

The equality of opportunity: critical guidelines for the continuity of the Argentine centre-periphery with continental contributions unequalizing process

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The equal access of the population to social services and the unrestricted development of their potential, faculties, and rights, in the different regions of the country (in particular) and of Latin America (in general), represents a fundamental challenge for our States. Latin America is sadly unequal and Argentina is no exception. Therefore, beyond the liberal discourse of the neoliberal economic policies that characterize the financial and institutional dynamics of the last quarter of the twentieth century, it needs to determine the existence of continuities or reversals in our days as a guideline for understanding and analyzing the current ongoing processes and existing needs.

Equality of Opportunity - Fiscal Federalism - Production - Employment - Public Policies.

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Introduction

Inquiry

The nature of this mixed method research is primarily qualitative, non-experimental, analytical and logical deductive. Its main objective is to answer the following questions:

1- What are the implications of the inequality of opportunities in the different regions of Argentina, and in a wider context, in the American continent?

2- What was and is the influence of the decentralization discourse and the action of the neoliberal policy based on the downsizing of the State and the structural change of its endogenous capacities, on the inequality of opportunities?

3- Until today, is there a continuity or a reversal of the regional asymmetries mainly related to the production and employment, generated and/or deepened in the 90s? What are the causes for this?

4- Why is it important to establish a relationship between this context of regional asymmetries, inequality of opportunities, and the capacities of the State, with the financial and tax fields? What role does or should play the Fiscal Federalism, viewed as a phenomenon, to recompose those asymmetries?

Aside from the intrinsic arguments based on justice, a high inequality of opportunities encourages social exclusion (ECLAC, 2008:5), reduces the capacity of the societies to use the human capital on its full potential, and enables wealthy people to distort the market for their own benefit. Moreover, it can encourage crime, violence and political instability (Blofield, 2011).

The equality of opportunities is a fundamental principle in the modern and inclusive States. Recent studies (Oxfam Report, 2014) show a close correlation between income inequality and the inequality of opportunities, therefore the possibilities of development that the siblings have during the course of their lives are highly dependent on the socio-economic situation of their parents (Tilly, 1999). For example in Denmark (one of the countries with the lower Gini¹ coefficient in the world), only 15% of the income of a young adult depends on the income of their parents; in Peru (one of the countries with the higher Gini coefficient in the world), a contrario sensu, two thirds of the current income of a person are related to what their parents earned in the past (Smeeding, T. M., Erikson, R. and Jantii, M., 2011).

This data shows the existence of “opportunity hoarding”², which of course must be subject to much deeper analysis. That is to say, the process that perpetuates inequalities, and takes place when specific groups assume control of resources and valuable assets., to use them for their own benefit, trying to guarantee the hoarding of the benefits that the captured resources generate.

¹The Gini coefficient is named after its author Corrado Gini (in his book *Variability and Mutability*). It corresponds to a number between 0 and 1, where 0 corresponds to perfect equality (everyone has the same income); 1 corresponds to perfect inequality (one person receive all the income and the rest receive none). The Gini index is the Gini coefficient expressed in percentages (the Gini coefficient multiplied by 100). The Gini coefficient calculation can be done in 2 ways: Through the Lorenz Curve or through the Brown Formula.

² The exploitation and opportunity hoarding are key elements for stabilizing a system of categorical inequalities because they generate permanent advantages for certain people in the access to scarce resources and they limit or exclude others as a way of ensuring this process (Tilly, 1999).

These resources can be of different types, for example, the public spending, the access to quality education, and the higher-paying jobs, amongst others. (Oxfam Report, 2014).

The Human Development Report for Latin America and the Caribbean, presented in 2010 by the United Nations Development Program (UNDP), shows that in spite of the meaningful advances, this is still the most unequal region in the world³. Therefore, there is an urgent need to focus on redistributive policies.

The government structure is mainly defined by social criteria, based on the explicit recognition of the inter-regional differences.

³ Some key messages of the report on Latin America and the Caribbean are: 1 The inequality observed in income, education, health and other indicators, is persistent across generations, and also presented in a context of low social mobility; 2 Clearly understanding these mechanisms of transmission of achievements at the household level will allow us to design more effective policies to break the vicious circles of reproduction poverty and inequality; 3 There are subjective factors that are determined by objective constraints and are essential to explain the differences in socioeconomic attainments; 4 The explanation for the persistence of inequality are not only present at the household level. The political process also responds differently to the needs of different groups. The sustainable reduction of inequality requires acting on the low quality of political representation, institutional weakness, differential access to the influence over specific and concrete policies, and it also requires acting on the institutional failures that lead to corruption and the state capture by minority groups; 5. A more comprehensive public policy approach is required. Redistribution strategies must reach those for whom they were designed, they should consider not only each constraint separately, but note that the constraints households face are multiple and sometimes reinforce each other. In addition, the objectives of public policy should be incorporated to the imaginary of the recipients, who must be active participants in their own development.

This recognition is implicitly associated with the existence of negative effects on personal terms, as the geographical location of an individual would determine, in a way, their socio-economic and development opportunities⁴. To the extent that there is unequal access from certain sector of the population to social services or any restrictions on their potentialities, powers and/or duties (such as education and employment), due to exogenous factors (gender, ethnicity, place of origin or habitation, etc.), these will contribute to the inequality of opportunities.

Based on what has been said above, we can reflect on some guidelines offered by the 2006 World Development Report. This report states that in some particular circumstances (notably but not exclusively of inherited wealth) inequality could lead to an inadequate ex-post resource allocation. For example, it is very unlikely that children, who lack adequate financial resources, even if they are the most capable, get the best educational opportunities in based on these capabilities. On the contrary, it is much more likely that the relative poverty they suffer restricts their educational opportunities. Mainly in comparison with children from wealthier backgrounds who get a disproportionate access to the best schools.

⁴ For example, if we consider the access to the possibility of having electricity in your home for rich and poor families, we can assure that relatively wealthy households have electricity almost anywhere in the world, but in countries like Panama, Peru and Nicaragua, among others, less than 20% (ca) of poor families have it. The same applies to the access to any public service or to the restriction of their development potential, this difference between the citizens of the same country from one or more different regions, is what marks the inequality of opportunity.

In societies similar to the Latin American societies, we can begin to understand this phenomenon based on three basic ideas

- First, the social field in the markets is related with the inequalities encouraged by those who seek the control of the commercial resources.
- Second, such control is necessary to generation and appropriation of surplus, these are essential because they structure the material life of the societies.
- Third, control is achieved through power struggles that not only confront individuals but also social groups and primarily social classes⁵.

⁵Pérez Sáinz, J.P. and Mora Salas (2008), analyze the contributions of Tilly (Durable Inequality) in a concise presentation that is worth highlighting and sharing given the richness and clarity of its concepts:

First, Tilly begins his reflection with an uncompromising criticism, to the methodological individualism that often characterizes liberal approaches inspired and that are based on the premise of considering the individual as autonomous. For him, this means that inequalities (whether gender, race, ethnicity or citizenship) are addressed as cases of overall inequality that is characterized by two elements: the members of a certain social category share some attribute that makes them relate similarly with the market; and the groups present in the market define the preferences on how to relate to certain categories in terms of maximizing their profits. This implies, for Tilly, that the causal mechanisms are reduced to decisions such as mental events, which prevents the methodological individualism from explaining how such decisions produce inequalities in the context of complex social structures and erratic human behavior. On the contrary, this author advocates for a relational understanding of the phenomenon of inequality.

Second, for Tilly, the phenomenon of inequality arises from the different forms taken by social relations, primarily with organizations as these face a old and crucial problem: the generation of surplus and propitiation. This occurs through two mechanisms: exploitation and opportunity hoarding. For him, there is exploitation when powerful and well related people have access to resources from which they extract significantly

1 A situation that calls for reflection and (re) discussion of redistributive alternatives

In this continental context that invites to a further study of the issue of equality of opportunities, this study will focus on the Argentine Republic. The country shows two very different periods in terms of economic policies during the last two decades (from 1990 to 2010).

During the course of the decade of the '90 efforts were specifically directed at achieving price stability, mainly because there was an inflation higher than 3000% (ca), and in that context there was a reduction of the state involvement in the economy (as a main actor) and his policies were prone to achieve an open economy.

increased profits by coordinating the efforts of outsiders who are relegated from this added value. Meanwhile, the opportunity hoarding happens when members of a network circumscribed in categorical terms, gain access to a valuable and renewable resource that is subject to monopoly through the activities of this network that, in turn, is strengthened by this *modus operandi*. Exploitation, for this author, is the main form of appropriation of the elites, while opportunity hoarding is the main form of appropriation for non-elites. This does not mean that the elites cannot hoard opportunities and non-elites cannot exploit.

And in the third place, although exploitation and monopolization imply a control of resources, like any social process it poses the problem of an increased reproduction, that is sustaining and deepening. It is in response to this problem that Tilly proposes the inequality based on categorical pairs. These distinctions are created and established within organizations but are reinforced when they manage to couple with other pairs. This coupling between internal and external categories reinforces inequality.

For the neoliberal political project, the transfer of social responsibilities of the state towards the civil society, and to the private sector, together with the privatization of state enterprises were considered essential to reduce the role of the state, apart from being an alternative to alleviate the fiscal deficit (Adelantado and Scherer, 2008).

During the second decade subject to analysis (2000 - 2010), after going through a strong economic crisis that caused the contraction of GDP by 11% (ca) in a single year, the state began to reverse much of what was planned and carried out in the previous period, therefore trade is restricted, services and strategic products were nationalized, public spending was highly increased (with a strong social character) and a marked advance of the state over the economy is observed (Albornoz et. al, 2012).

We consider that there is no doubt that the social upheaval of 2001 generated an ideological paradigm change - political and economic in the Argentine Republic, however, the previous neoliberal stage left traces that are still palpable today. We can embrace these traces in at least three aspects of importance (Féiz and López, 2010):

1- A key domain of transnational capital.

2- The consolidation of the peripheral position of the cycle of the domestic capital within the cycle of the global capital, based on the preeminence of the strategy of exploitation of natural resources.

3- The accommodation of a stage of structural precariousness of the labor force⁶.

⁶ This begins to reverse in Argentina from 2007 onwards, however in 2014 there seems a retreat, or at least a slowdown in the wage recomposition of the working class. Given that besides the continuing currency

These considerations demonstrate the continuity and consolidation of the "cycle of dependency"⁷.

devaluations against the dollar, and the establishment a dollar clamp, there was a sharp devaluation in late January 2014, as an attempt to stop the growing inflation and the strong level of domestic consumption, with the challenge of trying to achieve a recovery of the banking system. To be competitive the banks must necessarily offer a return in pesos greater than the currency devaluation, in the same amount of time and at the same time be more attractive than the profitability obtained from speculating with dollar. This has not been achieved yet.

⁷ Concepts such as Center and Periphery were used by Raul Prebisch in 1950, within the Dependency Theory to analyze the overall global differentiation. The regions called peripheral, were called so just because they met a peripheral role in the production, their economies were aimed at the export of supplies and raw materials, the flow of resources to the regions called Center, i.e. those who held the industrial development and produced highly elaborated products thanks to the resources and raw materials that came from the countries or regions mentioned above, and also due to the monopoly of technology. The so-called underdevelopment of certain areas was due to the bonds of dependence and subordination to capitalist development of others.

Poverty in Latin America, is largely due to historical conditions which have been structured for and to favor northern countries (called central) and keeps the countries from the south (peripheral) in a constant state of poverty. Since its inception, Latin American countries have served as suppliers of raw materials for the northern countries, and in return, have been the recipients of those finished products that have already saturated the northern markets and seek to extend this context, thus serving as a valve exhaust for developed economies.

The Latin American thinkers and intellectuals, who are part of the dependency theory, call on developing countries to implement policies to internally generate the products on which they depend, and apply a more selective approach to engage in commercial transactions with developed countries applying protection measures such as fees and other taxes.

By virtue of these ideas, it is clear that following the model of the developed countries is not convenient nor logical, because its development occurred in specific historical conditions that are impossible to recreate in the South. In addition, this model reveals that this condition of poverty favors developed countries, and therefore, they do not want them to change the global economic structure.

In spite of historically being the most unequal region in the world, it is the only region that has managed to significantly reduce the inequity in many of its countries during the past decade.

The governments of the states where the inequality was reduced, have increased their tax revenues (though not always efficiently in terms of redistribution of wealth, we will discuss this when we approach the tax analysis) and are increasing the spending in social protection and poverty reduction policies (Oxfam Report, 2014).

Since 2003, Argentina has gone through a path of growth, technical progress, job creation and reduction of poverty that has no precedents in over half a century (Barcena - Prologue - in Stumbro and Rivas, 2013: 4). This process managed to reverse to a large extent, the terrible economic and social damage produced by the liberal dynamics of the 90s. However, it is also true that in a certain way, there is not only a continuity of the asymmetries and dynamics that characterized the economy of the country in that decade, but there is also an increase in them. We are interested in highlighting this issue to reflect on its implications.

To begin to investigate this latter aspect, which ultimately is one of the main objectives of this paper, we can see how the ownership of large transnational capital (according to their sales) that was 48% in 1998 increased to 66% in 2007. This accounts for the market dominance and the ability to be price makers of these large companies, today this is a crucial issue due to the current inflationary context.

In turn, the branches of agriculture, hunting and forestry, fishing and mining and quarrying, altogether went from representing 6.7% of GDP (in current terms, at market prices) in 1998, to 12.5% in 2008. The participation of the manufacturing industry as a whole in the GDP is a bit larger but remains stable: 18.2% in 1993, 17.8% in 1998, reaching 20% in 2010.

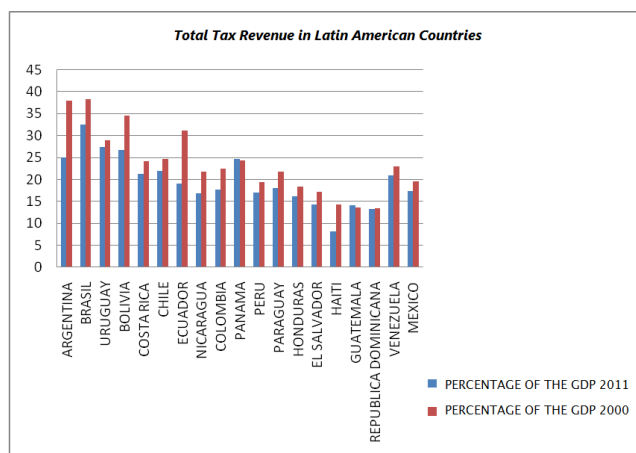
Finally, the capital structure showed a purely progressive modality (regarding the distribution - appropriation of revenues) in the period between 1993 and 2007. To support the latter statement, it is enough to observe how in 2007 workers received 28.1% from the GDP, while in 2003 they took 23.3%. In parallel with this situation, we can highlight the persistence of a high level of luxury goods consumption (Féiz and López, 2010). This issue started to revert since 2007 due to an economic policy aimed at the wage recovery of the working class. Along with the implementation of this policy, several important and thorough measures aiming at the equality of social and economic opportunities in the different regions of the country, such as the universal child allowance, the noncontributory pension plan, the "PROCREAR" credit plan, and the "Conectar Igualdad" technology integration plan, amongst others.⁸

Regarding the fiscal field the Latin American tax regimes, most of them present characteristics of a regressive system, and sadly, the percentage of the GDP that corresponds to the tax collection is still not enough to address the prolific actions to equalize opportunities (Rezzoagli, 2013). It is also worth mentioning that there is a high level of tax evasion in the entire continent.

⁸ The tax burden mainly affects employees and captive traders in direct taxes, and the ordinary citizen in indirect taxes given that they are their incidental recipients.

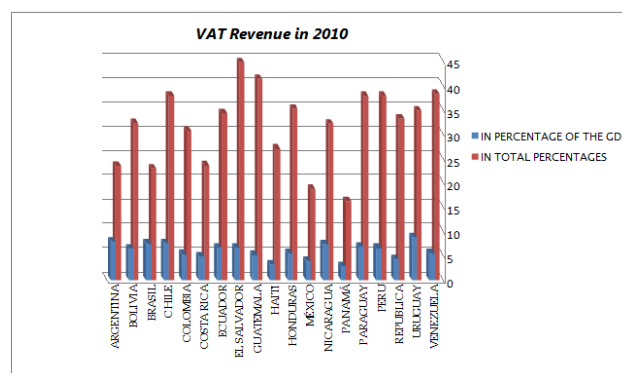
Graphic 1 shows a comparison between the years 2000 and 2011 for the total tax revenue as a percentage of the GDP for various countries of Latin America. Graphic 2 shows a comparison of the revenue that comes exclusively from the Value-Added Tax (VAT) between various Latin American countries, as a percentage of the GDP as well as the total numbers. This graphic only covers the year 2010.

These graphics show how the Argentine Republic is within the higher ranks, which means, among other aspects, a great dependency of the state on the tax resources, as well as a strong tax burden on the contributors. For direct taxes such as the income tax, this burden usually affects captive taxpayers: shopkeepers, small and medium enterprises, salaried workers, among others. These taxpayers do not have access to tax incentives, tax benefits, or tax privileges. For the Value-Added Tax, the tax burden directly affects final consumers. It is worth highlighting that in Argentina the tax revenue represents around 90% of the total fiscal revenue. This differs from other countries in Latin America, where the non-tax sources have a greater importance, such as Mexico, Chile and Panama. This is mainly because of the revenue from oil, cooper and the Panama Channel, respectively.



Graphic 1

We created this graphic based the data published by the ECLAC.



Graphic 2

We created this graphic based the data published by the ECLAC.

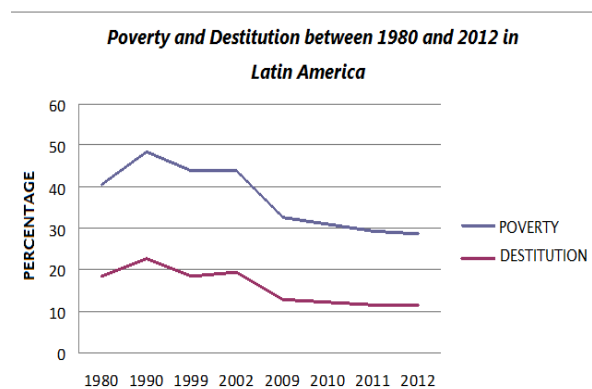
Given this reality, that is prone to a deep study from different aspects, that are not the objective of this work, it is interesting to determine and analyze the existence of inequality of opportunities and the centre-periphery dependency cycles within Argentina. This is an important step to try to change this situation that shows the weakness of the institutions, while there is not an approach that clarifies the discourse about redistribution. The latter contradicts the production dynamics and the neoliberal fiscal mechanisms that are still currently used.

A study conducted in the Center for Distributive, Labor and Social Studies at the University of La Plata in 2011 (Serio, 2011), that confirms previous similar studies, presents data that illustrates the situation of the country due to the internal migration of the population seeking a better quality of life. The estimates found in this document suggest that even if the income inequality shows a declining tendency, which is an encouraging fact, the inequality of opportunities has fluctuated over this period.

Particularly, since 2009, the levels of inequality of opportunities have increased in the population of the different geographic regions of the country. We will cover this aspect in depth in the next section.

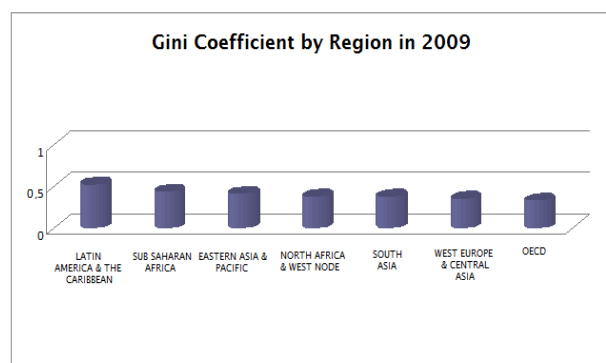
The reduction of the income inequality in Latin America, during the first decade of the XXI century, is the result of an adequate combination of government policies mainly aimed to reduce the level of poverty due to the increase in the public spending on social issues. However, we still are the continent with the greatest inequality of opportunities in the world. We are capable of building large and growing cities, as well as impoverished entire regions whose population decreases every day.

The gathering of population in small territories of Latin America, that forms large and crowded cities which receive the internal migration of people seeking for a better life, is a good evidence of what we discussed above. Argentina does not escape to the continental context where it is located. Graphic 3 shows how the average levels of poverty and destitution in Latin America have substantially decreased from 1980 to 2012. However, graphic 4 shows that it is still the most unequal continent in the world, as shown by the values of the Gini coefficient by region in 2009.



Graphic 3

We created this graphic based the data published by the ECLAC.



Graphic 4

We created this graphic based the data published by the ECLAC.

This is how, in spite of a reduction in the levels of poverty and destitution on a continental level, Latin America still is by far, sadly unequal and restrictive regarding the access of its people to opportunities of development which depend on an exogenous context (ethnicity, place of birth, place of residence, gender, etc.). The issues of regional and personal equality of opportunities have to be addressed on the public and mainly on the financial aspect, with a system of intergovernmental transfers and should be the basis for the improvement of the system. Rethinking the federal organization allows, among other things, to discuss the decentralization proposed by the neoliberal perspective. This involves maintaining the articulation and deployment of development projects in the peripheral provinces carried out by the Nation, with the participation of provincial actors, to equalize opportunities for residents and boost production in areas foreign to the high concentration of the Pampa Húmeda region.

2 Is there a continuity of reversal of the regional inequalities in argentina? An analysis of the national gross geographical product and employment

In this second part, we will review two key indicators during the years 1990-2009. Our objective is to establish if there was, or there was not, a continuity in the centre-periphery unequalizing process within the national territory that became worse due to the changes in the endogenous state capacities at the end of the 80s decade and beginning of the 90s.

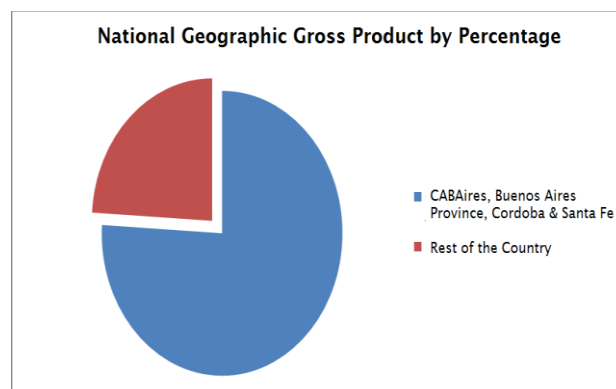
In those aspects, we consider that the essential factor for the equality of opportunities is a stronger and better balance of the access to the wealth of the nation, through the creation of sources of employment (either employed or through business and industrial development). Instead of depending on the tax revenues from the vast primary resources that exist in our country. That is why we have considered the following key indicators: a) the gross geographic product (GGP) and b) the level of employment of the workers registered in the private sector (which includes state-owned companies) in each of the Argentine provinces, including the Autonomous City of Buenos Aires.

For the first indicator we consider crucial to determine which were percentages and total amounts of productivity and value creation for each of the Argentine provinces, because this brings along a greater number of services, education and infrastructural investments that determine the access to a better quality of life for the inhabitants of that region. The years 1993, 2002 and 2009⁹ are used as a reference for this indicator.

The second indicator is a direct consequence of the first indicator, given that those regions in the country that are able to absorb a greater number of investments, in turn, absorb a greater number of human resources. For this indicator we focused on the industry, commerce and services sectors during 1996, 2002 and 2011¹⁰.

National Gross Geographic Product

Using the national gross geographic product as a reference, when comparing the values for each of the provinces we observe that there are major differences between them. There are evident continuities from the year 1993 to the year 2009. For example, only three of the provinces (that include the Autonomous City of Buenos Aires), represent 76% of the gross geographic product, while the rest of the country barely reaches the 24%, that is a quarter of the total (See graphic 5). Beyond some minimal percentage changes, this average remained stable from 1993 to 2009.



Graphic 5

We created this graphic based on the data provided by the National Federal Investment Council.

⁹ Data from the National Federal Investment Council <http://cfired.org.ar/>

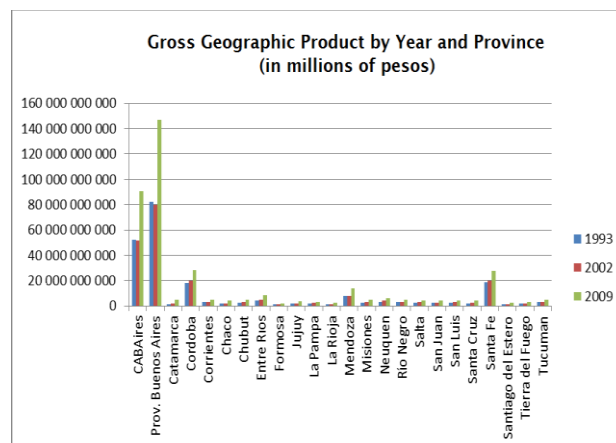
¹⁰ Data from the National Ministry of Labor <http://www.trabajo.gov.ar/>

There are minimum variations in the evolution of each province regarding its GGP. That is why it is possible to confirm the existence of continuities not only in the existence of gaps between them, but also in the stagnation shown by these provinces during the three periods of time used for this analysis (See graphic 6).

As an exception, and as a strongly defining factor for the assertion of the existence of regional gaps, we can see that the Autonomous City of Buenos Aires as well as the Buenos Aires province, have increased their GGP, followed slightly by Santa Fe and Cordoba. The province of Buenos Aires accounts for 37% of the national GGP, followed by the Autonomous City of Buenos Aires with a 23%, and by the provinces of Cordoba and Santa Fe which are significantly behind these numbers, with an approximate 8% of the total each.

The province of Mendoza is the only one that manages to keep some distance, though to a small extent, from the rest of the provinces that we can call peripheral or outside the group of central provinces (Buenos Aires, Autonomous City of Buenos Aires and Cordoba). Mendoza accounts for the 4% of the national GGP, while the rest does not exceed the 2% (only reached by Entre Rios and Neuquen).

To complete this analysis, there are 17 provinces out of the total 24 (including the Autonomous City of Buenos Aires) that barely represent 1% of the national GGP. We can observe this in graphic 7, which analyses the general averages in percentages for the years used as reference.



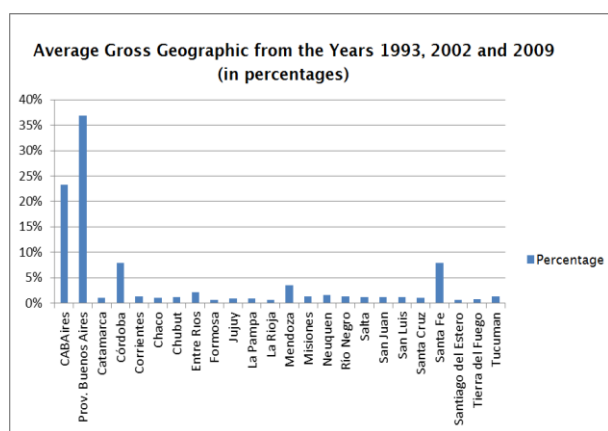
Graphic 6

We created this graphic based on the data provided by the National Federal Investment Council.

Far from decreasing, these asymmetries between the provinces with a greater GGP and the ones with the provinces with fewer resources were increased. We can see that in the year 1993, the province with a greater GGP (Buenos Aires with 82,201,000,000 millions of pesos) exceeded 73 times the value of the province with the smaller GGP (in that year Catamarca with 1,119,000,772 millions of pesos).

This disproportion manages to decrease for the year 2002, when the province with the greater GGP (Buenos Aires with 79,996,000,000 millions of pesos) exceeded 59 times (ca) the value of the province with the smaller GGP (in that year Santiago del Estero with 1,366,639,826 millions of pesos). However, for the year 2009 this gap increases again: Buenos Aires (with 146,724,000,000 millions of pesos) exceeds by 81 times the value of the province with the smaller GGP (in that year Formosa with 1,810,293,691 millions of pesos).

The general average for the three years for the ratio between the richer and poorer provinces is 71. On the other hand, only the Santa Fe, Córdoba and Buenos Aires (including the Autonomous City of Buenos Aires) provinces exceed the national GGP average (11,621,462,037 million), while the remaining provinces barely reach half of this value in the case of Mendoza, a quarter in the case of Entre Rios, or even less.



Graphic 7

We created this graphic based on the data provided by the National Federal Investment Council. Now that we confirmed the disproportion of the creation of value across the length and breadth of the Argentine state, and coming back to the theme that worries us in relation to the equality of opportunities, we will complete the second half of this analysis focusing specifically in the real access possibilities to sources of employment in the different regions of the country.

Level of Employment

We believe the analysis of this factor is crucial, because the settlement patterns and population mobility in the different regions of the country is highly related to the employment offer available in those regions.

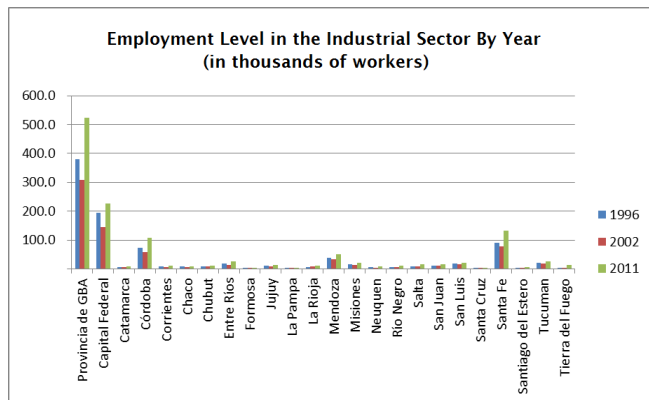
Beyond the resources of each province (raw materials, minerals and natural resources), it is necessary to evaluate the degree of development in the secondary (industrial) and tertiary sectors (trade and services), because they require a better skilled and in general, better paid labor force.

For this purpose, we analyze the level of employment based on the current data provided by the National Ministry of Labor for the registered employment of workers employed in the private sector (including state-owned companies), specially in the industry, commerce and services sectors. The comparison was made between the years 1996, 2002 and 2011, observing the continuities or discontinuities in the level of labor registration by sector. We did not consider unregistered and informal employment because it is difficult to measure it accurately. However the data we used shows an interesting general overview that helps to confirm our central approach.

In the first place, we consider the number of workers from the industrial sector from the different provinces in the mentioned years. We can observe clearly the concentration of 40% of the number of workers in the Province of Buenos Aires, followed by a 19% for the Autonomous City of Buenos Aires, and a bit further away, by the provinces of Santa Fe (10%) and the province of Córdoba (8%). The remaining provinces, with the exception of Mendoza (4%), do not exceed the 2% of the national total of registered workers.

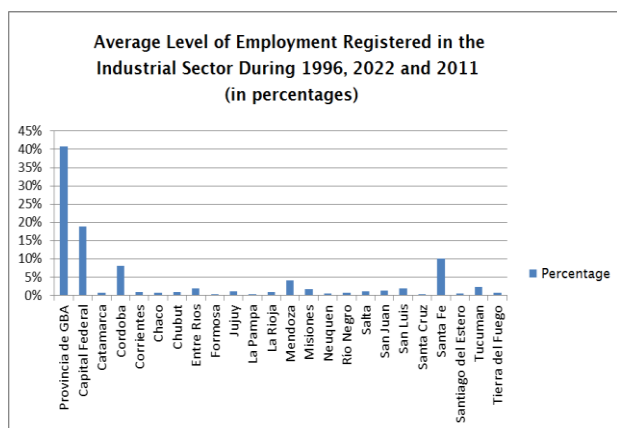
The coefficient of variation of these percentages for the average of the years used as reference only reaches 2%, which means there were slight changes in the data. Graphic 8 shows the data for each province for each of the analyzed years, measured in millions of workers.

While graphic 9 shows the percentages for the average of the analyzed years.



Graphic 8

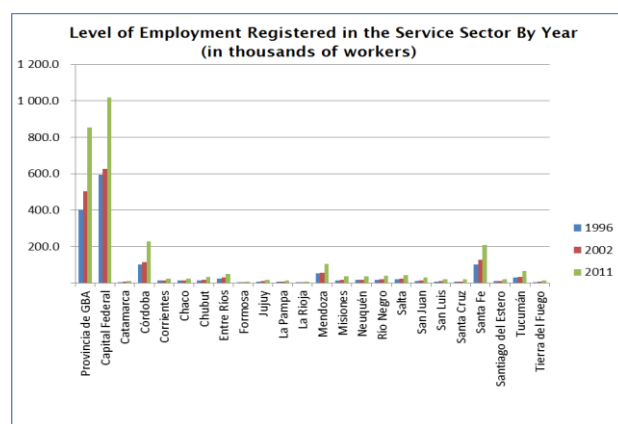
We created this graphic based on the data provided by the National Ministry of Labor.



Graphic 9

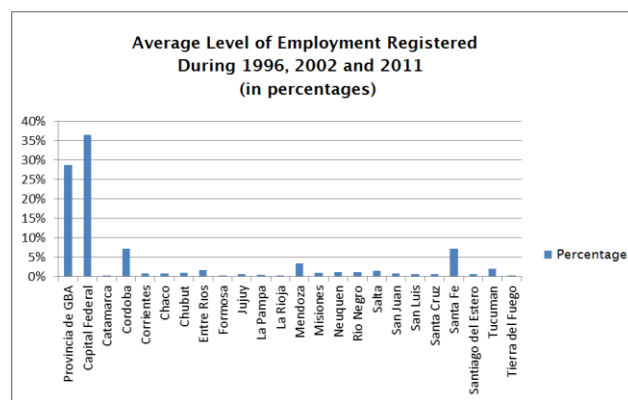
We created this graphic based on the data provided by the National Ministry of Labor. Secondly, we take as a reference the services sector, where differing from the industrial sector, the Autonomous City of Buenos Aires heads the list, with the greater number of registered workers, a total average of 37%.

Beyond this difference, the picture is quite similar to the asymmetries we have observed before. Again, we can see in graphics 10 and 11, how the Buenos Aires (including the Autonomous City of Buenos Aires), Santa Fe and Córdoba provinces account for 80% of the total registered jobs in the country, the remaining 20% is spread among the remaining provinces, which account for less of the 2% of the national total each.



Graphic 10

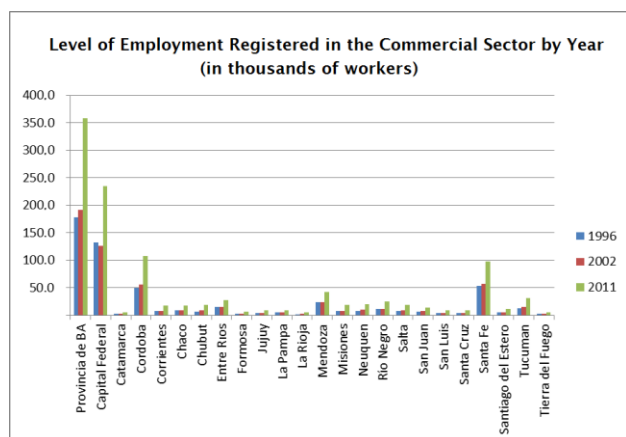
We created this graphic based on the data provided by the National Ministry of Labor.



Graphic 11

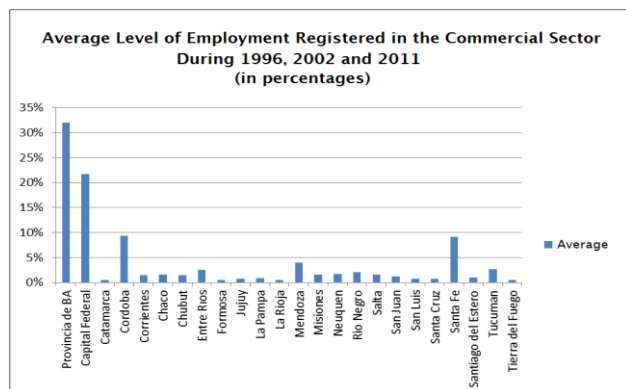
We created this graphic based on the data provided by the National Ministry of Labor.

Regarding the commercial sector, again the tendency and original continuity remains. The Buenos Aires province again heads the list with the greater number of job registration (with a 32%), followed by the Autonomous City of Buenos Aires (with a 22%) and further away, by the Santa Fe and Cordoba provinces (with 9% each). The intermediate group consist of Entre Rios (3%), Tucuman (3%) and Mendoza (4%). This group exceeds the 2%, while the remaining provinces are below this figure. For further details, see graphics 12 and 13.



Graphic 12

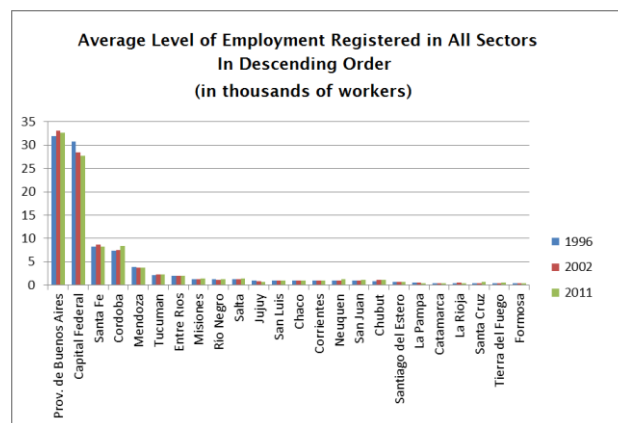
We created this graphic based on the data provided by the National Ministry of Labor.



Graphic 13

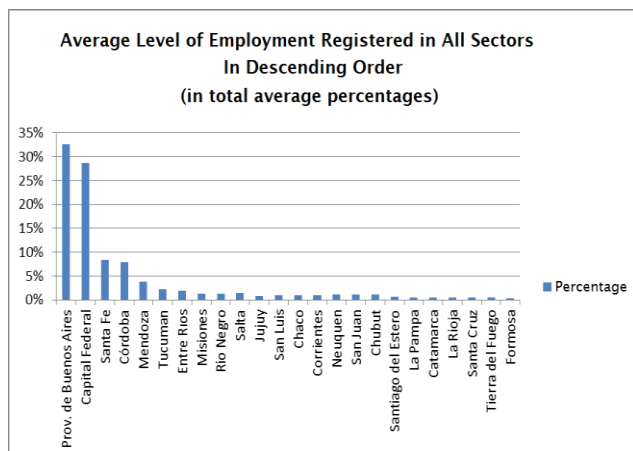
We created this graphic based on the data provided by the National Ministry of Labor.

We have seen that this picture is present in all sectors in a very convincing way. There is a noticeable concentration of job offers in the Pampean region of the country (72% of the national total) and the remaining insignificant 28% is spread unevenly among the remaining regions. We can compare this with the creation of value for each of the provinces (GGP) and we arrive to the exact same results. It is urgent to find adequate mechanisms to distribute the currently polarized job offer and wealth, in a more proportional and fair way all throughout the country. To conclude this presentation of data on the level of employment, we included two more graphics that show the number of registered workers for each province sorted in an descending order. Again, we show the figures for the analyzed years (Graphic 14) and the general average (Graphic 15). We also highlight the high concentration on the provinces of Santa Fe, Cordoba and Buenos Aires (including the Autonomous City of Buenos Aires), compared to the remaining provinces (Graphic 16).



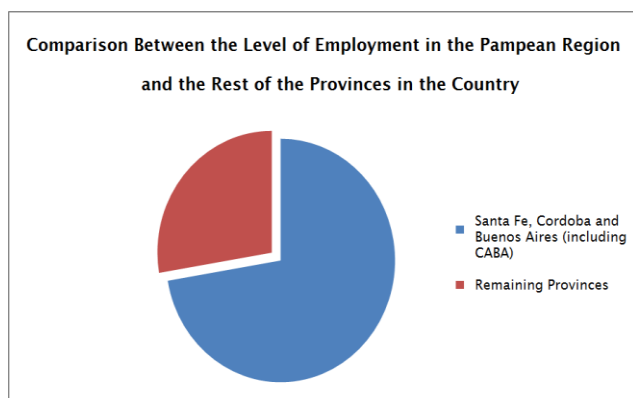
Graphic 14

We created this graphic based on the data provided by the National Ministry of Labor.



Graphic 15

We created this graphic based on the data provided by the National Ministry of Labor.



Graphic 16

We created this graphic based on the data provided by the National Ministry of Labor. Based on the foregoing and having proved the continuous reproduction of the existing inequalities and asymmetries among the different regions and provinces of the country, it is advisable to rethink this situation with the purpose of finding possible solutions.

It is clear, that in spite of the change of ways in politics and institutions that marked the country during the decade of the 90s and the first decade of 2000, there was not enough involvement from the estate in the creation of value and the comparative growth in the employment.

The neoliberal policies to decentralize the capacities towards the sub national states still require a strong economical and political involvement of our national state. Therefore, having raised the issue and expressed the need for greater involvement of the state, we will analyze in the third section of this work, which is the strategic role that the fiscal federalism plays, or should play, with the purpose of alleviating and reducing the existing asymmetries.

3 The fiscal federalism and the articulation of financial public policies in a context with regional asymmetries

The mandates stipulated by the Argentina Constitution after the reform of 1994, in the sections 75 subsection 2, 18 and 19, refer to an equal degree of development in all the regions and for all the inhabitants of the country. They also refer to the need of developing differentiated policies for the equalization of opportunities. This shows the implicit acknowledgement of the existence of regional asymmetries and inequality of opportunities.

The design of the federal federalism (in general) and a regime of federal revenue sharing (in particular) is not an exclusively technical task. The criteria selected for the distribution, the political-economical-social aspects that can influence these criteria, and the objectives to achieve, can vary significantly the content of the same regime in different countries.

This omission leads to the promotion of a set of public policies to overcome inequality that in most of the cases, did not manage to achieve their strategic objective. This produces constant sense of socio-political frustration that many times leads to surrender to the persistence of inequality.

Background

The fiscal relationship between the state and the provinces around the struggle for the fiscal revenue, have undergone deep changes throughout the history of the country and they continue evolving.

Since the enactment of the Constitution on 1853/60 and until 1890, there was a system to separate the tax sources from the federal government and the provinces. According to this system, each level of the government used its own resources without having any form of federal tax revenue sharing. In this way, the federal government attended to its needs with the proceeds of import and export duties, the exploitation and sale of public lands and some sporadic loan. While the provincial governments applied a series of encumbrances, that because of the contrast with the national taxes mentioned before (external), were generically called internal taxes (Bulit Goñi, 2008).

Since then and until 1935, the system was characterized by a de facto competition of tax sources as a consequence of the central government creation of consumption taxes that overlapped with the ones collected by the provinces.

The year 1935 gave birth to an era characterized by the federal revenue sharing between the nation and the provinces.

The passing of the law 12.139 unifying internal national taxes, the law 12.143 that transformed the tax on transactions to a tax on sales, and the law 12.147 that extended the income taxes, marks the beginning of an era of taxes shared between the nation and the provinces. All these laws were passed between 1934 and 1935. Through this mechanism the national government takes charge of managing the tax collection in all the country, under the same fee, to later share the revenue among the nation, the provinces and the Autonomous City of Buenos Aires. On the year 1935 the primary distribution established that the nation held the 82% of the resources and the provinces the 17.5%. This percentage increased progressively throughout the years and reforms.

In 1973, with the passing of the law 20.221 (by the military government) that establishes the sharing of national taxes, the system is reorganized under a unique sharing regime driven by the need to guarantee a greater stability of the provincial financial systems, with the purpose of reducing the dependence on the National Treasury and establish a preferential treatment for the provinces with lower incomes. This ensured the availability of public services that were responsibility of the provinces, in degrees that guarantee an equal treatment of all the population. It was then established the primary distribution of 50% for the nation and 50% for the provinces. While the secondary distribution was fixed, with different percentages, according to criteria based on the amount of population, the development gap among the provinces and the population dispersion.

Finally in 1988, the Congress passed the last and still current law 23.548 regarding the federal sharing of taxes. However the ambitious objective of strengthening the federal regime was not achieved.

Through this law and other rulings, the total tax revenue to share is expanded by including all the existing national taxes and the ones that might be created in the future (section 2), and the provincial sharing on the primary distribution is increased (section 3). In this sense, the section 3 states that the primary distribution should use the following percentages: nation 42.34%, provinces: 54.66%, contribution fund of the National Treasury to the provinces: 1%, relative level recovery of some provinces: 2%.

Regarding the secondary distribution, the percentages that correspond to each province were also established (section 4); it was established that the fund created with the contributions from the national treasury for the provinces "will be set aside to attend emergency situations and financial unbalances from the provincial governments, and the budget will be provided in the jurisdiction of the Ministry of Interior, who will be in charge of its allocation (section 5).

Through section 7 a percentage minimum over the total of the collected tax resources, no matter their characteristics, is guaranteed by establishing that the amount to distribute among the provinces cannot be less than 34% of the total national tax revenues collected by the Central Administration, even if the law does not regard them as of distributable character. In turn, the validity of the Federal Tax Committee created by law 20.221 (section 10), is ratified.

Even if the regime established by law 23.548 attends to the request of the provinces to increase their participation in the total tax revenue to share, with the purpose of affording the functions and provision of public services that they gradually took charge of, the law suffered since 1989 a succession of changes.

These changes were made through necessity and urgency decrees (of doubtful constitutional validity) which continued to alter the situation, in obvious detriment of all the provinces.

Meanwhile, the dossier of "earmarking" was used to divert funding from federal tax sharing, this resulted in a progressive increase in the share corresponding to the federal government. The transfer of the public services established by law 24.049 also contributed.

This law enables the national executive power to transfer the educational services that were administered by the central state, to the provinces and the Municipality of Buenos Aires, as well as the faculties and functions over the recognized private schools.

The establishment of the two fiscal pacts (of doubtful constitutional validity) in 1992 and 1993, had equally negative consequences. Through the first pact from August 12th 1992, the provinces ceded 15% of the total tax revenue to share with the purpose of funding the national social security obligations. This deduction to fund such obligations was made before the primary distribution, ensuring a minimum of 725.000.000 pesos per month and the allocation of the resources that corresponded to the National Housing Fund, the Federal Board of Drinking Water and Sanitation, the Electricity Development Fund of the Interior and Federal Road Fund.

Through the second pact from August 12th 1993 named "Federal Pact for Employment, Production and Growth", the first pact was extended and a series of obligations for the provinces and the national state were established.

As a consequence of the last pact, the provinces were forced to repeal certain taxes (revenue stamp, specific provincial taxes that levy on the transfer of fuel, gas and electric power, taxes that levy on the interjurisdictional circulation of goods or the use of physical space for services, including the air space, taxes that levy on the interest of fixed term deposit and savings accounts, taxes on the bank debits and gradually those taxes that levy on the payroll). They made a commitment to modify other taxes (tax on gross income, taxes on real state). They were forced to encourage the total or partial privatization, and partial or total concession, of services, benefits and public works, where the actual management was in charge of the provinces. And they were also forced to sell any companies, societies, establishments or productive farms that belonged totally or partially to the provinces. Meanwhile, in order to finance the decrease in provincial revenues, the national government increased the minimum amount guaranteed to the provinces to 740,000,000 pesos per month. Another evidence of the centralization of resources is the distorting distribution of the bank debits and credits taxes, established in 2001 and still current due to successive extensions. The distribution of its revenue is a very eloquent example of the deviation from the rule of distribution of taxes between the nation and the provinces established by law 23.548. Even if the total of the revenue should have been shared according to section 2 of the Law 23.548, Law of Federal Revenue Sharing, the truth is that the nation and the provinces agreed¹¹ to only include 30% of the revenue of this tax in the total tax revenue to share, from March 1st 2002 onwards.

This revenue was distributed according to the primary prorating indexes (distribution between the nation and the group of provinces), and the secondary prorating indexes (distribution among provinces) that correspond to law 23548.

Adding all this to the deductions suffered by the total tax revenue to share, before the distribution according to the percentages established by the law, the sharing of this tax results in a lower effective percentage of around 15% for the provinces and the City of Buenos Aires, who are missing the chance of collect important amounts of money, in obvious detriment of their fiscal revenue and the fiscal revenue of the involved municipal governments.

In the year 1994 the text of the constitution is reformed. Among other changes, the new section 75 subsection 2, establishes the competence of the nation and the provinces regarding indirect taxes and reserves for the provinces the tax jurisdiction in relation to direct taxes. However this will not prevent the nation to enforce them “for a fixed amount of time, proportionally equal in all the country, when required by the defense, common security and the general well being of the state..”. Thus, in relation to direct taxes, the original and unlimited power for the provinces is established, while the nation is allowed a limited, temporary and exceptional power.

¹¹ Through the law 25570, passed on April 10th, 2002, the Congress ratified the "Nation-Provinces Agreement on the Financial Relationship and the Basis for a federal revenue sharing " concluded between the National Government, the Provincial States and the Autonomous City of Buenos Aires on February 27th, 2002.

Finally, in the following paragraph, the aforementioned reform introduces to the constitutional text the institution of the federal tax revenue sharing, establishing the still postponed commitment to create a new regime for the sharing of taxes between the nation and the provinces (which include the government of the Autonomous City of Buenos Aires)¹².

In this way, when the section 2 of the subsection 75 makes reference to the basic budgets over which the new federal agreement should be established, it establishes that: "The distribution among the nation, the provinces and the City of Buenos Aires and among them, shall be made in direct relationship to their competences, services and functions..." and that this will be done "...taking into account objective distribution criteria...".

According to the constitutional clause, the allocation of resources should be in correspondence with the spending needs of the different levels of governments. The assignment of functions should be the basis on which the new federal tax deal should be structured.

This subsection also indicates that the distribution "should be equitable, inclusive and will prioritize the achievement of an equivalent degree of development, quality of life and equality of opportunities all throughout the country". These principles should also (and specially) be taken into account.

The received solidarity persuades us about the redistributive function that is attributed to federal tax-sharing regime.

On that same note, when the constitution expresses the need for the federal sharing law to distribute the shared resources among the different levels of government according to their competences, services and functions, it is highlighting objective criteria for the federal revenue sharing but also requiring explicitly, for it to be equitable and inclusive, to give priority to the achievement of an equivalent degree of development, quality of life and equality of opportunities all throughout the country (Rezzoagli and Bazza, 2013).

It seems clear that such regulation is backed up by the commandment included in the section 75, subsection 19, that refers to the need to provide an harmonious growth of the country, the distribution of its population and the promotion of differentiated public policies aimed at balancing the unequal development of provinces and regions.

Thus, by establishing in the constitutional reform that both distributions of resources (primary and secondary) should be done in solidarity, it imposes that the federal government as well as the most developed provinces, should commit with the destiny of the provinces with fewer resources with the purpose of ensuring their sufficiency. Therefore, they have the constitutional responsibility of helping those political units that cannot afford that financial coverage. (Corti, 2007).

Finally, there is a questionable dispositive in the subsection 3 of section 75, which introduces in the text an insistent practice of the Argentine federal system, given its discretionary nature and the excessive faculties deposited in the National Government.

¹² The Sixth Transitional Provision of the reform established that the law-agreement should be sanctioned "before the end of 1996", so that must have occurred before 31-12-1996.

This dispositive empowers the National Congress to establish and modify the specific assignment of shared resources, with the requirement that it be for a fixed term, by a special law, and approved by the absolute majority of all the members of each of the houses of the National Legislative Power. However this is limited by the impossibility of altering the distribution of the total tax revenue to share through a law-agreement without the agreement of the provinces (subsection 2 from section 75).

In spite of the good intentions of the constitutional reform, and even today when the deadline to sanction the new federal tax sharing regime is long past due, the passing of the new law-agreement that meets the criteria of equity, solidarity and redistribution.

Instead, the current laws, assignments and pacts with various distribution criteria, are so complex that it is difficult to understand exactly the destiny of the collected revenues and favor a discretionary nature in the management of the tax resources. It still is a pending matter to issue a new law of federal tax sharing that embodies the constitutional redistributive objectives.

Vertical fiscal unbalance and function assignment decentralization

As a consequence of the described evolution and due to the current fiscal system, the contemporary experience shows that the national state concentrates 80% of the total tax collection.

Thus, even if the provinces have their own resources, it is clear that they depend on the agreement made with the central government. (Rezzoagli and Bazza, 2013).

This means that in the field of resources, there is a clear process of concentration of the tax revenue from the central government, which translates to a real economic and financial dependency on the National Treasury from the sub national levels (provinces and municipalities).

On the other hand, the strong and known concentration of taxing powers in the national orbit was followed by a maximum decentralization in the variable of spending, which resulted in an asymmetric distribution between the spending responsibilities and the interjurisdictional taxing powers. Ultimately to date, there is a strong separation of spending decisions and funding.

In that sense, regarding the distribution of the responsibilities of public spending, the Argentine fiscal federalism is marked by a vertical assignment of functions with a high degree of decentralization.

Although in a first phase that began with the national organization, the system was characterized by a growing national public spending, by the early 60s and as a consequence of different decentralization plans, the provinces were taking on new roles. This resulted in a gradual increase in the public spending in the provinces, without a corresponding increase in their comparable income to share.

This context reveals that while the central government reduced the number of services it manages through the decentralization of the public spending to the intermediate sub national levels (not including municipalities), it still is the largest holder of tax resources, retaining a broad base of taxes in the national orbit. This means an important vertical fiscal unbalance that is worth reflecting on.

That is how the so called fiscal co-responsibility is reduced, and a strong separation between the decisions of raising and spending, crystallizes. This also creates the phenomena of fiscal illusion by hiding from the taxpayers from the different regions, the eventual expenditure growth trends.

Ultimately, there is a vertical structure of dependency between the nation and the provinces. This reflects on the role played by the national resources in supporting the total tax revenue. While on the other hand, there is an important decentralization of the public spending (Rezzoagli and Bazza, 2013).

Regarding the decisions to implement the public spending, we can justify a further strengthening of local governments based on two principles:

- A representative and participatory government works better when closer to their electorate.
- Subsets of people within the same country have the right to vote for different types and quantity of public services.

These principles imply that the decisions should be made at the lowest government level possible that is compatible with the objectives of an efficient economy. The evaluation and control of the public policies by the citizens will have a direct correspondence with those decisions. When this does not happen because the decision are made by governments that are not close to the population, such as the provincial or national government; the representative sphere is deteriorated, there is an effective tension between the concepts of development and democracy, and the spending becomes less effective because of a lack of understanding of the real needs.

However the centralized decision making can be justified by reasons of equity and solidarity, but is still not the most suitable approach regarding the income-spending efficiency, with the exception of those subjects where the effects can be externalized to other regions.

Clearly, actions such as coining money or the struggle against inflation, etc., exceed the merely regional sphere and a national top-down development is required. But there are many other programs, mainly those related to the distribution of the spending, that are created and developed in the national sphere. As well as there are cases where the requests and needs of the population from the different regions of the country do not reach the national government directly, in those cases the budget is transferred to the provinces and municipalities with certain conditions. This lack of direct representation does not only affect the success of the programs, but it also affects the accountability for the implemented policies (Rezzoagli and Bazza, 2013). There is an element in this analysis that deserves a brief self-contained comment because of the importance it has today, a central pillar in the hierarchical relationships between the sub national governments and the central government with respect to finances: the conditional cash transfers.

A great number of plans and programs related to social issues and the struggle against poverty are funded with conditional cash transfers. It is known that these represent a monetary subsidy that requires as a counterpart for the home to invest in the "human capital" (education and health) of their members, specially the younger ones. The objective is to generate the conditions to break one of the main cycles of inter-generational transmission of poverty.

However, there are at least, two issues that should be reconsidered or re-discussed to end the unequalizing process.

- The first issue is related with those programs that focus on the recipients but do not take into account the provisioning and quality of the provided services. A good example is the program that focuses on parents or tutors, to encourage them to take or keep taking their children to school as well as following the recommended immunization schedules. There is no doubt that this is an important improvement to alleviate the vulnerable situation of children and adolescents. It is also an improvement on the income of the homes that receive this help in all regions of the country. But we should work so that the conditions are not limited exclusively to the receivers, and focus also on the improvement of the quality of the provided services. The key factor of the inequality in the education lies in its quality. If there is not enough investment in the public system, which is the one that can help narrow the existing gap between the rich and the poor, the effort is not enough, even more, taking into account that this is a national program with a mainly sub national funding. Additionally the access opportunities and closeness of the population to the schools differs according to where they live (village, town, municipality, province, region). It is not only about offering the opportunity but also about “giving an opportunity to the opportunity”. This requires hard work and coordination to address the endogenous capacities of the state-owned and private structures that provide the service.

- The second issue invites to a deeper reflection, subject to an analysis that we will not develop in this item, but that we would like to highlight nevertheless. This type of intervention may arise coward and discriminatory voices from groups that instead

of thinking in strengthening the system, proclaim an alleged responsibility for the poor to overcome such poverty because they have been given an opportunity, and they have wasted it. Moreover, this responsibility can transcend the sphere of the home and be raised as an element of social responsibility or cultural growth of the country, given that poverty would hinder such attainment. That is, the poor would end up being responsible for their condition and therefore for the country not growing as much as expected.

4 Final considerations

This analysis shows us a glimpse of the importance of the adoption and strengthening of redistributive policies as a way to solve the centre-periphery dependency and the great regional asymmetries that exist in Argentina (in particular) as well as in the rest of the Latin American countries (in general).

However, the reduction of poverty and destitution presented by the country as well as the continental context in which it is immersed, during the last decade, does not correlate with a reduction of the inequality of opportunities among regions. Moreover, paradoxically while the poverty and destitution decrease, the inequality of opportunities remains stable with a slight increasing tendency in these last years.

This shows that even if they are closely related, they are not strictly dependent on each other.

The reduction of poverty and destitution is a result of the important and ambitious social and economic redistribution programs implemented by the state after a change in the ideological-political-institutional paradigm caused by the crisis of 2001.

However we can also observe the perpetuation and even an enhancement of the productive dynamic that characterized the nineties in the Argentine Republic. The differences between the productivity and employment in the different regions keep growing and this has a direct impact on the development possibilities of an individual according to their place of birth, where they choose to live. That is to say that the geographical location of an individual would determine in a certain way, their socio-economic situation and their development opportunities.

To the extent that there is an unequal access to the social services or some restriction to their potential, faculties and/or rights, such as education and employment, related to exogenous factors (such as their place of birth or habitability, among others), these play a very important role in the inequality of opportunities. These causes the mainly internal migratory movement that characterizes the geography of the country, with large and growing cities, next to desolate large territories, and the effects this has on the different edges of this analysis. In this sense, we struggle for the necessary and urgent need for a strategic shift aimed at defining public policies of geographical redistribution of productivity and employment, as well as the generation of endogenous state capacities, as the only possible means of breaking the center-periphery dependency cycle.

The important road Argentina has taken together with several Latin American countries during the last decade, must necessarily address the restructuring of the productivity and employment variables in the various regions of the country, together with a prior or concomitant strengthening of state endogenous capacities from a financial point of view.

This can be achieved through a rethinking of the law of Federal Revenue Sharing Law as an instrument, and of fiscal federalism, as a phenomenon, which is likely to produce the opposite effect to the aforementioned restructuring.

The great disparity and gaps that exist in the different regions of the country due to the lack of technical equipment and/or local public structure to carry out the programs designed at the national level, in provinces and municipalities, causes an estrangement from those who have access to the actual implementation variables. This increases the inequality gap (some provinces keep getting richer and others keep getting poorer) and is ultimately consistent with the indicators that prescribe a reduction in poverty (due to the a large number of families that receive programs and subsidies, but who are completely dependent on them and do not have other possibilities of social reintegration by any other means, which results in a perpetual and irreversible increase of the public spending). But they also prescribe a growing increase of the inequality of opportunities in the different regions of the country.

We must articulate this dynamic in terms of equality of opportunity, with the previous or joint creation of programs that aim at the structural generation of endogenous capacities for the horizontal equalization of the seizing of opportunities. Hence, the need and importance, of articulating these issues to the fiscal federalism. Because in financial terms there is no doubt that the actual system despite of the important social achievements that resulted from the reduction of poverty and destitution, is far from answering and implementing the constitutional appeal to the equality of development opportunities, redistribution and solidarity proposed by the Constitution for all the regions of the country.

On the contrary, it favors the perpetuation and increase of the regional inequality gap and the maintenance of a state divided and marked by the weakening of its endogenous acting capacities for the reversal of the problem that worries us.

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