levels of governments occurred at the beginning of the 1990s, when the federal government decentralized some competences, particularly education and public health. Provinces increased their public expenditure from 25% in 1986 to 38% in 1994<sup>67</sup> - just after the decentralization process mentioned above had operated. This trend has maintained over the following decades, in where subnational units represent 49 per cent in average between 2000 and 2009 (considering both

<sup>66</sup> Rodden [supra, n. 6].

<sup>67</sup> World Bank (1996a) *Argentina: Provincial Finances Study: Selected Issues in Fiscal Federalism*, Volume I, Washington, D.C.: World Bank, p. 5.

intermediate and local levels). Under the period of analysis, in 2006 provinces reached the highest percentage in public expenditure (52 per cent), however, since then the trend began to decrease to 48 per cent in 2007, 47 in 2008 and 46 in 2009 (see Graph 5.1). Municipalities, however, have maintained a share of 8 - 9 per cent during the whole period.

This downward trend corresponds to a change in the state model since 2003, passing from a neoliberal state (introduced in the 90s) to a more interventionist state. Consequently, federal government began to be more engaged in public expenditure. These percentages are similar to other decentralized federations, such as Germany (38 per cent) and Switzerland (39 per cent)<sup>68</sup>. According to data processing based on OECD database, subnational levels in Denmark represented on average 62 per cent between 2000 and 2010<sup>69</sup>. Regarding the subnational share of expenditure in the Danish case, different sources show similar percentages: Mau shows 62 per cent in 2007<sup>70</sup>, Mortensen indicates 61.8 in 2005<sup>71</sup>, and OECD around 63.8<sup>72</sup> and 62<sup>73</sup>, whereas Blom-Hansen and Heeager fit local functions amounts to two-thirds of all public expenditure<sup>74</sup>.

The difference between the two countries is striking. The average reached by Denmark in the period 2000-2010 is 62 per cent, whereas subnational governments in Argentina reached 49 per cent, a difference of thirteen points. Between 2006 and 2010, when subnational governments in Argentina began to lose points in their share of total public expenditure, the difference with Danish subnational levels rose up to 20 percent.

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<sup>68</sup> Swenden [supra, n. 5], p. 109.

<sup>69</sup> Regarding the subnational share of expenditure in the Danes case, sources show similar percentages: Mau shows 62 per cent in 2007 (Mau 2010 [supra, n. 59] p. 289), Mortensen indicates 61.8 in 2005 (Mortensen, Peter Bjerre (2014) "Udviklingen i de offentlige udgifter", in Christiansen, Peter, ed., *Budgetlægning og offentlige udgifter*, København: Hans Reitzel, pp. 66-912, p. 87), around 63.8 (OECD 2011 "Government at a Glance 2011. Country Note: DENMARK") or 62 (OECD 2013 "OECD Regions at a Glance 2013 – Denmark Profile"), whereas others fits local functions amount to two-thirds of all public expenditure (Blom-Hansen and Heeager 2010 [supra, n. 42] p. 227).

<sup>70</sup> Mau 2010 [supra, n. 59] p. 289.

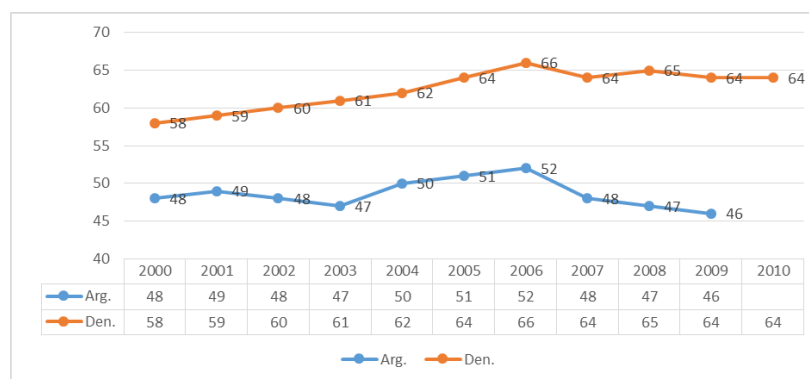
<sup>71</sup> Mortensen, Peter Bjerre (2014) "Udviklingen i de offentlige udgifter", in Christiansen, Peter, ed., *Budgetlægning og offentlige udgifter*, København: Hans Reitzel, pp. 66-912, p. 87.

<sup>72</sup> OECD (2011) "Government at a Glance 2011. Country Note: DENMARK".

<sup>73</sup> OECD 2013 "OECD Regions at a Glance 2013 – Denmark Profile".

<sup>74</sup> Blom-Hansen and Heeager 2010 [supra, n. 42] p. 227.

Graph 5.1. Central Grants by Level of Govt. (Muni. and Regions)



Source: Ministry of Economy of Argentina, databases, and OECD Statistical Database.

### ***Subnational Expenditures by Function and finality: How do subnational governments spend their money?***

As we seen in the previous chapter, in Argentina only a few transfers are conditioned to specific purposes: “Still, provinces and local jurisdictions enjoyed significant autonomy with respect to the amount, structure, execution, and supervision of various social services, including housing and education (except university)”<sup>75</sup>. Most of the competences allocated by the Constitution are concurrent between federal and subnational levels, especially the competences that revolve around the idea of a welfare state model - defined as “the complex of policies that, in one form or other, all rich democracies have adopted to ameliorate destitution and provide valued social goods and services”<sup>76</sup>. The competencies that this model of state encompasses focus on social policy areas, typically health, education, social security, housing, sanitation policies and the newest ones, such as environment and consumer protection.

Through different process of decentralization, the federal level delegated the administration and implementation of these policies<sup>77</sup>, while it reserved the financing and establishment of general and nationwide minimum standards - however, those standards must be agreed with provinces before being implemented in their

<sup>75</sup> Schneider, Aaron (2004) “The Fiscal Sociology of Decentralisation: The impact of Decentralization on Tax Capacity and Pro-Poor Policy” in Gupta, K.R. (2004) *Urban Development Debates in the New Millennium: Studies in Revisited Theories and Redefined Praxes, Vol. 1*, New Delhi: Atlantic, pp. 115-182; see also Garman, Christopher, Stephan Haggard and Eliza Willis (2001) “Fiscal Decentralization...”, [supra, n. 12] p. 215.

<sup>76</sup> Schneider (2004) [supra, n. 74].

<sup>77</sup> Before the transfer processes took place, both educations and health functions were performed by the two levels in a parallel fashion.

jurisdictions. This logically increased the subnational share on consolidated public expenditure, and explains that the rise of subnational expenditure was inversely proportional to the decrease of federal spending in the same areas. 56 per cent of subnational budgets are destined to social services (on average, between 1991 and 2009). And within this category, health represents 10.5 per cent and education 30 per cent, housing policies 4 per cent, promotion and social assistance 5 per cent and social security 2.7. In turn, municipalities have most of their share of public expenditure focused on urban services: 96.4 in 1986 and 93.3 in 1996<sup>78</sup>.

Denmark, in turn, “has one of the largest public sectors in the world - in relative terms”<sup>79</sup> and most of the welfare services are provided by subnational units, especially municipalities since 2007. Central government collects almost 70 per cent of revenues but represents about 32 per cent of expenditures, “suggesting that most goods and services are provided by local governments-often using revenues transferred from the central level”<sup>80</sup>. 43 per cent of general government public expenditure was devoted to social protection, following by health (15 per cent) and education (13 per cent)<sup>81</sup>. At the subnational level, 78 per cent of subnational public investment was allocated to social protection<sup>82</sup>.

### 3.6 Variable Six: Vertical Fiscal Imbalance

The Vertical Fiscal Imbalance index helps us to answer in which degree subnational levels cover their expenses with own resources and with central transfers. So far, we have considered the amount and purposes of subnational public spending. When we asked to what extent subnational government cover their expenses, we were referring to an important issue within fiscal federalism: the fiscal imbalance. Fiscal imbalance arises when subnational governments do not raise enough resources to cover their expenditure needs<sup>83</sup>. In terms of Aldasoro and Seiferling, “Vertical fiscal imbalances attempt to measure the extent to which subnational governments' expenditures are

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<sup>78</sup> World Bank [supra, n. 66] p. 5.

<sup>79</sup> Mau [supra, n. 59] p. 287; see also OECD 2011 [supra, n. 71], Rodden [supra, n. 6].

<sup>80</sup> OECD 2011 [supra, n. 71]. Danish government employs 28 per cent of the labour force (in 2008), corresponding 76.20 per cent to subnational levels.

<sup>81</sup> Id.

<sup>82</sup> OECD 2013 [supra, n. 72].

<sup>83</sup> Swenden [supra, n. 5].

financed through own revenues rather than transfers from the central government or borrowing by the subnational governments.”<sup>84</sup> Fiscal imbalance could be vertical or horizontal. Horizontal fiscal imbalance appears when insufficiency to cover the public expenses differ between subnational units. This may occur when regional taxes are unequally spread or when per capita revenues and expenditures vary strongly from one unit to another<sup>85</sup>. There are, of course, others factors contributing to horizontal imbalance, such as the geographic characteristics of subnational units, population, etc.

Fiscal imbalance is vertical when this subnational insufficiency regards the federal or central level. In the present article, I focus on vertical fiscal imbalance (VFI) only. Although there is no consensus regarding the way to measure vertical fiscal imbalances<sup>86</sup>, I have taken (following Swenden 2006 work) the average of subnational own-resources prior federal/central transfers as percentage of total country revenue and the percentage of subnational public expenditure after transfers as percentage of total country public expenditure (leaving aside the borrowing capacity of subnational units), all those data as average between 2000 and 2010. The VFI index arises as the ratio of total revenues and public expenditure according to the available official data gathered from countries’ Ministry of Economy and OECD databases. According to Swenden, when the ratio obtained is lower than 1.0, subnational units do not cover their expenses with their own resources (i.e., locally raised taxes). Conversely, if the ratio exceeds 1.0, subnational governments receive more money than they expend<sup>87</sup>. A ratio of 1.0 indicates a perfect vertical balance.

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<sup>84</sup> Aldasoro, Iñaki and Mike Seiferling (2014) “Vertical Fiscal Imbalances and the Accumulation of Government Debt”, IMF Working Paper WP/14/209, New York: International Monetary Fund, p. 6.

<sup>85</sup> Swenden [supra, n. 5].

<sup>86</sup> Aldasoro and Seiferling [supra, n. 83].

<sup>87</sup> Swenden [supra, n. 5], p. 112.



**Table 6.1 -Vertical Fiscal Imbalance. Average 2000-2010**

	Argentina	Denmark
Expenditure ( <i>after</i> transfers)	49	62
Revenues ( <i>prior</i> transfers)	18	30
VFI	0.37	0.48

Source: Prepared by the author based on data supplied by Countries' Ministry of Economy and OECD databases.

Table 6.1 shows the Vertical Fiscal Imbalance index obtained for both countries. As it can be seen, VFI is higher in Argentina than in Denmark, meaning that provinces in Argentina are responsible for a high percentage of consolidated public expenditure but at the same time, they have an insufficient allocation of own resources. The difference between both countries is significant: 0.37 in Argentina against 0.48 in Denmark, a difference of almost ten points. However, the degree of VFI reached in both countries means that federal and central governments in both countries have decentralized spending more than revenues<sup>88</sup>. In any case, VFI is a useful index to confirm the dependence of subnational governments on federal or central transfers to afford their responsibilities. These findings confirm the general trend, according to which VFI is common in most of countries.

#### **4. Some Preliminary Conclusions and Avenues for New Research Lines**

Empirical evidence has demonstrated that a unitary country (Denmark) is much more decentralized than a federal one (Argentina). Previous works have pointed out the high degree of decentralization that not only Denmark, but also the Scandinavian countries, have achieved, concluding that their degree of decentralization is even higher than federal countries in the world. Rodden, for instance, ranked Denmark as the third-most decentralized country in a sample of 29 countries. OECD's works have achieved the same conclusion regarding the OECD countries<sup>89</sup>.

<sup>88</sup> Eyraud, Luc and Lusine Lusinyan (2011) "Decentralizing Spending More than Revenue: Does It Hurt Fiscal Performance?" IMF Working Paper WP/11/226, September, New York: International Monetary Fund.

<sup>89</sup> Rodden [supra, n. 6].

However, what this paper attempts to highlight are the specific differences (and similarities) with a country from a different region and with a totally different institutional framework, analysing each of the most important variables within the broad concept of decentralization and figuring out the factors underlying those numerical indicators. According to Table 1, Denmark is more decentralized than Argentina in almost all indicators, except for the participation of subnational units in the implementation of general public policies (58 per cent in Argentina against 42 per cent in Denmark). The other difference are the amounts of non-earmarked transfers. In comparing both countries, we can draw four preliminary conclusions.

#### 4.1 A tentative classification of distribution of competences

The distribution of competences in Denmark fits an “integrational model”<sup>90</sup> or a “Type II” jurisdiction according to Hooghe and Marks<sup>91</sup>, in which local governments’ role is to implement national policies. In this respect, municipalities were designed by central government to implement certain policies. The distribution of tasks between central and subnational levels and between intermediate (regions) and local levels fall into a *separation of powers* category or a *coordinate authority model* of IGR. Therefore, “there is no system of subordination between the regions and the municipalities, as they possess different tasks and responsibilities”<sup>92</sup>. In sum, Danish local governments fall into a *devolution type of administrative decentralization* from the formal institutional framework, understood as “hierarchical and functional distribution of powers and functions between central and non-central governmental units”<sup>93</sup>, but with strong federal practices falling into Wright’s *overlapping authority model*. The Argentinean system, on the other hand, falls into a cooperative federalism or an overlapping IGR authority model, in which most of the competences are concurrent between the three levels. In the institutional arrangement in Argentina, consensus with the provinces is required to implement national goals in almost all public policies.

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<sup>90</sup> Kjellberg 1995, quoted by Blom-Hansen and Heeager 2011 [supra, n. 42].

<sup>91</sup> Hooghe and Marks (2003) “Unraveling the Central State, but How?” [supra, n. 41].

<sup>92</sup> LGDK [supra, n. 53] p. 4.

<sup>93</sup> Cohen and Peterson [supra, n. 3] p. 29.

Intermediate levels play an almost insignificant role in delivering public policies in Denmark, especially after the 2007 Reform. The same could be said about local levels in Argentina. However, most of the social public policies are delivered by the intermediate level (provinces). The municipal level in Argentina has two features that differentiate it from the Danish case: on the one hand, there are no a standardized systems regarding the nature and functions municipalities should deliver<sup>94</sup>. In practice, municipalities lack from financial autonomy and have only few competences, particularly in respect of social policies. In Denmark, the 2007 reform “can be seen as the end of a long process towards a standardized system of two levels of local government. All over the country, municipalities are now in charge of the same set of local functions”<sup>95</sup>. First, the former 271 municipalities were amalgamated into 98 new municipalities, and the previous 14 counties were abolished and 5 new regions were installed.

In Argentina, on the contrary, municipalities’ roles ultimately depend on each province. However, their role is confined to deliver local traditional utilities (water supply, refuse collection, local roads, street lighting, etc.) in almost all provinces. In a few provinces, municipalities deliver services such as education - still, their share in public expenditure is quite reduced<sup>96</sup>.

#### **4.2 Federalism Does Not Mean Decentralization: Formal vs Informal Institutions**

One early conclusion is that institutional decentralization does not always coincide with the actual degree of decentralization. This fact suggests the differences between *formal institutions* and *actual practices*. In both cases, informal institutions seem to

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<sup>94</sup> The national constitution (reformed in 1994) expressly guaranteed the autonomy of municipalities, obliging provinces to ensure municipal autonomy in their respective constitutions. However, provinces are free to “ruling its scope and content”, as long as they respect the local autonomy “regarding the institutional, political, administrative, economic and financial aspects” (art. 123, National Constitution).

<sup>95</sup> Blom-Hansen and Heeager 2011 [supra, n. 42] p. 225. The authors here utilize the term “local” in the same way I use “subnational”, since they are referring to both, regions and municipalities.

<sup>96</sup> Altavilla, Cristian (2015b) “Asignación de competencias y atribución de facultades tributarias en el régimen municipal argentino. Alcances y límites del poder tributario municipal”, in Hernández, Antonio, Ernesto Rezk and Marcelo Capello, eds. *Propuestas para fortalecer el Federalismo Argentino*, Academia Nacional de Derecho y Ciencias Sociales de Córdoba, Instituto de Federalismo, pp. 413- 448.

be more important than formal institutions<sup>97</sup>. For instance, in Denmark the associations of local governments and the patterns of negotiated agreements between levels of governments are not contemplated neither in the Constitution nor in the ordinary legislation. However, these agreements have preceded every decentralization process. As Blom-Hansen has stated, “the arrangement was not formalized but consisted of informal negotiations between the central government and local government representatives”<sup>98</sup>.

Moreover, in Denmark - as a unitary country - the formal institutional framework does not account for any institutional provision of subnational units' participation at the central decision-making arena nor is the parliament's composition based on territory, i.e., electoral districts do not correspond to the boundaries of territorial governments. If this is the case, “more territorial bargaining might be expected than in systems without districts”<sup>99</sup>. This means that subnational levels do not have institutional veto over central decisions. However, contrary to Rodden's opinion, and despite that in the Danish political system no territorial unit plays a formal role in the central government's decision procedure, subnational levels (especially municipalities) have succeeded in achieving a greater decentralization. The political organization of Denmark is characterized by the “use of agreements as an alternative to parliamentary regulation”<sup>100</sup>, in which local government associations (such as the Local Government Denmark agency) have a privileged position, despite that their agreements are not legally binding for local governments. Denmark, however, shows some “*federal practices*”, especially regarding the preceding negotiations before the operation of any change in the vertical distribution of policies and competences.

This particular practice has been highlighted by several scholars, and given the importance that local associations have acquired in these processes over time, they were defined as the “second chamber”<sup>101</sup>. These federal practices turn the Danish

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<sup>97</sup> Informal institutions are defined by Helmke and Levitsky as “socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels” (Helmke, G. and S. Levitsky (2004) “Informal Institutions and Comparative Politics: A Research Agenda”, *Perspectives on Politics*, Vol. 2, No. 4, Dec., pp. 725-740, p. 727).

<sup>98</sup> Blom-Hansen, Jens (1998) “Macroeconomic Control of Local Governments in Scandinavia: The Formative Years”, *Scandinavian Political Studies*, Vol. 21 - No. 2, pp. 129-159, p. 148.

<sup>99</sup> Rodden [supra, n. 6] p. 490.

<sup>100</sup> Blom-Hansen, Jens (2010) “The fiscal federalism theory of grants...” [supra, n. 59] p. 244.

<sup>101</sup> LGDK [supra, n. 53] p. 11.

polity in a federal one. However, considering the way in which decentralization took place, administrative decentralization with a strong control and supervision from the central government, rather than political decentralization would be the most proper way to classify the Danes case. Regions, on the contrary, had never played any important role. That was pointed out with the 2007 reform. It is clear that the level that matters in the Danish system is the local one. This is interesting regarding the “informal” federalist system mentioned earlier - Would it be possible to constitute a municipal-based federal system?

In Argentina, provinces have had an undisputed role in the process of decentralization. Despite that, the process would seem to have a top-down trend, as provinces ultimately must accept the competences transferred. The federal government in Argentina could be characterized as the first mover in negotiation processes, a situation of decision-making similar to that described by the battle of the sexes or Stackelberg’s followers in game theory<sup>102</sup>. According to the pattern of the negotiations process (most of them, after the decision of the central government to decentralize), provinces have preferred political decentralization (decision-making autonomy over public policies) with strong funding from the national government.

From a federal perspective, and considering the results of this work, “federalism does not necessarily entail greater independent authority for subnational governments over taxes, expenditures, or anything else”<sup>103</sup>, therefore, “not always unitary countries have a centralized government or, inversely, federal countries have a decentralized one”<sup>104</sup>. Indeed, many federal countries have a very low degree of subnational tax autonomy<sup>105</sup>. Argentina fits in this classification, and what is most striking is that subnational units consented this outcome. Despite that, the Constitution in Argentina allocates most of the competences as concurrent and several dispositions tend to prevent federal imposition, subnational units have resigned much of their constitutional powers. A possible causal explanation could be the high

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<sup>102</sup> Altavilla, Cristian (2016) *Conflicto y Coordinación política en las Relaciones Intergubernamentales en Argentina. Un análisis neoinstitucional a través del Régimen de Coparticipación Federal de Impuestos*. Doctoral Thesis, Universidad Nacional de Córdoba, Córdoba, Argentina.

<sup>103</sup> Rodden [supra, n. 6] p. 493.

<sup>104</sup> Dziobek, Claudia, Carlos Gutierrez Mangas, and Pheby Kufa (2011) “Measuring Fiscal Decentralization – Exploring the IMF’s Databases”, IMF Working Paper WP/11/126, New York: International Monetary Fund, p. 25.

<sup>105</sup> Rodden [supra, n. 6].

asymmetries between provinces, in which most of them have a lesser degree of development than a few other provinces and its logical preference is redistribution of fiscal resources from the centre rather than more fiscal autonomy.

### 4.3 The Role of Subnational Governments in Decentralization Processes

According to Rodden “federalism is not a particular distribution of authorities between governments, but rather a process - structured by a set of institutions - through which authority is distributed and redistributed”<sup>106</sup>. The idea of contract or covenant between different states arises, meaning that the parties involved must fulfil some obligation to one another: “If central government can get everything it wants from local governments by simple acts of administrative fiat, it makes little sense to see the two as engaged in a contractual, or federal, relationship”<sup>107</sup>.

The author also highlights the importance of underlining how and why federal contracts are made in the first place. A top-down decentralization is expected to be the case in a unitary system. However, the Argentine federalism - in which, in theory, the process of decentralization should take a bottom-up tendency - experienced a process of decentralization with the same top-down trend. The 1970 process of decentralization was made by a *de facto* government and the 1992 process of decentralization was practically imposed on provinces; in both cases, consultation and negotiation with provinces was scarce, in a “mix of conviction, foreign pressure, political opportunism, and shortsighted fiscal moves”<sup>108</sup>.

Denmark, like the rest of the Scandinavian countries, shows a long-rooted tradition of decentralization of functions and competencies - with important antecedents between 1945 and 1970. A further decentralization took place in the late 1970s<sup>109</sup> and “paved the way for a massive transfer of functions from the central government to the new municipalities and countries, concurrently with the expansion of the Danish

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<sup>106</sup> Rodden [supra, n. 6] p. 489.

<sup>107</sup> Id., p. 489.

<sup>108</sup> Tommasi, Mariano (2002) “Federalism in Argentina and the Reforms of the 1990s”, Working Paper No. 147, August. Center for research on economic development and policy reform. Stanford: Stanford University, p. 68.

<sup>109</sup> In the 1960s the level of subnational public expenditure was similar to other European countries (Blom-Hansen 1998 [supra, n. 98] pp. 130-1).

welfare state”<sup>110</sup>. Following the latest municipal reform of 2007, the level of municipal autonomy was strengthened even more<sup>111</sup>, but at the same time, the process brought a greater financial control by central government. Nevertheless, even in this aspect, the control was exercised through annual agreements with local governments in a system known as “budgetary cooperation”<sup>112</sup> within the traditional Scandinavian “corporatism”<sup>113</sup>. As a consequence of this process, a large number of welfare tasks are currently delivered by local governments, and all these tasks are highly decentralized<sup>114</sup>. All in all, Danish municipalities eventually came to deliver almost all welfare services - the Danish welfare state is, therefore, a *local welfare state*. In all these reforms, at the same time, the central government laid down the general framework<sup>115</sup>.

Argentina, on the contrary, has experienced a process of centralization or recentralization in some important areas, especially in fiscal terms. This is also a distinctive feature in Latin-America<sup>116</sup>. The introduction of the state welfare model in 1940 gave prevalence to the central government in decision-making, implementation and financing of public policies, as was the case in the United States during the New Deal. However, since the decade of the 1970s, some processes of decentralization took place in two important areas of social policies: education and health care. These processes were deepened in the beginning of the 1990s, when federal government fully decentralized the implementation and decision-making of these two social policies. Since then, provinces are in charge of delivering and financing most of the social policies areas: education, health care, housing policies, whereas the federal government reserved to itself the role of financing and the establishment of nationwide minimum standards.

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<sup>110</sup> Blom-Hansen 1999 [supra, n. 1] p. 244.

<sup>111</sup> MIH [Ministry of the Interior and Health] (2010) “The Local Government Reform – In Brief” Published by the Ministry of the Interior and Health, Department of Economics. Available on: <http://www.im.dk>.

<sup>112</sup> Blom-Hansen 1998 [supra, n. 98] and 1999 [supra, n. 1].

<sup>113</sup> Picard, Louis (1983) “Decentralization, ‘Recentralization’ & ‘Steering Mechanisms’: Paradoxes of Local Government in Denmark”, *Polity*, Vol. 15, No. 4, Summer, pp. 536-554.

<sup>114</sup> MIH [supra, n. 110].

<sup>115</sup> Id.

<sup>116</sup> Jordana [supra, n. 21].

Going back to the basics of IGR in Denmark, the 1970 reform meant a turning point in which IGR started from scratch<sup>117</sup>. The decentralization process followed a top-down trend, but started in the very beginning with robust patterns of negotiation, balancing central control and local autonomy. Consequently, and according to Blom-Hansen, the reason for the choice of a cooperative strategy rather than a coercive control from the centre “cannot be found in institutional legacies”<sup>118</sup>. In this seminal moment of Danish IGR, the local government associations “seem to have been opposed to the idea [of central control], but accepted cooperative means of control as the lesser of two evils”<sup>119</sup>. Most important is that these informal practices were rooted in a long time period and they seem strong enough to prevent some modifications from the central level unilaterally - despite that the central government has the authority to do it.

On the other side of the coin, these processes unveiled that municipalities’ functions were designed according to the central government’s needs: in all processes, central government was free to shape local government according to its perceived needs<sup>120</sup>. While this process brought more local autonomy, at the same time it implied more control from the centre: “Denmark is the third-most decentralized country in the world [...] - even more decentralized than the United States - though the central government tightly regulates virtually every aspect of local finance”<sup>121</sup>.

In Argentina it seems more evident that subnational units *preferred* more expenditure decentralization rather than more tax autonomy. Indeed, provinces have voluntarily resigned their constitutionally guaranteed autonomy tax, in order to allow federal government to levy almost all taxes in the country. These agreements implied a resignation of their respective municipalities too. But at the same time, provinces gained in political autonomy, being free to decide which policies implement and how. A key factor could be found in the horizontal asymmetries that characterizes this federation. After these agreements, provincial taxation power only represented 18 per cent of total country fiscal resources. However, provinces have managed to get

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<sup>117</sup> Blom-Hansen 1998 [supra, n. 98] p. 152.

<sup>118</sup> Id., 152.

<sup>119</sup> Id., 151.

<sup>120</sup> Blom-Hansen and Heeager 2010 [supra, n. 42] p. 225.

<sup>121</sup> Rodden [supra, n. 6] p. 483.



more federal resources which are to a large extent not targeted to any specific purpose. While provinces gain in political decentralization in exchange for fiscal centralization, municipalities - without a say in the process - lost in both aspects. They lost virtually their tax autonomy and remain highly dependent on provincial resources.

Another factor explaining decentralization in Argentina in the recent decades is the increasing international pressure to decentralize governance. In general terms, federal government decided to transfer public policies to provinces in order to fill international conditions for borrowing international loans and to stabilize federal public finances. In turn, provinces agreed in decentralized public policies that would be translated in more political power, however, with less fiscal autonomy. Federal and provincial (at least the majority of them) preferences were aligned in this equilibrium point. This explanation can be applied not only to understand recent decentralization (as well as recentralization) processes<sup>122</sup>, but also the very origin of the Argentine federation<sup>123</sup>.

#### **4.4 The intergovernmental dilemma: between central control and local autonomy**

According to the previous statement, subnational units in Argentina (mainly, provinces) are less controlled by the central level than Danish subnational units (municipalities). Subnational levels in Denmark are in charge of implementing and partially financing almost all social policies. However, in doing so they have to conform to central government general standards.

When decentralization of competencies to subnational units occurred in Denmark, a simultaneous economic deterioration followed, and that fact pushed central government to control the macroeconomic situation, by controlling local governments<sup>124</sup>. However, worthy of note is that macroeconomic control was carried

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<sup>122</sup> Altavilla (2016) [supra, n. 95] and (2015a) “Variables Políticas en la [Re]Distribución de Recursos Fiscales entre distintos niveles de Gobiernos”, *Revista Perspectivas de Políticas Públicas*, Year 3, N° 7 (July-Dec.), pp. 13-41.

<sup>123</sup> cf. Gibson, Edward and Tulia Falleti (2004) “Unity by the Stick: Regional Conflict and the Origins of Argentine Federalism” in Gibson, Edward, ed., (2004) *Federalism and Democracy in Latin America*, Baltimore: John Hopkins University Press, pp. 226-254.

<sup>124</sup> Blom-Hansen 1998 [supra, n. 98].

out through agreements with local governments associations, in a system known as the “budgetary cooperation”. Moreover, central government has never imposed coercive measures on local governments (with very few exceptions), instead periodical negotiations have been used, at least from the 1970s<sup>125</sup>. In short, Denmark, like the “Scandinavian countries have been able to radically decentralize their public sectors without losing the ability to control macroeconomic performance through public income and expenditure” establishing institutions “to coordinate economic activity levels at the local level with macroeconomic policy goals at the central level”<sup>126</sup>.

A key factor to better understand whether or not subnational units enjoy political authority would be to determine which level of government has decision-making authority. This is difficult to measure. However, in general terms, central government in Denmark has the power to impose its desired policy goals. There is an “intergovernmental dilemma” in which “local governments have a certain degree of autonomy at the same time as the central government has relatively clear policy goals. This means that if central guidelines are to be implemented, lower levels of governments must be coaxed or forced to comply”<sup>127</sup>. This intergovernmental interaction fits well within Wright’s *inclusive authority model*. However, the actual way in which Danish IGRs develop in practice include elements of the *overlapping authority model*, due to the bargaining process between central government and associations of local governments through informal “corporatist agreements”. From an institutional perspective (*formal* institutions), we must be aware that these agreements are not legally binding, being in consequence mere *recommendations*, and complemented with *legal regulations* from the central government<sup>128</sup>.

Another way in which central government could exercise control over subnational units is by means of earmarked or task-related central transfers<sup>129</sup>. The role of subnational governments as “agencies of the central government” explains the existence of many central funds as conditioned to specific purposes. The constant tension between local autonomy and central control could be identified in the

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<sup>125</sup> Id.

<sup>126</sup> Id. 152.

<sup>127</sup> Blom-Hansen 1999 [supra, n. 1] p. 249.

<sup>128</sup> Id. P. 251.

<sup>129</sup> Mau [supra, n. 59].

character of central grants. As Mau explains, “there are two motives on the Central Government agenda: supporting local-level accountability and maintaining influence on the part of the central level”<sup>130</sup>. Moreover, Denmark has chosen a decentralized welfare state model which means, on the one hand, that most of the welfare services are delivered by local governments (specifically, the municipal level), but on the other hand, it implies that most of the welfare services have the nature of national rather than local public goods<sup>131</sup>.

There is a great difference in both countries regarding the types of central grants. First, Argentine provinces depend more on central resources, since their own-resources represent 41 per cent in average between 2000 and 2010, whereas Danish subnational levels have 50 per cent in average of own-resources. However, in the last decades, the share of subnational own-resources has decreased since 2007 (from 54 per cent in 2006 to 39 per cent in 2010). Looking at column 4 in Table 1, we can observe that despite Argentine provinces are more dependent on central grants, a major percentage of them are non-earmarked, representing 48 per cent of total subnational resources, against 11 per cent of earmarked grants (on average between 2000 and 2010). In the ten-year period, the Danish case shows a higher percentage of earmarked grants, representing 32 per cent, against 18 per cent of non-earmarked ones. However, it should be noticed that in the evolution of these ten years, non-earmarked grants have increased, if we consider that in 2000 they represented 11 per cent and in 2010 they reached up to 29 per cent (almost reaching the same percentage of earmarked grants). This tendency could be translated into more political autonomy for municipalities, especially in the decision making of how expend their money. Still, institutional features give predominance to the central government in the decision-making process, which is in charge of designing, among other functions, the general guidelines.

The large share of non-earmarked grants in Argentina could be explained by the presence of the *co-participation regime*, which was classified as a non-earmarked grant. Due to the fact that this regime was a consequence of negotiations between levels of government (federal and provincial) over constitutional concurrent tax

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<sup>130</sup> Mau [supra, n. 59] p. 294.

<sup>131</sup> Id.

competences, the funds generated within the regime could not be targeted or earmarked to any specific activity or expenditure. On the other hand, there are a large number of specific federal transfers related to specific activities and oriented to finance them (such as education, public health, housing, electricity, etc.), but in overall terms, they represent a lesser share in the total amount transferred to provinces.

#### 4.5 Avenue for new research lines

In short, subnational units in Argentina enjoy a wealth of political authority with a reduced fiscal power (self-renunciation), while subnational units in Denmark enjoy greater administrative and fiscal power in delivering and financing public policies, yet the central government maintains an important coordinating and supervising role: While, on the one hand, “Scandinavian local governments are stronger in administrative and fiscal capacity than their counterparts in all the other West European countries”<sup>132</sup>, on the other hand, central government has recentralized decision-making<sup>133</sup>. Although it is true that subnational units enjoy power in the decision-making process, central government is able to impose guidelines to be followed (be it by agreements or by imposition). Subnational units enjoy some freedom to decide as long as the central government does not impose any guidelines.

Throughout this paper, some preliminary conclusions have been reached. However, future research lines have been opened. The key to understanding political decentralization is to figure out which level of government has the decision-making power over a given public policy. Otherwise, according to the theoretical framework, it would be an administrative decentralization in its different types (and degrees). Measuring decision-making power is a difficult task, but not impossible. Henderson<sup>134</sup> and Rodden<sup>135</sup> have made progress in this direction. However, this study encourages an interdisciplinary dialogue among legal and political science disciplines leading to a

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<sup>132</sup> Swenden [supra, n. 5], p. 17.

<sup>133</sup> Picard [supra, n. 112].

<sup>134</sup> Henderson, Vernon (2000) “The Effects of Urban Concentration on Economic Growth,” NBER Working Paper W7503 <http://www.nber.org/papers/w7503>.

<sup>135</sup> Rodden [supra, n. 6].

common conceptualisation of decentralization, a term that still remains vague and indistinct. Another way to understand the functioning of IGR is to deepen the study on interests, perceptions and resources of the involved actors (central and subnational levels), to better understand why and how decentralization has occurred with special attention to the different processes of negotiations between levels of government, and the strategies chosen by the involved actors.

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