

THE POLITICS OF RE-CENTRALIZATION IN ARGENTINA AND BRAZIL¹

Kent Eaton
Princeton University

J. Tyler Dickovick
Princeton University

Abstract: In response to the growing salience of re-centralization in several Latin American countries that decentralized in the 1980s and 1990s, this paper examines presidential efforts to re-centralize fiscal power in the 1990s. In our study of re-centralization in Argentina and Brazil, we assess the utility of four common political economy explanations: the presence of economic crisis; the partisan powers of the president; the division of formal powers between the branches; and the extent of intra-bureaucratic conflict. We find that the success of economic stabilization measures facilitated re-centralization in both countries, though the pathways connecting the two phenomena were partially distinct. In Argentina, key re-centralization measures were rapidly achieved after stabilization as the result of the president's strong partisan powers and in the form of political deals within the Peronist party. Subsequently, the dissipation of President Carlos Menem's powers over the course of his second term facilitated the "return of the governors." In Brazil, Fernando Henrique Cardoso re-centralized despite weak partisan powers, largely by using his reputation as a successful stabilizer to build a broad reform coalition. In Cardoso's Brazil, strong partisan cohesion in important cabinet posts also served as a partial substitute for the lack of partisan power in the legislature. These findings suggest the need for a closer examination of re-centralization efforts, particularly in the wake of macroeconomic stabilization and economic reform.

In much of the developing world, a remarkable wave of decentralization has continued to build in recent years, affecting everything from democratization and economic liberalization to the rise of separatist claims and regional trading blocs. Given the significance of decentralization and its impact on such a wide range of political and economic outcomes, documenting and explaining this wave in all its complexity will remain a major challenge for comparative social science for years to come. While we undoubtedly continue to "live in an age of decentralization" (Snyder 2001, 93), in parts of Latin America this wave of decentralization has already broken and shown clear signs of receding. Even

1. We are grateful to the three anonymous LARR reviewers for their comments on earlier drafts of this article.

as we are still attempting to understand why politicians chose to decentralize in the first place (O'Neill 2003), and what forms of subnational autonomy increased in response to these decisions (Willis, Garman, and Haggard 1999), in several countries re-centralization has eclipsed decentralization as the more pressing issue of the day.

In the contemporary period, the widespread nature of decentralization has often infused it with an aura of inevitability, coupled as it is with broader trends in the direction of more democratic political models and more liberal economic models (Eaton 2001; Wibbels 2001). Rather than represent a discrete and irreversible reform, however, decentralization is better understood as a change that sets the stage for further struggles between national and subnational actors over the distribution of authority between different levels of government (Montero 2001). In several countries in recent years, national actors have won striking victories in their attempts to rein in subnational governments; in other countries re-centralizing change has proved to be more elusive. Whether successful or not, re-centralizing drives have come to dominate the broader policy and political agenda in several Latin American democracies, and this suggests that greater attention should now be paid to conceptualizing and theorizing re-centralization as an important political phenomenon.

In Latin America, it is the tension between decentralization and macroeconomic stability that has set into motion intense political conflicts between actors seeking to re-centralize previously devolved powers and other actors who have resisted these efforts. Central to this dispute is the attempt by national politicians to reassert control over subnational actors who have begun to enjoy far greater authority than they ever wielded during the many decades of state-led industrialization. By transferring authority over revenues and expenditures to subnational actors, decentralization in the 1980s and 1990s limited the policy tools at the disposal of national politicians in a dynamic that is partially analogous to such reforms as privatization, central bank independence, and the lifting of capital and exchange controls. Endowing subnational governments with greater authority to make independent taxing, spending, and borrowing decisions has, on balance, made it more difficult for national politicians to perform one of the critical governmental functions that cannot be devolved: stabilization of the macro-economy (Musgrave and Musgrave 1980). Attempts to scale back subnational authority in Latin America are particularly fraught with political difficulties now that increasing numbers of these officials are elected by voters rather than appointed by national politicians (Burki, Perry, and Dillinger 1999; Eaton 2003; IDB 1997). The introduction of subnational elections in the last two decades, or the return to these elections in countries with a prior history of holding them, poses significant challenges for would-be

stabilizers and re-centralizers in the national government (Dillinger, Perry, and Webb 1999; Dillinger and Webb 2001; Rodden 2003).

In response to the current political salience of re-centralization, this article seeks to uncover the factors that influence how politicians pursue re-centralizing efforts, as well as their relative success or failure. We focus on Argentina and Brazil, two countries whose decentralizing policies in the 1980s were among the most favorable for sub-national governments anywhere in the region. During or shortly after each country's democratic transition, policy makers adopted measures that dramatically increased the size of automatic, un-earmarked revenue transfers to sub-national governments without simultaneously devolving or specifying the expenditure responsibilities of these governments. In both cases, decentralization contributed noticeably to growing fiscal imbalances at the center in the late 1980s and early 1990s, and to profound economic crises. In each case, energetic, reformist presidents prioritized re-centralization in the 1990s as a critical part of their attempts to achieve and defend macroeconomic stability, and in each case their ability to stabilize led to historic re-elections. Some of the challenges they faced were similar, others quite different. A comparison of the outcome of these re-centralizing efforts lies at the heart of this paper. It is important to note at the outset, however, that our focus on these efforts should not obscure the reality that both Argentina and Brazil remain heavily decentralized relative to other countries in the region. While a cross-national exercise in comparative statics would continue to identify these as two of Latin America's most decentralized countries, our cross-temporal analysis reveals that key centralizing changes have taken place within each country.

The selection of the Argentine and Brazilian cases for in-depth study reflects the greater prominence that re-centralization has to date acquired in these countries relative to other countries in the region. For example, attempts to re-centralize control over fiscal resources have yet to emerge as key objectives in Latin America's two other federal systems, Venezuela and Mexico. In Venezuela, fiscal decentralization in the 1990s was quite moderate relative to Argentina and Brazil (Willis, Garman, and Haggard 1999). Hugo Chávez has sought to re-centralize political authority to check the independence of governors whose direct election beginning in the late 1980s rendered them more powerful, but fiscal re-centralization has been less necessary (Penfold Becerra 2003). In Mexico, the fiscal decentralization that accompanied the democratic transition is much more recent than in Argentina and Brazil, does not appear to have posed the same dire threats to macro stability, and has not been met with strong re-centralizing reactions by the president (Rodríguez 1997; Giugale and Webb 2000). However, the continued pursuit of decentralization in Mexico and elsewhere may well trigger forms of back-

lash, hence the broader relevance of our analysis of the critical Argentine and Brazilian cases.

A study of Argentina and Brazil is particularly useful because of structural and institutional similarities and differences in these two cases. With respect to similarities, federalism is an important orienting principle in both countries. Although Brazil has traditionally been considered to be the more truly federal of the two countries (Ames 2001; Mainwaring 1997; Samuels 2003), the literature on Argentina has begun to document more systematically the importance of the Argentine governors (Jones et al. 2002; Levitsky 2001; Tommasi and Spiller 2000). In each case, governors elected as chief executive officers project a great deal of power in their respective national political systems, and at the same time dominate state and provincial legislatures in a relationship that can best be described as "subnational hyper-presidentialism" (Abrucio 1998). In the fiscal arena, both countries are characterized by a significant degree of vertical imbalance, according to which the subnational governments (some more than others) depend heavily on revenue transfers from the center because they spend more than they collect in taxes. In each case, banks and enterprises owned by subnational governments have contributed significantly to the governors' policy repertoires and power capabilities.

Despite these similarities, there are important differences between the Argentine and Brazilian cases, many of which are likely to affect the outcome of re-centralizing efforts. Though the Argentine political system started to look more Brazilian in the late 1990s and early 2000s, with the territorial fragmenting of political parties and the increasing salience of governors, deeper differences in party systems and political institutions remain (Morgenstern and Nacif 2002). In sharp contrast to Brazil, the majority of Argentine governors throughout the post-1983 period have belonged to a single party, which to a considerable extent transformed the debate over re-centralization into an internal party affair when that same party controlled the presidency between 1989 and 1999. In another example, constitutions in each country assign different formal powers to the president, which might facilitate or complicate efforts by presidents to rein in subnational actors through unilateral action (Shugart and Carey 1992; Carey and Shugart 1998).

In the attempt to gain analytical leverage on the politics of re-centralization, we assess the utility of four different types of explanations common in the comparative political economy literature. For Argentina and Brazil, we ask whether re-centralization paths and outcomes can be explained by (1) the presence of economic crisis, (2) the division of formal powers between the branches, (3) the president's partisan powers, and (4) conflict within the bureaucracy. The goal is not to find a single factor that explains such a complex and oftentimes confusing phenomenon as

re-centralization, but rather the more limited goal of evaluating the plausibility of these explanations for two cases where the conflict over re-centralization has become so acute. The following section turns to the concept of re-centralization, a complex phenomenon that bundles together a variety of different policies. The third section begins with a brief chronology that identifies key recent changes in the intergovernmental distribution of policy authority in Argentina and Brazil. In the attempt to interpret the direction and depth of these changes, we then apply our four different analytical lenses to each country's experience. The fourth section concludes by drawing out the implications of this research for the study of decentralization and for the literature on economic reform in Latin America more broadly.

CONCEPTUALIZING RE-CENTRALIZATION

We understand re-centralization largely as our presidential protagonists intend it: a series of changes designed to reverse prior reforms that expanded subnational autonomy and thereby limited the prerogatives of the national government. As decentralization's analytical converse, any attempt to clarify re-centralization as a concept must therefore begin with decentralization. Following James Manor, we define decentralization as the devolution of "resources and power to lower-level authorities which are largely or wholly independent of higher levels of government" (Manor 1999, 7). In this paper, we operationalize the concept of re-centralization by looking at what we believe are its three most important fiscal components: changes in revenue autonomy, expenditure autonomy, and borrowing autonomy (Dillinger and Webb 1999).² Broadly speaking, our interest is in changes that reassert central control and reduce subnational control over fiscal resources.

With respect to revenue autonomy, presidents in each country have proposed a variety of re-centralizing changes against the unsurprising opposition of governors. These measures include reducing the revenue shares of subnational governments (on both a temporary and permanent basis), removing tax bases from the common revenue pool, and raising rates on unshared taxes rather than on shared taxes as a means of circumventing revenue-sharing obligations. With respect to expenditure autonomy, presidents have sought to bolster the influence of the federal government over spending decisions that have been formally decentralized. In both countries, presidents have attempted to force

2. It would be possible to operationalize the concept differently, paying less attention to fiscal issues for example and greater attention to broad policy-making attributes, but we privilege the distribution of fiscal authority because it has received the bulk of attention from actual decentralizers and re-centralizers.

subnational authorities to spend their transfers on expenditure priorities set by the federal government. With respect to borrowing autonomy, presidents have attempted to privatize or close banks formerly owned by subnational governments. In the past, governors were able to oblige subnational public sector banks to hold debt issued by state and provincial governments and force these banks to make loans to subnational state-owned enterprises. The common denominator underlying these three dimensions of re-centralization (revenue autonomy, expenditure autonomy, and borrowing autonomy) is that each reduces the ability of subnational authorities to behave in ways that are not sanctioned by the federal government. Table 1 below documents the key re-centralizing changes in Argentina and Brazil in each of these dimensions.

While a similar dynamic is at play in the re-centralization of revenue, expenditure, and borrowing, re-centralizing proposals have varied across these three arenas. Specifically, whether presidents advocate full or partial re-centralization and whether they propose it as a temporary or permanent measure are important considerations. In the area of subnational borrowing, for example, re-centralizers have made the case that public sector banks at the subnational level are simply incompatible with long-term growth and stability objectives (Loureiro 2001; República Argentina 1994, 56). By pushing through the privatization of state and provincial banks, the expectation has been that subnational banks will not be re-established any time soon. In its design, the re-centralization of borrowing autonomy has been the most sweeping and permanent of our three fiscal arenas. In the area of revenue autonomy, in contrast, presidents have not proposed the full-scale reversal of earlier decentralization or the abolition of revenue transfer systems, but rather the more limited goal of altering the percentage of revenue sharing in a direction that favors the federal government. Furthermore, in both countries, proposed cuts in subnational transfers were articulated as temporary measures, necessitated by short-term stabilization demands. The area of expenditure autonomy is more complicated still. While the inferior delivery of services subsequent to their decentralization has led national governments to actually reclaim direct responsibility for these services in some countries, in Argentina and Brazil no such proposals have gained much sway.³ Yet an exclusive focus on the identity of the actor providing the service in question would fail to tell the whole story. Without proposing either the full or partial transfer of hospitals and schools to the federal government, presidents have nevertheless heightened their control over how subnational authorities make use of fiscal resources in the key areas of education and health care.

3. On the Philippines, for example, see Emboltura 1994.

Table 1 Reductions in Subnational Fiscal Autonomy: Argentina and Brazil, 1989–2000

	Argentina	Brazil
Revenue Autonomy	<p>15 percent of central government revenues removed from revenue-sharing pool (Fiscal Pact I, 1992)</p> <p>Fiscal pact II “requires provincial tax and social security reforms” (1993)</p> <p>13 percent reduction in transfers (July 2001)</p>	<p>20 percent of constitutionally-mandated transfers to subnational governments retained by central government (1994–1999)</p> <p>Transfers to subnational governments halted if debt service requirements not met (1998–present)</p>
Expenditure Autonomy	<p>Secondary schools and hospitals devolved to subnational governments without corresponding increases in transfers (1991)</p> <p>Salary increases for teachers required (1999)</p>	<p>Rules compelling subnational governments to spend 25 percent of revenues on education and 15 percent of revenues on health implemented (1994–present)</p> <p>Subnational executives required to reduce personnel costs as percent of spending below 60 percent or face criminal charges (2000)</p> <p>Elimination of inflation prevents subnational governments from “inflating away” salaries (1994–present)</p>
Borrowing Autonomy	<p>20 of 26 provincial banks privatized (1995–99)</p> <p>Federal government extends loans (through the IDB/World Bank sponsored <i>Fondo Fiduciario</i>) to provinces that agree to sell off their banks</p>	<p>24 of 26 state banks liquidated or privatized (1996–98)</p> <p>Central government requires ex ante approval for capital market debt; debt ceiling implemented (1998–present)</p> <p>Transfers to subnational governments halted if debt service requirements not met (1998–present) (see revenues above)</p>

Patterns of Re-centralization in Argentina and Brazil

In this section we evaluate a number of possible factors that might shed light on the patterns of re-centralization in Argentina and Brazil. Before doing so, we offer a stylized description of decentralization and re-centralization episodes in each case. Since its transition to democracy in late 1983, Argentina has experienced major changes in the relative balance of power between the federal government and the provinces. One can identify at least four distinct phases. In the first phase, between 1984 and 1987, a federal government controlled by the Radical party enjoyed enormous discretion over the size and timing of revenue transfers to the provinces, a majority of which were governed by the opposition Peronist party. The second phase between 1987 and 1992 was initiated by the victory of the Peronists in the 1987 legislative elections. This victory facilitated a key decentralizing change in the form of the 1987 Co-participation Law, which forced the federal government to transfer automatically to the provinces more than half of the tax revenues it collected. These transfers have loomed large in the study of Argentine intergovernmental relations ever since (Gibson and Calvo 2000; Remmer and Wibbels 2000; Jones, Sanguinetti, and Tommasi 2000). Stabilization in the wake of the Convertibility Law marked the beginning of the third phase between 1991 and 1995, during which period Peronist President Carlos Menem proposed and implemented important changes that had the effect of reducing subnational autonomy. Critical here are the 1992 and 1993 fiscal pacts that reduced provincial revenue shares and the transfer of key expenditure responsibilities to the provinces without concomitant increases in revenues (Piffano 1998; World Bank 1993; World Bank 1996). These changes were critical in enabling Menem to defend the most important achievement of his first administration—price stability—and to use this achievement to win a historic re-election in 1995. Menem's 1995 re-election, however, also marks the beginning of the fourth and ongoing phase during which the balance of power between the governors and the federal government shifted back toward the former. Though the tequila crisis helped Menem achieve the privatization of state banks, an important re-centralizing measure, his weakening power within the party enabled the governors to alter revenue-sharing arrangements in ways that benefited the provinces. Under the ill-fated Fernando de la Rúa administration, governors were able to secure further increases in guaranteed revenue transfers in a move that made it more difficult for the president to respond to the gathering economic crisis in 2000 and 2001.

In Brazil, massive revenue decentralization was a foregone conclusion at the time of re-democratization. State elites grew in strength even towards the end of military rule in the mid-1980s, and the return to democracy led to a "new politics of the governors" that renewed Brazil's

long struggle between central government and the strong centrifugal forces of the states (Hagopian 1996; Montero 2000; Abrucio and Samuels 2001). The Constitution of 1988 enshrined the principle of revenue sharing, but was less clear on subnational expenditure responsibilities. The political system, with its incentives for legislators to cultivate personal followings, encouraged pork, profligacy, and patronage (Ames 2001; Kingstone and Power 2000). Moreover, the Brazilian states retained considerable authority to contract their own debt and manage (or mismanage) their own state banks. In such an environment, fiscal crises recurred with tragicomic regularity. Finance Minister (and later President) Fernando Henrique Cardoso made the first steps towards improvement when he proposed and implemented his macroeconomic program, the *Real Plan*, in 1993–94. The plan halted inflation, and thereby removed the states' ability to inflate away debt obligations. This shift to transparency exposed the lunacy of subnational finances and the sources of soft budget constraints. Drawing on considerable support for the plan, the Cardoso government moved to privatize and liquidate the most onerous of the state banks and has increasingly implemented more effective public management systems in areas such as health and education, in order to ensure subnational governments assume social service responsibilities. Crucially, the government also passed special legislation tying the hands of subnational governments with regard to spending, in the form of the well-publicized Fiscal Responsibility Law (*Lei de Responsabilidade Fiscal*—LRF). It remains to be seen whether the current re-centralization momentum will be lasting or temporary. Cardoso's reforms presented a realistic possibility of restraining a once poisonous combination of revenue decentralization, expenditure centralization, and implicit bailout guarantees for subnational governments.

CRISIS, STABILIZATION, AND RE-CENTRALIZATION

Crisis has figured implicitly or explicitly in numerous influential explanations of economic policy change in developing and developed countries alike (Gourevitch 1989; Haggard and Kaufman 1992). If, as many scholars and development practitioners argue, certain forms of decentralization have provoked economic crises, then the onset of crisis is a natural place to look for explanations of political support for re-centralization. Specifically, economic crisis—defined as hyperinflation—should increase attempts by presidents to re-centralize and weaken the ability of pro-decentralization forces to oppose these attempts.⁴ Table 2

4. Operationalizing economic crisis has proven to be notoriously difficult. For a discussion, see Corrales 1997-98.

Table 2 *Hyperinflation and Stabilization in Argentina and Brazil (annual average)*

	1983–87	1988–90	1991–94	1995–97
Argentina	370	1,910	53	1.3
Brazil	186	1,670	1,350	30

Source: Dillinger and Webb, *Fiscal Management*, 1999, 2.

presents figures on inflation for Argentina and Brazil in the early 1980s to mid-1990s. The figures are suggestive because the re-centralizing changes discussed here followed on the elimination of hyperinflation in 1991 in Argentina and 1994 in Brazil. However, in neither of our cases did presidents directly respond to hyperinflation with re-centralizing initiatives; instead we find that the impact of crisis on re-centralization was indirect and mediated through the intervening episode of stabilization in each country.

Despite the covariation between hyperinflation and the onset of re-centralization, we concur with Corrales that “crises tell us little about what follows: they do not always lead to clear breaks with the past, and even when they do, they do not determine the timing and direction of the change” (1997–98, 620). The timing and direction of (re-centralizing) change in post-stabilization Argentina and Brazil was heavily conditioned by the decentralization each experienced in the 1980s. Crisis mattered for re-centralization in our two countries precisely because earlier decisions about the distribution of transfers and expenditures (circa 1987 in Argentina and 1988 in Brazil) had put the federal government at a disadvantage (see tables 3 and 4).⁵ This dynamic is illustrated by the decline in the federal share of revenues after Brazil’s 1988 Constitution (table 3), and the fiscal savings to the federal government in Argentina after the introduction of re-centralizing changes in 1992 (table 4).

Argentina

According to an Economy Ministry official in charge of managing fiscal matters with the provinces, stabilization was an enabling condition for re-centralization in Argentina chiefly because of its impact on the size of tax revenues.⁶ By controlling inflation and increasing the real

5. Earlier decentralizing decisions may prove to be less problematic for heterodox approaches to stabilization given their lesser focus on fiscal restraint (Kahler 1990).

6. Interview with Carlos Fernández, Subsecretariat of Economic and Fiscal Relations with the Provinces, Buenos Aires, 7 May 1996. As one of our anonymous reviewers pointed out, an increase in tax revenues may facilitate efforts by the center to cut the percentage shares of subnational governments in the absence of a preceding economic crisis.

Table 3 *Federal and Subnational Shares of Tax Revenues in Brazil, 1987–1992*

	Share Before Transfers			Share After Transfers		
	Federal	State	Municipal	Federal	State	Municipal
1987	70	27	3	61	28	12
1988	70	27	3	61	27	11
1989	65	32	3	57	30	13
1990	65	32	4	54	30	16
1991	62	32	6	51	30	18
1992	62	32	6	52	31	17

Source: Afonso, *Descentralização*, 1994.

Table 4 *Federal Savings from the 1st and 2d Fiscal Pacts in Argentina*

1992	1993	1994	1995	Total
\$2,114,435,000	\$3,310,090,000	\$3,999,751,000	\$4,358,923,000	\$13,783,199,000

Source: Fólca, *Anarquía en la distribución*, 1997, 45.

Table 5 *Tax Revenues in Argentina: 1988–95 (billions of December 1995 pesos)*

	1988	1989	1990	1991	1992	1993	1994	1995
Federal Tax Revenues (subject to coparticipation)	11.622	9.557	10.541	15.519	19.324	18.164	19.039	16.830
Provincial Tax Revenues	5.365	4.091	5.111	6.219	8.531	9.583	10.066	9.320

Source: Cetrángulo and Jiménez, *El conflicto en torno a las relaciones financieras*, 1996, 35.

value of tax revenue, stabilization in 1991 dramatically increased the size of both federal and provincial tax revenues (see table 5).

According to the 1987 law governing these transfers, the federal government was obliged to automatically share 57 percent of collected revenues with the provinces, keeping only 43 percent for itself and the capital city of Buenos Aires. The combination of stabilization and increasing tax revenues after 1991 made it possible for Menem to secure the governors' support for two major revisions of this Co-participation Law. The first revision took the form of a fiscal pact, according to which the federal government deducted 15 percent from the revenue pool prior to its distribution to the provinces in exchange for guaranteeing that transfers would not dip below a minimum monthly floor of U.S.\$725 million. According to the second pact, in exchange for provincial tax and social security reforms, the federal government raised the minimum monthly revenue guarantee to U.S.\$740 million and increased federal control over the very design

of subnational economic policies (Tommasi and Spiller 2000). Though subject to a dizzying number of modifications (Saiegh and Tommasi 1999), the basic features of these pacts remained in place for the remainder of the decade. Because the pacts clearly re-assigned authority to the federal government over a great deal of money that would otherwise have been channeled to the provinces, they had a strong re-centralizing dynamic.

The positive impact of stabilization on Argentine tax revenues also made it possible for the federal government to transfer additional responsibilities in the area of education and health care to the provinces without additional financing (World Bank 1993, 20). This change was designed by the federal executive as a way of reducing the governors' autonomy by forcing them to spend their un-earmarked federal revenue transfers on an item that was formerly funded by the federal government.

While it was orthodox stabilization and not hyperinflation that directly led to the re-centralizing reforms of revenue and expenditure, a provincial debt crisis in 1995 and 1996 did enable Menem to severely restrict subnational *borrowing* autonomy. Specifically, the governors' financial difficulties rendered them highly vulnerable to presidential proposals for the privatization of provincial banks. For decades, provincial banks proved to be very attractive to the provincial politicians who used them to direct cheap credits and employment opportunities to political supporters and to finance deficit spending (Clarke and Cull 1998; Argañaraz and Mautino 1995). While governors successfully resisted pressures to privatize their banks in the early 1990s, capital flight following the collapse of the Mexican currency in late 1994 and led to deposit losses that threatened to bankrupt the banks. In response to this window of opportunity, the federal government established a special trust fund to pay the short-term costs of bank privatization that was financed by the World Bank and Inter-American Development Bank. By the end of 1998, eighteen of twenty-six provincial banks were privatized (Clarke and Cull 1998), and in 1999 an additional two provinces, Catamarca and Córdoba, privatized their banks.

What is perhaps most striking about the aborted Fernando de la Rúa administration (1999–2001) is the extent to which a worsening economic crisis was insufficient to generate deeper re-centralizing changes in intergovernmental relations. During the two years that he governed Argentina, de la Rúa's efforts to control provincial fiscal behavior were met with significant opposition by the governors. In the month that de la Rúa took office, for example, the governors forced the president to increase guaranteed revenue transfers to U.S.\$1.35 billion per month in 2000 and to U.S.\$1.36 billion in 2001 (Berteau and Iturre 2000, 24). When tax revenues declined dramatically in mid-2001, the federal government failed to meet its transfer obligations, arrears began to accumulate, and several provinces began issuing local bonds to pay their employees. In

October 2001, de la Rúa entered negotiations with Peronist governors designed to allow the federal government to reduce revenue transfers in order to forestall the national debt default, a condition of further International Monetary Fund support. When these negotiations collapsed over Peronist demands that the President release U.S.\$250 million in back transfers, the collapse helped trigger a catastrophic default on the national debt. Rather than facilitating re-centralization, economic crisis led Argentina's governors to depend ever more greatly on fiscal transfers from the center.

Brazil

In Brazil, the pattern that links stabilization with re-centralization differs from the Argentine experience, though some features are similar. It was the successful elimination of hyperinflation that enabled Cardoso to gather enough public support to persuade subnational politicians that excessive decentralization needed to be constrained. Governors thrived on Brazil's inflationary crisis, as it allowed them a veil under which to contract unsustainable debt and hire extensively. Lifting the inflationary shroud was a prerequisite to other lasting reforms. Thus, re-centralizing moves were not even on the table until after 1994.

Cardoso's implementation of the *Real Plan*, in which the new currency was tied to the dollar at parity, was instrumental in his election to the presidency. With the *Real Plan*, subnational expenditures quickly became transparent. This exposed the debts of state banks, and the government moved to force a more accurate nominal accounting of expenditures. The wild popularity of the plan encouraged even reticent governors to back the rhetoric of fiscal responsibility, even while they would continue to expect bailouts and unconditional transfers. In addition, the *Real Plan* stabilization doubtlessly strengthened Cardoso's hand within his own weak party coalition. By exposing the link between intergovernmental fiscal patterns and macroeconomic instability, Cardoso used the *Real Plan* as the basis of his attempts to reform the central government's relationship with the states.

Brazil's governors (and their lackeys in congress) accepted fiscal compromises only when public pressure for fiscal responsibility began to outweigh the patronage benefits that accrued from overspending. To be sure, Cardoso's relatively easy election on the back of the *Real Plan* encouraged a variety of politicians to hitch their wagons to the presidential star. Likely assuming that any attempts to stabilize the economy would soon lead to a return to the "good old days" of bottomless subnational coffers, state and local politicians were willing to back Cardoso's reforms, provided they were compensated with pork-barrel projects in the short term. As a result, the first Social Emergency Fund

(Fundo Social de Emergência—FSE) was secured through a messy amalgam of one-off transfers. First initiated under the Franco government in 1993, this temporary legislation, which removed 20 percent of certain transfers from the revenue-sharing pool, was designed to correct for short-term fiscal crises by allowing the federal government to halt (among other items) transfers to state and local governments.⁷ In 1996, the FSE became the Fiscal Stabilization Fund (Fundo de Estabilização Fiscal—FEF). Changes were few, but incrementally reinforced an institution with centralizing tendencies. Despite the increasing resistance of politicians to the FSE and FEF, Cardoso was able to leverage some of his substantial political capital to push through renewals and updates of the laws up until the 2000 passage of the more comprehensive and far-reaching LRF.⁸

After the *Real Plan*, and alongside the FSE, the federal government began to chip away at other subnational roots of economic instability. Whereas the Cardoso government needed to reckon with a hyperinflationary crisis before proposing revenue re-centralization, its attack on subnational borrowing autonomy was more direct. Soft loans from the state banks to state governments were widely used by the subnational governments as a “license to print money,” and state deficits between 1994 and 1996 threatened to instigate another macroeconomic crisis. Cardoso agreed to bailouts and restructuring of state and municipal debts, but in turn required the liquidation or privatization of state banks (Fleischer 1998, 132). This bargain was a crucial piece in a slowly assembled answer to fiscal instability. By 1999, twenty-four of twenty-six state banks had been privatized.

While institutional reforms after the 1990s bailouts were considerable, it is equally important to note that more recent fiscal troubles have not led the government to revert to bailouts and payoffs. Rather, subsequent events have actually further strengthened Cardoso’s claim to reform intergovernmental fiscal relations. In January 1999, Itamar Franco, former president (and Cardoso’s former boss), assumed the governorship of the powerful state of Minas Gerais, and promptly declared a moratorium on the state’s debt payments to Brasília. In the wake of the East Asian and Russian financial crises, this was widely interpreted in

7. This shorter lag between stabilizing measures (the *Real Plan*) and reductions in state transfers (FSE) contrasts with the greater lag that separated stabilization and changes in revenue transfers in Argentina.

8. We are thankful for the anonymous reviewer who emphasized that the FSE was initiated during the creation of the *Real Plan* in 1993. As noted, Cardoso made a first successful attempt to recentralize fiscal control even before assuming the presidency in 1995, and before the stabilization referred to here. Nonetheless, it was the success Cardoso had in stabilizing the economy that enabled the increasing institutionalization of the plan, with the FEF and later the LRF.

international circles as the last straw that forced the Brazilian government to devalue, and eventually float, the *real*. However, from the perspective of the governors, this attempt at fiscal intimidation largely backfired. Unlike previous bailouts, the governors ultimately gained nothing from the moratorium; rather, fiscal instability correctly came to be associated in public opinion with subnational government. As the state of São Paulo's Secretary of Finance at the time noted, the string of moratoria in the 1990s led to a swing in public opinion against the municipalities and state governors, and in favor of Brasília.⁹ This was particularly true given Cardoso's credentials as a macroeconomic manager.¹⁰ More concretely, Franco's attempt to force a bailout resulted in the central government covering the Minas Gerais debt to protect the national credit rating, but simply withholding an equivalent amount in federal transfers due to the state (Dillinger and Webb 1999, 33).

Having established this precedent, and with the increasing fiscal responsibility being exhibited by reformist governors in São Paulo and other states, the government moved to codify the principle of withholding transfers in a new LRF modeled in part on the fiscal provisions of the FSE and FEF. The LRF reiterated the provisions of the former FSE and FEF, while adding criminal penalties for fiscal irresponsibility. Importantly, the LRF also became a "complementary law" (*lei complementar*) to the national constitution. The LRF showed that Cardoso had moved beyond the reactive tendency to govern by decree, and had successfully passed binding legislation with a special legal stature, since it cannot be modified by ordinary legislation (Miranda 2001, 18).

Our two cases generate useful information about the empirical reach of crisis-based explanations of re-centralization. Generalizing from our two cases, the impact of crisis on the re-distribution of authority between levels of government appears to depend on the aspect of decentralization or re-centralization in question. For example, in neither country did the onset of crisis itself lead to re-centralizing changes in revenue sharing. In crisis periods, governors are simply not amenable to changes that would reduce the revenues they receive from the federal government. Instead, in our two cases, it is the abatement of crisis subsequent to stabilization that appears to open up space for the negotiation of re-centralizing changes in the distribution of tax revenues. The story appears quite different in the area of banking and finance, where unsustainable levels of subnational debt rendered governors vulnerable to re-centralizing changes such as the selling of subnational banks.

9. Interview with Yoshiaki Nakano, State Secretary of Finance, São Paulo State, 1995–2000, São Paulo, 24 July 2001.

10. Interview with Erika Amorim Araújo, BNDES, Rio de Janeiro, 7 August 2001.

PRESIDENTIAL LEGISLATIVE POWERS AND RE-CENTRALIZATION

Due to the reality that presidents have emerged as the main protagonists of re-centralization, it follows that the success of re-centralization efforts should vary directly with presidential powers. The literature on comparative presidentialism distinguishes between a president's formal legislative powers and his/her partisan powers (Mainwaring and Shugart 1997). As the most straightforward example, decrees may make it easier for the president to introduce re-centralizing changes in revenue sharing or service provision, even when a majority of legislators opposes such measures. Since governors enjoy considerable influence over legislators in our two cases, we would expect divisions of formal powers that favor the legislature to hinder re-centralization. Since formal powers can (and, in our cases, did) change through explicit constitutional reforms, we also ask whether these changes had an impact on decentralization and re-centralization in expected ways.

Argentina

Though the decree powers of the Argentine President exceed his Brazilian counterpart (Carey and Shugart 1998), these differences do not provide much leverage on the politics of re-centralization. Decree authority was used to affect many policy changes in Argentina (Ferreira and Goretti 1998), but decrees are limited when it comes to the difficult political work of reconfiguring intergovernmental relations. In Argentina, re-centralizing attempts, whether successful or not, took the form of prolonged political negotiations between presidents and governors. Though the second fiscal pact of 1993 came into legal existence through a decree, this decree authority was expressly delegated by congress after the terms of the pact had already been set through intra-party negotiations. In the long period between 1995 and 1999, when Menem tried to get governors to agree to changes in revenue-sharing rules, including rewards for provincial tax effort, he never used his decree powers to bring into existence a new system.¹¹ Politically speaking, unilateral revisions of revenue sharing proved to be impossible given the underlying erosion of Menem's authority over Peronist governors and legislators.

While decrees do not provide much leverage on re-centralization, some evidence suggests that the distribution of formal authority did have an independent effect on re-centralizing outcomes. Evidence indicates that the federal executive was able to use its unilateral authority over ad hoc transfers (*adelantos del tesoro nacional*, or ATNs) to secure privatization in the provinces. In 1994, Economy Minister Domingo Cavallo secured the

11. Interview with Ana María Mosso, Peronist Deputy, Buenos Aires, 12 August 1999.

privatization of the provincial bank of Misiones by sending approximately U.S.\$9 million in ATNs. That same year he secured the transfer of provincial social security programs in Chaco and Catamarca to the federal government using the same mechanism (*Página 12*, 9 August 1994, 4). More significantly, changes in the area of revenue sharing that were introduced by the 1994 reform of the constitution had the effect of bolstering the position of the provinces relative to the re-centralizing proposals of the federal government. In reaction to the earlier fiscal pacts and in an attempt to make it harder to alter revenue-sharing rules in the future, the constituent assembly inserted the institution of revenue sharing into the constitution, thereby ending a sixty-year period in which revenue transfers were governed by ordinary legislation. In a move designed to stack the deck in favor of Argentina's less developed provinces, the new constitution identifies the senate and not the chamber of deputies as the body responsible for initiating revenue-sharing legislation.¹² The new constitution also stipulates that, in any new legislation, no province can experience a reduction in the revenues it received at the time of the constitutional amendment. Particularly with the onset of economic crisis after 1995, this stipulation has significantly complicated the negotiation of a new revenue-sharing law, which to date has yet to be legislated.

Brazil

In Brazil, formal powers did not carry the day in Cardoso's rationalizing reforms. While the *medida provisória*, a temporary decree authority, allowed Cardoso to impose a number of policies (and, in fact, the *Real Plan* had its birth as a *medida provisória*), it did not figure heavily in his ability to commandeer the runaway train that was the federal political economy. In fact, as with the Argentine case, substantial changes in Brazil operated through negotiation; the major advances cited, including the *Real Plan* and the LRF, were considered consolidated only when they became either enacted legislation or obtained de facto currency, even if they originated as temporary decrees. In fact, most observers rightly note that Cardoso gave away a great deal, especially in the form of individual payoffs and pork, to secure support for his laws favoring fiscal responsibility (Ames 2001; Samuels 2003). The nature of these payments suggests that decrees are only of limited value—and that lasting institutional changes require a wrangling with the underlying powers of the subnationals.

Beyond the consideration of decrees, it is important to note that Brazil's revenue-sharing principles were embedded in the constitution. This

12. Poor provinces are better represented in the upper chamber, and the chamber of origin in Argentina's bicameral system enjoys procedural advantages relative to the chamber of revision.

made the re-centralization of revenues nearly impossible. On the other hand, the president faced an uphill struggle to ensure the decentralization of expenditures to match these revenues, since the constitution put in place the principle of concurrent responsibility among the various levels of government for social services. While a number of laws were passed to regulate spending and revenues, including the *Lei Camata* and the aforementioned stability plans, the president was only able to breathe a true sigh of relief when these provisions reached the status of *lei complementar*, in the LRF.

With the LRF behind it now, the Brazilian executive has seen its formal power enhanced. From various points on the political spectrum come arguments that the LRF is an unfair piece of legislation. For the opposition to Cardoso's left, the LRF was a draconian measure designed to stunt sometimes necessary deficit spending; the LRF essentially removes any budgetary flexibility in a crisis-prone economy (Miranda 2001). For more reformist officials, the LRF fails to distinguish between good governance and irresponsibility, and a preferable solution would simply be legislation proscribing bailouts.¹³ The fact that any central government fiscal measure vis-à-vis the states could be considered remotely draconian is considerable evidence that power has shifted, at least temporarily, towards the center. Of course, since the Brazilian executive fought hard for such a law, the current formal power should be seen more as an outcome than an explanatory variable; the enhanced formal powers of the national executive on fiscal matters are in turn based on other factors, including the aforementioned crises and the bureaucratic variables discussed next.

As can be seen, the principal caveat to our argument that formal powers mattered little is that the establishment of revenue decentralization in constitutional provisions made reversal more difficult. However, several points are important here. First, the ability to get these formal changes enacted was more an effect and manifestation of subnational power than a cause of it. Argentina in 1994 and Brazil in 1988 were countries where subnational actors were on the ascendant; the constitutional provisions merely codified (and cemented into place) this political fact. Second, we must seek hypotheses that explain the considerable variation over time in both countries after these constitutional provisions were in place. Formal powers have held relatively constant after the constitutional conventions in these countries, yet presidents' successes continued to vary. Finally, a central argument of this paper is that revenue decentralization is only part of a larger story. Much of the action in intergovernmental relations came in the areas of expenditure and borrowing, where changes in ordinary law were the most important.

13. Interview with Yoshiaki Nakano, 24 July 2001.

PRESIDENTIAL PARTISAN POWERS AND RE-CENTRALIZATION

In the case of a president's partisan powers, we similarly expect these to vary directly with the president's ability to achieve re-centralization. Partisan powers are a function of a country's political institutions, including the nature of electoral rules and the ability of the president as party leader to compel legislative behavior by the rank and file (Shugart and Carey 1992; Haggard and McCubbins 2001). Though political institutions and electoral rules are not easy to change, partisan powers can vary over the course of an administration in line with the president's own career possibilities and trajectory. As a result, re-centralization efforts at the beginning and end of a president's administration may meet different ends.

Argentina

Because the partisan powers of Argentine presidents exceed the powers of their Brazilian counterparts (Jones 1997; Mainwaring and Shugart 1997), all things equal we would expect the re-centralizing proposals of the former to experience greater success. Due to the closed-list nature of electoral laws and the generally more disciplined nature of political parties, Argentine presidents typically enjoy a great deal of authority over backbenchers within their own parties. As Jones notes, however, presidents share control over the candidate selection procedures for legislative races with subnational officials in their parties (e.g., governors) (1997, 270). That legislators have cause to respond to both presidential and gubernatorial directives is particularly important in the area of intergovernmental relations, which pits the interests of the federal government against those of the provinces. One can detect a shift over the course of the 1990s according to which Menem's tremendous authority over Peronist legislators in his first term can be contrasted after 1995 with declining authority for the president and growing independence for the governors.

The successful pursuit of stabilization made Menem a particularly powerful partisan actor in his first administration. The subsequent credibility and ultimate success of Menem's proposal to change the constitution to allow his re-election significantly delayed the succession struggles that would otherwise have hindered his control. Among other things, Menem used his considerable partisan powers to build support for re-centralizing changes that were resisted by the governors.¹⁴ Partisan powers were particularly critical in explaining Menem's ability to negotiate the fiscal pacts through which the provinces came to surren-

14. Interview with Jorge Matzkin, Peronist party chief in the Chamber of Deputies, Buenos Aires, 13 August 1999.

der approximately U.S.\$13 billion (see table 4 above). Significantly, when he initially proposed each of the fiscal pacts, he strategically chose to introduce them first in a series of closed-door meetings between himself and exclusively Peronist governors. Party discipline is reflected in the muted response of Peronist governors to the pacts' centralizing aspects, in stark contrast to the opposition governors who howled in protest. While Menem was ultimately able to purchase the support of opposition governors to the first pact through the extensive use of side payments, support for the second fiscal pact proved to be more elusive. Ultimately, Menem went ahead and implemented it with the support of just sixteen of twenty-three governors, most of them Peronist. Menem aggressively wielded his partisan powers on behalf of this more difficult second pact. For example, having intervened in the Peronist party organization in Corrientes in 1993, he named as intervenor the governor of a neighboring province (Vicente Joga of Formosa) who agreed in exchange to sign onto the second pact (CGE 1993, 173).

The story is quite different, however, for Menem's second term, and the difference has much to do with the dissipation of the president's control over his copartisans due to his lame duck status after 1995. While most of the president's market reform agenda was passed in his first term, Menem's attempt to force the provinces to adjust was mostly reserved for his second term, during which it faced serious obstacles (Gibson and Calvo 2000; Tommasi and Spiller 2000). With respect to revenue transfers, provincial governors, most of them Peronist, were increasingly able to insist on modifications of revenue-sharing procedures that benefited them, mostly through changes in the earlier 1992 and 1993 pacts. At the behest of the governors in 1996, for example, Congress increased the size of federal revenue transfers from taxes not included in the revenue-sharing pool (Fólica 1997, 69–70). Furthermore, using the federal government's revenue guarantees as collateral, the provinces borrowed heavily over the course of the second half of the 1990s. In those provinces that had privatized their banks subsequent to the Tequila Crisis, lending on favorable terms from their former banks was replaced by market lending secured by revenue transfers, which enabled them to delay the fiscal adjustments demanded by the federal government.

When the 1996 modification of the 1993 Federal Pact was due to expire at the end of 1998, the governors were again able to alter the pact to benefit their provinces. Specifically, the governors forced the federal government to increase the minimum revenue guarantee from U.S.\$740 million per month to \$850 million per month over the course of 1999 (*Ambito Financiero*, 23 October 1998, 1). Given the start of Argentina's profound and ongoing economic crisis in 1999, this change was highly advantageous to the provinces. In addition to increasing revenue guarantees, governors were also able to prevent the deeper reforms that

Menem proposed. For example, in 1998, the governors killed a proposed shift to distribution criteria that would reward provincial tax effort (*El Economista*, 6 February 1998, 3) and forced Menem to retract a proposal that would have instituted direct revenue transfers to the municipalities, bypassing the provinces (*El Economista*, 13 July 1998, 1).

Brazil

In Brazil, partisan powers provide less leverage for re-centralization, because the party discipline so important in Menem's first term simply did not exist. In fact, Cardoso had to struggle for fiscal order in spite of the weak party system, whereas Menem imposed his fiscal pacts using his party's chain of command as a critical tool. In Brazil, the cross-pollination of military-era elites with democrats in the wake of re-democratization had led to a plethora of small and medium-sized parties, each of which performed well in one or two regions of the country at most. President Fernando Collor (1990–92), who was ultimately impeached and forced from the presidency, belonged to a tiny regional party with almost no following beyond his person. Cardoso won his 1994 and 1998 presidential elections in generally convincing fashion, but in Brazil's disintegrated party system, the president's coattails proved to be chronically weak (Samuels 2003). Cardoso could, at best, piece together a broad four- or five-party coalition that housed social democrats, ideological neoliberals, and old-style patronage bosses.

This inchoate party system was reinforced by open-list electoral rules that nullified party discipline and favored individual campaigns (Willis, Garman, and Haggard 1999). The central government almost immediately found itself wrestling with subnational elites who were flush with cash and fearless of central government authority, largely because parties were not the principal channels for political ambition, but vehicles for personalistic electoral appeals (Ames 2001; Samuels 2003). For want of party discipline, the government relied on distributing favors for parliamentary votes. The fiscal outcome was the opposite of an unfunded mandate to the states: it was cash with few strings attached. In addition to constitutionally mandated revenue sharing, states got fat on pork, at the expense of the center. In the absence of party mechanisms to pull subnational strings, the central government was also unable to impose effective budget constraints on states, which led to spending even beyond federal government transfers (Dillinger, Perry, and Webb 2001).

Partisan powers, then, were not a relevant policy lever for the Brazilian executive. Rather, weak parties complicated efforts to negotiate fiscal responsibility. Of course, some scholars argued that the Brazilian government had a surprising degree of coherence despite its coalitional nature (Figueiredo and Limongi 2000), while others considered the coa-

lition “pathologically pro-government” (Power 1998, 61). To be sure, members of Cardoso’s coalition frequently supported the president. However, this should not be attributed so much to partisan powers as to the logic of crisis outlined above, as well as a lingering propensity to distribute pork among members of the coalition (Ames 2001). At any rate, Cardoso, like other Brazilian presidents, clearly could not promote reform by pulling party levers in the ways Menem did.

As many observers have noted, coherent parties serve as the mechanism through which presidents can leverage support for centralizing reforms (Willis, Garman, and Haggard 1999). The comparative lesson from our cases is that significant partisan powers can promote rapid stabilization by facilitating the types of fiscal pacts seen in Argentina. Ultimately, however, the evaporation of presidents’ partisan powers in Argentina demonstrated that re-centralization based largely on a strong partisan backing can be exceedingly fragile. Meanwhile, the Brazilian case confirms that subnational assaults on federal coffers will be harder to contain in the absence of strong parties. Nonetheless, central governments can prevail in the context of a wider consensus on the importance of stability as a public good, particularly when bureaucracies are coherent, as we shall see next.

BUREAUCRATIC DYNAMICS AND RE-CENTRALIZATION

A significant research tradition in Latin American political economy demonstrates that one often has to look within the bureaucracy—beyond presidential dynamics—for explanations of policy-making and implementation (Centeno 1994; Cleaves 1974; Lal and Maxfield 1992). Some scholars have argued that central bureaucrats of all stripes share a common fear of decentralization as a change that may erode their power relative to subnational officials (Manor 1999). We find that the story may be more complex in two ways: cabinet-level officials and mid-level bureaucrats often develop different preferences over decentralization, and differences may develop among cabinet-level officials. One key conflict pits those agencies with institutional stakes in the defense of fiscal restraint (e.g., Central Bank and the Finance Ministry) against other ministries who have less of an interest in fiscal restraint and who might see re-centralization as conflicting with other goals (e.g., the education, health and interior ministries). Each side seeks to influence the president in the struggle over re-centralization, and shifts in the balance of power between these different actors within the bureaucracy might explain the success or failure of re-centralizing efforts. We look precisely at these cabinet-level divisions. All things equal, the literature would lead us to expect more intra-bureaucratic conflict in Brazil than Argentina due to the greater need in the former to use bureaucratic appointments to piece

together legislative coalitions (Amorim 2002). Our findings, however, confound these expectations: in his two administrations, Cardoso was able to keep in their posts ministers who were committed to his vision of reining in the states, while Menem in his second term presided over a cabinet that was increasingly divided over federal-provincial relations.

Argentina

In Argentina, shifts in the balance of power within the bureaucracy can help explain the different levels of success that re-centralizing measures had in the first and second Menem administrations. In the first administration, the achievements of the 1991 stabilization under the Convertibility Plan of Economy Minister Domingo Cavallo endowed him with considerable authority vis-à-vis other ministers in the cabinet, many of whom had constructed careers within the Peronist party. The more political wing of the bureaucracy certainly chafed under the aggressive leadership of Cavallo; Menem himself publicly vied with the Economy Minister to claim responsibility for the stabilization program. But given the resounding success of the plan in defeating hyperinflation and in generating electoral victories for the party, Cavallo was able to overcome internal Peronist party opposition to a series of measures that shifted authority from the provinces to the federal government, including the fiscal pacts and provincial bank privatizations.

After the departure of Cavallo from the government in August 1996, and his replacement by the more liberal Roque Fernández, there was a marked shift in the balance of power within the bureaucracy away from the Economy Ministry. Although cabinet meetings under the first term were marked by a great deal of conflict between Cavallo and other ministers, in the second term these conflicts were less often won by the economy minister. A salient case in point was the intra-bureaucracy struggle in 1998 and 1999 over how to respond to strikes by provincial teachers. While the Economy Ministry saw education as the responsibility of the provinces and argued that the solution must be found in provincial efforts to reallocate existing revenues toward more productive uses, Education Minister Susana Decibe proposed federal tax increases to finance raising salaries in addition to existing revenue transfers. Ultimately, the Education Ministry won this battle, and the federal government adopted a tax on yachts, autos, and airplanes in 1999 to finance the salary raises. The outcome of this intra-bureaucratic struggle is not independent of the president's partisan powers. As Menem's partisan powers declined and as his interest in fiscal austerity lagged after the failure of his second reelection campaign, the balance of power within the cabinet clearly shifted toward the more traditional, fiscally populist ministers.

Brazil

In Brazil, Cardoso assembled from his own party a core cabinet-level team favorable to stability and rationality in governance. State-level officials who participated actively in the intergovernmental bargaining process of the late 1990s highlight the importance of Brazil's bureaucracy in fiscal processes, arguing that the entrenched bureaucracy compromised the autonomy of subnational governments.¹⁵ Others, more sanguine, assert that Cardoso's ministers in Brasília maintained a commitment to decentralization, but successfully rationalized the fiscal system by focussing on the decentralization of expenditure.¹⁶

Cardoso himself came to the presidency from the Ministry of Finance, and his formulation of the *Real Plan* cemented his reputation as a fiscal conservative, belying his past as a left-leaning dependency theorist. Cardoso, in turn, placed a high premium on stability in national financial administration. Pedro Malan served as Finance Minister for all eight years of the Cardoso government—a long stint at the helm of a volatile economy. Brazil's principal "expenditure" ministries were also headed by ministers known for their techno-political competence and strong social credentials. Two of the most important portfolios in the revenue-expenditure equation were led by ministers from Cardoso's Party of Brazilian Social Democracy (PSDB) with similar technocratic stature to Malan. Both José Serra (health minister, 1998–2002) and Paulo Renato Souza (education minister, 1995–2002) pushed for the full implementation of innovative measures that favored expenditure decentralization, thereby mitigating the burden on an underfunded national government. Contrary to assumptions that central bureaucrats prefer to retain spending for patronage purposes, Serra and Souza recognized the need to compel subnational governments to apply expenditures to these sectors. The ministers thus seized on and implemented existing ordinary legislation designed to push service provision to state and local government.

In both cases, programs linked increases in transfers to increased provision of services (Arretche 2000). In health, the funding mechanisms of the SUS (Sistema Único de Saúde) program ensured that local governments were compensated per the amounts and levels of services provided, and were increasingly "habilitated" to higher levels of service. This offered fiscal incentives for resource-poor municipalities to assume health functions (Yunes 1999). The effectiveness of SUS was partly responsible for Serra's successful bid for the 2002 PSDB presidential nomination. Similarly, the Fundo de Manutenção e Desenvolvimento do

15. Interview with Yoshiaki Nakano, 24 July 2001.

16. Interview with Luiz Carlos Bresser Pereira, former Minister of Administration and State Reform in the Cardoso government, São Paulo, 8 August 2001.

Ensino Fundamental e de Valorização do Magistério (FUNDEF) education program encouraged subnational governments to assume more responsibilities by transferring revenues as a function of investments and enrolled learners. Elsewhere, improvements resulted from Cardoso's appointment of Luiz Carlos Bresser Pereira to the post of Minister of Administration and State Reform (Ministério da Administração Federal e Reforma do Estado—MARE) in his first term. It was Bresser's persistence and strategic decisionmaking that got both the governors and the Brasília bureaucracy on board with administrative reforms limiting the use of patronage (Melo 1998: 9–12, 24). Tactically, Cardoso and Bresser established extra-ministerial structures that insulated MARE proposals from bureaucratic resistance at an early stage, until a pro-reform coalition could be assembled in a propitious context.

The key PSDB members of the Cardoso cabinet, then, partly substituted for the lack of party coherence in the combative congress. In fact, the reputation of the Cardoso team was such that Serra's selection as the PSDB candidate led to cries of outrage from those coalition partners most associated with traditional patronage networks. Faced with the prospective continuation of fiscal responsibility and state reform, the oligarchic-conservative wing of Cardoso's coalition, the Partido da Frente Liberal (PFL) of the Northeast, lambasted Serra as being "very São Paulo," and "anti-PFL" (*Estado de São Paulo*, 17 April 2002). Clearly, the PFL was concerned that another president in Cardoso's image could strike a long-term blow to traditional state clientelism and subnational dominance of Brazilian politics.

Alongside partisan and formal powers, analysts must consider the functioning of the national executive in order to get a complete picture of inter-governmental fiscal relations. Particularly, attention must be paid to ways in which technical decision-making can matter in public finance; indeed, it is surprising how easily such a crucial factor can be overlooked. The level of cooperation or conflict within the bureaucracy, at cabinet level and below, is the crucial element here. In Argentina, shifts in the balance of power across ministries paralleled changes in presidential power. In Brazil, technocratic harmony within the executive facilitated efforts to bring expenditures into line with revenues at all levels of government, and this served as a partial substitute for the weak party and formal powers of the president in Congress. By disaggregating the executive, we can consider how this "other path" may be blazed to change fiscal outcomes.

CONCLUSION

The research presented in this article has implications both for the political economy literature on Latin America and for the literature on decentralization in this and other regions. Given recent research trends

within the former literature, some of our findings are surprising. First, while we find that inserting revenue sharing into the constitution complicated presidential attempts to re-centralize, inter-branch divisions of legislative authority that gave presidents decree power were seldom critical. Though decree authority shapes outcomes in a variety of policy areas (Carey and Shugart 1998), the field of intergovernmental relations does not appear to lend itself to the application of decrees very well. Second, though scholarship on Latin America has, for good reason, recently focused our attention on executive-legislative relations, party systems, and electoral rules, we underscore the need to revive an older theoretical tradition that focuses on bureaucratic dynamics. In both of our cases, looking within the bureaucracy and taking stock of inter-agency struggles illuminates otherwise puzzling aspects of the re-centralization story.

Third, where many scholars have attributed economic reform to economic crisis (Haggard and Kaufman 1995; Nelson 1990; Weyland 1998), in attempting to understand re-centralization we focus on a key intervening variable: stabilization. In neither case did reformist presidents directly negotiate re-centralizing changes with governors prior to stabilizing the macro-economy. In both countries, the success of economic stabilization measures strengthened the hand of the president in his drive for re-centralization, though the pathways connecting the two phenomena were partially distinct. In Argentina, the absolute increase in tax revenue transfers produced by stabilization was large enough that it enabled governors to contemplate presidential proposals for a reduction in provincial shares of revenue and an increase in provincial expenditure responsibilities. In Brazil, the president's successful stabilization program raised interest rates and halted inflation, and this made governors susceptible to his re-centralization proposals, including the privatization of state banks and the increased assumption of devolved functions. In assessing how the politics of re-centralization varied in the wake of stabilization, we emphasize as our fourth finding the importance of the president's partisan powers, which shaped the form that re-centralization took and its sustainability through time (Mainwaring and Shugart 1997). In the aftermath of stabilization in Argentina in 1991, key re-centralization measures were rapidly achieved in 1992 and 1993 as the result of political deals within the Peronist party. This intra-party arrangement in turn depended on the level of the president's influence over his copartisans in congress and the level of his commitment to re-centralization, both of which declined in his second term. In Brazil, in the absence of similar partisan powers, movement toward re-centralization occurred more slowly, was achieved as the result of interactions among a larger set of actors, and depended heavily on the president's use of the bureaucracy. Table 6 summarizes these findings.

Table 6 *Overview of Hypotheses/Variables*

<i>Variables</i>	<i>Argentina</i>	<i>Brazil</i>	<i>Comparative Findings</i>
1. Crisis and stabilization	Increase in total tax revenues with end of hyperinflation; "smaller share of larger pie"	High interest rates exposes sub-national deficits; public opinion favors FHC	Support. Stabilization increases presidential leverage (Arg., Bra.)
2. Formal presidential powers (decrees)	Strong decree authority	Moderate-strong decree authority	No support. Decrees cannot change long-term fiscal relations; constitutional revenue provisions do matter
3. Partisan presidential powers	Strong powers (Menem I) Weakening powers (Menem II, De la Rúa)	Weak partisan powers	Support. Strong partisan powers facilitate pacts. (Argentina)
4. Bureaucracies	Moderate-high conflict between Economy and Education ministries	Low conflict between Finance, Education, and Health ministries	Support. National cabinet coherence facilitates re-centralization (Brazil)

In addition to the political economy literature, our findings also have implications for the research agenda on decentralization. Here we have illustrated in several ways the possible gains that come from extending studies of decentralization. First, we have highlighted the need to shift the analytical focus to the re-centralizing proposals and changes that have been triggered by earlier decisions to decentralize. We emphasize the extent to which decentralization has generated its own backlash since in both of our cases, it was the increase in revenue transfers in the absence of increases in subnational expenditure responsibilities that ultimately led stabilizing presidents to contemplate re-centralization. It is possible, however, that re-centralization could occur for reasons that have little to do with the form that initial decentralizing measures took, as when parties that are opposed to decentralization on programmatic grounds win elections. Latin America is not the only region where re-centralization has emerged as a pressing issue. In the case of China, for example, Gabriella Montinola, Yingyi Qian, and Barry Weingast argue

that, in the early 1990s, failed attempts to re-centralize forms of fiscal authority that had been devolved in the prior decade helped to consolidate market-preserving federalism (1995). In Russia, de facto decentralization on Boris Yeltsin's watch after the collapse of the Soviet Union gave way to an important re-centralizing drive by Vladimir Putin (Stoner Weiss 1997; Treisman 1999). Second, beyond underscoring the new prominence of re-centralization in Latin America, we have distinguished the question of whether presidents propose re-centralizing changes from the separate question of whether they succeed in these proposals. Presidential drives to re-centralize dominated national policy agendas in both of our countries, though the ability to achieve actual re-centralizing changes varied in response to the different political and bureaucratic resources available to each. Scholars should be asking both questions when studying intergovernmental dynamics in other Latin American countries.

Third, we have measured re-centralization with respect to multiple outcomes. Whereas much of the decentralization literature focuses on either revenues and transfers or on the decentralization of specific expenditure functions, we have adopted an approach that views revenues, expenditures, and borrowing powers as part of a whole fiscal system. This comprehensive approach enabled us to texture understandings of what decentralization and re-centralization mean, and to account for possible scenarios in which central governments look to decentralize in one dimension (e.g., transferring schools) while simultaneously re-centralizing in another (e.g., privatizing subnational banks).

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