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Excerpt

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## I

## Decentralization and the Revival of Subnational Politics

Once administrative centralization has lasted for a while, the same power that founded it, were it later to want to destroy it, is always incapable of bringing about its ruin . . . [A]dministrative centralization assumes a skillful organization of authority; it forms a complicated machine of which all the gears engage each other and lend each other mutual support.

Alexis de Tocqueville<sup>1</sup>

If Alexis de Tocqueville were alive today, he would be surprised to find that over the last quarter of the twentieth century, processes of decentralization of government – that is, the downward transfer of resources, responsibilities, or authority from national to subnational governments – have taken place in countries around the world (Manor 1999, vii).<sup>2</sup> Part of a larger wave of economic and political reforms, the decentralization of governments followed the collapse of economic and political regimes with centralized commands and planning structures. Various world changes – the collapse of communism in the former Soviet Union and in Eastern Europe, the reforms to societal corporatism in Western Europe, and the demise of the developmental state in Latin America – all contributed to

<sup>1</sup> In “Political Effects of Administrative Decentralization,” Original Working Ms., Yale, CVIa, tome 1, cited in Schleifer (1980, 137–38).

<sup>2</sup> By “subnational” governments I refer to both the intermediate (e.g., states, provinces, departments) and the local levels of government. Scholars of multinational settings, where territorial subunits often encompass entire nations and the idea of the “nation-state” is highly contested, could rightly take issue with this use of “subnational.” However, Latin American countries are largely mononational, even if a multiplicity of ethnicities exist. Thus, I take the liberty of referring to the territorial member units of the nation-states in Latin America, as most of the literature does, as “subnational.” I thank Brendan O’Leary for his related comment.

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the search for new forms of articulation among the nation-states, their economies, and their societies. The decentralization of government policies that emphasized the principle of subsidiarity (of collecting, spending, and making public-policy decisions at the lowest possible level of government) proved functional to those larger political and economic changes.

Decentralization policies have changed governments and politics in fundamental ways. Due to decentralization, the subnational shares of revenues and expenditures have increased in countries around the world, with sizable macroeconomic consequences in some cases.<sup>3</sup> The decentralization trend has also involved the transfer of major public services such as education, health, housing, transportation, and poverty alleviation programs to subnational governments, which are now held accountable for the funding, delivery, management, and quality of these public services. Moreover, recent constitutional and territorial reforms in countries as varied as Belgium, Bolivia, Brazil, Colombia, and Ethiopia, to name a few, have changed relations among levels of governments and subnational regions as well as the political incentives and career paths of politicians.

As a result of decentralization, intergovernmental relations can no longer be considered the “hidden dimension of government,” as United States Senator Edmund Muskie said at a Senate hearing on federal–state–local relations in 1962.<sup>4</sup> Due to decentralization, in addition to national and international politics, ordinary citizens are paying closer attention to state-level and local politics and to the negotiations taking place among the different levels of government. In countries around the world, subnational governments have to meet the needs of their constituencies, establish direct electorates, put forward their own perspectives, and face constant scrutiny.

In Latin America, the most fascinating change that the latest wave of decentralization has produced in contemporary politics is the revival of

<sup>3</sup> Whereas in 1980 subnational governments around the globe collected approximately 15% of the total national revenues and spent 20% of the total national expenditures, by 1997 those figures had risen to 19% and 25%, respectively (author's calculations based on data available at <http://www1.worldbank.org/publicsector/decentralization/fiscalindicators.htm>, last accessed January 2010).

<sup>4</sup> On that occasion Senator Muskie said, “The field of intergovernmental relations might be considered as the ‘hidden dimension of government.’ Performing as almost a fourth branch of government in meeting the needs of our people, it nonetheless has no direct electorate, operates from no set perspective, is under no special control, and moves in no particular direction” (Edmund Muskie, “Problems of Federal-State-Local Relations,” cited in Wright 1978, 5).

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subnational interests and territorial politics. I would argue that in no period since the formation and consolidation of the nation-states in the nineteenth century have subnational actors, politicians, and interests been as important as they have been since the enactment of decentralization reforms in the last quarter of the twentieth century. As Sidney Tarrow wrote with admirable foresight three decades ago (in the heyday of centralized governments!), and is nowadays truer than ever before, “how central governments and their territorial subunits are linked politically is not only a problem of intergovernmental relations but also one of managing the class and interest conflicts of modern societies” (Tarrow 1978, 1–2). Decentralization policies are bringing the issue of the relationship and balance of power between national “centers” and “peripheries” to the forefront of the political analysis. Old questions such as what accounts for the origins of federal systems or what keeps countries together are coming back in comparative politics, after decades of research that tended to focus on the national, rather than the subnational, level of analysis. These political and analytical shifts are largely due to the renewed importance of subnational actors in contemporary politics.

However, the effects of decentralization on subnational politics and on the revival of territorial interests have varied widely from one country to another and in ways that our existing theories are unable to account for. While in some countries (such as Brazil and Colombia) the decentralization of government policies has produced the expected effect of increasing the power of subnational governments and officials, in others those changes have been moderate (such as in the case of Mexico) or insignificant (as in Argentina). Our existing theories (on political party systems or constitutional types of governments, for example) cannot explain these patterns of variation. Yet understanding why, in some countries, the policies of decentralization bring about the expected results of increasing the power of governors and mayors, while in others they do not, is the crucial first step we must take before we can further evaluate the positive or negative impact of decentralization policies on issues as critical as the management of public resources, the delivery of public social services, and the political participation of local communities.

Drawing from the theoretical and methodological insights of the recent literature on path dependence and institutional evolution, in particular from the works of James Mahoney, Paul Pierson, and Kathleen Thelen (e.g., Mahoney 2000; Mahoney and Rueschemeyer 2003; Mahoney and Thelen 2009; Pierson 1992, 1993, 2000; Streeck and Thelen 2005; Thelen 2000, 2004), and on the effects of time on political processes

(Pierson 2004), in this book I advance a sequential theory of decentralization. The theory espouses that, after the demise of the developmental state, the effects of decentralization on the intergovernmental balance of power among national executives, governors, and mayors is dependent on the temporal sequencing of different types of decentralization policies (administrative, fiscal, or political in nature). Moreover, I argue that the consequences of decentralization on the balance of power among national and subnational executives are tightly linked to the territorial interests and impulses found at the origins of the process. In this sense, this book underscores the importance of the “origins” of processes of institutional change. While I do not endorse a deterministic argument that suggests that the evolution of a process follows entirely from how it began, I do claim that the originating decentralization reform places strong constraints on the opportunities and strategies available to political actors in the negotiations over other intergovernmental reforms that follow. As is the case with other path-dependent types of processes, in the process of decentralization of governments, “earlier events matter much more than later ones” (Pierson 2000, 253). Moreover, the empirical analysis of the first cycle of postdevelopmental decentralization in the four largest countries of Latin America leads to the conclusion that “when things happen within a sequence affects how they happen” (Mahoney 2000, 511) and to what consequence.<sup>5</sup>

#### ADVOCATES AND CRITICS OF DECENTRALIZATION AND THEIR SHARED ASSUMPTION

Around the world, heterogeneous coalitions of political and social actors spanning the ideological spectrum supported the movement toward decentralization. Politicians of the right and the left; democrats and authoritarian leaders; policymakers in finance, education, health, and urban development; international financial institutions; and scholars in academia all advocated for decentralization. In fact, many of the studies on decentralization, particularly the earlier works, were written to advance policy recommendations, most often to espouse its adoption. Decentralization was seen as a solution to political and economic problems, especially for countries that had experienced centralized economic programs and exclusionary politics.

<sup>5</sup> Mahoney takes this quotation from Tilly (1984, 14).

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Policy recommendations were, for the most part, based on two theories. On the political side, they drew from local government theories, which argue that decentralization improves democracy by bringing the government closer to the people. This thesis dates back to Alexis de Tocqueville, who saw in the civic life of New England townships the roots of democracy in America (Tocqueville 2000 [1835–1840], 56–79). On the economic side, the advocates of decentralization based their recommendations on fiscal federalism theory, which, traced back to Charles Tiebout (1956), argues that fiscal decentralization improves resource allocation through better knowledge of local preferences and competition among jurisdictions (e.g., Bennet 1990; Oates 1972, 1977; Shah 1994; Weingast 1995).

In Latin America, scholars and political activists thus recommended decentralization as a means to increase citizens' participation and to end centralized rule, particularly for the countries of the region that were transitioning from authoritarianism to democracy (e.g., Borja et al. 1989; Cabrero Mendonza 1995; Calderón and Dos Santos 1991).

But decentralization policies also met with opposition. National bureaucrats, national union leaders, and political brokers felt threatened by the transfer of services and resources to subnational governments and therefore mobilized against these reforms (Murillo 1999). Scholars also pointed to the negative effects of devolving fiscal resources and authority to the subnational governments, such as soft-budget constraints, macroeconomic instability, enlargements of bureaucracies, and increasing regional inequalities (e.g., Díaz Cayeros 1997; Dillinger and Webb 1999; Prud'homme 1995; Rodden 2000; Rodden and Wibbels 2002; Stein 1998). Similarly, others emphasized the negative consequences that devolving political power to local elites or caudillos carries for democracy, such as the strengthening of clientelism at the local level (Cornelius et al. 1999; Fox and Aranda 1996).

Interestingly, both the advocates and the critics of decentralization share a common assumption, albeit erroneously. They take for granted that these reforms necessarily increase the power of subnational governments. In both approaches, an increase in the power of subnational officials is the intervening variable between decentralization policies and either good or bad outcomes. But contrary to what friends and foes of decentralization assume, a close examination of the effects of decentralization on the intergovernmental balance of power among national and subnational executives – that is, on the relative distribution of their economic resources, legal authority, and organizational capacities – reveals

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a wide variation from one country to another. In fact, a substantial body of work on the consequences of decentralization on democratization and economic reforms hinges on this critical, yet uncorroborated, assumption, that decentralization always devolves power to governors and mayors. Analyzing whether or not this is actually the case thus becomes crucially important for future studies on the consequences of decentralization and for the public-policy recommendations that might follow.

#### POSTDEVELOPMENTAL DECENTRALIZATION IN LATIN AMERICA

After the demise of the developmental state, Latin America was the first region of the world to systematically implement decentralization policies (Camdessus 1999).<sup>6</sup> These were the set of policies, electoral reforms, or constitutional reforms that transferred responsibilities, resources, or authority from higher to lower levels of government. Part of the neoliberal move away from state intervention in the economy and toward free-market economies, decentralization reforms were labeled “second-generation reforms,” even if they unfolded together with the free-market economic reforms of the 1980s and 1990s. The earliest decentralization policies of the postdevelopmental era began in the late 1970s and the process continued throughout the following two decades, becoming one of the most significant political and economic developments in the region during that time (Willis et al. 1999, 7).<sup>7</sup>

Latin America was also the region of the world that underwent the most radical changes due to decentralization. After Spain, Latin American

<sup>6</sup> As defined by Ben R. Schneider (1999, 278), in its relation to the economy and the polity, the developmental state in Latin America had four essential characteristics: “(1) political capitalism, where profit and investment depended on decisions made in the state; (2) a dominant developmental discourse on the necessity of industrialization and of state intervention to promote it; (3) political exclusion of the majority of the adult population; and (4) a fluid, weakly institutionalized bureaucracy.” Although there were temporal variations across countries in Latin America, the developmental state was characteristic of the 1950s and 1960s. For more on the ideas of developmentalism in Latin America, see Sikkink (1991).

<sup>7</sup> The term “neoliberal” decentralization could also apply to these policies. However, I prefer the term postdevelopmental decentralization because in some countries there was a significant time lapse between the demise of the developmental state (with heavy intervention in the economy and corporatist mediations with society) and the emergence of the neoliberal one (characterized by market-oriented economic reforms and the erosion of corporatism). Unlike neoliberal decentralization, the term postdevelopmental decentralization has the advantage of capturing the reforms of this transitional period.

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countries experienced the most significant increases in the devolution of revenues and expenditures in the world, which doubled between 1980 and 2000.<sup>8</sup> The administration of public social services, such as that of education and health care, has also been transferred to lower levels of government in Argentina, Bolivia, Brazil, Chile, Colombia, and Mexico, among other countries (Di Gropello and Cominetti 1998). And after centuries of being governed by appointed subnational officials, as a result of decentralization, all South American citizens now elect their mayors and most of them elect their governors.<sup>9</sup>

After the late 1970s, Argentina, Brazil, Colombia, and Mexico – the four largest countries of Latin America, accounting together for 70% of the region's population – enacted similar decentralization policies in the administration of their public social services, which, as defined in Chapter 2, I call administrative decentralization reforms. In 1978 and 1992, the administration and management of Argentina's national schools (some of them prestigious centennial institutions) were transferred to the provinces and the city of Buenos Aires. During the same period, a gradual process of the transfer of responsibilities from the central offices of the Ministry of Education (Secretaría de Educación Pública, SEP) in Mexico City toward its offices in the member-states took place in Mexico. This process culminated in 1992 when Ernesto Zedillo, at that time the Minister of Education, signed an agreement with the leaders of the national teachers' union (Sindicato Nacional de Trabajadores de la Educación, SNTE) and the governors to transfer education to the states. Similarly, in 1993, the Colombian Congress passed a law that transferred education from the central government to departments (the intermediate level of government) and municipalities. In Brazil, the Constitution of 1988 decentralized the health care system and in 1996 educational services were also decentralized.

During the same period, these four countries underwent decentralization reforms in their systems of revenue-collection and revenue-sharing, which I classify as fiscal decentralization reforms. At the end of 1987, Argentina's governors and President Raúl Alfonsín agreed on a new

<sup>8</sup> The subnational share of expenditures in Argentina, Bolivia, Brazil, Chile, Colombia, Mexico, Paraguay, and Peru (for which comparable data are available) increased from an average of 16% in 1980 to 29% in 2000. Likewise, the revenues collected by subnational governments increased from an average of 14% of the total tax revenue to 29% in that period (author's calculations based on data from International Monetary Fund, various years, and World Bank 1999a).

<sup>9</sup> Chile and Suriname are the only two countries in South America that still appoint officials at the intermediate level of government (World Bank 1999a, 216–17, and national constitutions).

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distribution of taxes (*coparticipación*) that gave the provinces a higher level of general revenue-sharing. In 1988, the Brazilian Constitution sanctioned higher levels of revenue-sharing for states and municipalities, following a trajectory of fiscal changes that had been initiated in 1983. Similarly, in 1991, Colombian constitutional conventionalists modified the system of revenue-sharing, such that the departments and municipalities received higher and increasing rates of automatic transfers from the center. In Mexico, between 1995 and 1997, budgetary reforms transferred more revenues to the states and municipalities, decreased earmarks, and practically eliminated the president's discretionary fund.

Argentina, Brazil, Colombia, and Mexico also underwent decentralization of political offices and authority, or political decentralization reforms, during this period. In 1980, still under military rule, the Brazilian Congress passed a constitutional amendment for the direct popular election of governors starting in 1982. In 1983, the Mexican Congress approved a constitutional reform to Article 115 that strengthened municipalities and gave mayors greater political autonomy. This political reform was followed by the creation of a popularly elected legislative assembly and a constitutional reform that made the mayor of Mexico City – the largest city in Latin America – popularly elected. In Colombia, a law was passed in 1986 by which mayors, previously appointed by governors, became popularly elected. Decentralization was also extended to governors who, previously appointed by the president, were popularly elected for the first time in 1991. In Argentina, a constitutional reform in 1994 decentralized the most important mayoral position in the country, that of the mayor of the City of Buenos Aires. Table 1.1 summarizes the decentralization policies that Argentina, Brazil, Colombia, and Mexico enacted in the administration of public services, and in their fiscal and political intergovernmental institutions since the demise of the developmental state and until the mid- to late 1990s. As I explain later in this chapter, these twenty policies comprise the first cycle of postdevelopmental decentralization in the four countries.

Despite the similarities in the decentralization reform processes, their effects on the power of governors and mayors varied widely from one country to another. Whereas decentralization policies devolved a significant amount of power to governors and mayors in Brazil and Colombia, such devolution was moderate in Mexico and practically nil in Argentina.<sup>10</sup>

<sup>10</sup> What follows is a summary account of the variations observed in the intergovernmental balance of power in the four countries. For more detailed accounts and measurements, please refer to the second part of Chapter 2.

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TABLE 1.1. *First Cycle of Postdevelopmental Decentralization Policies in Argentina, Brazil, Colombia, and Mexico, 1978–1997*

	Administrative Decentralization	Fiscal Decentralization	Political Decentralization
Argentina	1978: Primary schools transferred to the provinces 1992: Secondary schools transferred to the provinces	1988: New revenue-sharing law	1994–1996: Popular election of the mayor of Buenos Aires; autonomy to the City of Buenos Aires
Brazil	1988: Decentralization of health	1983: Passos Porto Amendment 1988: Increase of automatic transfers of revenues to states and municipalities	1980–1982: Popular election of governors 1988: Municipal autonomy recognized in the constitution
Colombia	1993–1994: Decentralization of education to departments and municipalities	1991: Increase of automatic transfers of revenues to departments and municipalities	1986: Popular election of mayors 1991: Popular election of governors
Mexico	1983–1986: Bilateral agreements with some states for the decentralization of education 1992: Decentralization of education to all the states	1995: Reform of the fiscal coordination law 1997: Creation of new budget line (Ramo 33) directed to states and municipalities	1983: Article 115 on municipal autonomy 1986: Creation of Mexico City's legislative assembly 1996: Popular election of the mayor of Mexico City

As a result of postdevelopmental decentralization, Brazilian and Colombian governors and mayors currently have more fiscal resources, deliver and manage more social services, have greater constitutional autonomy from the central government, and are better organized to collectively represent their territorial interests.

In Mexico, an intermediate situation has resulted. Governors and mayors are responsible for an increasing share of expenditures, but their

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share of revenues has not augmented to the same level as in Colombia or Brazil and they must rely more heavily on the fiscal transfers that come from the center. Mexican governors are responsible nowadays for the delivery of social services that used to be in the hands of the central government, but the central government still retains a significant amount of authority in determining national standards and guidelines. In terms of political leverage, governors and mayors are better organized to lobby for their common interests vis-à-vis the national government than they used to be, but at the municipal level division among three partisan associations makes coordination of municipal action less likely in Mexico than in Brazil or Colombia.

Finally, in Argentina, despite the implementation of decentralization policies, the power of governors and mayors has remained practically unchanged. Whereas the subnational share of expenditures increased during the period of reforms, the share of revenues decreased slightly, thus heightening the dependence of subnational governments on fiscal transfers originating at the center. Practically overnight, provincial governments in Argentina became responsible for more social services, but those administrative transfers were unfunded and posed serious policy-making and political constraints on the governors. Despite the enactment of a constitutional reform in 1994, the constitutional autonomy of governors and mayors did not change in Argentina. And, although a mayoral association was formed in 1997, it remains weak and ineffective for organizing the corporatist interests of Argentine municipalities. As succinctly stated in a World Bank report, “Argentina is arguably one of the most decentralized countries [in Latin America] but has essentially the same political and fiscal structure it had before the military intervened in 1976. In contrast, Colombia has radically increased the power and responsibilities of subnational units of government” (Burki et al. 1999, 11).

Why, despite the implementation of decentralization reforms, did Argentina’s fiscal and political intergovernmental structure remain unchanged while Colombia’s fiscal and political intergovernmental relations changed so radically? Why did Brazil, whose intergovernmental institutions resembled those of Argentina before the reforms, experience such an extraordinary movement toward further devolution of resources, responsibilities, and authority to subnational governments after decentralization? Why did Mexico experience an intermediate increase in the power of governors and mayors? More generally, do decentralization policies always increase the power of governors and mayors? And, if so, what explains the resulting variation in the degree of change experienced