

Inter-Governmental Fiscal Relationships of Municipalities in Argentina and Mexico

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Abstract

This work analyzes the fiscal relationships of municipalities in Argentina and Mexico with both provincial and state governments and the federal government. It focuses on the laws that regulate the municipal regime and the tax regulations of both countries. The result confirms the hypothesis that even in federal systems, the municipalities of Latin America are fiscally subordinate to state or provincial and national governments. This runs contrary to one of the essential characteristic of federalism, which is the decentralization and thus the autonomy of local governments.

Keywords: fiscal federalism, municipalities, tax coparticipation, municipal regime, fiscal powers fiscal relations

The fiscal crises of the 1970s and 1980s gave rise to a number of reforms in Latin America. During those years, central governments were forced to contend with unwieldy budget deficits in a climate of credit restriction (Bergman, 2004). Among these reforms was an effort to decentralize governments and thus to downsize the federal apparatus. The main argument for decentralization is that transferring powers to subnational governments makes the public sector more efficient, because local governments—which are closer to the people—are more familiar with their needs and preferences than federal governments, so they will make better decisions (Lessman & Gunther, 2013). Furthermore, entities tend to compete with each other to attract citizens that share those preferences, and are thus obliged to improve their performance.

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Accordingly, they are able to increase social welfare, which is the ultimate goal of these policies, through an appropriate distribution of taxation powers across the various levels of government (Qian & Barry, 1997). This decentralization process gives rise to two essential questions: how are the functions and responsibilities invested in the state distributed among the various levels of government? What revenue instruments does each level of government have for fulfilling their responsibilities? In this paper, the answers focus on the relationship between the municipality and other levels of government, because federalism, as a number of authors have pointed out, cannot be fully explained without considering the municipality. The municipality is the essential instrument for decentralizing the State. The hypothesis of this paper is that even in countries organized under federalist systems, the municipalities of Latin America are fiscally subordinate to state and federal governments. Argentina and Mexico were chosen because both countries have the same historic origin, and both adopted federalism as a political system. This analysis focuses on three aspects: the municipal regime and jurisdiction, the general characteristics of federalism, and the system of tax sharing, particularly at the municipal level.

Method

To make this work we use the theoretical analysis on federalism, the general laws that govern federalism (The Constitutions) and the laws that regulate the intergovernmental fiscal relations of the Municipalities with other orders of government. The choice of Argentina and Mexico is because they are countries with the same historical origin in Latin America and both are constitutionally federalist. The comparison between Argentine and Mexican municipalities was conducted from topics or subtopics, which are easier to understand. The central themes were shaping the municipal system, the fiscal powers of municipalities and tax sharing.

1. The Municipality: between Centralization and Decentralization

In Latin America, the municipal question has been the subject of debate since the early 19th century, when the wars of Independence began. The discussion was influenced by the independence of the 13 U.S. colonies and the French revolution. The debate was between the centralization of power, or its distribution among local governments; between legal equality and privileges divided according to the estates of the realm.

The region's colonial past, which demanded centralism in the creation of nations (Finot, 2001) weighed heavily on the decision between one system and the other, and the municipality ultimately became a merely rhetorical figure. Constitutionally, only three countries adopted federalism: Argentina, Brazil and Mexico. Although multilateral financial organizations have obliged governments to undertake changes to decentralize power, political and economic decisions across Latin America remain highly centralized. Subnational governments (states or provinces and municipalities) remain subordinate to the central government, which not only makes the main decisions but also takes up the lion's share of tax revenues.

2. Federalism and Municipal Regime

Argentina is organized into three levels of government: national government, 23 provinces, the city of Buenos Aires, and 2,252 local governments. It is governed by the National Constitution of 1853, reformed in 1994, and adopts the federal representative republic as its form of government (Falleti, 2004). Under the theory of federalism, each level of government should be autonomous and the legislative and executive branches of each are chosen by popular vote. Theoretically then, Argentine federalism is composed of three levels of government: federal, provincial and municipal. But when we dig deeper into the types of inter-governmental relations, particularly fiscal relations, we find a prevailing federalism consisting of only two orders of government: national and provincial —and a third, municipal government, totally subject to provincial authority. The National Constitution of Argentina (1994) makes municipal governments part of the provincial regime. "Each province shall enact its own Constitution under the republican, representative system, in accordance with the principles, declarations, and guarantees of the National Constitution, ensuring its administration of justice, municipal regime ...". Article 123 states that provinces should ensure municipal autonomy: "Each province enacts its own Constitution as stated in Section 5, ensuring municipal autonomy and ruling its scope and content regarding the institutional, political, administrative, economic and financial aspects." Although the National Constitution stipulates autonomy for municipal governments, in practice they are totally subordinate to provincial governments.

The Argentine federalism of two orders of government (national and provincial) is even more evident in fiscal relations. Federal Tax Sharing Law 23.548 provides for the distribution of fiscal resources only between the nation and the provinces. Almost all provinces in turn have their own law on sharing fiscal resources among the municipalities, the exceptions being Jujuy, San Juan and Rioja (Díaz, 2013). In the 2001 economic-political crisis, under a Social Emergency Law, starting in 2003 the national government transferred resources directly to municipal government to build low-income housing through the Federal Housing Emergency Program. This situation did not alter the regime of federal tax sharing, because the transfers were completely discretionary (García, 2011). The federalism of two orders of government is also expressed in Argentina's institutional relations; for example, the National Institute for Statistics and Census (INDEC), a federal institution, maintains only federal and provincial financial information.

Each province is responsible for processing municipal financial information. In Mexico, the National Institute for Statistics and Geography (INEGI) provides financial information on municipalities. In Mexico's case, article 115 of the Political Constitution of the United Mexican States (2014) establishes that "Each province enacts its own Constitution as stated in Section 5, ensuring municipal autonomy and ruling its scope and content regarding the institutional, political, administrative, economic and financial aspects." The 31 states of Mexico have adopted the free municipality as the basis of their territorial division, political and administrative organization. Mexico's 2,457 municipalities have the same political and economic powers, regardless of their size or number of inhabitants. There are thus no legal "categories of municipalities." This does not mean all municipalities are equal, however. As in Argentina, they vary widely in the number of inhabitants and in economic development. Although the Mexican Constitution establishes a single municipal regime, and with it, in legal terms, a single type of municipality with the same political rights, it does recognize political and cultural differences between municipalities with indigenous inhabitants, stipulating that these may be governed by their own internal traditions and rules.

2.1 Categories of Municipality in Argentina

In Argentina, there is no one municipal regime. Provincial constitutions determine the criteria for establishing municipal categories or levels of local government: some, like the provinces of Buenos Aires and Mendoza, assign the same jurisdiction equally to all local governments, while others define a set of different levels (Cravacuore, 2007). For example, article 204 of the Constitution of Santiago de Estero (2002) reads "There shall be three categories of municipality: the first, consisting of the cities of Estero, La Banda, Las Termas de Rio Hondo, Frías, Añatuya and those with a population of more than twenty thousand inhabitants; second, the cities of Quimilí, Fernández, Loreto, Clodomira, Monte Quemado and those with more than ten thousand inhabitants; and the third, those with more than two thousand inhabitants" (Constitution of the Province of Santiago de Estero, 2002). Another example is the Province of San Luis, where articles 249 to 256 of the Provincial Constitution (1987) establish various categories of local government depending on the number of inhabitants: the first and smallest, up to 80 voters; the second, up to 800 inhabitants; the third, from 801 to 1500 inhabitants; the fourth, more than 1,500 inhabitants, and finally, those with more than 25,000 inhabitants, which can have an organizational charter. This means the municipal regime of the Province of San Luis provides for up to 5 levels of local government (Constitution of the Province of San Luis, 1987).

Most provincial constitutions establish a form of government consisting of an executive department and a legislative department. The exceptions are Misiones, Entre Ríos, and Neuquén, which stipulate the formation of a collegiate body. Tierra del Fuego and Córdoba grant municipalities with organizational charters the authority to choose their own form of government (Iturburu, 2001). Another of the primary differences among Argentina's municipalities is that not all of them have an organizational charter and Deliberating Council (local legislative branch). Of the 2,252 local governments, 1,151 are considered municipalities, and 1,101 local governments do not have a municipal hierarchy (Iturburu, 2001). According to the website of the Argentine Ministry of the Interior and Transportation (2014), "regulating the functioning of local governments in Argentina is a power that lies with the provincial governments."

Each province establishes a regime for these in its Constitution, and an Organizational Law that applies to those that are not eligible to draft an organizational charter ...” Provincial constitutions delegate to provincial legislatures the authority to decide which form of government and financial resources will be assigned to local levels without a municipal hierarchy, like communes, comisiones de fomento (literally, development committees), municipal councils, boards of governors, etc. These generally include settlements of less than 500 inhabitants (Iturburu, 2000).

3. Administrative and Fiscal Jurisdiction of Municipalities

The jurisdictions and attributes of Argentina’s municipalities depend on each of the 23 provincial Constitutions. In order to generally refer to these powers, we will use Cravacuore’s classification: first, the construction and maintenance of urban infrastructure, which includes the provision of public lighting, sanitation and collection of solid urban waste, the construction of neighborhood streets and sidewalks, conservation of parks and public plazas, care of cemeteries and maintenance of urban amenities. Second, the regulation and control of activities carried out within their territory, which includes regulating housing, economic activities and urban transit; and third, assistance for at-risk populations, which is carried out through direct social support, basic health care and civil defense against natural disasters (Cravacuore, 2007). In addition to these responsibilities, with the process of decentralization, some provinces gave municipalities certain jurisdiction in the areas of public health, education, safety, the environment and culture (Díaz, 2013). Argentina’s provinces have granted very few fiscal powers to their municipalities, and these depend on the category of municipality and the provincial tax-sharing laws. The provinces establish tax sharing percentages in special laws, except for the provinces of Jujuy, La Rioja and San Juan, which are governed by transitory annual agreements in each of the municipalities (Díaz, 2013). Few municipalities have the authority to collect taxes (Córdoba, Chaco, Chabut, Formosa, Salta). Most collect only rates for public services.

These vary, and can include: lighting, street cleaning, inspection, safety and hygiene, sanitation services, road maintenance, building permits, office rights, right to occupy the public domain, contribution of improvements, fines and back interest, traffic violations, electrical energy rates, advertising and propaganda (Smulovitz & Clemente, 2004). In Mexico, municipalities have well defined responsibilities and sources of income.

Article 115 of the Mexican Constitution (2014) establishes the administrative jurisdiction of Mexican municipalities, which are generally the same as those of Argentina, the main difference being that Mexican municipalities have the power to collect property taxes (known as the predial). Although the property tax is one of the few that local governments can easily collect, both because of access to information and because the taxable property cannot be changed with the taxpayer’s domicile (Bergman, 2004), it is important to underscore that in Latin America in general, and in Mexico in particular, it amounts to a very small proportion of Gross Domestic Product (GDP) see table 1.

Table 1: Property Tax Revenues Collected in Proportion to GDP

	1990-94	1995-99	2000-04	2005-07
Argentina	0.65	0.62	0.59	0.44
Mexico	0.18	0.18	0.18	0.18
Average for Latin America	0.33	0.40	0.38	0.36

Source: (ECLAC, 2013)

The jurisdiction of Mexican municipalities, according to the Political Constitution, extends primarily to public services: drinking water, drainage, sewage, treatment and disposal of wastewater, public lighting, sanitation, the collection, transportation, treatment and final disposal of waste, maintaining markets and supply centrals, graveyards, slaughterhouses, streets, parks and gardens with their equipment, and maintaining the public order (municipal preventive police and transit police). In addition to these, the Political Constitution grants other powers to Mexican municipalities: formulating, approving and administering zoning and municipal development plans; participating in creating and administering territorial reserves; carrying out regional development plans; authorizing, controlling and overseeing land use; intervening in the registry of irregularly held urban land; granting construction licenses and permits; participating in the creation and administration of ecological preserves; intervening in the formulation and application of mass transit programs that affect their territory; and entering into agreements for the administration and custody of federal zones.

Interestingly, while in Argentina municipal jurisdictions are established in the respective Provincial Constitution, in Mexico the administrative attributes of all the municipalities in the country are determined by the National Constitution. Through various amendments to article 115 of the Political Constitution of the United Mexican States, municipalities were given free administration of their finances. Within their sphere of influence, the municipal councils would ask state legislatures to approve the fees and rates applicable to taxes, rights, contribution of improvements, and land and construction unit value tables that would be used as the basis for collecting property taxes. Municipal revenue budgets would be approved by the state legislature; municipal spending budgets would be approved by the municipal council based on its available revenues. The revenues that make up the municipal budget would be exercised directly by the municipal councils, though they remained subject to oversight and inspection by the state legislature.

Note that although the Mexican constitution grants autonomy to municipalities in the area of public finance, this is actually relative, because their revenues must be approved by the state legislature. Although federalism assumes that the various orders of government have sovereignty in spending and levying taxes (Retchkiman, 1975) this is in actual fact not the case in Argentina or in Mexico. Municipalities are subordinate to provincial and state governments, and these in turn to federal governments. But the authority to raise revenues and manage budgets and spending, among others, are essential for ensuring that the legal framework of local government actually contributes to their development. When local governments do not have enough of their own resources to cover the expenses necessary to fulfill their responsibilities, it creates an imbalance between their revenues and the cost of the public services they must provide. Hence the importance of granting revenue collecting powers to this level of government. Without them, the municipality must decide whether to cut spending or rely on transfers from the federal government, with the resulting negative consequences for local autonomy.

4. Intergovernmental Tax Relations

Financial imbalances between various levels of government generally favor the federal government, and this is the case in both Argentina and Mexico.

This is because, among other reasons, the federal government has a greater revenue-generating capacity, given that it can levy a wide range of taxes that are sensitive to growth in income, while revenues generated by the taxes traditionally levied by local governments have a tax collection elasticity of less than one (Astudillo, 2007). In Mexico, for example, the federal government collects 90.8% of total tax revenues, state governments 6.1% and local governments only 3.1%. The last reform to the National Constitution of Argentina in 1994 provided for the drafting of a new law on tax-sharing between the federal and provincial levels, but since that law has yet to be created, Tax-Sharing Law 23.548, passed on March 31, 1988, remains in effect. That law establishes a tax-sharing regime between the nation and the provinces. Among other aspects, it establishes the proportions for distribution of the distributable or sharable revenue base for all the provinces, the composition of that base, the provinces' tax faculties, the functional aspects of the tax-sharing regime and the institutions responsible for executing it. In Argentina, the distributable revenue base is made up of national taxes, both existing and to be created subsequently, except for import-export duties. Law 23.548 stipulates that of this distributable revenue base, 42.34 percent should be allocated to the nation, 54.66 percent to the provinces, 2 percent to provincial recovery and 1 percent to the National Treasury Contributions for provincial tax emergencies and imbalances. The percentage distribution of total resources allocated to the provinces (54.66 of the distributable revenue base), is as follows: Buenos Aires 19.93, Catamarca 2.86, Córdoba 9.22, Corrientes 3.86, Chaco 5.18, Chubut 1.38, Entre Ríos 5.07, Formosa 3.78, Jujuy 2.95, La Pampa 1.95, La Rioja 2.15, Mendoza 4.33, Misiones 3.43, Neuquén 1.54, Río Negro 2.62, Salta 3.98, San Juan 3.51, San Luis 2.37, Santa Cruz 1.38, Santa Fe 9.28, Santiago del Estero 4.29 y Tucumán 4.94, and finally, the amounts allocated to Tierra del Fuego and the City of Buenos Aires are to be compatible with historic levels (Law 23.548, article 4). Fixed percentages of distribution are established among the provinces regardless of their own tax collecting powers or growth in their population.

In contrast to Argentina, where Federal Tax-Sharing Law 23.548 assigns fixed percentages of funding allocated to each province, in Mexico the Fiscal Coordination Law (2013) establishes various criteria for distribution, including state GDP, tax collecting powers, population, and resources in the previous fiscal period. The resources allocated to each province in Argentina must in turn be shared with the municipalities.

In this case, the distributable revenue base of each province refers to the total amount of provincial revenues (including federal funding) which by law the provinces must share with local governments. Under the Argentine system, each province establishes the composition and distribution of those revenues. The revenue base is distributed to the municipalities through two mechanisms: primary and secondary distribution. Primary distribution is the allocation of a certain percentage of revenues by each province to be transferred to the municipal sector. Secondary distribution establishes the criteria and bases on which those resources are divided up among the municipalities in the province (Ministry of Economics of the Nation, 1998). In Mexico, by a 1980 amendment to the Fiscal Coordination Law, the National Fiscal Coordination System that exists today was created. Under this system, federal entities (states) surrendered most of their tax powers in exchange for a share in federal revenues. Federal funding transferred to states and municipalities is made up of tax-sharing from Sharable Federal Revenues (branch 28); and contributions from branch 33 of the Federal Expenditure Budget. The tax-sharing is transferred unconditionally, for the purpose of sharing federal tax collection with state and municipal governments.

The tax-sharing resources compensate state and municipal governments for the loss of their taxation sources. In addition to this tax-sharing, and independently of it, the federal government also transfers funding called "contributions," introduced in a 1997 reform to the Fiscal Coordination Law, to the states, Mexico City, and municipalities. Contribution funds were introduced in order to establish mechanisms for decentralizing federal public spending by transferring resources and responsibilities to states and municipalities. This actually exacerbated the vertical fiscal imbalance between the levels of government. Stiglitz (2000) conceives fiscal federalism as "the division of economic responsibilities between central administration and regional and local governments." In Mexico, however, the Fiscal Coordination System takes tax powers away from state and municipal governments and has made them highly dependent on federal transfers, and highly inefficient in collecting their own taxes. Sharable Federal Revenues are made up of all the taxes collected by the federal government, as well as revenues from oil and mining. It excludes some items such as extraordinary revenues from oil drilling. The General Tax-Sharing Fund is made up of 20 percent of Sharable Federal Revenues (Fiscal Coordination Law, 2013).

The Fiscal Coordination Law determines the distribution of the General Participation Fund among the 31 states, Mexico City and the municipalities, based on the following criteria: the resources received in the previous year, tax revenues, the State Gross Domestic Product, and size of the population. In Argentina, Federal Tax-Sharing Law 23,548 established fixed percentages and does not rely on taxation efficiency or any other criteria. In addition, the Fiscal Coordination Law establishes eight “contribution funds” for decentralized social program spending at the state and municipal level, which includes education, health, social infrastructure, municipal strengthening, public safety, and state strengthening. It establishes the criteria for distribution of each fund (Fiscal Coordination Law, articles 25-52). Of these eight funds, two are intended exclusively for municipalities: the Strengthening Fund for Municipalities and Divisions of Mexico City, and the Fund for Municipal Social Infrastructure. The latter is allocated for infrastructure in the areas of fresh water supply, sewage, drainage, public toilets, urbanization, rural and low-income neighborhood electrical supply, basic health infrastructure, basic educational infrastructure, housing improvement, rural roads, and rural productive infrastructure.

The resources are transferred through the state government. Article 6 of the Fiscal Coordination Law stipulates that the state governments must distribute at least 20 percent of what they receive from the General Tax-Sharing Fund, meaning the funds they receive in the form of tax sharing from the federal government. State legislatures decide how much is to be distributed to each municipality based on their own tax laws. The federal government transfers the tax sharing to municipal governments through the states; if the state government fails to transfer these resources, the federal government may transfer the funding directly. The law also guarantees certain delivery periods for the funding; which are transmitted in cash, and are unattachable. It also determines other municipal funds (the Border and Ports Fund, the Oil Fund for Borders and Coastlines, the Municipal Promotion Fund). In summary, the Fiscal Coordination Law establishes various funds for municipalities, and also makes it obligatory for state governments to distribute at least 20 percent of their federal funding to the municipalities. In contrast to the Argentine Tax-Sharing Law 23.548, which does not establish funds or specific percentages to be distributed to municipalities, in Mexico the Fiscal Coordination Law does stipulate the resources to which municipalities are entitled from federal tax-sharing and municipal funds.

5. Fiscal Relations between Provinces and Municipalities

In Argentina, under Law 23.548, the provinces have the authority to levy the following taxes: property tax, gross income tax, ownership, registry, use or transfer of automobiles; stamps and gift taxes, and taxes or provincial or municipal rates provided for in the rules on tax creation (Law 23.548, article 9). In Mexico, real-estate property tax is the faculty of the municipal government. Law 23.548 does not provide for the direct distribution of sharable federal revenues to the municipalities. It orders provinces to share part of the funding they receive from the federal government with their municipalities, but it does not stipulate percentages or criteria. The law reads: “[provinces] are obligated to establish a system for distributing the revenues arising from this law to the municipalities under their jurisdiction, which should be structured to ensure the objective determination of indexes for distribution and the automatic biweekly remittance of the funds” (Law 23.548, 1988 article 9, point g). This federal law allows provincial governments to determine the criteria and percentages of distribution of federal revenues to their municipalities. The average percentage distributed by Argentina’s provinces to their municipalities is 14.8 percent. The provinces with the lowest percentage of tax sharing are Chubut (7 percent) and San Luis (8 percent) and those with the largest percentage are Tierra del Fuego (35 percent) and Catamarca (25 percent). The following table shows the percentages of tax-sharing between provincial and municipal governments. Note that municipalities receive a share not only of the funding the province receives from the federal government, but also of what the province itself raises from gross revenues and royalties (Díaz, 2013).

Sharable percentage of total current public revenues

Province	Sharable percentage of total current revenues	Province	Sharable percentage of total current revenues
Tierra del Fuego	28.61	Santa Fe	12.57
Chubut	22.90	Chaco	12.21
Catamarca	17.19	Entre Ríos	12.00
Mendoza	16.37	Tucumán	11.93
Córdoba	16.06	Santa Cruz	11.28
Río Negro	14.42	La Pampa	11.26
Santiago del Estero	14.16	Corrientes	10.68
Buenos Aires	13.73	Formosa	10.60
Salta	13.55	Misiones	9.69
Neuquén	12.65	San Luis	8.93

Source: (Díaz, 2013)

This method of distributing public funding gives rise to a wide array of tax-sharing systems at the provincial level and may allow for abuses in the distribution of resources to the municipalities. Argentina would do well to reform its tax-sharing laws to establish a minimum percentage of tax sharing by the provinces (from the federal funding they receive) to their municipalities, to avoid abuses by provincial governments and guarantee the municipalities a certain level of revenues. In terms of tax-sharing, there is no institutional structure relating municipalities to the federal government, but there are certain sanctions and resolutions that establish that municipalities must conform to the recommendations of the Federal Tax Commission, even though only national and provincial governments are represented in this body.

Final Considerations

In analyzing public finances that encompass various levels of government, the differences between revenues and expenditures can be viewed from two perspectives. Vertically, based on the various levels of government (federal, state and municipal), or horizontal, based on governments at the same level, for instance, municipalities as a group (Lagos, 2004). From the perspective of vertical relationships, we found that even though Argentine law recognizes three levels of government, in political practice, and particularly in fiscal relations, we find a two-level federalism —national and provincial— and municipalities are totally subordinate to the provinces. Although municipal autonomy is provided for in Argentina's National constitution, in actual affect this depends on what is granted by each of the provinces. The municipal regime in Argentina is regulated by each province; in Mexico, it is governed by the national Constitution, which establishes a single municipal system, under which all municipalities have the same powers regardless of their size or number of inhabitants. It can be said that Argentina has 23 separate municipal regimes, because each province grants different powers to its municipalities, depending on the category of local government, and we can identify between one and five levels of local government. In Mexico there is only one municipal regime regardless of the characteristics of the municipalities. Each of Argentina's 23 provincial constitutions establishes the powers of the municipalities under its jurisdiction, but in general they are responsible for construction and maintenance of urban infrastructure, regulating and controlling the activities conducted within their territory, and attending to inhabitants in the event of risk.

Recognition of municipal autonomy in most Argentine provinces is not reflected in any fiscal authority granted to them. It is important to bear in mind that the scope of a local government's autonomy with respect to its revenues depends on its freedom to determine both the tax base and the tax rate (Horst, 2010). In Argentina, each provincial tax-sharing law establishes the fiscal authority of the municipalities, which in turn depend on the category in which each municipality is placed. In Mexico, on the other hand, the National Constitution establishes the powers of all of the municipalities in the country. The division of resources from federal sources established in Argentina's National Tax-Sharing Law 23.548 does not mention municipal funding or resources; it merely says that provinces must share some of the resources they receive from the federal government with their municipalities, without establishing criteria or percentages. This has led to very different percentages of tax-sharing among the provinces.

The main sources of revenues for Argentine municipalities are service fees. In Mexico, the Fiscal Coordination Law stipulates that federal resources are to be transferred to the municipalities through the states. It provides for various municipal funds, the sharing of federal revenues that were in turned shared with the state, and two contribution funds, and states are obligated to share 20 percent of the funds from state sources with their municipalities. Federalism recognizes various levels of government in a single country, with sovereign powers for making political and economic decisions. In both Argentina and Mexico, however, the federalist system does not grant effective autonomy to municipal governments, but instead, institutionally and legally, it subordinates them to the state/provincial and national governments. This gives municipalities in both countries very little or no financial autonomy, because of the way both the sources of income and appropriation of tax proceeds are distributed among the three levels of government.

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