

Budget Manipulation and Vertical Fiscal Imbalance.

Meloni Osvaldo.

Cita:

Meloni Osvaldo (2010). *Budget Manipulation and Vertical Fiscal Imbalance*. V Congreso Latinoamericano de Ciencia Política. Asociación Latinoamericana de Ciencia Política, Buenos Aires.

Dirección estable: <https://www.aacademica.org/000-036/489>

Looking into the Congress: does quality matter?*

José J. Bercoff

jbbercoff@herrera.unt.edu.ar

Universidad Nacional de Tucumán,
Argentina

Oswaldo Meloni

omeloni@herrera.unt.edu.ar

Universidad Nacional de Tucumán,
Argentina

Jorge P. Nougués

jnougues@arnet.com.ar

Universidad Nacional de Tucumán,
Argentina

Abstract

In federal democracies the Congress has a central role in the distribution of benefits across provinces and also a significant influence in promoting regional development through taxes, subsidies and regulations. Traditionally, the political economy literature has focused on the quantity of legislators per capita to explain the distribution of benefits but leaves aside the quality component. We present a model where legislators' quality plays a role in the dispute of limited federal benefits. We demonstrate that although quantity is important, at the margin quality does matter. We also show quality indicators of the political representation for the Argentinean case.

Key Words: overrepresentation, Congress, distributed politics.

I. Introduction

In federally organized democracies the legislative branch has a central role in the distribution of resources across regions and provinces and also a significant influence in promoting regional and state development through taxes, subsidies and regulations. Traditionally, the political economy and the public finance literature emphasized overrepresentation of less populated districts in Congress as a key variable to explain policies and the distribution of transfers from the central government to local jurisdictions. The argument is simple: since every district has the same fixed number of senators, each senator's vote has the same value to any coalition while each small district requires, in absolute terms, less money than larger ones to carry out a program covering the same percentage of its population. In other words, for a coalition leader, it is more convenient to add a small district as a program beneficiary than to add a larger one. Overrepresentation may also characterize the Low Chamber despite apportioning representatives according to population: some countries assign a minimum number of congressmen to small districts regardless population.

However, this argument by focusing on the quantity of legislators per capita leaves aside each district delegation quality. In other words, overrepresentation implicitly assumes homogeneous legislators. This is not a minor issue. A high quality legislator can be as valuable as several mediocre representatives. Numerous fields in economics such as industrial organization and labor economics stress the key role of qualified human resources in firms and organization to achieve certain goals.

Our paper tries to reconcile these apparently opposite views on the role of individual and team average quality in a special organization like Congress. We present a simple model where legislators' quality plays a role in the dispute of limited federal

benefits. We show that although quantity is important, at the margin quality does matter.

Additionally, we discuss different factors that increase the quality of legislators and propose quality adjusted measures of subnational delegation in Congress for the case of Argentinean Legislative Branch.

The rest of the paper is organized as follows. Section II summarizes the previous literature and some of the most significant empirical papers. Section III presents the model and section IV discusses the factors that increase the quality of legislators and defines quality measures of district delegation strength in the Congress. Section V displays some empirical evidence for the case of Argentina and in Section VI we conclude.

II. Related literature

Overrepresentation is a distinctive feature of federations and hence a forcible reference in political economy and regional science studies that examine the influence of Congress on geographical disparities in subsidies, taxes, regulations and transfers. Knight (2004) formally derived the relationship between overrepresentation and federal spending per capita from a modified theoretical legislative bargaining model allowing for a variable that proxies the delegation size. The model predicts a bargaining advantage for small states, defined as a positive relationship between delegates per capita and federal spending per capita.

The empirical literature on federal funds allocation among districts shows abundant evidence on the importance of overrepresentation to the redistribution of federal resources. Atlas et al. (1995) consider per capita federal net spending across the 48 U.S. continental states between 1972 and 1990. They find that overrepresentation,

especially in the Senate, explains why small districts receive larger amounts of federal funds compared with the larger one. Similarly, Lee (1998), focusing only in the Senate apportionment, found that federal outlays favors disproportionately less populous states in the period 1984-1990. He argues that overrepresentation has significant implications for federal funds distribution not only because congressmen have incentives to benefit their constituency but also due to overrepresented states outnumber underrepresented ones.

In turn, Kalandrakis (2004) studying the interaction between big and small states in a bicameral congress that decides how a fixed resource is distributed among districts, finds out that an increase in small jurisdictions representation may reduce their expected payoff.

There is also evidence of the impact of overrepresentation on transfers across subnational jurisdictions in emerging democracies. Porto and Sanguinetti (2001) and Jones et al. (2000) found a key role for overrepresentation when discussing the determinants of inter-governmental transfers originated in the Federal Tax-Sharing Agreement in Argentina.

A common feature of the previously mentioned papers is that they implicitly assumed homogeneous congressmen. Every senator and representative has the same importance when deciding transfers, taxes, subsidies and regulations affecting provinces resources and development. The difference between each provincial delegation is its size which in turn depends on the population and the apportionment rules.

The assumption of homogeneous legislators is, at least, questionable. It is very difficult to assert that there is no valuable difference among representatives on regional policy issues. Differences in negotiation abilities, profession, leadership

conditions and experience at legislative or executive positions might have significant influence on their performance and hence on the subnational delegation performance. Actually, Levitt and Poterba (1994), in a path breaking paper, introduced the concept of congressmen's *seniority* to explain the allocation of federal funds among U.S. states. They argue that a long career at Congress signals experience and abilities in lobbying for more resources to their states. *Seniority* can be considered as one dimension of legislator's quality.

Recently, Bercoff and Meloni (2009) also include *seniority* to explain how the federal resources are allocated between provinces in Argentina. Although they found that Capital Expenditures distribution is mainly dominated by the action of the Executive and the governors, the *seniority* plays some role worth to explore further.

III. The model

Consider a federation with two jurisdictions X and Y with population size K and M , having each one a representative to the Congress (i and j respectively). Each representative derives utility from ego rents (E) if he/she remains in office and 0 if he/she is not reelected¹. The probability of reelection is p , so for legislator i , the value of reelection (V_i) is:

$$V_i = p_i E_i \quad (1)$$

Reelection depends on the amount of federal benefits (B) he/she obtains for his/her jurisdiction. Benefits can take several forms such as fiscal funds, subsidies, special tax reductions, regulations, direct investment, etc. Notice that these benefits are limited and thus subject to dispute. We consider that fiscal funds, subsidies and regulations are distributed according to a share scheme (U) related to Weingast's universalism idea and another portion (F) subject to zero-sum game dispute between coalitions². Thus,

$$B = U + F \quad (2)$$

The legislator's game

Legislators compete against each other to obtain F to his/her jurisdiction through various tools such as the power of setting the agenda. The winner takes all the disputable benefits F to his/her district hence he/she is reelected. The loser gets nothing so he/she is voted out of the Congress seat³.

The allocation of F depends on the combination of the legislator's human capital or quality (q), effort (e) and luck (ε). We assume that the quality of human capital can take only two values, \bar{q} and \underline{q} , denoting high and low quality respectively.

We also assume that each player chooses his plan of action once and for all and both player's decisions are made simultaneously. Additionally there exists common knowledge; in other words the players know the quality of his/her opponent; in turn they know this and so on.

Since we are interested in the contest between players with different qualities we exclude the case of homogeneous legislators, disregarding the cases in which

$$\bar{q}_i = \bar{q}_j \text{ or } \underline{q}_i = \underline{q}_j \quad \text{for } i \neq j$$

Let us denote f as the amount of disputable benefits per capita. Assuming initially that $K = M$, then the per capita benefit is $f = F/X = F/Y$. For simplicity, let us suppose that f can take only two values⁴:

$$\begin{aligned} f_i = f^* > 0, & \quad \text{iff} \quad q_j + e_i + \varepsilon_i > q_j + e_j + \varepsilon_j \\ f_i = 0, & \quad \text{otherwise} \end{aligned} \quad (3)$$

f is allocated to province X if the characteristics of legislator i overcome those of legislator j . Alternatively, for legislator j

$$\begin{aligned} f_j = f^* > 0, & \quad \text{iff} \quad q_j + e_j + \varepsilon_j > q_i + e_i + \varepsilon_i \\ f_j = 0, & \quad \text{otherwise} \end{aligned} \quad (4)$$

To win the contest, each legislator has to bear a cost (C) that depends on the quality of human capital and effort.

$$C = C(q, e) \quad (5)$$

We assume on one hand that higher human capital (higher quality) diminishes total cost at an increasing rate (i.e. $C'(q) < 0$ and $C''(q) > 0$). On the other hand, the cost increases with more effort at an increasing rate (i.e. $C'(e) > 0$ and $C''(e) > 0$)

Voters' decision

In both districts voters choose their representative to the Congress by simple majority. The incumbent legislator competes against a randomly selected opponent with average quality q_a .

The voters' utility function is⁵:

$$W = x + H(g) = y - \tau + f + H(g) \quad (6)$$

Where:

x is private consumption.

τ is local taxes collection per capita

$H(g)$ is the utility assigned by individual voters to public good g .

Voters coordinate a voting rule according to which the incumbent is reelected if $f^* > 0$.

That is,

$$\begin{aligned} p_i = 1, & \quad \text{iff} \quad W > \bar{w} = y - \tau + H(g) \text{ and} \\ p_i = 0, & \quad \text{otherwise} \end{aligned} \quad (7)$$

Hence the probability of reelection is the same as the probability of winning the game.

Equilibrium

Assuming that $E_i = E_j$, the payoffs of victory will be:

$$E_i(\bar{q}) = E \quad \text{and} \quad E_j(\bar{q}) = E \quad (8)$$

Similarly, the defeat payoffs will be zero for both players.

In this case, there will be an e^* that satisfies:

$$e > e^* \Rightarrow E > C(\bar{q}) \quad \text{and} \quad E < C(\underline{q}) \quad (9)$$

Therefore, there exist a separating equilibrium in which the high quality legislator can choose any e that satisfies $e > e^*$, to get f^* and consequently his/her reelection. The optimal response of low quality legislators will be $e=0$. This condition implies an endogenous upper limit to the effort average of the Congress. Summarizing, with heterogeneous legislators, quality plays an important role in the appropriation of benefits distributed by Congress.

District Delegation

Now let us relax the previous assumption allowing to each district to have more than one representative. In particular, district X has k representatives and district Y has m representatives with $k > 1$ and $m > 1$. To begin with, $k = m$, that is the number of representatives in both districts is proportional to population. Therefore the game's solution will be as follow:

$$f_x = f^* > 0, \quad \text{iff} \quad \frac{\sum_{i=1}^k (q_{X_i} + e_{X_i} + \varepsilon_{X_i})}{K} > \frac{\sum_{j=1}^m (q_{Y_j} + e_{Y_j} + \varepsilon_{Y_j})}{M}$$

$$f_x = 0, \quad \text{otherwise} \quad (10)$$

Thus, the jurisdiction X will get full benefits if the weighted average of effort, quality and luck in delegation X is greater than the same weighted average in delegation Y.

Overrepresentation

Conversely, if $K > M$ but k remains equal to m , then we have that district Y is overrepresented and X underrepresented. Thus, there exist two possible equilibria:

(a) Quantity matters.

Province Y has more representatives per capita than province X . So, for a set of values of q there will be an equilibrium such that quality cannot offset the quantity effect, hence overrepresentation will prevail. The outcome of this equilibrium will be that province Y obtains the benefits.

$$\begin{aligned} f_Y = f^* > 0, & \quad \text{iff} \quad \frac{\sum_{i=1}^k (q_{X_i} + e_{X_i} + \varepsilon_{X_i})}{K} < \frac{\sum_{j=1}^m (q_{Y_j} + e_{Y_j} + \varepsilon_{Y_j})}{M} \\ f_Y = 0, & \quad \text{otherwise} \end{aligned} \quad (11)$$

(b) Quality matters.

Analogously, there will be a range of values of q such that quality more than compensates quantity. The underrepresented province has representatives with such a quality level that more than neutralizes the quantity effect so they take all disputable resources *per capita* to their province⁶.

$$\begin{aligned} f_X = f^* > 0, & \quad \text{iff} \quad \frac{\sum_{i=1}^k (q_{X_i} + e_{X_i} + \varepsilon_{X_i})}{K} > \frac{\sum_{j=1}^m (q_{Y_j} + e_{Y_j} + \varepsilon_{Y_j})}{M} \\ f_X = 0, & \quad \text{otherwise} \end{aligned} \quad (12)$$

Special case: $k=2$ and $m=2$

To illustrate the equilibria let us consider the simplest case where each province X and Y has two representatives (1 and 2) but allowing for different populations, in particular $K > M$. These conditions will assure us an overrepresentation effect for district Y (i.e. $\frac{k}{K} < \frac{m}{M}$). Thus, the difference between the characteristics of the two representatives from province X minus the characteristics of the two representatives of province Y is:

$$\begin{aligned} f_X = f^* > 0, & \quad \text{iff} \quad \frac{[(q_{X1} + e_{X1} + \varepsilon_{X1}) + (q_{X2} + e_{X2} + \varepsilon_{X2})]}{K} > \frac{[(q_{Y1} + e_{Y1} + \varepsilon_{Y1}) + (q_{Y2} + e_{Y2} + \varepsilon_{Y2})]}{M} \\ f_X = 0, & \quad \text{otherwise} \end{aligned} \quad (13)$$

Since we want to focus in the quality characteristics, we can further simplify the case assuming that the effort and luck components are the same for all representatives from both jurisdictions. Hence,

$$\begin{aligned} \mathbf{f}_X = \mathbf{f}^* > 0, & \quad \text{iff} \quad \frac{(q_{X1} + q_{X2})}{K} > \frac{(q_{Y1} + q_{Y2})}{M} \\ \mathbf{f}_X = \mathbf{0}, & \quad \text{otherwise} \end{aligned} \tag{14}$$

Evidently we can see that the sign of expression (14) will depend on the magnitude of the quality of delegation X compared with the quality of delegation Y . We can find a set of values for the quality of legislators of district X that compensates the overrepresentation effect.

We have shown that, at the margin, quality matters and could eventually offsets the overrepresentation effect.

IV. The Dimensions of Legislative Quality

The approval of the bills in Congress depends ultimately on majorities. However, as we just showed, quality matters. The actual way that Congress works, particularly how bills are approved, depends upon many written and non written rules that make the system much more complex than just the majority rule observed when legislators vote.

A project bill has to be first discussed and approved in the pertinent committees to pass to the Chamber floor where it will be under the consideration of the majorities. But before that step, a reduced number of legislators can decide the faith of the project.

In fact, one can hypothesize that a number of legislators may have achieved certain skills to maximize their personal goals by using their legislative experience, their negotiation abilities and their positions held in the Legislative Power such as Chamber authorities, caucus leaders or committees' chair. In another words, a

legislator with more quality, defined in these terms, will have more influence to pass or oppose to a bill.

There are several factors that influence the legislator personal quality, mainly individual characteristics such as education, public image, gender, experience, formal position held within the Congress structure, etcetera⁷.

Legislative Quality Index

We sustain that an appropriate definition of the importance and strength of each provincial delegation should include a quality component. Consequently, we define a Quality Adjusted Share (QAS_{jt}) of province j at time t as.

$$QAS_{jt} = \frac{R_{jt} * ADQ_{jt}}{\sum_{j=1}^N (R_{jt} * ADQ_{jt})} \quad (15)$$

Where R_{jt} , is the number of representatives (senators plus deputies) of district j at time t . That is, the delegation size of j .

ADQ_{jt} , is the Average Delegation Quality of province j in period t .

In turn, ADQ_{jt} is defined as:

$$ADQ_{jt} = \frac{\sum_{i=1}^L q_{ijt}}{R_{jt}} \quad (16)$$

Where q_{it} stands for quality of legislator i at time t

Likewise, the usual overrepresentation measure can also be adjusted by quality:

$$QAO_{jt} = \frac{\sum_{i=1}^N R_{jit} q_{it}}{P_{jt}} \quad (17)$$

Where QAO_{jt} is the Quality Adjusted Overrepresentation for province j at time t .

P_{jt} is the population of province j in period t .

Notice that equation (17) becomes $QAO_{jt} = \frac{\sum_{i=1}^N R_{jit}}{P_{jt}}$ which is the well known overrepresentation indicator if each representative of a given jurisdiction j has an average quality component equals to 1. In other words, our **QAO** is a way to adjust the importance of the subnational delegation by adding the quality of each representative.

V. Examining the Argentinean Case

In this section we discuss how our quality adjusted measures works for the Argentinean case. The Argentinean Congress is bicameral. In the Senate, each of the 24 sub-national jurisdictions (including the federal district, the city of Buenos Aires), is represented by three members, therefore the total number of senators is 72. This is the main source of overrepresentation of less populated provinces. The House of Representatives is integrated by 257 deputies. The basis for representation in this Chamber is population. So, populated districts have larger delegations. Nonetheless, the Constitution establishes a minimum of 5 members per province. This adds to the overrepresentation bias.

As already mentioned there are several dimensions of quality such as education, gender occupation, etc. For the case of Argentina we consider two dimensions of quality based on data availability and idiosyncratic characteristics of politics:

1. Experience
2. Leadership

The first type of variables refers to the informal personal power gained by a deputy or senator for his/her past experience either in Congress or in an Executive position. The second dimension deals with indicators of the legislator formal power when holding a leading position within the Congress or in the Committee system. Notice

that including leadership as an independent component of the quality measure requires exogeneity: if leadership comes from seniority or past positions, then only Experience should be considered to affect quality.

1. Experience

We include two types of variables to capture Experience:

1.a. Seniority

Unlike the overrepresentation measure, the determination of quality is a more complex and subjective issue. The components that can be included in order to account for legislative quality are not unique and depending on the considered features, the indicator will take different values. Literature has considered seldom these characteristics. As previously stated, Levitt and Poterba (1994) and Bercoff and Meloni (2009) are some of the few studies that account for the legislators seniority, defined as the number of years the legislator has served in Congress. In both papers, the authors speculate that more years in Congress imply that the representatives possess qualities that allow them to be reelected. Although it may be the case that more years in Congress not necessarily imply more legislative quality *per se*, we can hypothesize that congressmen and senators with more years in their chambers can achieve more relative relevance in negotiation with other important political players when distributing funds among districts. Furthermore, we can see the permanence in the legislative seat as a signal of negotiation skills either with the governor or the party boss that are essential to the money distributional game. Table 1 contains the scores assigned to *Seniority*. We give the highest value to legislators reelected three or more times. We assume that the learning curve is flat after the third reelection.

[Table 1 about here]

1.b. Executive Experience

Experience in Executive positions may also provide skills and abilities that can most likely be used in the legislative branch. In fact, Presidents and Governor deal with resolution of conflicts with a large variety of political, social and economic actors such as union leaders, businessmen and congress members every day. Hence, we conjecture that leaders who have passed for an executive responsibility will increase his/her negotiating capabilities. Furthermore, it is also probable that these legislators have an above the average understanding and knowledge of the problems dealing with their districts. Besides that, former Presidents, Vice Presidents, Governors and National Ministries usually are highly considered among their colleagues. The values that this variable takes are shown in Table 2:

[Table 2 about here]

We can explain the ordering as follows. We value the experience of a President the most, since we assume that the administration of the national government gives an outstanding practice and knowledge in several areas. The following score is assigned to the Vice-president because he/she is the head of the Legislative Branch, which gives him/her an outstanding knowledge of the internal functioning of the House and the Senate.

In federal democracies, provincial governors are key political players, so we also grant the second highest score to them. Any Provincial Governor need to know the functioning of the National Congress if he pretends to obtain benefits to the district he/she represents. In particular, as stated by many authors, the interdependence between legislators and governors in Argentina is strong because of the way candidates are appointed for the elections in the ballot list⁸.

Lastly, a National Ministry must interact with Congress when a bill related with their area is considered; therefore someone who has headed a Ministry has a direct knowledge of the negotiation scheme within the Congress.

The values for each legislator are allocated considering the highest position obtained in his/her political career. If a hypothetical representative served as president and governor, we give him/her only four points. In other words, we do not sum up scores for different positions.

2. Leadership

Clucas (2001) points out that the legislative leadership positions are created to solve the collective action problem that legislators deal with. If a representative acts alone, he/she has to bear a high cost in order to produce collective benefits (for instance, infrastructure for the jurisdiction he/she represents). The outcome under this scenario is the sub production of collective benefits. In order to solve, at least partially, this problem, legislators delegate some of their power to party leaders in the Chambers to whom they give resources and responsibilities. On the other hand, the concentration of this delegated power in one leader is an objective pursuit for congressmen and senators that would tend to use it in benefit of their districts to maximize their reelection chances.

As a result of this functioning mechanism we can expect differences on how the power is distributed among the members of the Legislative. We consider two types of leadership characteristics: legislative leadership and committee membership. The first one tries to capture the formal power that each legislator possesses for the different positions they hold in the congressional structure. Each position implies a share of the formal or institutional power that allows any member to control part of

the Chamber resources, personnel hiring, intervention in the composition of the different committees, floor discussion schedule, etc.

The second type of leadership takes into account the disproportionate influence in the policy selection granted to some committees' members (see Weingast and Marshall, 1988). The committees have the agenda power on all their incumbent projects. Without the approval of the majority of their members, a project will unlikely be discussed on the Chamber session. Therefore, the implicit veto power of the committee implies that only would be possible to pass those projects that benefit most of the committee members.

In this same line, Hamm (1986) recognizes the importance of committees to set the agenda and to alter and even reject a bill. The author studies the case of the U.S. state of Colorado and considers three committees for each of chamber. Then, he evaluates three different dimensions for each of the committee's members in order to find out how they choose to integrate the different committees. He finds out the existence of an over-representation effect for those agents who are interested in committees. He also emphasizes the importance of committees' chairs.

Furthermore, some key committees have direct influence on projects located geographically. Regarding these committees some authors (see Mayhew, 1974 and Weingast, 1979) have pointed out that their members follow a "universalism" policy. In other words, each member, independently of the political party affiliation, has the right to participate on the benefits deciding the allocation of projects.

2.a. Legislative Position

We define the indicator as follows:

[Table 3 about here]

Each Chamber President has plenty influence in the legislative personnel budget, in the composition of the committees and the schedule for the different legislative projects, so we valued this position the most. On the other hand, the Caucus Presidents are the natural actors to negotiate with the Chamber President and the other caucuses' leaders therefore we give them the second score. Finally, Chambers vice-presidents and secretaries have a more important position compared with a plain legislator.

2.b. Committee

To elaborate the legislative quality adjusted measures for the case of Argentina, we consider five key committees in each Chamber⁹ (see Table 4). This is in line with the argument made by Mayhew (1974) who mentions six committees as determinants for distributing the U.S. federal pie¹⁰.

[Table 4 about here]

The scores assigned to the committee variable reflect the importance of key committees for policymaking in Argentina. For instance, the empirical evidence for the U.S. and elsewhere reports that the appropriations committee is crucial for federal budget allocation among states. Our Committee variable takes the following values:

[Table 5 about here]

It is worth noting that the highest value we assign to each legislator for this category is four. To put it differently, we do not sum up scores for different positions.

Hence, the average quality of legislator i in period t , q_{it} , is the sum of four components: Seniority, Executive Experience, Committee position and Leadership¹¹.

Thus,

$$q_{it} = \frac{S_{it} + T_{it} + Z_{it} + L_{it}}{4} \quad (18)$$

Where: S_{it} = seniority of legislator i in period t
 T_{it} = Executive experience of legislator i in period t
 Z_{it} = committee membership of legislator i in period t
 L_{it} = leadership of legislator i in period t .

Results

Table 6 shows the Quality Adjusted Overrepresentation measure compared to the traditional Overrepresentation variable. We observe that 11 of the 24 districts change their relative position in the ranking. The province that improves its relative position the most is San Juan jumping up three places meanwhile Corrientes decreases three positions. It is worth noting that both the provinces on the top seven positions and the jurisdictions on the bottom three maintain the relative spots.

[Table 6 about here]

Alternatively, we compare the Quality Adjusted Share for each delegation to the conventional share of each jurisdiction in the Congress. Table 7 shows both measures for the 24 districts and the change of relative ranking after adjusting the indicator.

In this case we detect 15 relative changes in the ranking position. Furthermore the observed variability is larger than the one obtained with the Quality Adjusted Overrepresentation. The best improvement occurs with the Province of La Rioja jumping up five positions on the adjusted indicator while Formosa is the district that falls the most (eight places).

[Table 7 about here]

VI. Concluding Remarks

Hitherto, the political economy and public finance literature has heavily relied on the concept of overrepresentation as an indicator of jurisdictional relative strength or alternatively to explain the geographical distribution of federal transfers and several benefits such as subsidies, special tax reductions to local industries, regulations, direct investment, etc.. Implicitly, overrepresentation assumes homogeneous legislators, thus disregarding the quality dimension of congress members. On the other hand, numerous fields of economics such as industrial organization and labor economics stress the role of human resources quality in firms and organizations. Our paper attempts to reconcile these two views. We show that quality matters and thus we must consider its influence to evaluate legislative outcomes, in particular the geographical allocation of benefits and how districts are represented.

We present a simple model in which the overrepresentation effect can be offset by the delegation's quality. At the margin, quality matters. We also propose a legislator quality measurement that takes into consideration different dimensions of senators and deputies as a first approach to capture the quality component. Once quality is taken into account, heterogeneity arises changing the relative position of the districts regarding representation.

This heterogeneity in legislative representatives may result in explaining many economic phenomena such as how the federal resources are distributed among districts and possibly patterns of taxes, subsidies and regulations. It is worth noting that this view can be useful not just in emergent and young democracies but also in consolidated federal ones.

References

- Atlas, Cary, Thomas Guilligan, Robert Hendershott and Mark Zupan. 1995. "Slicing the federal government net spending pie: who wins, who loses and why." *American Economic Review*. 85(3): 624-629.
- Bercoff, José J. and Osvaldo Meloni. 2009. "Federal Budget Allocation in an emergent Democracy. Evidence from Argentina." *Economics of Governance* 10 (1): 65-83.
- Besley, Timothy. 2006. *Principled agents? London: Oxford University Press.*
- Clucas, Richard A. 2001. "Principal-Agent Theory and the Power of the State House Speakers." *Legislative Studies Quarterly* 26 (2): 319-338.
- Hamm, Keith. 1986. "The Role of "Subgovernments" in US State Policy Making: An Exploratory Analysis." *Legislative Studies Quarterly* 11(3): 321-351.
- Jones, Mark P., Sebastián Saiegh, Pablo Spiller and Mariano Tommasi. 2002. "Amateur Legislators-Professional Politicians: the consequences of party-centered electoral rules in a federal system". *American Journal of Political Science* 46(3): 656-669.
- Jones, Mark P., Pablo Sanguinetti, and Mariano Tommasi. 2000. "Politics, Institutions and Fiscal Performance in a Federal System: an analysis of the Argentine provinces." *Journal of Development Economics* 61(2): 305-333.
- Kalandrakis, Tasos. 2004. "Bicameral Winning Coalitions and Equilibrium Federal Legislatures". *Legislative Studies Quarterly* 29 (1): 49-79.

Knight, Brian. 2004. "Legislative Representation, Bargaining power, and the Distribution of Federal Funds: evidence from the U.S. Senate." *NBER Working Paper No. 10385*.

Lazear, Edward. 1995. "Personnel Economics." *Massachusetts: MIT Press*.

Lee, Francis. 1998. "Representation and Public Policy: the consequences of State apportionment for the geographic distribution of federal funds." *The Journal of Politics* 60(1): 34-62.

Levitt, Steven and James Poterba. 1994. "*Congressional Distributive Politics and state Economic Performance*." *NBER Working Paper No. 4721*.

Mayhew, David R. 1974. "Congress. The Electoral Connection." New Haven: *Yale University Press*.

Person, Torsteen and Guido Tabellini. 2000. "Political Economics." *Cambridge. Massachusetts: MIT Press*.

Porto, Alberto and Pablo Sanguinetti 2001. "Political determinants of intergovernmental grants: Evidence from Argentina." *Economics and Politics* 13(3): 237–256.

Rosen, Sherwin. 1981. "The economics of Superstars." *American Economic Review* 71 (5): 845-858.

Weingast, Barry. 1979. "A Rational Choice Perspective on Congressional Norms." *American Journal of Political Science* 23 (2): 245-262.

Weingast, Barry and William Marshall. 1988. "The industrial Organization of Congress; or, why legislatures, like firms, are not organized as markets." *Journal of Political Economy* 96 (February).132 – 163.

Table 1. **Seniority Scores**

Seniority	Variable's Value
Reelected 3 or more times	4
Reelected twice	3
Reelected once	2
First Period	1

Table 2. **Executive Experience Scores**

Executive Experience	Variable's Value
Former President	4
Former Vice President or Former Governor	3
Former National Ministry	2
Other	1

Table 3. **Legislative Position Scores**

Position	Variable's Value
Chamber President	4
Caucus President	3
Chamber Vice-president or Secretary	2
Plain Legislator	1

Table 4. **Key Committees**

House	Senate
Constitutional Affairs <i>Asuntos Constitucionales</i>	Constitutional Affairs <i>Asuntos Constitucionales</i>
Appropriation <i>Presupuesto y Hacienda</i>	Appropriation <i>Presupuesto y Hacienda</i>
Public Works <i>Obras Públicas</i>	Public Works <i>Obras Públicas</i>
Ways and Means <i>Peticiones, Poderes y Reglamento</i>	Agreements <i>Acuerdos</i>
Impeachment <i>Juicio Político</i>	Impeachment <i>Juicio Político</i>

Table 5. **Committees Scores**

Position in the Committee	Variable's Value
Chair of Key Committee	4
Member of Key Committee	3
Chair of Other Committee	2
Member of Other Committee	1

Table 6. Quality Adjusted Overrepresentation. Argentinean Districts. Year 2000.

Rank	District	Overrepresentation	Average Delegation Quality	Quality Adjusted Overrepresentation	Ranking Change
1	Tierra del Fuego	69.57	1.16	80.70	=
2	Santa Cruz	38.46	1.41	54.23	=
3	La Rioja	28.57	1.63	46.57	=
4	La Pampa	26.14	1.59	41.57	=
5	San Luis	21.98	1.53	33.63	=
6	Catamarca	18.87	1.71	32.26	=
7	Chubut	17.86	1.59	28.39	=
8	San Juan	13.82	1.50	20.73	+3
9	Jujuy	14.90	1.36	20.26	=
10	Formosa	15.84	1.25	19.80	-2
11	Neuquén	14.26	1.38	19.68	-1
12	Santiago	13.77	1.35	18.60	=
13	Río Negro	12.92	1.41	18.22	=
14	Entre Ríos	10.77	1.52	16.37	+1
15	Chaco	10.50	1.45	15.23	+1
16	Salta	9.36	1.60	14.98	+2
17	Corrientes	10.85	1.28	13.88	-3
18	Misiones	10.04	1.38	13.86	-1
19	Mendoza	8.08	1.67	13.50	+2
20	Capital Federal	8.54	1.57	13.40	-1
21	Tucumán	8.51	1.57	13.36	-1
22	Santa Fe	7.10	1.41	10.01	=
23	Córdoba	6.79	1.39	9.44	=
24	Buenos Aires	5.28	1.44	7.60	=

Table 7. Total Legislators, Quality Adjusted Total Legislators, Provincial Representatives Proportion and Quality Adjusted Provincial Representatives Proportion. Argentinean Districts. Year 2000.

Rank	District	Total Legislators	Quality Adjusted Total Legislators	Provincial Representatives Proportion	Quality Adjusted Provincial Representatives Proportion	Ranking Change
1	Buenos Aires	75	108	23,08%	22,71%	=
2	Capital Federal	26	41	8,00%	8,59%	=
3	Santa Fe	22	31	6,77%	6,53%	=
4	Córdoba	21	29	6,46%	6,16%	=
5	Mendoza	13	22	4,00%	4,58%	=
6	Entre Ríos	12	18	3,69%	3,85%	=
7	Tucumán	11	17	3,38%	3,64%	=
8	Salta	10	16	3,08%	3,37%	+3
9	Chaco	10	15	3,08%	3,06%	-1
10	Misiones	10	14	3,08%	2,90%	=
11	Santiago	10	14	3,08%	2,85%	+1
12	La Rioja	8	13	2,46%	2,74%	+5
13	Chubut	8	13	2,46%	2,69%	+1
14	Corrientes	10	13	3,08%	2,69%	-5
15	La Pampa	8	13	2,46%	2,69%	+1
16	Jujuy	9	12	2,77%	2,58%	-3
17	San Luis	8	12	2,46%	2,58%	+4
18	San Juan	8	12	2,46%	2,53%	+2
19	Río Negro	8	11	2,46%	2,37%	=
20	Santa Cruz	8	11	2,46%	2,37%	+2
21	Neuquén	8	11	2,46%	2,32%	-3
22	Catamarca	6	10	1,85%	2,16%	+2
23	Formosa	8	10	2,46%	2,11%	-8
24	Tierra del Fuego	8	9	2,46%	1,95%	-1
	Total	325	474	100,00%	100,00%	

Appendix

Average Delegation Quality and its components. Argentinean Districts. Year 2000.

Ranking	Province	Seniority	Executive Experience	Leadership	Committee	Average Delegation Quality
1	Catamarca	1.50	1.33	1.33	2.67	1.71
2	Mendoza	1.62	1.23	1.31	2.54	1.67
3	La Rioja	1.63	1.00	1.25	2.63	1.63
4	Salta	1.70	1.20	1.00	2.50	1.60
5	Chubut	1.50	1.25	1.00	2.63	1.59
6	La Pampa	1.63	1.00	1.00	2.75	1.59
7	Tucumán	1.45	1.36	1.00	2.45	1.57
8	Federal District	1.73	1.15	1.27	2.12	1.57
9	San Luis	1.75	1.00	1.00	2.38	1.53
10	Entre Ríos	1.25	1.17	1.17	2.50	1.52
11	San Juan	1.38	1.50	1.00	2.13	1.50
	<i>Country Average</i>	<i>1.43</i>	<i>1.15</i>	<i>1.07</i>	<i>2.20</i>	<i>1.46</i>
12	Chaco	1.40	1.00	1.00	2.40	1.45
13	Buenos Aires	1.68	1.05	1.04	1.97	1.44
14	Santa Fe	1.41	1.09	1.09	2.05	1.41
15	Río Negro	1.38	1.25	1.00	2.00	1.41
16	Santa Cruz	1.63	1.00	1.00	2.00	1.41
17	Córdoba	1.29	1.14	1.10	2.05	1.39
18	Misiones	1.30	1.40	1.10	1.70	1.38
19	Neuquén	1.38	1.25	1.00	1.88	1.38
20	Jujuy	1.11	1.00	1.00	2.33	1.36
21	Santiago	1.30	1.00	1.00	2.10	1.35
22	Corrientes	1.10	1.10	1.00	1.90	1.28
23	Formosa	1.25	1.00	1.00	1.75	1.25
24	Tierra del Fuego	1.00	1.00	1.13	1.50	1.16

* Acknowledgements.

¹ Following Besley, (2006), we understand Ego rents as “the intoxication effects from power or some sense of pride at having been approved in a ballot by one’s fellow citizens. Another source of benefits from holding onto office may come in the form of material gain. These could be because politics provides an opportunity to reward cronies or an opportunity for corruption. It could even be because politicians’ wages are perks and attractive”.

² See Weingast (1979)

³ As in Rosen (1981), the winner takes all.

⁴ The contest is inspired in Lazear (1995) tournament model.

⁵ Taken from Persson and Tabellini (2000)

⁶ We disregard the case when quality perfectly offsets quantity.

⁷ Hamm (1986) includes three factors: occupation, governmental experience and association memberships.

⁸ See Jones et al. (2002) and Bercoff and Meloni (2009)

⁹ In the year 2000, the Argentinean Congress had 45 permanent committees in the House and 44 in the Senate.

¹⁰ Mayhew (1974) considers the following committees: Public Works, Interior, Appropriations, Ways and Means, Finance and Banks and Currency.

¹¹ In Appendix we present the values that take these variables in the Argentinean case for year 2000.