



## YOUTH PERSPECTIVE

# Argentina: How to cope with regional economic disparities

BY JULIA POMARES

*Julia Pomares was selected as a participant in the Forum of Federations' Youth Summer Session on Federalism 2002. Each participant was asked to submit an article in response to the question, "What are the challenges posed by globalization to your federal country?"*

**In** less-developed countries, globalization imposes burdens on some and confers benefits on others. Argentina, though wealthy in comparison with many developing countries, is no exception.

Globalization tends to exacerbate regional and social disparities, in Argentina and elsewhere. Regional imbalances in Argentina are astonishing: five of the 24 Argentine provinces generate 85% of the country's GDP and only three provinces produce 65% of its exports. Moreover, less than two per cent of the investments of the top 500 Argentine companies goes to the poorest provinces.

This pattern is also evidenced by regional differences in "human development", with only Buenos Aires earning a high score in the UN's Human Development Index. Income distribution is similarly distorted: the richest fifth of the population earns twenty-eight times more than the poorest fifth.

One solution to this problem would be to put in place a new pact between the constituent units of the federation. Such a pact would establish new functions and responsibilities for each of the parties involved in the federal decision-making process.

### **Provincial veto power**

The effects of globalization cannot be considered in isolation. Internal trends in Argentina have fostered the process of regional differentiation. The decentralization process that began in the 1990s, together with the over-representation of small provinces in the National Congress, has led to the consolidation of the provincial veto power over decisions made by the federal order of government. The relationship between the two orders of government generates a pattern of "divided government" and, at times, political paralysis.

This inequality in representation exists in both houses of the federal congress – that is, in the upper house (the "Senate of the Nation") and in the lower house (the "Chamber of Deputies of the Nation"). Argentine electoral law stipulates that the upper house be comprised of 72 senators, with three senators per province regardless of population. Thus, the province of Tierra del Fuego, with a population of 115,000, has three seats, as does the province of Buenos Aires with a population of 11 million.

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**Julia Pomares** works as a consultant for the Under-Secretary of Criminal Policy, Ministry of Justice and Human Rights in Buenos Aires. She graduated from the University of Buenos Aires in 1998 and is working on a Master's degree in discourse analysis.

The 257 deputies in the lower house are elected according to proportional representation following "D'Hont method", with three per cent of the popular vote being the threshold for a party to gain the minimum level of representation and with no fewer than five deputies coming from each province. The province of Buenos Aires, which accounts for 38 per cent of Argentina's population, holds only 28 per cent of seats in the Chamber of Deputies while the six provinces with the fewest inhabitants – together comprising four per cent of the population – hold 11 per cent of the seats.

A new federal pact would not require a constitutional amendment. Instead, such a pact would likely establish new procedures whereby negotiations between the federal government and the constituent units would not simply be zero-sum games and would, therefore, achieve substantive results.

### **Lack of coordination**

These new procedures must tackle another major problem of the Argentine federation: the lack of coordination between the different orders of government in the policy-making process. New inter-agency efforts and multi-stakeholder initiatives have not yet delivered their anticipated results. New mechanisms to produce stable, long-term agreements can only be effective if they fulfill two conditions. The first condition is the need to overcome the increasing inequality among regions. The second is the need to create incentives for fiscal responsibility among the constituent units. Heavily imbalanced federal systems like that of Argentina clearly require new, efficient approaches to fiscal equalization in order to mitigate poverty in disadvantaged regions.

### **The common pool problem**

Fiscal responsibility is another major issue in Argentina. Some specialists have pointed out that Argentina displays a relatively high level of expenditure decentralization, vertical fiscal imbalance and borrowing autonomy among orders of government. These features have generated perverse incentives for provincial governments. Indeed, these factors create what is called the "common pool problem" and thereby tempt provincial authorities to behave opportunistically. Mark Hallerberg of the University of Mannheim in Germany explained the "common pool problem" as follows:

"Since a representative's district pays only a small portion of the central government's tax revenues, he or she will ask for more spending than when the central government pays for them than when they have to be paid for with local taxes."

The road to a new federal agreement will no doubt be a long and hard one. To admit the sheer complexity of this task will have to be the first step. New approaches to intergovernmental relations and more efficient agencies within each order of government are critical to meeting the challenges presented by the forces of globalization. (6)