

## FISCAL FEDERALISM AND SUBNATIONAL FINANCE IN ARGENTINA BEFORE AND AFTER THE PANDEMIC STORM

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### ABSTRACT

The paper is addressed to examine the general framework of fiscal federalism and subnational finances in Argentina and its behaviour considering the structural scenario and incidence of modern crises, not omitting the very important one of 2001 but emphasizing in particular the caused for the international slowdown (2008) and the great pandemic cycle (2020-2022). Crises affected subnational finances but not transformed essentially its structure. In the fiscal-federal scheme the financial power is retained clearly by the central government which is also the main public debtor.

**Keywords:** Fiscal federalism, Subnational finance, Argentina, Crises, Pandemic.

## I. INTRODUCTION

As is known, the fiscal federalism of each country recognizes a certain allocation of resources, functions and transfers that define its structure, according to an evolutionary historical process, usually specified in its constitutional charters or other statutes or laws.

The taxation of the provinces and municipalities has gained significant interest in the country for a considerable time and numerous investigations have been carried out to determine the role of subnational resources in relation to the financing of the expenses of these levels of government.

This corresponds to the intensive development of research on federalism and fiscal decentralization in the international and Latin American arena (Brosio and Jiménez, 2013). This implies moving beyond the problems of central governments, to extend to “intermediate” and local governments (World Bank, 2001; Martínez Vázquez, 2014), which make up the “subnational” or “non-national” space.

Addressing the analysis of the fiscal importance of the subnational space in the Argentine case implies considering its existence in an institutional context made up of a federal or national government, 23 provinces, an Autonomous City and around 2,300 local governments (Hernández, 2020).

Analyze specifically the evolution and nature of the tax powers of said levels of government in Argentina is important to describe the historical and empirical facts that marked their evolution up to the present, within the respective constitutional and legal framework. Essentially, such subnational fiscal powers and functions must be considered to fully explain the structure of the nation’s federal financial system.

This work will seek to expose some of the fundamental aspects that frame the evolution of the system in well over a “long decade”, encompassing from the environment of the 2008 crisis to the 2020-22 pandemic cycle, exploring the structural, institutional and conjunctural profiles derived from the changes and adaptations of the scenario of “multilevel finance” (King, 1988), the fiscal rules involved and, where appropriate, the incidence in the observable framework of the use of credit and indebtedness.

In such an orientation, after this Introduction, the general framework of Argentine fiscal federalism is initially addressed. Next and within it, the level of provincial and municipal governments, namely its subnational component. Subsequently, we delve into specific aspects of such a “non-national” conglomerate, considering the observable issues about its fiscal autonomy and its evolutionary cycle in general and the recent crisis and pandemic processes, in particular, those that, having visibly impacted the economy, did so, also in the fiscal variables of the central and subnational governments, as well as in the monetary flank.

## II. HISTORICAL FRAMEWORK: ASSIGNMENT OF REVENUES AND EXPENDITURES BETWEEN THE DIFFERENT LEVELS OF GOVERNMENT

In Argentina, as is generally the case of countries organized on federal bases and norms, analyzing the financial arrangements between different levels of government implies considering the design of the country’s federal fiscal constitution. In it, in addition to the guidelines emanating from the National Constitution itself, different laws and norms are involved, coming from different levels of political and territorial authority.

Coming from the origins in the 19th Century, fiscal evolution at the national and sub-national level in Argentina has obeyed to its own peculiarities. The financial constitutional framework began when the Constitution of 1853 was approved, later reformed in the years 1860 and 1866. The first of these was representative of a “dual” federalism, insofar as it recognized the existence of municipalities but as part of the provinces, these being the ones in charge of assuring the regime that regulated them, and, on the other hand, all customs incomes were granted to the national government in formation. While the 1860 Constitution temporarily limited the central government’s taxing power over exports, the third Constitution reassigned them to the national level of government. The latter put the collection of both import and export taxes in the hands of the central government. In this tax separation scenario, direct taxes were assigned to the provinces.

The country, in its formative independent stage signed by different conflicts and circumstances (Prados de la Escosura, 2005), was backward and not yet fully integrated into the world<sup>1</sup>. In such a context, within the Constitution, taxes that were difficult to collect were assigned to the subnational level of government, while those from foreign trade were assigned to the central government. In exchange, over the federal government was imposed the obligation to assist the provinces when their budgets are insufficient to cover their ordinary expenses. This configured a system of concentration of resources at the highest level of government, which we called “concentration and patronage scheme” (Asensio, 2015).

In the following decades and especially in the last of the 19th century, important divergences emerged regarding the powers to apply indirect taxes. After important debates in the parliamentary sphere that ended in favor of the national government, which since the 1890s operated concurrently with the provinces in this field (Núñez Miñana and Porto, 1992; Asensio, 2015). On the other hand, four decades later, an initially transitory imposition was created through the income tax already in the middle of the first half of the 20th century, accompanied a little later by a tax on sales.

In this way, during the 1930s, the national government formulated a system that included important taxes due to their revenue significance. These, together with the indirect taxes known as “internal taxes” were distributed between the Nation and the provinces according to a set of established proportions, through what was known as “national revenue sharing”. In addition, the provinces administered other direct property taxes and minor indirect taxes.

To specify the chronology of the changes mentioned, we will mention that the federal tax system has gone through different stages. In the first, the principle of “separation of tax sources” established in the Constitution of 1853 was settled. In the second stage, from 1890, the “concurrence of sources” was implemented -limited to internal taxes on consumption-, and in the third stage from the beginning of the 1930s, a wide use of the system of division of income products called tax co-participation, or simply “participation” (revenue-sharing) was applied (Jarach, 2013).

1. In spite of this, the Argentine Federation emerged in the early second half of the XIX Century in better condition than a majority of Latin American post-independence economies, thanks to its “Atlantic link” (Gelman, 2008, 2014).

**Table 1: Stages in the Assignment of Tax Powers in Argentina.**

Taxes	(I) Separation of Sources: 1853-1890	(II) Concurrence of Sources: 1890-1930	(III) Revenue Sharing: 1930-Present <sup>2</sup>
External	Nation	Nation	Nation
Direct	Provincial	Provincial	Common
Internal consumption	Not specified	Nation/provincial	Common

Source: Asensio (2015).

Regarding the expenditure assignment, in an epoch when some functions like pensions or social protection were unknown, the Constitution of 1853 established a strong central government, endowed with internationally usual powers at that level (defence, external relations), and explicitly granted the functions of primary education, administration of justice and the regime of municipalities to the provinces that at the same time retained those powers that were not delegated to the national government.

So, in the original Constitution an income separation system was implemented that was later altered with the intervention of the national government in indirect taxes in the last decade of the 19th century and transformed again in 1934 through the creation of a *revenue sharing* or co-participation system, supported by rulings of the Supreme Court of Justice of the Nation.

It was not until 1994 that the revenue sharing or co-participation system was incorporated into the reformed National Constitution, in its article 73. Such “revenue sharing” implies two types of distribution of the co-participating mass; one is the *primary distribution* that in turn consists of two parts, one for the national government and another for the provincial governments, while the second distribution is the so-called *secondary*, being a distribution between provinces of the mass assigned in the first, based on proportions established by law, which originally responded to formulas, but which have subsequently responded to a less specific and casuistic determination process.

Considering the levels of government involved, the revenues of the federative actors -central and sub-central governments- were configured as a mixed pattern system that combines taxes from national and subnational sources (own taxes), on the one hand, with from a shared source, on the other, concentrating high-collection taxes in the national government, with an automatic proportion of said resources collected that must be transferred to the different parties, both the Nation and the Provinces.

2. Here we follow Núñez Miñana, Porto (1990) and Asensio (2015). More strictly, as we will see, this period could be divided in the previous to the 1990's and after. From the 1990's it is open the “era of the pacts” (when revenue-sharing is partially modified with some clauses of such agreements) (Asensio, 2006).

**Table 2: Phases or Steps in the Co-participation Process**

Phases	Concepts	Meaning
1	Gross Taxation Mass	“Pool” from National Collection
2	Deduction of certain taxes	Deduction of customs and others
3	Shareable Mass	Amount ready for sharing
4	Primary distribution	Division Nation-Provinces
5	Secondary distribution	Division among Provinces

Source: Own elaboration.

In this model, the provinces, as the first component of the subnational stratum, legislate and collect indirect and direct taxes. Some of the first are gross income and stamps while the direct ones are taxes on real estate and motor vehicles. The municipalities, the second component of the subnational stratum, essentially apply the taxes known as *rates*.

Since the 1950s and throughout the rest of the 20th century, the taxes collected by the provinces included the tax on lucrative or economic activities, currently called tax on gross income, the property tax on real estate, the stamp tax, and the tax on motor vehicles, and other taxes, including an inheritance tax. This last tribute was not very productive in relation to the generation of resources, but it contributed at the time to the finances of the second level of government.

In 1974, the Value Added Tax (VAT) collected by the national state was introduced, with which it was intended to eliminate the gross income tax at the provincial level as a harmonization measure. This idea failed when collection insufficiencies occurred, and soon the taxpayers had to pay both taxes.

In subnational terms, the main horizontal tax agreement in force in Argentina, sanctioned in 1977, is the one related to the aforementioned tax on gross income, called the Multilateral Agreement, which regulates interjurisdictional transactions and organizes the distribution of tax bases, and not revenue, which continues enforced to this day.

Given the fact that a systemic situation has been configured where the main tax revenues are reserved at the national level, which therefore obtains the highest tax yields, through the collection of value added tax and income tax, among others, the powers of expenditure exhibit their own profile. Beyond the original constitutional provisions outlined in the key formula of the 19th century, the provinces concentrate functions with high manpower requirements such as primary and secondary education, health and the police. Moreover, through joint organisms there exists a separation between regulation and provision in the effective functional scheme for the execution of public functions in the three levels.

In addition, since the late 1970s and early 1980s, provincial functions have expanded as some public services have been privatized, decentralizing them, and others have also been transferred to the provinces. This occurred especially in the case of the provision of electrical energy as well as in the supply of running water, where national public companies did so towards their provincial counterparts.

In the 1980s, a modification was introduced to the rate structure of the tax on gross incomes, which was set at rates of 1% for the primary sector, 1.5% for the manufacturing industry and 2.5% for the tertiary sector. At the same time, the inheritance tax, which had a low fiscal yield and was no longer part of the tax structure, was eliminated. Another tax was imposed, such as the stamp tax that sought to cover the loss of income, with better results than the old tribute.

Broadly speaking, this system was in force until the early 1990s, a period in which Argentina entered the decade of Fiscal Pacts, making government agreements between the national and provincial governments. These pacts introduced important changes in the fiscal-federal framework and in the fiscal relationship between both levels of government. Although just after the beginning of such a cycle of intergovernmental agreements, the New Constitution of 1994 can be understood as the main Fiscal Pact.

In the scheme essentially emerging from one of those agreements, the Fiscal Pact of 1993, distortionary taxes should be abandoned or significantly reduced, such as the tax on gross incomes on the productive sectors, among others. This affected the delicate and imperfect tax structures of the provinces, with a high dependence on their oversales taxation and sealing taxes, which could generate an insufficient level of tax collection. Despite the initial attempts to promote said reforms, this risk explains the conservative position of the provinces in the face of such large changes in the tax structure. This became more visible from the year 2001 when several jurisdictions reverted the previous measures reinforcing the previous tax system, and in particular the tax on gross incomes.

In the aforementioned decade (1990's), as mentioned, public utilities privatization processes took place and, in the cases in which said processes have been extensive or regular, supervision was essential to guarantee satisfaction and accountability in the effective provision of such services to citizens. In this sense, although functions such as education or health are carried out in some important municipalities, most frequently these functions are reserved for the provinces. Of course, there are gray areas that make it difficult to achieve efficiency in the provision of public services at both the provincial and municipal levels.

Furthermore, in the assumed field of competence (expenditure assignment) new functions are developed as local governments gradually become involved in areas formerly served at the regional level, as occurs in local economic development and the environment, and in areas such as housing and welfare.

The significance of local governments in the Argentine public sector, which as a whole is modest within the total expenditures of all levels of government, suggests that there is a feasible space for the expansion of decentralization towards the third of such levels.

The previously mentioned tax sharing is the main instrument of interlevel fiscal relations and the transfers that typify it are made unconditionally without prejudice to minor transfers. In the provinces, when replicated (province-municipal participation), it usually has constitutional status.

They provide that the shared funds be integrated by national and provincial fiscal resources, establishing the distribution of national or provincial income and also other resources such as provincial royalties on natural resources and income from privatized services. Tax sharing, more strictly, is also done in some provinces where the income from each tax is shared individually on a "tax by tax" basis and not under the "tax union" option.

The quantification criteria of the “primary allocation” are derived from the laws that regulate each province. The growth of this allocation has been raised based on an approach that looks at overall fiscal necessity rather than strict considerations of the cost of divisible services provided by local governments. On the other hand, the “secondary allocation” takes into account various apportionment elements, such as population or own resources.

Then, the funds destined to be co-participated are formed with a mixture of shared funds and from their own sources from the national or provincial orbit, given that the latter -as the first subnational jurisdictional level- must also transfer part of the taxes they collect to the municipalities under its jurisdiction.

During the 1990s, a new federal tax co-participation law was not approved (that is, the law regulating the Nation-Provinces distribution and between them) as it should be done since the constitutional reform of 1994 required it, but rather the Law National N° 23,548 of Federal Co-participation of the year 1988 was modified through Fiscal Pacts between the national government and the provinces. These were intergovernmental “vertical” coordination agreements established between the two levels of government.

In this regard, we attach below a synthetic table that states the principles of such Nation-Provinces Agreements. They can be divided into “Agreements” and “Consensus”, the latter in the “contemporary phase”, to which we refer in more depth later.

**Table 3: Nation-Provinces tax agreements in Argentina.**

<b>Three decades of National-Provincial Agreements in Argentina</b>	
<b>Order</b>	<b>Main Characteristics of the New Agreements</b>
1988	Revenue-sharing regime, regulation of the structure of GIT (Gross Incomes Tax) and “similarity” prohibited.
1991	Distribution of tax income from gasoline, VAT and others.
1992	Deduction of 15% of the resources of the “common fund” for social security.
1993	Invades subnational fiscal powers (GIT, property, etc.). It proposes progressively abandoning the GIT and imposing fiscal behavior in terms of property taxes in the provinces. Elimination of the turnover tax on manufacturing activities, with the aim of reaching minimum levels for the rates that tax the taxable value of real estate.
1994	Enact concurrent constitutional faculty of the Nation in matters of indirect taxes and power over natural resources granted to the Provinces.
1999/02	It ratifies the previous ones and contemplates norms for the reorganization of the retirement system, providing for the transfer to the Nation of provincial funds and a system of contributions for its maintenance.
2017	Aim for improvement of the fiscal situation of the country, reduction in fiscal deficit and increase competitiveness of the Argentine economy. Retake objective of gradual elimination of the tax on Gross Income and the simplification of the tax system. Measures to improve fiscal transparency and the publication of information on the budgets of the provincial governments.

2018	Looks for the elimination of income taxes for workers and retirees who earn less than certain amount.. The gradual reduction of the income tax rate for companies, so that in 2022 the rate reaches 25%. Elimination of provincial taxes on exports of industrial products. The unification of the tax on Gross Income among the provinces, establishing a maximum rate of 1.5%. Creation of a compensation fund for provinces affected by the elimination of taxes, with the aim of maintaining its fiscal revenue. Elimination of the Buenos Aires Conurbano Fund.
2019	Fiscal commitments for provinces, including reduction of the fiscal deficit and elimination of distortionary taxes. Commitments to improve efficiency of public spending and to reduce public employee payroll spending. This Consensus was seen important to address Argentina's economic and fiscal challenges. However, since then, the country has faced a series of serious challenges, the COVID-19 pandemic and political instability, which have affected the fulfillment of the agreement's commitments.
2020	Establishes the suspension for two years of lawsuits for tax debts between Nation and Provinces and reduction of tax rates such as the tax on Gross Income and the tax on Stamps. Elimination of certain tax collection, collection and withholding regimes to facilitate business operations. Contain province's commitment for not to increase their tax burden during the next two years and creation of a Federal Council of Fiscal Responsibility to monitor compliance of the accord. The Consensus seeks to generate a framework of stability and predictability for taxpayers and provinces, encourage investment and employment and improve the financial situation of the Nation and provinces.

Source: Own elaboration.

In accordance with the new legal framework (post-1994), it was possible for royalties to appear in the provincial fiscal structure and, in some of them, to significantly increase budgetary resources<sup>3</sup>, due in part to the additional economic activity generated by the development of mineral resources. However, recent national legislation, previously agreed with the provinces of Patagonia, has introduced what has been called a “regulatory profile” in the decentralized scenario provided for in the 1994 Constitution for the oil and gas sector.

The 2001 crisis accelerated some contradictory changes with previous Pacts, including the taxability of the manufacturing industry on gross income, the reappearance of the death duties or inheritance tax, particularly in the Province of Buenos Aires, as well as circulation taxes in some other jurisdiction, for maintenance and repair of regional and local roads.

### III. DEEPENING THE ANALYSIS: THE EARLY 21ST CENTURY, CRISES, FEDERAL FISCAL SCHEME AND SUBNATIONAL AUTONOMY

As we have mentioned before, the strong vertical fiscal imbalance is the structural characteristic of the fiscal scheme in Argentina, in favor of the national government with respect to other levels. In times of crisis, this is sharply evidenced by additional disputes over existing resources. The “subnational fiscal space” evolves in such a context.

3. The 1994's Constitution, in Article 124, 2nd paragraph, granted the power on natural resources (minerals, hydrocarbons, etc.) to the provincial jurisdictions, changing the fiscal map of the country, enhancing provincial revenues mainly in Patagonia, Cuyo and Northwest, besides some specific cases. It involves the municipalities also, as in the case of the gold deposit of “Bajo La Alumbrera” (Di Paola, 2019).

To examine this, we will remember what was previously mentioned, regarding the fact that in relation to revenues, from the country's first constitution to the present, the system evolved towards the strong accumulation of the same by the national government, leaving a small proportion of resources for subnational governments, both provincial and municipal. In other words, the revenue system as a whole was centralized. In turn, it was legislated through the basic federal regulations framing to a large extent the provinces and municipalities for the exercise of the tax powers that they have retained.

So, under this regulation that we have called “umbrella legislation” (Asensio, 2015), provincial and municipal governments cannot establish taxes similar to those distributed through the co-participation regime, which are VAT and income tax of individuals and companies, among others. Therefore, complying with regulations to apply one's own tax policy is a condition for accessing the common cake of participation (the so-called tax “co-participation” of national taxes).

Regarding spending, the new century inherited a previous interjurisdictional redistribution of functions, after carrying out a great decentralization of expenditures through the transfer of public services from the national government to the provinces. The same happened in the 1970s, 1980s, and mostly in the 1990s. The transfers were mainly from the secondary education and health sectors, and they expanded the scope of provincial spending.

It is important to mention that this system would face two major crises, one right at the beginning of the century in 2001 and the other in 2008-2009. The first was an internal crisis, with an explosive end to the currency convertibility regime in force since 1991, and abandoned at the beginning of 2002. The second was a crisis resulting from the international recession that began in that year.

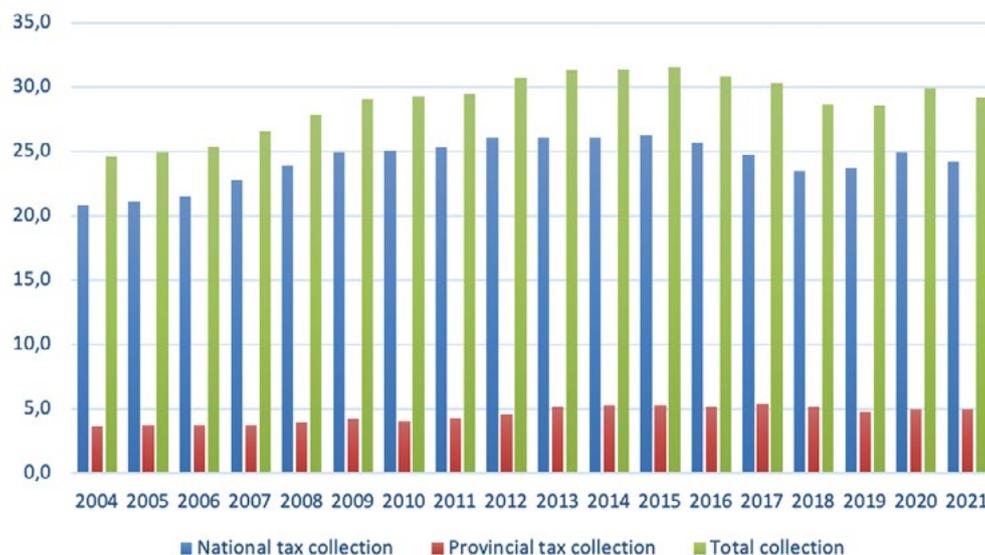
Regarding the 2001 crisis, it generated a strong growth in social assistance by the State to combat the poverty that was unleashed as a result of it. In addition, two new taxes were introduced, which are the tax on financial transactions, that is, on the check; and the export tax, collected by the national government.

After the economic recovery in 2002, the main beneficiary of the application of these taxes was the central level, further accentuating the existing vertical fiscal imbalance. Later, the fiscal institutions of Argentina were transformed by the Fiscal Responsibility Law enacted in 2004, and by the approval of the Educational Financing Law. The first Law established guidelines to expand public spending, linking it to the Gross Domestic Product, and the maximum level of debt for the provinces. In addition, it created the Federal Council of Fiscal Responsibility, the body for supervising such Regime. The Educational Financing Law established an additional spending scheme for its implementation.

The aforementioned evolution is related to the national and subnational tax structure. Any tax structure, which includes the different levels of government, is affected by the economic situation, evidenced in the flexibility of the taxes that are related to the economic cycle, the structure of direct and indirect taxes and other facts

As we know, it is possible, in turn, to show the federal revenue system as a whole and within it the weight of the subnational sector, showing the tax burden measured from the ratio between the tax revenue received by governments and the level of economic activity, in the following figure for the period 2004-2021.

**Figure 1: National-subnational tax burden as a percentage of GDP (base year 2004).**



Source: Undersecretary of Public Income, Secretary of Finance, Ministry of Economy of the Argentine Nation.

It expresses the manifest difference in one's own fiscal capacities. The national or federal level is decisive in the scheme. Said national and subnational fiscal capacities are exercised through constitutionally and legally assigned taxes, the primary consideration of which we have already made in preceding paragraphs.

Returning now to the subnational level, it should be noted that the provinces and municipalities rest on tax bases linked mainly to gross income, on the one hand, and on real estate, on the other, either for their *taxes* in the first case or to apply *rates*, in the second, without prejudice to other encumbrances as indicated. In property taxation, progressive rates are expressed in the specific regulations.

Likewise, the real estate tax is divided into a tax on urban real estate and a tax on rural real estate. Both have traditionally been affected by a fiscal policy mistake based on a kind of "political failure" in order to avoid taxpayer dissent. There has been great opposition to raising this tax, due to its visibility, unlike indirect taxes, with the additional effect that if its base is increased, the national tax on personal property increases. Consequently, if the value of the cadastral base of the provinces is modified, taxpayers must face a double increase in taxes, one paid to the provincial government and another to the national government.

It is necessary to return to the issue of withholdings or deductions for exports collected by the national government. Whatever the tax base, all taxes affect income. This is how a phenomenon of "occupation of tax room" arose (Bird, 1986; Asensio, 2015), due to which provincial tax incomes began to shrink. The national government additionally affected agricultural income with such withholdings on agricultural exports, and this diminished the opportunities for the provinces to increase the rates or valuation of their taxes on rural real estate. This generated a fiscal shift in favor of the central government, which, as the constitutional holder of the power to tax foreign trade, absorbed the total income from this tax. This then conditioned subnational finances.

The evolution of the tax system was again put in check for the second crisis of the decade in 2008-2009, with the impact of the drop in aggregate demand on income. It was

observed that although there was a slowdown in tax collection in the year mentioned and in the preceding year, this was attributable to export taxes. However, the results in 2008 and 2009 are strongly influenced in a compensatory way by taxes on wages used to finance social security<sup>4</sup>. The result was that once social security taxes were discounted from total tax income, taxes collected by the national government decreased by 1.18% of GDP, while provincial taxes increased by 0.25%.

**Table 4: Tax Structure (main taxes in percentages).**

Taxes/Years	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Provincial taxes	15.3	15.3	15.2	14.5	14.3	14.7	14.2	15.0	15.0	16.8	16.9	16.8	16.9	18.0	18.0	17.0	16.9	17.2
National taxes	84.7	84.7	84.8	85.5	85.7	85.3	85.8	85.0	85.0	83.2	83.1	83.2	83.1	81.9	81.7	83.0	83.1	82.8
Main National Taxes																		
On Property	1.5	1.3	1.2	1.1	1.1	1.1	1.1	0.9	0.9	1.0	1.0	1.0	0.8	0.7	0.4	0.5	2.6	2.1
Trade & foreign transactions	11.6	11.4	11.2	11.7	14.3	11.1	11.9	10.9	9.7	7.7	8.1	6.0	5.2	4.4	5.4	9.3	9.0	10.8
Income & Profits	18.9	19.6	18.7	18.1	16.9	15.4	15.9	17.0	17.1	17.6	18.7	20.4	17.2	17.3	17.7	17.8	18.1	17.4
Contributions to Social Security	11.5	12.2	13.8	15.5	16.6	21.4	21.2	21.5	22.2	22.6	21.6	22.2	22.0	22.9	21.8	19.9	19.1	17.8
VAT	26.2	25.8	26.2	26.5	25.3	24.2	24.1	24.2	23.6	23.9	23.2	23.1	23.1	23.9	26.3	24.9	23.5	24.1

Source: Ministry of Finance of the Argentine Nation.

An important aspect in the evolution of provincial finances, as the most relevant level within the subnational stratum that also incorporates local governments or municipalities, is the authentic existing tax autonomy for the use of their fiscal capacities. In the context of international studies on the subject, it is known that there are technical alternatives to regulate the exercise of legal powers in this regard (Blochliger and King, 2006; Blochliger and Rabesonna, 2009).

Strictly speaking, in the Argentine case, for decades the same laws that approved the operation of the federal tax system incorporated regulations and limitations on the unrestricted use of provincial powers in its main taxes, as already indicated. Emblematic examples have been the National Co-participation Law of 1988 itself and the Fiscal Pact of 1993, an aspect that we have discussed in detail in other contributions (Asensio, 2018).

An example is the establishment of an evolutionary cycle tending to limit, the tax rates of the main provincial tax already mentioned, namely the Tax on Gross Income, which as such is transferable in various stages of incidence (Turnover). Without mentioning the Pact of 1993 that partially respected, a new temporary course was established in the 2017 Fiscal Consensus, modified also in the middle of the pandemic, and again in 2021-2022.

4. Actually, they are earmarked for financing the pension plans but frequently the federal government borrow from them to afford certain objectives.

The table below, once again exposes the character of “regulated tax autonomy” with which it is possible to characterize the one enjoyed by provinces, without ignoring that without its existence it would be difficult to ensure fiscal policy behaviors fully compatible with stability.

**Table 5: Gross Income Tax Rates in Consensus of 2017 and Modified in 2021.**

Concepts according to Years	Established in 2017	Established in 2017	Established in 2017	Established in 2017	Established in 2021 <sup>5</sup>
Activities taxed/ Years	2018	2019	2020	2021	2021
Agriculture, fishing, mining and forestry	1.5	0.75	0.0	0.0	
Agriculture, mining and forestry	1.5	0.75	0.0	0.0	0.75
Fishing	1.5	0.75	0.0	0.0	0.75
Mining and Quarrying	1.5	0.75	0.0	0.0	0.75
Total Manufactures	2.0	1.5	1.0	0.5	1.5
Paper industry	7.0	6.0	5.0	4.0	6.0
Electricity, gas, wáter	5.0	3.75	2.5	1.25	
Electricity, gas, water (except residential)					3.75
Electricity, gas, water (residential)					4.0
Construction	3.0	2.5	2.0	2.0	2.5
Trade	WM	5.0	5.0	5.0	5.0
Hotels, restaurants	5.0	4.5	4.0	4.0	4.5
Transport	3.0	2.0	1.0	0.0	2.0
Communications	3.0	4.0	3.0	3.0	5.50
Total Financial intermediation	WM	5.5	5.0	5.0	
Financial services					9.0
Real estate, business, rental	6.0	5.0	4.0	4.0	5.0
Social and Health Services	5.0	4.75	4.5	4.25	4.75

WM= without maximum.

Source: own elaboration based on the Fiscal Consensus 2017 to 2021.

5. Regarding the 2017 Fiscal Consensus, the changes established for the year 2021, mentioned in this table, were sanctioned.

With the foregoing, it should be added that in the Fiscal Consensus of 2018, the reduction of national subsidies for public services was established, starting in January 2019, depending on the possibilities of the provinces, regarding the consumption water service, sewage, electricity and public transport.

In the 2019 Fiscal Consensus, in relation to Gross Income, the suspension of income tax relief on the export of goods was established, with the exception of mining or hydrocarbon activities and their complementary services. In relation to the Real Estate Tax, the fixing of rates of the same between a range of 0.5% and 2% of the fiscal value of the property was suspended. Regarding the stamp tax, the non-increase of rates of this tax on real estate, automobiles and hydrocarbon activities and complementary services is suspended, and suspension of this tax for acts and contracts.

The 2020 Fiscal Consensus determines, in relation to Gross Income, the maintenance in the suspension of income tax relief on the export of goods. In relation to the Real Estate Tax, the fixing of rates of the same between a range of 0.5% and 2% of the fiscal value of the property was suspended. Regarding the stamp tax, the non-increase of rates of this tax on real estate, automobiles and hydrocarbon activities and complementary services was suspended, as well as suspension of this tax for acts and contracts. In particular, in the Fiscal Consensus for 2021/22 was banned again the taxability in the GIT (Gross Incomes Tax) of the exportation of goods.

#### **IV. FISCAL RESOURCES AT THE THIRD LEVEL, OWN SOURCE AND SHARED ONE'S**

Local governments are the third level of the scheme but the second as a member of the subnational stratum. Argentine municipalities are financed with three types of resources: their own taxes collected in accordance with constitutional and legal powers, these being fines, rates and fees required for providing services to the people in their jurisdiction; transfers from other levels of government; and participation (sharing) of national and provincial taxes.

These sources of income can also be grouped into: taxes and other rights collected as part of specific functions; and resources received via transfers or grants from the central or provincial level of government. In the first group, *rates* (“tasas”<sup>6</sup>) prevail, while in the second, higher level tax sharing stands out, being almost two thirds of local income.

When describing tax income at the local level, the particular form of taxation that they use to exercise their taxing power, *rates*, is pointed out as “disguised taxes”. “Rates” are the main collection item, followed by the rest of the fees, fines and user charges that produce a third of local tax income.

In the constitutional reform of 1994, municipal autonomy was recognized, the character of which would have to be defined in the provincial constitutions. Therefore, although the development of the statute of local governments is undeniable, the scope of such autonomy continues to be the province’s power. Additionally, with said reform, the Autonomous City of Buenos Aires was granted a particular status, which resembles an “urban province”.

6. “Tasa” is the Spanish denomination for such contributions.

There is a determining and limiting factor so that municipal governments can exercise full tax authority, that is, the legislation, collection, modification and reduction of taxes, which is established by intergovernmental tax agreements and ratifying laws concluded between the national government and the provinces, like the Coparticipation Law No. 23,548, enacted in 1988, and the Federal Pact of 1993 and similar and subsequent ones.

These laws force the provinces to set limits to local tax powers, because the provincial governments cannot collect taxes similar to what is distributed at the national level through the co-participation mechanism. The link between the three levels of government is completed in the 1988 Law, which establishes that the provinces must agree for their local governments a co-participation regime to be applied in their jurisdiction. If it was not implemented, they could not receive their participation in the national taxes established in said Law.

According to traditional constitutional interpretations, local governments were prohibited from collecting taxes when they were not in harmony with those collected by the provincial and central governments. Likewise, the municipalities had to comply with the “principle of not analogy” established in the Coparticipation Law. So, in practice, many provinces have regulated the autonomy of the municipalities, and they use the tax powers that such autonomy implies in a limited way as a consequence of the restrictions.

In this way, the most important forms of municipal taxation continue to be taxes on property (real estate taxes), which finance typical services such as lighting; and rates based on inspection, safety and sanitation (*rate* on gross incomes from economic activities). Both taxes reached almost 70% of the total own income.

The tax bases of these taxes make them, as previously mentioned, “masked taxes”. For the property tax, it falls on the cadastral value of the property, whose base is equivalent to that of the provincial real estate tax, while for the income-based right, the base depends on the gross income of the taxpayers, according to the economic activity to which they are engaged, being the same as the provincial tax on gross incomes or sales.

This generated a deviation from the principle of correspondence between the amount collected from the “tasa” (*rate*) and the costs of providing local government services. This problem was supposed to have been resolved with the 1993 Fiscal Pact, which established that provinces should induce their local governments to set rates on services that are no greater than the costs of providing those services, with meagre results.

In some cases, local governments used redistributive principles when regulating security and sanitation rates, applying them differentially on certain luxury activities. The same happened when applying higher rates in the local property tax according to the socioeconomic standards of the different urban areas, being an opposite criteria from normative fiscal federalism that reserves the distributive part to the federal government, suggesting that local governments focus on the efficient provision of local public goods<sup>7</sup>.

As stated, the legal regime of Argentine municipalities is contemplated in the provincial constitutions. However, as mentioned, the national constitution makes explicit that the central government must ensure provincial autonomy, provided that they guarantee primary education, the administration of justice and the “municipal regime”. And in this third level the financial need also plays.

7. The so called “betterment contribution tax” has a revenue signification minor to its potential.

We know of a national tax sharing system that transfers resources to the provinces and through them to the municipalities. In addition, such a system obliges the provinces to reproduce a co-participation scheme with local governments in their jurisdictions. These laws establish the manner of distributing revenue from the central and provincial levels and other specific and particular resources of some intermediate governments, as well as royalties collected from the exploitation of natural resources within provincial limits, including resources from privatizations.

Although the principle established in article 121 of the 1994s Constitution is applied to subnational jurisdictions, which mentions that the provinces “keep all powers and functions not delegated to the nation”, many times the provincial constitutions detail the functions of that level of government and do not describe in parallel the functions of local governments in as much depth.

The organic laws that regulate the operation of local governments try to correct these deficiencies, establishing very broad functional restrictions and details that, according to when they were approved, show strong aspirations for deeper decentralization. City governments typically play many roles, often focusing on services on behalf of residents, such as public lighting, street cleaning, waste treatment, vehicular traffic management, urban planning and building regulations. There is no uniformity in the provision of other services, such as drinking water supply, given that in some cases they are provided by municipalities and in others by provincial governments.

Beyond the norms generated by the Federal Pact of 1993, the autonomous impulse created by the Constitution of 1994 trigger a fluid framework. Recent interpretations suggest that local governments were not prohibited from collecting taxes, as long as they complied with the requirement of being in line with those collected by the nation and the provinces, and complied with the key “principle of not analogy”, sanctioned in Coparticipation Law No. 23,548.

In the Table below, we can see the magnitude of the total income of the municipalities in relation to the GDP and in parallel the dimension of the total expenses of the local levels of government in function of the GDP, for three selected moments.

**Table 6: Local revenues and expenditures in relation to GDP (2007-2013-2019).**

Year	Total incomes/GDP (in %)	Index	Total expenses/GDP (in %)	Index
2007	2.68	100.00	2.70	100.00
2013	3.32	123.88	3.33	123.33
2019	3.43	127.99	3.36	124.44

Source: Own elaboration based on data from the National Directorate of Provincial Affairs, Secretary of Finance, Ministry of Economy of the Argentine Nation.

This table shows that the income of the municipalities has increased along with the expenses, which is why it is difficult for them to make large-scale expenditures, given that, as mentioned, they do not have as much facility to increase their revenue as the other levels of government.

## **V. THE LONG TERM AND THE “CENTRAL ROLE OF THE CENTRAL GOVERNMENT”**

From a general perspective, it is worth noting a relevant characteristic in the Argentine case. The country has a federal organization, but the evolution from its old original system of “separation of sources” to the contemporary co-participation regime, as well as the correlative conformation of functions that deposited in the federal government the majority of social security benefits, payments by pensions and assistance to specific groups, even acknowledging a moderate decentralization of expenses with the subnational levels, poses a lasting predominance of the same in the federative finance scheme. Although differing from a highly centralized federation like Mexico, it dominates in the field of resources and recognizes greater importance to the subnational space in terms of spending.

The table that we accompany shows this in the “twenty long years” since the beginning of the 21st century. These data show a long-term evolution of sustained growth in spending in relation to GDP, both at the national level and at the two subnational levels of government. Then, total consolidated public spending increased very significantly in that period.

And what about the central role and centralization in the scheme? We have pointed out some time ago that if “full” bilateral centralizations can be recognized, this is not the Argentine case. The data clearly shows that Argentina exhibits a very important unilateral centralization, while operating essentially on the resource side, recognizing a moderate margin for subnational finance on the expenditure side (Asensio, 2000). However, given the decisively determining character of the “power of the stock market”, centralization, in a generic sense, is an emergent consequence.

However, the national government is the one that has the broadest powers to resort to indebtedness, on the one hand, and to the monetary requirements for insufficiencies of the Treasury towards the Central Bank. In addition, in the field of genuine income, access to export taxes enhanced their capacity with respect to the subnational level.

**Table 7: Structure and trend in public spending.**

CONSOLIDATED PUBLIC EXPENDITURE				All Levels
In % GDP	National	Provincial	Municipal	Total
2000	17,45	13,54	2,84	33,83
2001	18,14	14,54	2,92	35,60
2002	15,00	11,74	2,37	29,11
2003	15,51	11,53	2,41	29,45
2004	13,20	11,03	2,38	26,60
2005	14,48	11,98	2,59	29,06
2006	14,45	12,48	2,71	29,65
2007	16,86	12,92	2,70	32,48
2008	18,23	13,47	2,60	34,30
2009	21,61	15,08	3,20	39,89
2010	21,05	14,03	3,19	38,27
2011	22,18	14,74	3,09	40,01
2012	23,22	15,00	3,06	41,28
2013	24,05	15,48	3,33	42,86
2014	26,11	15,57	3,32	44,99
2015	25,92	16,83	3,55	46,30
2016	27,36	16,66	3,29	47,31
2017	25,71	17,14	3,40	46,25
2018	24,37	15,93	3,36	43,67
2019	24,17	15,95	3,12	43,24
2020	27,52	16,50	3,48	47,50
2021	24,28	15,12	3,44	42,84

Source: Fiscal Policy and Income Analysis Directorate belonging to the National Directorate of Macroeconomic Policy – Under secretariat of Macroeconomic Programming - Secretariat of Economic Policy, based on the Ministry of Finance, public information from the provinces, social works and INDEC.

In summary, the preceding Table shows that, within a generalized growth of consolidated spending in more than twenty years, the weight reached by the central government with respect to the subnational orbit is accentuated. In the second decade, its participation reached more than once a phenomenal range of almost 58% of the total, leaving around 42% for the aggregate of provinces and municipalities.

## VI. FOCUSING AGAIN IN THE CRISES

### 1. Two crises in the first decade of the XXI Century.

As we anticipated slightly above, during the first decade of the 21st century, the Argentine economy was affected by two substantial economic crises. For this reason, we have previously called it “the decade of double crisis” (Asensio, 2011). We refer to the one of internal origin that began in 2001 and was very evident during 2002, on the one hand, and to the one that originated as a result of the international crisis of 2008 and that was more evident in 2009.

Both crises, however, occurred at very different conjunctural moments. The first, of great depth, was accompanied by the monetary collapse, the default of its external debt and the forced restructuring of its banking system, being strictly speaking the end point for a previous period of negative evolution linked to a fixed exchange rate between the Argentine peso and the US dollar. Almost immediately the country began to experience a significant recovery based on favorable international conditions, particularly in the commodity market, reaching what was known as “twin surpluses”: fiscal and external<sup>8</sup>.

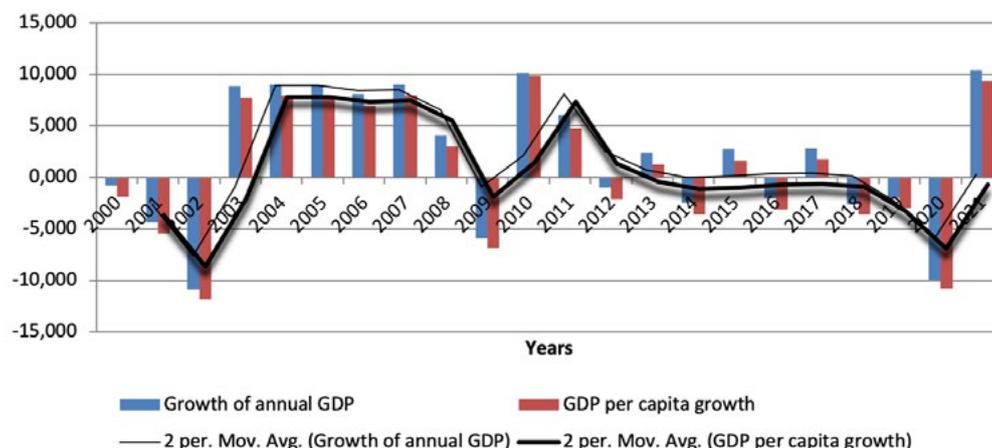
The second, on the other hand, of a much smaller magnitude and duration, emerged in the middle of the aforementioned expansion cycle, which was lasting as such and lasted beyond the aforementioned decade. Consequently, the decline in 2008-2009 was moderate in relation to the previous one, being an episode that did not alter the recovery trend that began at the end of 2002. On the other hand, the country achieved a renegotiation or long-term arrangement with bondholders of its external debt and the banking system was strengthened.

Within the general scheme of fiscal federalism, the national government was consolidated through the very important income from export duties accrued during such a “revolution of commodities”, also taking advantage of the income from the resources of the retirement system, privatized after averaging. In such a context, subnational finance received a minority share of the fiscal improvement in the national sphere but also benefited from the general bonanza of that decade, given the procyclicality of its own tax system.

The reserved access to the national government of the recently mentioned export rights derives from the provisions of the Constitution that date back to the 19th century. This placed this sphere of government in an asymmetrical position with respect to subnational levels and endowed it with a concomitant additional spending capacity, being a resource that is easier to perceive than the traditional VAT and Income Tax, on the other hand not shared with the provinces and municipalities given the exclusive character granted by the Constitution to the Nation, except for the moderate participation that it granted as its own power to said levels of such collected mass, as indicated.

The illustration of such a decade of “double crisis” or decade of “fall and recovery” through relevant variables is the one that we expose in the following figure within the “twenty long years” mentioned above, in order to also visualize the collapse comparatively pandemic that we consider next.

8. This alludes to the result in the Treasury balance, on the one hand, and to the balance of international payments, on the other.

**Figure 2: Growth of annual GDP and GDP per capita in Argentina.**

Source: Own elaboration based on INDEC data.

## 2. Economy, fiscal federalism, subnational finance and the pandemic phenomenon.

The COVID 19 pandemic that struck the world and mainly covered the years 2020 to 2022 despite its continuing incidence and some of its effects in various regions of the planet, had obvious negative repercussions on the economies of advanced and less developed countries.

This was necessarily reflected to a different extent in the evolution of fiscal systems, both in income and expenditure and, accordingly, with difficulties and readaptations at different levels of government, both at the central and subnational levels, and in the latter case, both at the level of states, cantons or provinces, as well as municipalities or communes at the local level.

The economic magnitude of such a crisis in Argentina can be compared with the data of the two major crises showed in the Graphic above. In the one of 2001-2002 the abrupt GDP downfall was around -12% and in per cápita terms -12.5%, aggravated for two previous downfalls. In 2008-2009 the GDP drop reached -6% and the GDP per cápita fall reached -7%, coming, however, from positive years. In the pandemic crisis the shrinking of GDP was close to the one of 2001-02, being -10% in global terms and -11% per inhabitant. Here, also, the previous years were negative ones. Fortunately, the rebound was positive in 2021. Comparatively, the first and the last ones were of the acute “V” type, while in 2008-9 recognized also a V format but relatively less violent and surrounded by positive years, previously and in the recovery<sup>9</sup>.

In the Argentine case, a country in which its position of high external indebtedness conditions its access to international credit markets<sup>10</sup> and a situation of tightness in its public accounts, the adoption of emergency measures implied a new global budgetary challenge that, in addition to readjustments and readaptations of expenditure items, implied the recurrence of monetary support from its Central Bank.

9. For the episode of 2008-2009 see again Asensio (2011: 21).

10. At the time of concluding this work, the country maintains a Specific program with the International Monetary Fund, given its high level of indebtedness, aggravated by the conditions generated by the war in Ukraine and a catastrophic drought, unprecedented in several decades.

The establishment of different aid programs aimed at alleviating the collapse of the private economy corresponded in different ways to all levels of government but predominantly at the federal level, with emphasis on actions aimed at protecting employment within what was the toughest attack of the so-called preventive and mandatory isolation, aimed as in other countries at reducing contagion. The federal share of expenditures increased in three points of GDP from 2019 to 2020 with public health and social security clearly pushing it.

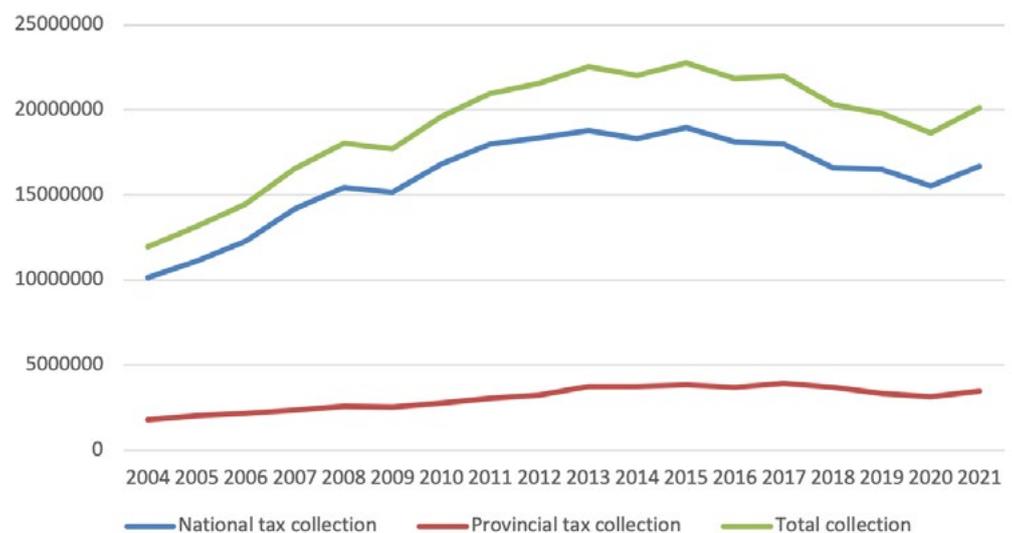
In this context, during the years 2020 and 2021 these actions evolved, in some cases enhanced for seasonal reasons or due to the difficulty in accessing vaccines in sufficient quantity, until the moment in which this process (vaccination) was showing positive to reduce the transmission and death rates.

It should be noted, however, that the operation and rationality of a federal system was subjected to difficult circumstances. Considering dramatic examples of national-state differences in large federations on specific health decisions (United States or Brazil, for example), the Argentine case was seen as much less conflictive in terms of inter-jurisdictional disagreements, despite important divergences with at least one relevant jurisdiction, such as the Autonomous City of Buenos Aires (CABA), in relation to the specific criteria adopted on pandemic protection within the educational system.

In tax matters, various questions are raised in terms of the incidence and impact or observable impacts due to the pandemic. Among the several, it is worth asking whether there was an alteration in the general trend of tax flows, on the one hand; on its manifestation at various levels and in particular the subnational, on the other, and regarding alterations in the interlevel fiscal structure, finally.

In this sense, based on the existence of a predominant role of the federal government that had an impact on its indebtedness with the central bank, from a strictly tax perspective, a decrease in the volume of both central and subnational budget incomes can be seen, compatible with the predominant procyclicality in the total tax revenue of federative actors, central and subcentral.

**Figure 3: Collection of tax revenues in millions of pesos (base year 2004).**



Source: Own elaboration based on data from the Undersecretary of Public Revenue of the Ministry of Economy of the Argentine Nation.

The manifestation of such a drop was then visible in the income of the federal and subnational public sectors, the latter comprising the intermediate or provincial stratum and that of local governments. In cases of crisis, the private resort to a financing mechanism that rests on the relaxation of compliance with tax obligations is known, which is reflected in the effective collections of the Treasury.

Given this picture, it is important to answer the question: how did the federal tax income structure affect such a phenomenon? The answer is that within a hardly avoidable drop in the size of fiscal flows, due to the aforementioned procyclicality, there was no a manifest but small alteration in the structure or proportions in which the three federal levels participate within the dualism of national resources-subnational resources, given a soft backsliding in the central share as can be seen in the preceding graph and the following Table. This, largely produced as a consequence of the almost parallel behavior of the corresponding tax flows. In the expenditure side, the maintenance of the relative participations remain similar in average, except for the unique acute jump in 2020, whose level had reached the proportion of 58% already mentioned.

**Table 8: Participation in revenues and expenditures by level of government. Selected periods.**

Period	Tax Revenue			Expenditures		
	Central Government	Provincial Government	Municipal Government	Central Government	Provincial Government	Municipal Government
1996-2000	19.2	4.2	1.3	16.6	12.7	2.7
2001-2005	21.1	4.1	1.1	14.9	12.0	2.5
2006-2010	25.7	4.4	1.0	19.1	13.9	2.9
2011-2015	28.2	5.5	1.1	25.0	15.8	3.4
2016-2020	24.5	5.1	1.1	25.8	16.4	3.3

Source: Own elaboration based on data from Asensio (2020, in press), AFIP, DNEC, INDEC and MECON.

There remained, of course, monetary consequences that are still trying to be mitigated in such a system, and that must be resolved through the use of the absorption mechanisms that, within its organic regulations, correspond to the Central Bank, regarding the use of such instruments at the request of the national health system and the emerging deficit situation in the Treasury of the Nation.

## VII. INDEBTEDNESS AND THE CRISES

Access to the use of credit has had alternatives concomitant with various circumstances. It is subject to regulations both in the Argentine National Constitution and in the Provincial Constitutions, as well as in national and subnational regulations.

Indebtedness in the subnational level can be originated in diverse aspects and objectives. At the provincial and local level there exists norms which must be considered in connection with its constitution and statutes linked in turn with national laws and, of course the National Constitution, in particular with reference to external debts. The complexity of the issue suggested to a main expert indicate that “it is needed a sanction of a law...given the Article 27 of National Constitution establishing the great frameworks

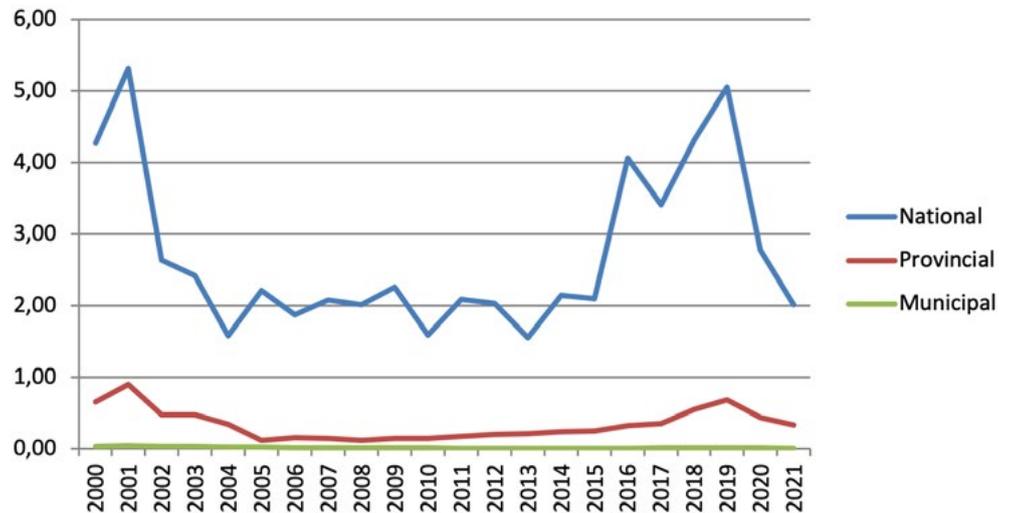
or guidelines ...to be respected por the subnational states [for] the agreements to subscribe” in the matter (Dalla Vía, A., 2016).

Given that, financing through the use of credit enables national, provincial and local governments to increase their income beyond what is allowed by their tax powers, the resources derived from other levels of government and their administrative capacity to collect and manage them. It is worth considering here whether or not the so-called “golden rule” is respected, in which the level of local indebtedness must be limited to its use to make medium and long-term investments or increase social capital.

The National Constitution establishes that the federal government is responsible for agreements on foreign debt. The provinces can contract debt obligations, always within the limits established by the constitutions. Since 1980, when these obligations are contracted abroad, the intervention of the central government is necessary, embodied in norms, laws and federal statutes and of the monetary authority that as such imply and regulate the intervention of the Ministry of Economy of the Nation and the Central Bank in access to the external credit market.

The external debt, in particular, played a determining role in the so-called “lost decade” of the 1980’s of the last century. The inability to meet international commitments was reflected in the notorious default of 2002, with a renegotiation of bonds reached in 2005.

**Figure 4: Public Debt Services in percent of GDP.**



Source: Own elaboration based on Argentinean Ministry of Finance, and public information from the provinces, social works and INDEC.

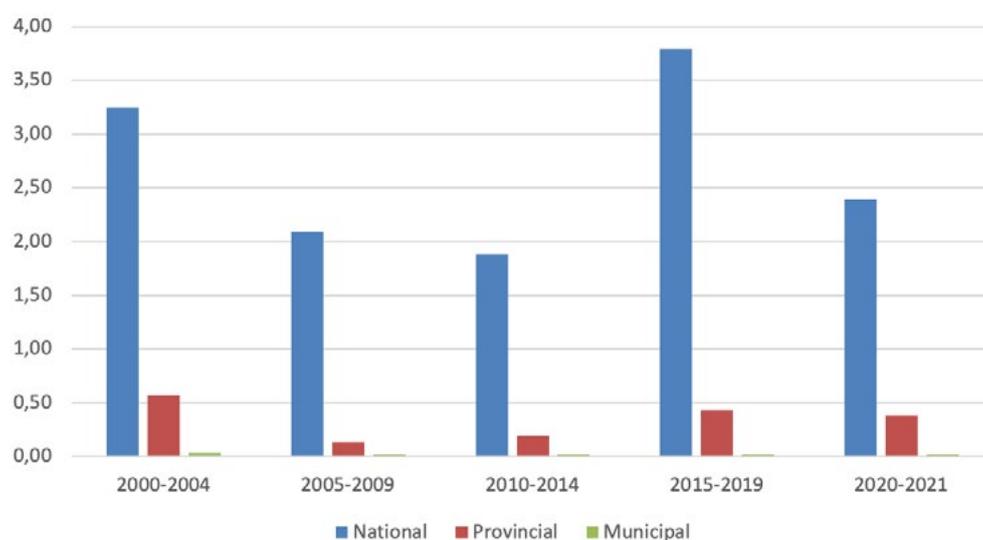
More studies remain to differentiate the evolution of the national consolidated debt, including its various facets. In the previous Graph, which refers to its services, it is possible to perceive the very high level that they represented in 2001, as well as their much smaller dimension in the period 2008-2009. In both pre-pandemic reference moments, it is visible that the first implied a peak in incidence, while the second was clearly less violent in perspective.

Subsequently, adverse expectations related to “country risk” and a fragile balance of payments situation led to a new appeal to the IMF whose evolution has affected the level of such services. Although their magnitude includes those that refer to national and subnational debt, the data shown allows us to appreciate an overwhelming participation of the credit contracted by the central government in relation to that originated in the

subnational orbit. Within this framework, the role of the provinces being visible, the corresponding payments are meager in the case of the municipalities.

Interestingly, both at the national and subnational level, the last years for which there is official information coverage (2020-2021), which are the most significant in terms of pandemic, show a significant reduction in the weight of national and subnational debt services, and it must be understood in this field that such contradictory evidence is linked to the ordering nature of the already mentioned agreement with that Multilateral Organization.

**Figure 5: Public Debt Services (% Quinquennial Averages GDP).**



Source: Own elaboration based on Argentinean Ministry of Finance, and public information from the provinces, social works and INDEC.

The Graph presented above brings together the incidence of the aforementioned services, this time grouped into five-year periods. Once again, the aforementioned differences in size are observable, between the Nation and the provinces and municipalities.

## VIII. CONCLUSIONS

Subnational finances are important in the federal or decentralized schemes, including those of unitary states. Both at the level of intermediate governments (states, departments, Lander, cantons, provinces) and local (municipalities, districts, prefectures, communes) particularities are observed as a result of different evolutions in their formation processes, which do not always yield similar patterns (Bird, 1986; Bird, 2011, McLure, 2000).

In the Argentine case, a historical review has been carried out, of the distribution of powers and obligations between the nation and subnational governments. As in other cases, subnational tax powers in Argentina cannot be considered without evaluating the federal finance system. Likewise, some historical changes do not originate at the subnational level, but at the central level, so that in the design of subnational taxes, attention to the principle of not analogy established in federal legislation should be the “iron rule”.

Provincial and local governments can be considered as minority partners of the national state in terms of revenue. The same does not occur with spending, where said

governments provide important services with high labor demands, such as security, primary and secondary education, and health institutions.

A critical aspect to highlight is coordination with higher levels of government. The overlapping of activity and the lack of precision in the delimitation of certain functional responsibilities are characteristics of the intergovernmental scenario in Argentina. Although this is typical of certain overlaps in federal countries, it should be stressed that it is important to promote and improve the consultation and coordination procedures.

A significant and highly necessary step would be to adapt the application and improvement of the rules and procedures adjusted to the new legislation on fiscal responsibility, as occurred in federal and non-federal spheres.

Given the high interconnection generated by the Nation-Provinces and Provinces-Municipalities tax participation regimes, which also imply a strong procyclicality, during the COVID-19 pandemic process there was a similar decrease in subnational incomes in relation to those of the federal government, which, however, assumed a greater proportion of the financial burden of the health emergency then unleashed. The data and quantitative indications examined show the same for the 2008-09 crisis and the same can be deduced for the 2001-02 crisis. In 2020 centralization increased but in a range that had already been previously reached.

In structural terms towards the interior of the consolidated public sector, a relative weight of the sub-national levels in average is maintained with respect to the national level, a circumstance that does not hide a soft tendency towards expansion in the area of the municipalities, as shown by the indicators presented. At the Latin American level, however, given its federal nature, the subnational sector in Argentina (provinces plus municipalities) is superior to other cases of decentralization, although inferior to that of Brazil, where the weight of states and local governments is more visible<sup>11</sup>.

With respect to debt the availability of data is not conclusive in relation to the pandemic situation, until further research could show in specific discrimination the weight of it. Recent national data mainly shows flows for services and not always for stocks. Of course central amounts are bigger than the provincial ones and more information is needed for getting information on local level, which affect the jointly evaluation of the subnational aggregate.

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## APPENDIX I

Comparative Subnational Data (alternative sources)<sup>12</sup>.

Table 1: Relation Taxes/GDP with Subnational Aggregate.

Level	Brazil	Mexico	Argentina	Colombia	Peru
National	27.1	23.2	28.2	16.1	22.1
<b>Subnational</b>	<b>12.2</b>	<b>1.5</b>	<b>6.6</b>	<b>3.5</b>	<b>1.2</b>
Intermediate	9.8	1.0	5.5	1.0	0.2
Municipal	2.4	0.4	1.1	2.5	1.0
Total	39.3	24.7	34.8	19.6	23.3

Table 2: Relation Expenditures/GDP with Subnational Aggregate.

Level	Brazil	Mexico	Argentina	Colombia	Peru
National	18.8	11.6	25.0	13.7	12.5
<b>Subnational</b>	<b>20.1</b>	<b>11.8</b>	<b>19.2</b>	<b>8.7</b>	<b>9.1</b>
Intermediate	11.1	9.9	15.8	2.7	4.5
Municipal	8.9	1.9	3.4	6.0	4.6
Total	38.9	23.3	44.2	22.5	21.6

