

Reallocative Federalism: Overrepresentation and Public Spending in the Western Hemisphere

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Introduction

Do institutional features of federal systems have an independent impact on politics and public policy? A budding cottage industry of academic work has emerged around this question in recent years. For a long time the debate was somewhat closed; William Riker's suggestion that federalism and its institutions had no significant impact on public policy was mostly unchallenged in the three decades since he first pronounced himself on the subject.¹ In recent years, however, as "federalism" has burst upon the scene as a subject of interest to scholars and policy-makers, this assumption has come under criticism. Riker's position has been criticized explicitly in the work of Alfred Stepan,² and implicitly in recent works that analyze the workings and features of federally organized polities.³ A common thread running through these works is that federal systems are characterized internally, and in varying ways, by asymmetry. Asymmetries exist between the constituent territories of the federal union in population, size, economic power, political rights, obligations, and representation in national governing bodies. Power asymmetries exist as well as between the governmental bodies of the federation, as, for example, between upper chambers of the legislature that represent territories of the union and lower chambers that represent populations living in the union. These asymmetries, the argument goes, have implications for how power is distributed between key actors in a federal system. They shape the spatial distribution of power, between territorially based actors, and the institutional distribution of power, between

¹ See William H. Riker, *Federalism: Origin, Operation, Significance* (Boston: Little Brown, 1964). His arguments are developed further in such later publications as "Federalism," in Fred Greenstein and Nelson W. Polsby, eds, *Handbook of Political Science* (Reading, Mass.: Addison-Wesley, 1975), 5: pp. 93-172, and *The Development of American Federalism* (Boston: Kluwer Academic Publishers, 1987).

² Alfred Stepan provides a full scale re-evaluation of William Riker's theories of federalism in a suggestive paper entitled "Beyond Rikerian Federalism: A New Approach to Varieties of Democratic Anti-Majoritarianism," paper presented at conference on "Democracy and Federalism", All Souls College, Oxford University, June 5-8, 1997.

³ See, for example, Scott Mainwaring and David J. Samuels, "Bringing the States Back In: Robust Federalism and Democracy in Contemporary Brazil," paper prepared for the International Political Science Association International Meeting, Seoul, South Korea, August 17-20, 1997, Steven Solnick, "Statebuilding, Asymmetries, and Federal Stability

actors located in different “levels” of the federal polity. As a result, it should be expected that key outcomes, from the structuring of patterns of political representation to the distribution of public goods and resources, are at least in part shaped by the varying institutional features observable across federal systems.

This paper hopes to contribute to this research agenda by exploring the impact of an institutional feature that, while intrinsic to most federal systems, has received relatively little attention in the literature on the politics and political economy of federalism: territorial overrepresentation. All federal systems reflect internally the tensions between norms of territorial representation and norms of population (or citizen) representation. Each reflects, in the structure of its constitution, a historically determined balance between these norms. Federal systems across the world display significant variations in the primacy of one norm over the other.⁴ The basic question to be explored in this paper is: does the overrepresentation of territories (states or provinces) in national legislatures of federal systems affect the territorial distribution of public spending by federal governments? The hypothesis to be tested is that it does, and that territorial overrepresentation produces a distortion of federal spending which benefits populations living in overrepresented territories.⁵ We also introduce a conceptual distinction to capture this connection between territorial overrepresentation and the non-proportional distribution of public funds.

Countries where this connection exists are identified as cases of *reallocative* federalism, whereas

in Russia,” manuscript, Columbia University, 1997, and David J. Samuels and Richard Snyder, “The Value of a Vote: Malapportionment in Comparative Perspective,” manuscript, 1998.

⁴ See Stepan (1997) and Samuels and Snyder (1998) for quantitative evidence of these variations.

⁵ A semantic note: throughout the paper we will use the term “overrepresentation” rather than “malapportionment,” which is customarily used in the literature. We do so to avoid the negative connotations of the term “malapportionment.” It is not our contention that territorial overrepresentation is a “bad” feature of federal systems, or that, as federal systems evolve and democratize, they should develop more proportional norms and institutional features. In fact, overrepresentation may well be beneficial to the stability and territorial integrity of federal systems, particularly those with significant economic and demographic asymmetries between their subnational units. Territorial overrepresentation can function as a compensatory mechanism between otherwise unequal units, providing political leverage to weak states or provinces that would otherwise be unavailable to them in the face of the economic or demographic clout of dominant states or provinces.

countries with territorial patterns of public spending that are proportional to population are identified as cases of *proportional* federalism.⁶

This paper is therefore an inquiry into the political economy of federalism. It explores the extent to which institutional features of federal countries shape the distribution of economic resources between their constituent territorial units. Our evidence is drawn from state and province-level data from five of the Western Hemisphere's largest federal countries, the United States of America, Brazil, Mexico, Argentina and Venezuela.

The analysis will be divided into three sections. First we provide descriptive data comparing overrepresentation in the legislatures of our five countries, contrasting overrepresentation in national Senates and Lower Houses. Although in theory Lower Houses are meant to represent populations rather than territories, these four cases exhibit striking variations in adherence to that norm. In fact, they divide neatly into two groups: the USA and Mexico, which tend to allot seats to states in proportion to their populations, and Brazil and Argentina, which significantly overrepresent several states in the lower chamber. In this latter group, therefore, a dual structure of territorial overrepresentation exists, with the lower chamber's regional allocation of seats compounding the overrepresentation inherent in the Senate's role as an arena for territorial representation.

In this same section descriptive variables will be presented which measure the degree of regional distortion in public spending in each of the countries.

The second section will analyze the above-mentioned relationships through pooled data from our group of countries. We will display individual correlations between territorial overrepresentation and the regional distribution of constitutionally determined federal transfers

⁶ Federal revenue sharing programs, by definition, have a redistributive function, since by allocating funds proportionally to population they effect a redistribution of national tax revenues from wealthier to poorer states. We

between states. These correlations will also measure the association between overrepresentation and specific socioeconomic variables, providing a picture of how overrepresentation is linked to specific “ecological contexts” and political economies. In addition, further analyses controlling for specific variables will attempt to assess the relative importance of selected variables. The hypothesis to be tested in these analyses is that lower house overrepresentation has a greater impact on spending distortions than senate overrepresentation across the pooled set of cases.

Furthermore, we will argue that Lower House overrepresentation is the variable that best explains the difference between the “reallocative” federalisms of Brazil and Argentina and the “proportional” federalisms of the U.S.A. and Mexico. We will test this hypothesis by comparing evidence from the two sets of cases.

In the final section we will depart from the somewhat structural perspective provided by constitutionally determined federal revenue programs. We will proceed to examine the links between territorial overrepresentation and central government strategies to buttress regional coalitions through the use of discretionary spending. The argument presented will be that politically overrepresented territories provide central government leaders a substantial payoff from relatively small investments of political spending, and that this has significant implications for the uses of public funds for coalition-building. This will be supported by evidence from a case study of electoral coalition-building by Argentina’s Menem government during the tumultuous years of economic reform between 1990 and 1995.

Overrepresentation and Revenue Sharing: Patterns in the United States, Mexico, Brazil, and Argentina

thus adopt the term “reallocative federalism” to address the extent to which territorial overrepresentation promotes a regional allocation of public funds that deviates from the norm of proportionality.

As federal countries, each of the cases we analyze overrepresents states in their national legislatures to varying degrees. All countries possess national senates where territorial overrepresentation is deliberately built into the allocation of the bodies' seats. This is a common characteristic shared by all four federal systems. However, they do not overrepresent to the same degree. As can be seen in Table 1,⁷ the Brazilian, U.S., and Argentine senate overrepresent states considerably more than the Venezuelan and Mexican senates.⁸

The data also show that considerable distortion exists in the first three cases. All three have large ranges between the most underrepresented state and the most overrepresented states, and their mean ratios are at least three times that which would reflect proportional representation. Furthermore, all three have yawning gaps between the amount of votes required to elect a senator in the most underrepresented and most overrepresented states. In Argentina, one vote in Tierra del Fuego is equal to 180 votes in Buenos Aires. In Brazil, one vote in Roraima is worth 144 votes in Sao Paulo, and in the United States, one vote in Wyoming is worth 67 votes in California. In contrast, Venezuela and Mexico, whose senates do allocate seats disproportionately between states, come in a distant fourth and fifth. For the former country one vote in Amazonas is worth 38 votes in Caracas, while for the latter one vote in Baja California Sur is worth 31 votes in the state of Mexico.⁹

Table 1

⁷ Both senate and lower chamber overrepresentation are measured by an index that is the ratio of a state's percentage share of seats to its percentage share of the national population. A ratio of 1 means that the percentage share of seats is equal to the state's percentage share of the national population.

⁸ And they probably do so more than these data indicate, since as of 1996 the Mexican senate has three senators allotted per state and 32 senators elected on the basis of proportional representation, thus tempering the territorial nature of that body's representation. The senators elected by proportional representation are not included in the data presented here. In a later version of this paper we will explore whether these can be incorporated into the measures used here. For a recent suggestive discussion of Mexican federalism, see Ignacio Marván, "Reflexiones sobre federalismo y sistema político en México," *Política y Gobierno* IV, no. 1 (1997), 149-166.

⁹ Using a single measure to rank federal systems, the "gini coefficient of representational inequality", Alfred Stepan ranks each of these countries' senates from most overrepresentative to least as follows: Argentina, Brazil, the United States, and Mexico (Stepan, 1997).

Overrepresentation and Public Spending
Descriptive Variables

	Country	N	Range	Minimum	Maximum	Mean	Std. Deviation
Senate Overrep:	Argentina	24	19.73	.11	19.84	3.44	4.07
	Brazil	27	25.8	.18	25.98	3.93	6.10
	U.S.A.	50	21.89	.33	22.22	5.24	5.3
	Mexico	32	7.8	.26	8.03	1.96	1.8
	Venezuela	23	12.66	.34	13.00	2.20	2.85
House Overrep:	Argentina	24	8.58	.74	9.59	1.85	1.8
	Brazil	27	9.89	.63	10.52	1.92	2.31
	U.S.A.	50	.56	.72	1.28	1.00	.086
	Mexico	32	.79	.91	1.70	1.04	.137
	Venezuela	23	5.56	.84	6.40	1.32	1.17
Fund Ratio	Argentina	24	6.44	.58	7.02	2.22	1.6
	Brazil	27	17.25	.05	17.30	3.25	4.68
	U.S.A.	50	1.53	.65	2.19	1.06	.30
	Mexico	32	1.65	.69	2.35	1.08	.37
	Venezuela	23	6.47	0	6.4	1.43	1.25

Note: “Senate Overrep” and “House Overrep” = Ratio of state’s percent share of total seats to state’s percent share of natl. population. A score of 1 means seat allotments are proportional to population.

“Fund Ratio” = ratio of state’s percentage share of federal transfers to states percentage share of the population. A score of 1 means funds received are proportional to population.

Table 1 also shows the degree of overrepresentation present in the lower chambers of these countries’ legislatures. Here four of the cases cluster into two groups on either end of the continuum, with Venezuela emerging as an intermediate case. Brazil and Argentina show a striking deviation from the norm of proportionality in the regional allocation of lower chamber seats to individual states. They both exhibit a substantial range between the most underrepresented and overrepresented states (substantial for a supposedly proportional body), and the average ratio of seat share to population share for each is nearly 2 to 1. In contrast, the Mexican and U.S. lower houses are highly proportional in the allocation of seats between the states. For both, the average ratio of seat share to population share is, for all intents and purposes, 1 to 1.¹⁰ Venezuela, in the

¹⁰ Again, the Mexican Lower House combines deputies elected by single member districts allotted to states with deputies elected by proportional representation in five multi-state districts. 300 deputies represent the former and 200 the latter. For the time being, data presented here include only the 300 deputies from state-level single member

middle, does have overrepresentation in the lower chamber of the legislature, and while its range between most overrepresented and least overrepresented state is closer to Brazil and Argentina than to the U.S. and Mexico, its average value lies closer to that of the latter cluster of cases.

Finally, the data in Table 1 provide measures of deviation (from proportionality) in the distribution of revenue sharing funds allocated by the central government to the states. Once again, four cases separate into two opposing clusters, with Venezuela taking an intermediate position. Argentina and Brazil showing considerably more regional distortion than Mexico and the United States.¹¹ Brazil shows the most distortion, with a range between most benefitted state to least benefitted state that towers over the rest, and is almost three times its closest contender, Argentina. Nevertheless, Argentina's range is four times those of Mexico and the United States, whose average ratios of share of federal funds to share of population are close to complete proportionality. Venezuela exhibits a range comparable to Argentina's and an average value that puts it between the two clusters, although somewhat closer to the values of the more proportional cases than to those for Argentina and Brazil.

In sum, from a political economy standpoint Brazil and Argentina present cases of reallocative federalism, while Mexico and the United States approximate models of proportional federalism. Within this group of cases we classify Venezuela as an intermediate case. What accounts for the regional distortions of federal spending patterns, and what factors best explain differences between the our cases of proportional and reallocative federalism? We will attempt to answer these questions in the following section, while at the same time providing a picture of key

districts. For details on the Mexican electoral system see Instituto Federal Electoral (IFE), "The Mexican Electoral System and the Federal Election," Mexico, (1997).

¹¹ The measure of distortion for federal spending is similar to that of senate and Lower House overrepresentation. It is a ratio of the share of federal funds received by the state to its share of the national population. A coefficient of 1 indicates a completely proportional allocation of funds.

associations between overrepresentation and socioeconomic conditions of subnational territorial units.

Overrepresentation and Public Spending: Pooled Comparisons

Table 2 provides individual correlations between measures of overrepresentation and selected public spending and socioeconomic variables. As mentioned earlier, these are generated by the pooled data set of the 156 states of the five countries under study. Among these variables, “senover” and “houseover” are the measures of overrepresentation presented earlier. Similarly, “fundratio” is the ratio presented in the preceding section of the states’ share of non-discretionary federal transfers to their percentage share of the national population. “Discratio” is another measure of regional spending distortion, and represents discretionary transfers from the federal government received by individual states.

The data in Table 2 show very strong positive correlations between senate and house overrepresentation and the two measures of spending distortion. In fact, the strongest correlations listed in the table are for those sets of relationships. This is interesting when compared to the performance of other variables which might represent alternative explanations for regional spending distortions, primarily public policy objectives aimed at addressing the poverty or socioeconomic deprivation of fiscally favored states. The correlations in the table suggest at best a moderate public policy drive behind regional allocations of federal transfers. Both “poverty” and “income” show a moderate and significant relationships with non-discretionary spending distortions, in the direction that would be expected if redistributive and the other poverty alleviation objectives were behind such flows. The “income” variable, which represents monthly median incomes of individual states (measured in U.S. Dollars), has a negative relationship with the measure of spending distortion, while the “poverty” variable has a positive relationship.

However, this is not the case for discretionary spending, which appears to have no significant relationship with either poverty or income, suggesting that other political factors may be behind the regional distribution of such transfers.

Table 2¹²
Overrepresentation, Public Spending, and Selected Socioeconomic Variables

<i>Variable</i>	<i>Houseover</i>	<i>Senover</i>	<i>Fundratio</i>	<i>Discratio</i>
Houseover	1.000	0.638**	0.824**	0.820**
Senover	0.638**	1.000	0.529**	0.352**
Fundratio	0.824**	0.529**	1.000	0.907**
Discratio	0.820**	0.352**	0.907**	1.000
Perlocal	-0.315**	-0.023	-0.334**	-0.256**
Pubemp	0.530**	0.262**	0.386**	0.615**
Poverty	0.069	-0.088	0.211*	-0.136
Income	-0.195*	0.163	-0.258**	-0.025

** . Correlation is significant at the 0.01 level (2-tailed)

* . Correlation is significant at the 0.05 level (2-tailed)

N=156, for all correlation coefficients except those with *Poverty* and *Income* (N=133, Venezuela not included) and *Discrat* (N=105, Venezuela and Brazil not included).

Another interesting finding in Table 2 is the strong performance of the House overrepresentation variable in relation to both measures of spending distortion. The correlations are higher than those for the Senate overrepresentation variable, providing preliminary--but

¹² Some clarification about the data is in order. While we are confident about these results, they should be seen as provisional, due to some inconsistencies in the data that we have not yet fixed. First, these are cross sectional data, and the specific years are not, at times, the same for all countries and all variables. Proxies were sometimes used in the pooled data when we lacked data for a specific country. Further revisions of this article should make the data more consistent across cases and variables, and explore time series versus cross sectional data. We do not expect any major changes in the results, but it is worth alerting the reader to the less than final status of data collection in this research. Specifically, the "pubempl." variable represents state (provincial) public sector employees for Brazil, Argentina, and the United States, and federal public sector employees in Mexico. The "poverty" variable represents the percentage of the population living below the official poverty line in the United States, and uses a proxy for poverty, percent of population that is illiterate, for Brazil, Argentina, and Mexico (which correlates very highly with the poverty indexes we have available). "Income" represents median annual household incomes for the United States, median monthly household incomes for Brazil and Mexico, and GNP per capita for Argentina (for which income data were unavailable). All data were gathered from official government publications and internet sites. U.S. data are taken from U.S. Census Bureau Statistical Abstracts for 1994 and 1997. Argentine data are from INDEC, Anuario Estadístico 1997, and Ministerio de Economía y Obras y Servicios Públicos (1994), "Situación de las provincias Argentinas: cierre de 1994 y perspectivas para 1995." Mexican data are from INEGI, Anuario Estadístico de los Estados Unidos Mexicanos (1995). Brazilian data are from IBGE and Ministerio de Fazenda internet sites as well as the July 1997 *Boletim Estatístico de Pessoal*, Ministério da Administração Federal e Reforma do Estado.

inconclusive -- evidence in support of our hypothesis of the importance of overrepresentation in the lower chamber for cases of reallocative federalism.

Finally, the data in Table 2 provides an interesting glimpse into the relationship between reallocative federalism and fiscal aspects of local political economies. The data suggest that local fiscal realities are molded by federal spending distortions. The “perlocal” variable, which represents the share of total state revenues generated through local taxation, shows a significant negative correlation with both the “fundratio” and “discratio” variables. This suggests that states that receive disproportionate shares of federal funds are also states whose budgets are least funded by local tax revenues. Similarly, as suggested by the significant positive relationships registered between the public sector employment (“pubempl.”) variable and the measures of spending distortion, they are also the states that have the highest shares of state public sector employees as a percentage of local populations. It can be assumed that federal transfers in over-benefitted states are relatively important sources of funding for public sector dependent economies. This provides a more nuanced view of the stake that politicians have in maintaining the status quo of reallocative federalism, a fact that has implications for coalition building between central and local governments in periods of economic reform. This will be explored in more detail in the Argentina case study presented later.

In sum, the findings presented in Table 2 provide support for the hypothesis that legislative overrepresentation produces federal spending distortions in favor of overrepresented territories. Furthermore, they also lend support to the proposition that Lower House overrepresentation is more important than senate overrepresentation in accounting for differences in spending distortion levels. However, they can at best be considered suggestive. As individual correlations they do not control for other variables, thereby giving a measure of the relative impact of specific variables on federal spending patterns.

Tables 3.1 and 3.2 present the results of multiple regression analyses that do that. The regression models seek to incorporate key variables that could on their own explain deviations from the norm of proportionality in federal spending patterns. In essence, they seek to explore the extent to which regional federal spending distortions are the results of overrepresentation or are the results of public policy objectives aimed at redressing socioeconomic inequalities between states. And, regarding overrepresentation itself, the analyses seek to establish whether overrepresentation in the senate or the lower chamber best accounts for variations in federal spending distortions across the federal systems in our sample.

Table 3.1
Overrepresentation, Poverty, and Federal Spending Distortion
Non-Discretionary Transfers
(Multiple Regression Analysis)

Ind. Variables	Model 1	Model 2	Model 3
(Constant)	0.136* (0.060)	-0.216* (0.093)	-0.813** (0.233)
Houseover (ln)	1.028** (0.134)	1.019** (0.110)	0.873** (0.113)
Senover (ln)	0.109* (0.055)	0.187** (0.043)	0.236** (0.043)
Poverty		0.009** (0.003)	0.015** (0.003)
Income		0.00000047 (0.000)	0.00026 (0.000)
Argentina			0.659** (0.183)
Brazil			0.334 (0.241)
Mexico			0.368* (0.148)
Adjusted R Square	0.410 (0.606)	.645 (0.425)	0.683 (0.402)
F	53.48	60.11	41.02
N	151	130	130

Reported Values are the b (non standardized) coefficients. Standard Errors of the estimates shown in parenthesis.

** . Significant at the 0.01 level (2-tailed)

* . Significant at the 0.05 level (2-tailed)

Dependent Variable: "fundratio"= ratio of state's percent share of federal funds to its percent share of national population.

Model 1 includes states/provinces of Argentina, Brazil, Mexico, USA and Venezuela (N=156).

Model 2 and 3 include sub-national units of Argentina, Brazil, Mexico and USA (N=131).

Table 3.2
Overrepresentation, Poverty, and Federal Spending Distortion
Discretionary Transfers.
(Multiple Regression Analysis)
Argentina, Mexico and USA

Ind. Variables	Model 1	Model 2
(Constant)	-0.435** (0.127)	-1.497** (0.265)
Houseover (ln)	1.541** (0.172)	1.091** (0.179)
Senover (ln)	0.136* (0.054)	0.211** (0.051)
Poverty	0.0014 (0.005)	0.003 (0.004)
Income	0.00026* (0.000)	0.00082** (0.000)
Argentina		1.084** (0.216)
Mexico		0.545** (0.167)
Adjusted R Square	0.556	0.641
F	33.19	31.71
N	103	103

Reported Values are the b (non standardized) coefficients. Standard Errors of the estimates shown in parenthesis.

** . Significant at the 0.01 level (2-tailed)

* . Significant at the 0.05 level (2-tailed)

Dependent Variable: "discratio"= ratio of state's percentage share of federal discretionary transfers to its percent share of the national population.

The results of the analyses are suggestive. Both overrepresentation and public policy appear to influence the distribution of federal transfers between states. While the results presented in Table 3.2 for the “poverty” and “income” variables suggest that discretionary spending distortions are not driven by redistributive public policy considerations, the performance of the “poverty” variable in models 2 and 3 of Table 3.1 suggest that deviations from proportionality in the distribution of funds are driven partly by local poverty levels for non-discretionary federal transfers. However, both tables confirm that overrepresentation plays the most significant role in reallocative spending patterns, whether for non-discretionary or discretionary transfers. In addition, of the two measures of legislative overrepresentation, the “houseover” variable trumps all others in the model by a considerable margin.

Thus, two conclusions can be drawn from this analysis. First, territorial overrepresentation in national legislatures plays a substantially higher role than public policy considerations in producing the federal spending distortions characteristic of reallocative federalism. Whether federal spending is governed by pre-set distributional formulas or whether it is discretionary, territorial overrepresentation is a powerful determinant of the regional distribution of federal *largesse* toward the states. Second, overrepresentation in the lower chamber of the legislature is a stronger predictor of federal spending distortions than senate overrepresentation. By extension, it accounts for a significant part of the variation between the reallocative and proportional federalisms in the five countries in our sample.

The analysis so far has provided a statistical and superficial glimpse of the relationship between legislative overrepresentation and fiscal federalism in five American countries. In the following sections we provide a more detailed look at how territorial overrepresentation interacts

with the political economy of policy-making and the geography of coalition building in one of our cases of reallocative federalism. This will be done through a case study of regional electoral coalition-building during the 1990-95 period of economic reform in Argentina.

Overrepresented Territories, Discretionary Spending, and Electoral Politics in Argentina

The bulk of Argentina's population and productive structure are located on and around an expansive and fertile plain known as the *Pampas* region. Argentina's largest city, the city of Buenos Aires, is a federal district encrusted in the agriculturally rich Buenos Aires province. The city of Buenos Aires is surrounded by a massive industrial and urban belt which makes the Greater Buenos Aires urban area the population and economic hub of the nation.¹³ In addition, the Greater Buenos Aires urban area is one end of a string of three industrial cities which stretches to the city of Rosario, in adjoining Santa Fe province, and on to the city of Córdoba, the capital of Córdoba province. Together these three provinces account for 73 percent of total industrial production and 65 percent of the national population. If Mendoza, the country's fourth most prosperous and urbanized province is added, the total share of the "metropolitan" provinces industrial production and population rises to 78 and 70 percent respectively.¹⁴

As mentioned in the previous sections, Argentina's federal system overrepresents poor and underpopulated territories more than most federal systems in the world. In 1995, the 19 provinces we have designated as comprising the "peripheral region" of the country contained 30 percent of the national population, but held 40 of 48 seats in the Senate—83 percent of the total. This

¹³With a population of nearly 11 million, the greater Buenos Aires area comprises one-third of the national population.

¹⁴Throughout this section we divide Argentina into a "metropolitan" region--comprising the five most economically developed and populated provinces, Buenos Aires, the Federal District, Santa Fe, Córdoba, and Mendoza—and a "peripheral" region, comprising the remaining 19 provinces. This distinction was employed in a previous paper by Edward Gibson and Ernesto Calvo, "Federalism, Public Spending, and Electoral Coalitions: Making Market Reform Politically Viable in Argentina" (1977). This section draws on portions of that paper. Population figures taken from Instituto Nacional de Estadísticas y Censo (INDEC), Ministerio de Economía y Obras y Servicios Públicos. Buenos Aires, Argentina. *Censo nacional de población y vivienda, 1991*; economic figures taken from INDEC, *Censo Nacional*

overrepresentation also extends to the lower chamber of the congress, the Chamber of Deputies, where peripheral region provinces hold 52 percent of the seats.

The Argentine Constitution of 1856 had established that seats in the Chamber of Deputies would be allocated proportionally to district population. However, this principle was abandoned in the 20th century, when both Peronist and military governments, each for their own political reasons, introduced amendments that bolstered representation of the traditionally conservative peripheral regions in the lower chamber. The first departure from direct proportional representation was in 1949, when a constitution drafted by the government of Juan Perón established a minimum of two deputies per province, regardless of population. In 1972 the minimum number was increased to three¹⁵. In 1983 the departing military government of General Reynaldo Bignone increased that number to 5 deputies per province. As a result, a congressional candidate in the city of Buenos Aires is required to obtain almost seven times the number of votes as those required by his or her counterpart in Tierra del Fuego.¹⁶

This institutional overrepresentation meant that no national winning electoral or legislative coalition could be put together without the support of the regional structures of power in the periphery. Given the highly contested electoral contexts in the more developed and urbanized regions, the national party that won electorally would be that party that possessed institutional ties with the networks of regional power brokers capable of delivering the vote in the "interior" regions of the country.

The party that proved most successful at this task after the 1940s was the Peronist party. Peronism's seeming invincibility at the polls--what came to be known by supporters and detractors

Económico, 1994.

¹⁵ Larry Sawers, *The Other Argentina: The Interior and National Development*. Boulder, Colo: Westview Press (1996).

¹⁶ Ernesto Cabrera and María Victoria Murillo, "The 1993 Argentine Elections." *Electoral Studies* 13, no. 2, (1994).

alike as the "iron law" of Argentine elections--was due not to organized labor in the metropolis, but to its ties to clientelistic and traditional networks of power and electoral mobilization in the periphery.¹⁷

The protagonism of overrepresented peripheral region provinces in the national Peronist coalition has continued to the present day, and during President Menem's first term they provided a major base of support in the national legislature. Furthermore, the peripheral region's political weight in Menem's governing coalition was bolstered by the Peronist party's coalition-building with provincial conservative parties. Such parties play an important role in local politics in several provinces, and during Menem's first term became full partners in government, occupying high government positions, providing pro-government voting blocks in the congress, and endorsing the president's re-election bid in 1995.

As can be glimpsed in Table 4, the Peronist Party controlled the lion's share of seats from non-metropolitan provinces in the national senate. This majority was turned into outright control of that body by the party's alliance with conservative provincial parties. The combination of Peronist senators and provincial party senators effectively gave President Menem a 78 percent majority of seats in the senate.

Table 4
Composition of the Argentine Senate, 1992-95

	Metro Region	Non-Metro	Total	% of Seats
Peronist Party	5	25	30	63%
Radical Party	5	6	11	23%
Provincial Pties.	0	7	7	15%
Total	10	38	48	101%*

*Does not add to 100% due to rounding.

Source: Dirección de Información Parlamentaria, Argentine National Congress.

¹⁷ For a more detailed discussion, see Gibson and Calvo (1997), and Edward L. Gibson, "The Populist Road to Market Reform: Policy and Electoral Coalitions in Mexico and Argentina," *World Politics* 59, April, 1977.

In the Chamber of Deputies the over-representation of smaller provinces also gives the peripheral region an advantage over metropolitan provinces. With 30 percent of the population the non-metropolitan provinces hold 45 percent of the seats. As can be seen in Table 5, this over-representation, coupled with the Peronist Party's electoral strength in those regions, worked to the advantage of the Peronist Party during Menem's presidency.

Table 5
Composition of the Argentine Chamber of Deputies, 1993-1995

	Metro Region	Non-Metro	Total	Percentage
Peronist Party	69	59	128	50%
Radical Party	49	34	83	32%
Conservative/ Provincial	8	21	29	11%
Other	16	1	17	7%
Total	142	115	257	100%

Source: Rosendo Fraga, *Argentina en las urnas, 1916-1994*. Buenos Aires: Editorial Centro de Estudios Unión para la Nueva Mayoría (1995).

The Peronist Party dominated other parties in both metropolitan and non-metropolitan delegations to the lower house of Congress. Yet its near-majority in the Chamber of Deputies owed much to its edge in seats from non-metropolitan provinces. The ruling party controlled 51 percent of seats from those provinces, compared to 48 percent of seats from metropolitan provinces. Furthermore, it was in the peripheral regions where the Peronist alliance with conservative provincial parties gave the ruling party its lock on the legislative body. Together Peronists and provincial parties controlled 70 percent of the non-metropolitan delegation to the Chamber of Deputies, compared to 54 percent for the Peronist-conservative blocks from metropolitan provinces. In sum, even in the Chamber of Deputies the peripheral coalition delivered greater political leverage to the ruling party than its population size would have

indicated. With 30 percent of the electorate peripheral provinces gave the Peronist-provincial party alliance a total of 70 seats in the Chamber of Deputies. The metropolitan region, with 70 percent of the electorate, yielded a total of 77 seats.

How did this regional structure of the Peronist party coalition shape the management of economic reform between 1990 and 1995? In essence, it led the Menem government to shield its politically overrepresented peripheral constituencies from the more ravaging effects of the reforms while bringing the day of reckoning to the metropolitan regions of the country. This was done primarily in two key ways: postponing public sector employment cuts in the provincial public sectors, and increasing subsidy flows from the central government to provincial public coffers (which made the strategy of maintaining provincial public employment levels possible). In this paper we will focus on the regional patterns of federal government spending.¹⁸

Resource transfers to provincial governments from the national government take place primarily through two channels. The first is a mechanism for sharing national tax revenues, known as "co-participation," which systematically favors peripheral region provinces according to an automatic revenue sharing formula. The second is a cluster of discretionary flows, including national treasury contributions to provincial governments, a fund to aid provinces in "fiscal disequilibrium," and federal grants and credits for housing, public works, health, and education.¹⁹

¹⁸ Between 1990 and 1995 the Menem government cut public sector jobs substantially, but these jobs were in the national public sector, 80 percent of whose employees were located in metropolitan regions. Provincial public sector rolls were not touched, and, in fact, increased slightly between 1990 and 1995. For more detailed treatment and evidence, see Gibson and Calvo (1997).

¹⁹For details on central government revenue sharing arrangements with the provinces, see Inter-American Development Bank, "La descentralización fiscal en América Latina, problemas y perspectivas: el caso de Argentina." Washington, D.C.: IDB Working Paper 184 (July), and World Bank, *Argentina: From Insolvency to Growth*. A World Bank Country Study. Washington, D.C.: World Bank (1993). The revenue sharing formula was last modified in 1988. This last modification placed the bulk of resource transfers under the "co-participated" funds category, and reduced the discretionary flow component of total federal transfers.

As the figures in Table 6 show, total federal transfers to the provinces more than doubled between 1990 and 1995.²⁰ However, not only automatic revenue sharing flows increased during this period. Discretionary flows kept apace, nearly doubling between 1990 and 1995.

As a result of increased federal funding, the provinces' beleaguered public finances improved somewhat. However, the enhanced flows were a major disincentive for local public sector reforms, and these were well avoided by local governments throughout Menem's first term in office.²¹

While federal funding is important to all provinces, the greater dependence of peripheral region economies on the national state can be seen in Table 6, which contrasts subsidy patterns in metropolitan and peripheral provinces. Total public spending in individual metropolitan provinces greatly exceeds that for peripheral region provinces, but peripheral provinces have a much larger share of their budgets subsidized by the federal government. The federal government subsidized approximately 43 percent, on average, of metropolitan provincial budgets, mostly through the institutional mechanism of co-participation. On the other hand, 78 percent of expenditures of non-metropolitan provinces were financed by the national government, with discretionary funds taking up 18 percent of total federal subsidies (compared to 7 percent for the metropolitan region).²²

²⁰ This increase was in large part a boon to the provincial public sector from the national reforms carried out by the Menem government, notably a substantial increase in federal tax collections during the government's first years. This meant that, according to automatic tax revenue sharing arrangements established in 1988, under the previous government of President Alfonsín, "co-participated" transfers to provincial governments would increase substantially in the early 1990s.

²¹ See World Bank (1993 and 1996) citations above. In 1992 the Menem government transferred education and health functions from the national government to the provinces, which did increase the fiscal burden on those provinces and offset some of the increased revenue flows. However, the increase in revenue sharing represented more than double the expense of services transferred to the provinces (Sawers, 226).

²² According to one source, nearly 70 percent of public spending goes to salaries of public sector personnel in peripheral provinces, compared to 55 percent in metropolitan provinces (Sawers, 246).

Table 6
Federal Expenditures and Public Employment by Province

Province	% of Provincial Budget Financed by Federal Govt. 1994	Total Federal Transfers 1990 (Millions, U.S. \$)	Total Federal Transfers 1995 (Millions, U.S. \$)	Federal Transfers: U.S. Dollars per Capita 1995	Discretionary Transfers 1990 (Millions, U.S. \$)	Discretionary Transfers 1995 (Millions, U.S. \$)
Federal District*	6.16					
Buenos Aires	46.04	1,292	3,544	282	164	290
Córdoba	55.16	514	1,007	363	63	68
Mendoza	58.57	306	611	432	25	37
Santa Fe	52.28	989	2,031	725	104	97
Metro (mean)	43.64	775	1,798	451	89	123
Catamarca	90.88	198	339	1282	53	30
Corrientes	85.71	260	501	709	65	70
Chaco	87.97	311	596	1105	69	70
Chubut	79.98	182	395	629	40	99
Entre Rios	70.74	306	638	625	58	62
Formosa	92.44	235	497	1247	53	99
Jujuy	74.46	303	392	765	153	54
La Pampa	62.59	124	302	1161	21	67
La Rioja	84.04	172	530	2401	51	259
Misiones	82.35	220	468	593	52	72
Neuquén	68.55	359	608	1563	66	123
Rio Negro	66.16	289	401	791	111	74
Salta	71.14	271	535	617	34	64
San Juan	82.97	214	449	849	41	64
San Luis	76.19	159	321	1120	41	56
Santa Cruz	76.30	224	426	2665	43	97
Stgo. del Estero	85.63	243	548	815	43	89
Tierra del Fuego**	71.58	90	236	3402	33	92
Tucumán	76.42	323	613	536	62	58
Periph.(mean)	78.22	235	463	1204	57	84

*Federal District is not a province, and thus did not participate in Federal revenue sharing programs.

Sources: 1990 figures, INDEC (1991); 1994 figures, Ministry of the Economy (1995); unemployment figures, INDEC (1995); electoral figures calculated from data supplied by the Ministry of the Interior.

Table 7
Federal Transfers, Unemployment, and Votes

	Discretionary Federal Transfers: U.S. Dollars per Capita 1995	Ratio: Voters Needed to Elect a Member of Congress over the National Average (1=Natl. Av.)	Percentage Growth in Discretionary Transfers, 1990-1995	Unemployment Growth: 1989-1995	Peronist Presidential Vote Percentage 1995	Change in Peronist Presidential Vote 1989-1995
Federal District				9.10	41.5	5.20
Buenos Aires	23.03	1.75	76	12.60	51.8	1.90
Córdoba	24.58	1.74	7	6.40	48.2	3.60
Mendoza	26.02	1.53	48	2.40	52	9.90
Santa Fe	34.66	1.75	-7	6.50	46.8	-4.80
Metro (mean)	27.07	1.69	31%	7.40	48.38	3.16
Catamarca	113.54	.52	-43	2.00	52.3	-3.60
Corrientes	87.98	1.16	0	7.20	46	3.90
Chaco	83.37	.66	147	4.10	56.8	5.10
Chubut	277.16	1.14	8	2.90	57	14.40
Entre Rios	60.77	1.19	7	2.80	46.2	-5.40
Formosa	248.49	.9	87	-3.80	49.5	-8.50
Jujuy	105.40	.75	-64	5.60	44.2	1.10
La Pampa	257.70	.56	220	2.30	50.3	-1.20
La Rioja	1173.38	.44	407	5.20	76.1	9.50
Misiones	91.26	1	38	3.50	49.5	-3.20
Neuquen	316.33	1.18	86	8.10	53.5	14.30
Rio Negro	146.02	.85	-33	3.70	44	-3.20
Salta	73.89	1.14	88	10.60	54.1	12.90
San Juan	121.05	.88	56	5.20	59.8	11.40
San Luis	195.49	.6	37	3.20	51.7	5.40
Santa Cruz	606.86	.35	126	2.40	58.4	3.70
Stgo. del Estero	132.44	.95	107	.00	64.6	-.30
Tierra del Fuego	1326.24	.15	179	-.20	61.1	18.40
Tucumán	50.78	1.42	-6	7.30	45.5	4.20
Periph. (mean)	288.78	.83	76%	3.79	53.37	7.63

These data also give an indication of the political dimensions of discretionary spending on the provinces during the Menem government and of the potentially greater political payoff to the ruling party from every dollar spent on low-maintenance constituencies in the interior. In absolute terms, federal transfers to metropolitan provinces far exceeded those to peripheral provinces (Table 6). However, the per capita spending figures in Table 7 show just how favored populations living

in the periphery are in federal transfer schemes. The federal government spent, on average, three times as much per person in the periphery than in the metropolis.

If we look at the more politically driven discretionary funding patterns, we see a marked peripheral bias to the Peronist government's spending during this period. Discretionary transfers increased in both regions; however, the rate of growth in the periphery was well over double that in metropolitan provinces. Furthermore, we can see in the figures displayed in table 7 the substantially greater local impact discretionary spending had in peripheral provinces. In 1995 the average per capita amounts transferred to peripheral provinces was *ten times* that sent to metropolitan provinces. Furthermore, as the figures in Table 7 suggest, the potential political payoff from this spending for the ruling party's legislative coalition was magnified by the relatively lower cost in votes required to elect a member of congress in the periphery.

Table 7 also provides another glimpse of the potential political benefits of the Menem government's subsidy of provincial government budgets. The more relatively heavily subsidized, but less costly, provinces in the periphery experienced smaller increases in unemployment than their less-subsidized metropolitan counterparts.

How significant, however, was this political investment of public spending in the overrepresented periphery for the Menem government's ability to maintain a winning legislative coalition during the period of economic reform? The regression analyses displayed in Tables 8 and 9 attempt to answer this question. First, we seek to identify the potential causes of the changes in regional discretionary spending patterns displayed in Tables 6 and 7. We assume, in line with the working hypothesis of this paper, that overrepresentation affected the strategic delivery of discretionary funds by the central government. However, we also assume that discretionary spending sought to reward or bolster the central government's provincial partisans, and that the results of prior elections (namely the Peronist party's performance) also affected the

flow of discretionary funding to individual provinces. The model in Table 8 thus includes territorial overrepresentation in the lower chamber (“houseover”) as well as the Peronist party’s vote totals in the 1989 presidential election and the 1991 elections for the national Chamber of Deputies (“PJ89pre”, and “PJ91dip,” respectively).

Table 8
Overrepresentation, Elections, and Discretionary Spending Shifts
(Multiple Regression Analysis)

Model	B	Std. Error	Beta	t	Sig.
(Constant)	-361.882	122.441		-2.956	.008
Houseover	24.604	9.157	.440	2.687	.015
PJ89pres.	4.276	2.327	.310	1.837	.082
PJ91house	4.253	1.845	.390	2.305	.033

N=22; Adj. R-squared=.412; Std. Error=78.702

Dependent Variable: Change in discretionary spending, by province, 1990-95.

The results suggest that, while the flow of discretionary funding was indeed affected by the results of earlier elections, overrepresentation was a stronger predictor of the allocation of discretionary funds than prior Peronist party electoral performance. That is, while local Peronist party officials were likely to reap the rewards of central government largesse if they did well electorally, they were likely to see more of this largesse if they lived in overrepresented provinces.

In the second regression analysis we seek to gain a sense of the impact of discretionary spending shifts on the Peronist party’s electoral performance in the 1995 Chamber of Deputies elections. On the assumption that prior electoral performance affects subsequent electoral results, the model incorporates a variable measuring the party’s performance in prior legislative

elections.²³ In addition, the model incorporates a contextual economic variable, changes in provincial unemployment levels, to control for its impact on Peronist electoral performance.²⁴

Table 9
Discretionary Federal Spending, Unemployment, and the 1995
Chamber of Deputies Election
(Multiple Regression Analysis)

Model	B	Std. Error	Beta	t	Sig.
(Constant)	27.134	8.76		3.1	.006
Chdisc	.051	.020	.429	2.6	.019
PJ91house	.482	.215	.372	2.2	.037
Unemploymt. Ch.	.923	.510	-.270	1.8	.086

N=22; Adj. R-squared=.519; Std. Error=8.5

Dependent Variable: Peronist vote percentages, 1995 Chamber of Deputies Election

The results suggest that the strongest relative impact on Peronist electoral performance in the 1995 legislative elections came from increases in discretionary spending to the provinces. Taking both regression analyses into account, we can infer that strategically placed federal disbursements to overrepresented provinces played a relevant part in the maintenance of President Menem's legislative coalition during the period of market reform. Turbulence in the metropolis was made politically affordable by federal spending in the overrepresented periphery.

²³ The prior election used in the model is the 1991 election. It would have been better to use the 1993 election, but for the moment we do not have the data for that election.

²⁴ Unemployment rose to historically unprecedented levels during President Menem's first term in office. It was arguably the most important issue discussed publicly during the 1995 elections.

Conclusion

This paper had a straightforward objective: to establish that territorial overrepresentation affects the regional distribution of central government fiscal transfers in federal systems. The evidence presented supported our hypothesis that territorial overrepresentation promotes a reallocation of federal revenue sharing funds and discretionary spending that benefits overrepresented states.

However, we also noted variation in this relationship across federal systems: some federal governments distribute funds to states proportionally to population and some do not. We thus introduced a conceptual distinction between “reallocative federalism” and “proportional federalism” to capture this divergence. We also sought to explore possible reasons for this divergence in a sample of cases comprised of the Western Hemisphere’s four largest federal countries, the United States, Brazil, Mexico, and Argentina. Within this sample, Brazil and Argentina were classified as cases of “reallocative federalism,” while the United States and Mexico were labeled cases of “proportional federalism.” Examination of pooled state level data on federal spending patterns, legislative seat allocations, and socioeconomic factors led to the conclusion that the territorial overrepresentation in the lower house of congress best explained the variation between our cases of reallocative federalism and proportional federalism. The lower chamber, not the senate, seems to be the driving force behind the reallocation of federal transfers in favor of overrepresented states and provinces.

This finding runs counter to widely held assumptions about the centrality the Senate in shaping the non-proportional features and outcomes of federal systems. It suggests that more attention needs to be paid to the effects of Lower House overrepresentation on politics and public policy in federal systems. The senate, as the constitutionally sanctioned body for territorial

representation, has taken the lion's share of attention in scholarly treatment of the subject.²⁵

However, the results of this study suggest that senate overrepresentation *per se* is a weak explanatory variable for spending variations *between* federal systems, most of which contain a significant element of territorial overrepresentation in their Senates.²⁶

The results of this study also beg a question that remains largely unaddressed in this paper: what are the causal mechanisms behind the relationship between overrepresentation and federal spending distortions? Our case study on Argentina provided some insights into this question, which we will discuss below. As a case study it permitted us to examine that question more closely. However, the comparative analysis of our four cases established associations without exploration of causal mechanisms. We can do little here other than to offer the familiar exhortations to future generations of researchers along with a little bit of speculation. This is a question that can best be answered by in-depth investigations of specific cases, because we suspect that there is more than one causal mechanism at work.

The causal mechanisms for constitutionally mandated federal transfers, or federal transfers distributed according to pre-set formulas, will in all likelihood be different than those for discretionary and short-term pork-barrel transfers. Regarding the former, historical research on the negotiations which established revenue sharing formulas could yield interesting insights into how the balance of power between the central government and the states, and between the states themselves, structured the fiscal framework of federal arrangements. We could speculate that, in contexts of strong central authority, or in contexts of alliance between the federal government and prosperous states, more proportional revenue sharing arrangements resulted from these

²⁵ For example, Alfred Stepan's landmark paper on the subject focuses almost exclusively on the senate in his measurements and theoretical treatment of overrepresentation in federal systems.

²⁶ It may be a more powerful predictor in pools of cases that include more proportionally designed senates, such as the German, Indian, or Austrian systems, which do not allocate the same number of senate seats to all states. A

negotiations. Different configurations of power and alliance between the central government and the states, and between the states themselves, would thus plausibly have yielded different configurations of federal revenue sharing arrangements.

The same can be said for the origins of Lower House overrepresentation, which is an interesting research question in itself. Overrepresentation is often used as a measure of the “robustness” or “peripheralizing” nature of federal systems,²⁷ but this begs the question of whether overrepresentation is a result or a cause of the peripheralized nature of federal systems. It also leaves open the question of whether such overrepresentation was the work of the states themselves or of a central government eager to shore up supporters in specific regions of the country (as was the case with Perón and subsequent military leaders in Argentina).

Regarding strategic and pork barrel transfers, our case study on Argentina provided a glimpse into the causal logic of reallocative federalism. Put simply, overrepresented territories tend to yield a high political payoff from investments of political spending. When the economic investment required for one unit of political support from an over-represented territory is far lower than the investment required for an under-represented, high-population territory, the dynamics of selecting between what could be called “low-maintenance” and “high-maintenance” constituencies come into play. In Argentina regional economic differentiation facilitated the shielding of peripheral regions from major costs of the restructuring of the metropolitan economy, and the relatively small size of state-dependent peripheral economies made political spending on those regions affordable. Political over-representation of the periphery provided the ruling party a substantial political payoff from relatively small investments of political spending.

comparative study of fiscal politics that included federal systems with proportionally structured senates would be most interesting.

²⁷ See, for example, Mainwaring and Samuels (1997).

This logic operated in a context where the national executive played the decisive role in determining the regional allocation short-term federal spending. However, in contexts where the legislature plays a decisive role the causal mechanisms will obviously be different. This suggests that a relevant topic for research is the issue of “policy scope” in budgetary matters of different governmental bodies, specifically the relative importance of the national Executive and Legislature in structuring the regional distribution of federal spending. If the congress plays a major role in determining such flows, overrepresentation may induce *legislatively* driven reallocations of federal spending, where overrepresented states themselves effect such reallocations thanks to their leverage in budgetary committees. David Samuels provides an example of this in an interesting paper on pork barrel politics in Brazil. Samuels details how Brazilian legislators from overrepresented states manage to reproduce their overrepresentation in legislative chambers onto key congressional budgetary committees, thus effecting reallocations of public funds to their states.²⁸ This legislative-driven model contrasts with the executive-driven model we detailed for Argentina, where the central government directs federal spending toward overrepresented states to shore up its majority in the congress.

In sum, the institutional features of federal system *do* make a difference for politics and policy making. The political economy of federalism is not independent of the political structures of federal systems. This paper has sought to shed light on one such area of interdependence. As research agendas on federalism continue to develop, we hope that further light will be shed on the causal mechanisms behind these relationships as well as on their significance for politics and political development.

²⁸ David Samuels, “Progressive Ambition, Federalism, and Pork-Barreling in Brazil,” conference paper, Legislatures and Democracy in Latin America, Centro de Investigación y Docencia Económicas, Mexico City, February 6-8, 1998.

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