

THE POLITICS OF DECENTRALIZATION IN LATIN AMERICA*

Eliza Willis, Grinnell College

Christopher da C. B. Garman, University of California, San Diego

Stephan Haggard, University of California, San Diego

Abstract: One of the most significant developments in Latin American politics and political economy in the last two decades has been the increasing decentralization of government. This development has generated a substantial literature on the pros and cons of decentralization and on subnational politics but few attempts to explain differences in the pattern of decentralization across countries. Fiscal decentralization must be understood as a political bargain involving presidents, legislators, and subnational politicians, each having somewhat conflicting preferences. How these bargains are struck will depend heavily on the lines of accountability within political parties. In systems with centralized political parties, the central government has exercised greater control over resources and uses than in countries with decentralized parties, in which subnational politicians exercise strong influence over legislators. The article explores this hypothesis through a comparative analysis of decentralization in Brazil, Argentina, Colombia, Venezuela, and Mexico.

A significant development in Latin American politics in the last ten years has been the decentralization of government. Drawing on the theory of fiscal federalism, economic reformers and international-aid agencies have touted decentralization as a means of reducing the inefficiencies associated with the "centralist tradition" in Latin American politics (Véliz 1980; IDB 1994). Yet decentralization has also been championed as the route to greater accountability and transparency in governance, an avenue toward increased participation by ethnic minorities and social groups excluded under semidemocratic or authoritarian rule.

Decentralization has generated a growing body of comparative work on the functioning of state and municipal governments in Latin

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America (Borja et al. 1989; Nickson 1995). Decentralization has also given rise to a heated debate over whether the political and economic promise of smaller democratic jurisdictions will be realized (Tendler and Freedheim 1994; Fox and Aranda 1996). Although these are important issues, this essay asks a different question: what determines the pace and extent of decentralization across Latin America? We argue that decentralization has a discernible political logic that is rooted in features of the constitutional, electoral, and party systems, one that differs across countries. This logic in turn has important consequences for the success or failure of efforts at decentralization.

The literature on decentralization has produced a plethora of competing definitions (Smith 1985; Rondinelli 1981; Rondinelli, Nellis, and Cheema 1983; Rondinelli, McCullough, and Johnson 1989; Campbell et al. 1991). We use the term here to refer to three closely related processes. *Political decentralization* refers to the establishment or reestablishment of elected autonomous subnational governments capable of making binding decisions in at least some policy areas (Smith 1985, 1). The extent of decentralization, however, cannot be gauged simply by the existence of elections or formal decision-making authority. In this essay, we are interested primarily in the actual division of powers and responsibilities between the central and subnational governments and the financial relations between these different political levels.¹

We will refer to the transfer of policy responsibilities and expenditure and revenue-raising powers as *functional decentralization*. This kind of decentralization can be gauged either by evaluating constitutional and statutory provisions or more directly by examining the relative shares of central, state, and municipal governments in aggregate government spending and revenue. In virtually all decentralized systems, the policy responsibilities of lower levels of government are not fully financed by their own tax revenues. Revenue-sharing agreements and intergovernmental fiscal transfers from the center thus constitute an additional piece of the decentralization story (Winkler 1994; Shah 1994). Countries vary in the share of central government revenues passed on to states and municipalities. Equally important are the rules governing such transfers, particularly with respect to the control exercised by the central government. In some systems, the central government exercises substantial discretion over disbursements to lower levels of government and controls the uses to which funds are put. In other systems, the national government's hands are tied by fixed revenue-sharing formulae, and lower levels of government have autonomy with respect to how funds are spent.

1. We will use the terms *state*, *provincial*, and *departmental* interchangeably. Direct or indirect electoral accountability may also inhere in functional authorities, such as regional development agencies, school boards, or utility districts. Such agencies will not be discussed.

Despite the extensive literature in economics on federalism and decentralization, relatively little theoretical analysis has been made of the political determinants of decentralization (von Haldenwang 1991; Dugas 1994; Shirk 1993). Moreover, despite the explosion of monographic work on decentralization in individual Latin American countries, little comparative analysis exists of the reasons why it varies in form and extent across the region. Our explanation for variation emphasizes the relationship between central-level politicians—presidents and legislators—and subnational politicians. Stated most simply, our hypothesis holds that the greater the political sensitivity of central level politicians to subnational political outcomes, the more decentralized the system is likely to be.

It therefore becomes critical to our analysis to answer the question of why national politicians are sensitive to subnational political outcomes in one case and not in another. Our answer rests in the structure of political parties. Throughout our case studies, we ask the question, where are party brokers operating—at the national or subnational level? Although the politics of decentralization are affected by a series of mitigating factors ranging from civil strife to fiscal crisis, we will demonstrate the extent to which legislator allegiances within political parties determine whether national or subnational interests prevail over the reassignment of revenue and spending responsibilities. Following an overview of broad empirical patterns in the region, we will provide a brief summary of our theoretical orientation concerning the relationship between party structure and decentralization. Next we will provide a detailed analysis of decentralization in five Latin American countries in light of our explanatory approach: Argentina, Brazil, Colombia, Mexico, and Venezuela. The article will close by examining the central policy debates surrounding the design of decentralizing initiatives and discussing the reasons why its promise has not always been fully realized.

DECENTRALIZATION IN LATIN AMERICA: EMPIRICAL PATTERNS

Virtually all Latin American countries have undergone some political decentralization in recent years, but these initiatives have taken a hierarchy of forms. In Bolivia, Brazil, Colombia, Guatemala, and Venezuela, decentralization strengthened both state and municipal governments. In Chile, Nicaragua, and Peru, decentralization involved creating or strengthening regional entities, but these bodies typically have more delimited powers than state or provincial governments. In the largest group, political decentralization has been confined to the local level, typically through redrafting of municipal codes.²

2. In the Dominican Republic and Panama, no decentralizing reforms have been made to date.

Table 1 provides a snapshot of the formal level of political decentralization in Latin America circa 1995. Despite some convergence around more decentralized forms of government, differences in constitutional form persist. These variations are related at least in part to size. Small countries are more likely to be centralized than large ones. Four of the six Central American countries, the Dominican Republic, Ecuador, and Paraguay all demonstrate a low level of political decentralization. With the exception of Paraguay, these countries exhibit unitary governments with appointed provincial executives. Although most have traditionally elected municipal councils, they have only recently moved to electing mayors. But in all cases, the national government or executive has the power to override local governments, and thus municipal autonomy is formally limited. Countries with moderate political decentralization have appointed provincial executives with more autonomous municipal governments.³ Four of the five countries with a high level of political decentralization are formally federal systems, Colombia being the exception. Highly decentralized countries have elected provincial and local governments that possess some formal autonomy.

This overview reveals the array of *de jure* forms that political decentralization has taken in Latin America but tells little about the actual division of powers and responsibilities across different levels of government. Unfortunately, statutory assignments of expenditures and revenue-raising powers are not particularly helpful in assessing the actual distribution of powers either, because statutes are frequently imprecise or create overlapping powers and responsibilities (see Garman, Haggard, and Willis 1996). For our purposes, more useful indicators are the shares held by central, state, and local governments of total revenues and expenditures before and after the introduction of decentralizing reforms (see table 2). On the revenue side, Mexico and Venezuela stand out as the most centralized systems, with virtually all taxing powers concentrated in the hands of the central government. The national government of Venezuela continued to collect over 95 percent of total tax revenue even after fiscal reforms were introduced. Despite a slight increase in the taxing capacity of states and municipalities between 1982 and 1992, the federal government in Mexico still dominated tax collection.⁴ Argentina and Colombia are more decentralized in this regard, although with surprisingly few changes

3. We have included Peru and Uruguay in this intermediate category as well. The Peruvian constitution calls for elected provincial governments, but they are currently suspended, as of 1996. Uruguay has only one level of subnational government.

4. During this period, states increased their share of total revenues collected from 8.3 percent to 13.4 percent, and municipalities increased their share from 1.0 percent to nearly 4.0 percent. Mexican revenue data, however, include transfers from other levels, and thus these numbers overstate the level of decentralization. But trends since 1992 suggest further increases in subnational taxing power (Díaz Cayeros and Merino 1998).

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TABLE 1 Political Decentralization in Latin America: Constitutional Structure

Country	Constitutional Structure	Selection of Executive		Democratic Transition	Formal Override Authority ^a
		Provincial	Local		
Low Political Decentralization					
Costa Rica	Unitary	Appointed	Elected (1970) ^b	1948	Yes
Dominican Republic	Unitary	Appointed	Elected	1966	Yes
Ecuador	Unitary	Elected/ Appointed ^c	Elected	1978	Yes
El Salvador	Unitary	Appointed	Elected	1982–1984	Yes
Guatemala	Unitary	Appointed	Elected (1985)	1985	Yes
Panama	Unitary	Appointed	Elected (1994)	1990–1994	Yes
Paraguay	Unitary	Elected	Elected (1991)	1991	Yes
Moderate Political Decentralization					
Bolivia	Unitary	Appointed ^d	Elected (1987)	1985	No
Chile	Unitary	Appointed/ (1993) ^e	Elected (1992)	1990	No
Honduras	Unitary	Appointed	Elected (1981)	1982–84	No
Nicaragua	Unitary	Appointed	Elected (1990)	1986–90	No
Peru	Unitary	None ^f	Elected (1981)	1980	No
Uruguay	Unitary	Elected (1984) ^g	None	1984	n.a. ^h
High Political Decentralization					
Argentina	Federal	Elected (1983)	Elected (1983)	1983	No
Brazil	Federal	Elected (1982)	Elected (1985) ⁱ	1985	No
Colombia	Unitary	Elected (1992)	Elected (1988)		No
Mexico	Federal	Elected	Elected		No
Venezuela	Federal	Elected (1989)	Elected (1989)		No

Sources: Andrew Nickson, *Local Government in Latin America* (Boulder: Lynne Rienner, 1995); and national constitutions of Argentina, Brazil, Chile, and Colombia.

^a National government has authority to revoke automatically the mandate of an elected mayor or override laws passed at the municipal level.

^b No elected mayor. Executive consists of a city manager appointed by the city council. City manager may be removed by a two-thirds majority of councillors (Nickson 1995, 157).

^c Provinces are governed by both an elected executive (*prefecto*) and a governor appointed by the central government (Nickson 1995).

^d Bolivia is divided into four subnational levels: departmental, provincial, subprovincial, and *cantones*. Municipal governments are located in urban areas only. Departmental prefects are selected by the president, and they in turn appoint the subprefects.

^e Chile has three levels of subnational government: regional, provincial, and municipal. The candidate for municipal council who receives at least 35 percent of the vote is elected mayor.

TABLE 1 (continued)

If no candidate receives 35 percent of the vote, the mayor is chosen by a vote of elected members of the municipal council. The president has the power to appoint the Intendente at the regional level. Members of the Regional Council are elected by the councils of municipalities located within the region. These regional councilors can exercise an effective veto over the Intendente.

^f Regional governments consisting of elected officials were established in 1989 but were suspended by the government of Alberto Fujimori in 1992 (Nickson 1989: 239).

^g One level of subnational government performs both departmental and municipal functions.

^h Uruguay lacks a municipal government structure.

ⁱ Mayors of state capitals were elected for the first time since the military coup in 1964.

in the 1980s.⁵ Brazil was the most decentralized of the five with respect to taxing powers even prior to the transition to democratic rule, suggesting the importance of historical legacies. But Brazil was also the country experiencing the most significant change in taxing powers being transferred to the state level.⁶

Expenditure shares diverge substantially from the revenue patterns. Mexico stands out as decentralizing the least, although these data underestimate the extent of decentralization by counting certain federal transfers as federal expenditures. Díaz and Merino (1988) have suggested that decentralization of expenditures accelerated in the 1990s. Mexico is followed by Venezuela, Colombia, and Argentina. Brazil ranks as the most decentralized.

The divergence between revenue and expenditure shares underscores the importance of intergovernmental fiscal transfers. We are interested not only in the level of such transfers but the extent to which the central government exercises discretion over them, their distribution across subnational jurisdictions, and the purposes to which they can be put. Table 3 provides an overview of the legal basis and sources of revenue sharing and other intergovernmental transfers for the five countries. As this overview makes clear, intergovernmental fiscal relations are exceedingly complex. No country follows a single approach in all areas, and in many cases, the nature of intergovernmental finances is purposely opaque. Two basic methods are used to transfer resources. Revenue-sharing schemes tend to be automatic and distributed according to a legally established formula. Other transfers (such as grants) tend to be more dis-

5. Provincial governments in Argentina increased their share of total tax revenues from 13.7 percent in 1983 to 15.4 percent in 1992. But this expansion came at the expense of local governments, which suffered a decline from 7.0 to 4.6 percent in the same period. The share controlled by the federal government remained virtually unchanged. In Colombia, in contrast, local governments gained at the expense of departmental governments between 1980 and 1991. Again, the central government experienced only a small decrease in its share of revenue.

6. Between 1974 and 1988, Brazilian states increased their share of total government tax revenues from 36.9 to 49.4 percent, while the federal government's share fell from 59.8 to 47.1 percent. The share controlled by local governments decreased slightly from 3.8 to 3.6 percent.

TABLE 2 Revenue and Taxes by Level of Government

Country	Share of Total Government Tax Revenue Collected by Level of Government (%)		Share of Total Government Expenditure by Level of Government (%)	
	Before Decentralization	With Decentralization	Before Decentralization	With Decentralization
Argentina ^a				
Central	79.3	80.0	63.5	51.9
Provincial	13.7	15.4	31.0	39.5
Local	7.0	4.6	5.4	8.6
Brazil ^b				
Central	59.8	47.1	50.2	36.5
State	36.9	49.4	36.2	40.7
Local	3.8	3.6	13.6	22.8
Colombia ^c				
Central	82.2	81.6	72.8	67.0
Departmental	12.2	11.1	16.7	15.7
Local	5.6	7.3	10.5	17.3
Mexico ^d				
Central	90.7	82.7	90.2	87.8
State	8.3	13.4	8.8	9.5
Local	1.0	3.9	1.0	2.8
Venezuela ^e				
Central	95.8	96.9	76.0	77.7
State	0.1	0.1	14.9	15.7
Local	4.0	3.1	9.1	6.5

Sources: For Argentina and Colombia, Ricardo López Murphy, *Fiscal Decentralization in Latin America* (Washington, D.C.: Inter-American Development Bank, 1995), 22, 25, 33. For Brazil, Anwar Shah, *The New Fiscal Federalism in Brazil* (Washington, D.C.: World Bank), 15. For Venezuela, World Bank, *Venezuela: Decentralization and Fiscal Issues* (Washington, D.C.: World Bank), vol. 1, p. 5. For Mexico, Victoria E. Rodríguez, "The Politics of Decentralization: Divergent Outcomes of Policy Implementation," Ph.D. diss., University of California, Berkeley, 1987, p. 271; and INEGI, *Finanzas públicas estatales y municipales* (Aguascalientes, Mexico: INEGI, 1994).

^a Figures before decentralization as of 1983, under decentralization as of 1992.

^b Figures before decentralization as of 1974, under decentralization as of 1988.

^c Figures before decentralization as of 1980, under decentralization as of 1991.

^d Figures before decentralization as of 1982, under decentralization as of 1992.

^e Figures before decentralization as of 1980, under decentralization as of 1989.

cretionary in nature. The balance between these two types of programs represents a major indicator of the level of central government discretion.

We use three indicators to gauge the degree of central government control over local finances, which were drawn from an examination of all discrete programs of intergovernmental financial transfers in our five

TABLE 3 *Character of Intergovernmental Fiscal Transfers in Latin America, 1994*

<i>Factor</i>	<i>Argentina</i>	<i>Brazil</i>
Revenue-sharing provinces, states, or departments	Coparticipación	State participation fund, other taxes
Municipalities	None	Municipal participation fund
Legal basis	Ordinary law ^a Constitutional	Constitutional
Other transfers states, provinces, departments or regions	Social security funds, infrastructure development funds, discretionary transfers	Convênios
Municipalities	Provincial agreements (Convênios)	Convênios, grants
Legal basis	Statues Negotiation	Statutes Negotiation
Automaticity	Automatic	Automatic
Unconditional or conditional	Unconditional(P) ^c Unconditional(M) ^g	Unconditional(S) ^d Conditional(M) ^g
Borrowing	Permitted ^h	Permitted ⁱ

^a The constitutional revision of 1994 has given Argentine provinces the power to veto provisions changing coparticipation arrangements.

^b Revenue sharing from federal government to states is automatic. States exercise discretionary control over the transfers of revenues to municipalities.

^c Provincial level of government.

^d State level of government.

^e Departmental level of government.

^f States are required to allocate 50 percent of the situado toward capital investments.

^g Municipal level of government.

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<i>Colombia</i>	<i>Mexico</i>	<i>Venezuela</i>
Situado Fiscal	Participaciones, contingency fund	Situado Constitucional
Transferencia	Participaciones, municipal development fund, export and import taxes	Situado Municipal
Constitutional municipal law	Constitutional ordinary law	Constitutional
Fondo Nacional de Regalías	Convenios de Desarrollo Social, PRONASOL	Investment plan, regional compensation funds
Grants for joint projects (Fondo Nacional de Regalías)	Convenios de Desarrollo Social, PRONASOL	None
Statutes, decision	Statutes, negotiation	Negotiation
Automatic	Discretionary ^b	Automatic
Conditional(D) ^e	Conditional(S) ^d	Mixed(S) ^{e,f}
Conditional(M) ^g	Conditional(M) ^g	Unconditional(M) ^g
Restricted ^j	Permitted	Restricted ^k

^h Some provincial constitutions require municipalities to obtain prior permission from the provincial legislature before incurring debt. It is more common for municipal councils to require prior permission (IDB 1994).

ⁱ The Cardoso government has recently introduced measures that have significantly curtailed borrowing by subnational governments.

^j Local governments are permitted to incur debts, but debt servicing cannot exceed 30 percent of own revenues.

^k Local governments must request permission from the national authorities before incurring debts. They are not permitted to use local resources as collateral.

cases. The first, automaticity, provides an indicator of the level of central government discretion in determining the amount of revenues transferred. Our classification measures the central tendency across each country's range of revenue-sharing and transfer programs. The second indicator is the ability of central authorities to place conditions on the use of funds transferred to subnational governments (again, we provide a judgment of central tendency across programs). A third indicator is the power of lower levels of government to borrow. We assume that states and municipalities that can incur their own debt are more autonomous of central government control than are those prohibited or restricted from borrowing.

The first two measures show a pattern consistent with the quantitative evidence cited above. The central government in Mexico exercises great discretion over the amount and use of intergovernmental transfers. Argentina and Brazil again stand at opposite ends of this spectrum, with Colombia and Venezuela falling in between. A similar pattern is evident when looking at the power of subnational governments to incur debt. Subnational governments in Argentina and Brazil face the fewest restrictions. More limits exist in Colombia and Venezuela. Only Mexico, which permits borrowing by both state and local governments, deviates from the expected pattern.

As this discussion indicates, no single dimension captures definitively the extent of functional and fiscal decentralization. Nonetheless, even when we control for the formal level of political decentralization, the different measures tend to converge. Mexico is substantially more centralized than the other four countries, and Brazil stands out as the most decentralized. Venezuela, Argentina, and Colombia are arrayed in between, with Venezuela appearing somewhat more centralized than the other two and Argentina approaching Brazil.

THE POLITICAL ECONOMY OF DECENTRALIZATION

The pressures on Latin American governments to decentralize have come from various sources. Drawing on the theory of fiscal federalism in economics, international lending agencies have recently advocated decentralization as an antidote to the accumulated costs of overcentralization and have used their lending programs to advance that objective. The fiscal problems associated with the debt crisis and its aftermath also provide a motive for decentralization. Fiscal stress exposed the vulnerability of large central governments, placed a greater premium on efficiency in the delivery of services, and created incentives for politicians at the center to delegate responsibilities to lower levels of government. Democratization and increased political competition in elite democracies such as Colombia and Venezuela also created pressures to decentralize. Political openings provided opportunities for political entrepreneurs and newly organized social groups to challenge not only the inefficiencies of centralization but

also its political exclusiveness. On the presumption that barriers to political entry are likely to be lower at the subnational level, opposition movements in a number of countries have advocated decentralization as a way of opening up the political system to wider representation.

International financial institutions, fiscal crises, political liberalization, and democratization are factors common to virtually all Latin American countries, albeit in different degrees. Yet decentralization does not appear to follow a common pattern. Ultimately, one must look at the ways in which these pressures are managed by the politicians who initiate and vote on decentralizing reforms.

Our analysis begins from the following premise: decentralization results from a bargaining process among politicians at different levels of government, involving presidents, national legislators, and state- and municipal-level politicians.⁷ We do not deny, however, that the national executive office often possesses constitutionally given legislative powers that can include any of several capacities: veto, partial veto, the ability to introduce legislation, and emergency decree.⁸ The extent of functional decentralization and the design of intergovernmental fiscal transfers will depend on two factors: the preferences of national and subnational politicians, and the institutions that determine the relative bargaining strengths of each. Both factors will be examined in turn.

We expect presidents to be ambivalent about decentralization. The president is constitutionally positioned to reap the broad political benefits that might arise from decentralization. In addition to the gains in overall efficiency emphasized by economists, presidents might also use their authority to force decentralization on unwilling subnational governments to solve general fiscal problems at the center. At the same time, transfer of resources and capabilities to lower levels reduces the power and discretion of the president that are often necessary to build legislative coalitions. To reconcile these competing interests, we expect presidents to favor decentralizing designs that maintain as much central control and discretion in allocating resources as possible.

Subnational politicians most often have diametrically opposed interests. They favor transferring responsibilities for expenditures only if given commensurate revenue, and when revenue is transferred, they prefer its allocation to be free of central control. Thus on the revenue side, subnational politicians would favor either a transfer of taxing powers or a fixed-revenue transfer that maximizes subnational fiscal autonomy.

While the interests of the national executive and subnational politicians remain somewhat constant across cases, the ability of each level to

7. For a more detailed explanation of the core theoretical and methodological arguments used in this article, see Garman, Haggard, and Willis (n.d.).

8. For a systematic treatment of these powers, see Shugart and Mainwaring (1997) in Mainwaring and Shugart (1997).

shape decentralization is in great part determined by the structure of political parties. At stake is the ability of each actor to exert influence over national legislators who enact legislative or constitutional reforms involving decentralization. Legislators must be attuned to those actors who can advance their political careers. Therefore each of our case studies asks the question, where do party leaders preside—at the national or subnational level? If party leaders are organized at the subnational level and occupy positions in subnational governments, then national legislators often act as “delegates” representing subnational interests. Alternatively, if party leaders preside within a national party organization or occupy executive and legislative posts at the national level, then legislative interests over decentralization will coincide more with executive or “national interests.”

Systematic analysis of the entire set of institutions determining where party leaders preside is beyond the scope of this article. Our case studies focus on two of the most decisive: party rules on nomination and the timing of national and subnational elections. While party nomination rules determine whether national or subnational party leaders choose who gets on the ballot, the timing of elections between levels of government determines whether legislators ride presidential or subnational (gubernatorial or mayoral) coattails.

In sum, the ability of national executive or subnational politicians to shape decentralization is determined by the structure of political parties. The bargaining power held by national executive and subnational politicians over decentralization equals their respective influence over national legislators who enact reforms. Such influence derives from whether party leaders preside at the national or subnational level.

In the following case studies, we will demonstrate the extent to which party structure has shaped the adoption of decentralizing reforms since the 1980s. We have controlled for the formal level of political decentralization by focusing our attention on the cases of “high decentralization.” We will begin with countries in which decentralization has been most extensive (Brazil and Argentina) and will then consider those that are closer to the more centralized end of the spectrum (Colombia, Venezuela, and Mexico).

BRAZIL: THE POWER OF SUBNATIONAL POLITICIANS

Brazil stands out as the most decentralized of the five countries examined here. This distinction no doubt has something to do with the country’s continental size and its historical difficulty in integrating diverse regions. The “*política dos governadores*” has been a feature of Brazilian politics throughout the twentieth century. In important ways, redemocratization represented a reversion to a long-standing political form (Hagopian 1996). The most recent cycle of decentralization, however, also

had more proximate roots in the politics of the late military and early democratic periods. In contrast to authoritarian rule in Argentina, the Brazilian *abertura* involved a controlled electoral opening that increased the military's dependence on political elites at the state level. Even prior to democratization, evidence can be adduced of a political dynamic that increased functional and fiscal decentralization, expanded transfers to states and municipalities, and weakened central government control over the use of resources.

Democratization compounded with a decentralized party structure pushed this process further. Electoral cycles between levels of government as well as party procedures for nomination have fostered a party structure organized at the state level. Although the military opened direct gubernatorial elections in 1982, it delayed direct elections for the presidency until 1989, an off-election year, thus leaving gubernatorial and national assembly elections concurrent for 1982, 1986, and 1990.⁹ As a result, instead of riding presidential coattails, congressional candidates often owed their allegiances to gubernatorial candidates, thus compounding any president's difficulties in building working legislative majorities.

Subnational influence over national legislators was further accentuated by a party law stipulating that candidate nominations must occur at local and state levels. As a consequence, mayors have become influential party leaders in determining who gets on the ballot. The result of these legislative incentives has been extensive and rapid decentralization, large unconditional revenue transfers to state and municipal governments without clear definition of responsibilities, and persistent fiscal problems (Shah 1991; Afonso 1994; CEDEC 1995; Camargo 1994). Only recently has the president made a concerted effort to reverse this process, with partial success.

Much of Brazilian history can be told in terms of pendulum swings between centralization and decentralization of political power, with the most recent cycle dating to 1964. The ascent of the military concentrated political power in the hands of the junta and placed a variety of restrictions on the electoral process at all levels of government (Kinzo 1988; Skidmore 1988). Political centralization was accompanied by fiscal centralization. The tax reform of 1966–1967 abolished all state taxes except for a minor property-transfer tax and all municipal taxes except for the urban property tax. The newly created Imposto sobre Circulação e Mercadorias or ICM (value-added tax) became the sole source of revenue for states. The senate, over which the military exercised substantial influence, gained the authority to determine other tax rates (Selcher 1989; Medeiros 1983). Gov-

9. A constitutional revision introduced in 1994 and the passage of a new federal law (Lei No. 9,504) in September 1997 have made concurrent the election of the president, governors, senators, and federal deputies.

ernors and mayors were not only politically dependent on the military but also financially dependent, forced to engage in competitive demonstrations of loyalty to win resources (Medeiros 1983).

Centralization of revenues was matched by centralized control over spending. A “cooperative federal model” of intergovernmental relations eliminated exclusive state or municipal prerogatives for providing basic services such as health and education, effectively subordinating the subnational public sector to the center (Gonzaga Jaime n.d.). Decreto-Lei Número 200 of 1967 created a new administrative structure for implementing the military’s various developmental projects, partly by creating a plethora of new bureaucratic agencies. Because these agencies sprang up outside the established ministerial structure, they have been mistakenly considered a decentralizing reform. In fact, they were directly accountable to the junta (Harris 1983). State governments set up their own parastate bodies to obtain money from the center through highly discretionary and functionally specific fiscal transfers called *convênios* (Mahar and Dillinger 1983; Medeiros 1983, chap. 3; Abrucio 1994; Gonzaga Jaime n.d.). *Convênios* became a major instrument of political influence during the military period in Brazil.

Despite these centralizing features of military rule, the government’s decision to permit controlled electoral competition made the center increasingly dependent on lower levels of government over time (Ames 1987, 136). The military maintained municipal council and state legislative elections throughout its tenure, relying on repression of the opposition and gerrymandering to help the pro-government party, ARENA. But because of restraints on participation at other levels of government, the opposition Movimento Democrático Brasileiro (MDB) organized itself at the local level through *diretórios municipais* (municipal party commissions) and won 45 percent of the nationwide vote in the 1976 municipal elections (Kinzo 1988).

The controlled electoral opening of the late military period enlarged the capacity of states and municipalities to raise revenue, increased intergovernmental fiscal transfers, and expanded subnational discretion over expenditures (Medeiros 1983, 232). Fearing opposition gains in the 1982 gubernatorial and congressional elections, the military channeled additional money into municipalities (Medeiros 1983, 158). When the junta allowed national congressional elections to be contested, ARENA legislators and candidates naturally sought to solidify their political bases in the municipalities by bringing back patronage and pork from the center. With the success of the MDB in gubernatorial elections in 1982, subnational governments were able to extract even greater amounts of revenue.

In 1983 the first significant fiscal decentralization was enacted. The Emenda Passos Porto increased the amount of constitutionally mandated

revenue sharing from federally collected taxes to state and municipal governments (Leme 1992, 44). The fact that the amendment's author, Passos Porto, was a senator from the ARENA party highlights the extent to which legislators' political allegiances were increasingly split between the president and politically influential governors and mayors.

The transition to democracy further enhanced the power of governors and mayors. The Nova Lei Orgânica dos Partidos Políticos, which actually dated back to the military period, required that parties hold national, state, and municipal conventions, with each delegation chosen by the level below it. Mayors became pivotal actors because they could lure party members into attending local conventions by distributing public resources. Governors were usually the *de facto* party leaders in their states because of their ability to distribute patronage to state delegates' constituents. These nomination procedures made candidates for the national legislature highly dependent on local and state vote brokers. Presidential candidates also cultivated assiduously the support of governors and mayors.

The influence of subnational governments was further increased by the nature of legislative politics. The Brazilian transition yielded the most fragmented party system in Latin America (Mainwaring n.d.). The president's party usually has not commanded the largest share of seats in the legislature. Indeed, no party has held a majority, making accountability difficult and providing little incentive for cultivating any party label. This problem has been compounded by the notoriously fluid and undisciplined party structure, the product of an open-list proportional-representation electoral system (Ames 1995; Mainwaring 1991). The high competition within parties generated by open-list proportional representation provides an incentive for legislators to cultivate a personal vote and service narrow geographic bailiwicks. As a result, democratic presidents have often been able to pass legislation only by decree or the formation of *ad hoc* coalitions sustained through the distribution of patronage and pork, including the use of *convênios*.

The effects of this political structure were powerfully evidenced in the drafting of the new constitution. Although the president could wield some influence over the Constituinte (the Constitutional Convention), which consisted of all 559 sitting senators and deputies, the resulting document largely reflected the political interests of the legislators (Fleischer 1990). The new constitution instituted two major fiscal reforms that constituted a logroll between legislators from the poorer states of the North and Northeast, who rely on fiscal transfers, and those from the richer South and Southeast, who sought the opportunity to expand their own tax bases (Leme 1992, chap. 4). First, the constitution extended the *Emenda Passos Porto* by further increasing the amount of money transferred to states and municipalities through the *Fundo de Participação dos*

Estados and the Fundo de Participação dos Municípios.¹⁰ In contrast to the earmarked character of these resources under the military, few if any restrictions were placed on how states and municipalities could use them (Leme 1992, 78–79).¹¹ Second, the constitution buttressed the state and municipal revenue base by significantly increasing revenue collected at the local level and authorizing automatic transfers from the central government.

Federal, state, and municipal fiscal transfers have taken two forms in Brazil: constitutionally mandated transfers from federally collected taxes to states or municipalities, and negotiated convênios for specific purposes. Formula-driven transfers cede control over central government revenue to subnational units, while convênios retain some discretion over the distribution of funds at the center (Shah 1991). Most convênios have turned into selective nonmatching grants. Their negotiated nature necessarily reflects political and policy bargaining. They have been used to support regional development projects, agriculture, education, health, and housing. Not surprisingly, analysts have frequently cited convênios as being motivated by the president's interest in targeting support for particular locales and legislators (Medeiros 1983; Selcher 1989).

A notable consequence of the Constitution of 1988 was a reduction in the resources available to the executive for transfers through the convênio mechanism (Afonso 1994, 356, 356; Shah 1991).¹² Afonso and Shah

10. The constitution raised the Fundo de Participação dos Estados from 14.0 percent to 21.5 percent and the Fundo de Participação dos Municípios from 17.0 percent to 20.0 percent over a five-year period. The FPE distributes 85 percent of the total to states in the northern, northeastern, and center-west regions. The other 15 percent goes to the more-developed southern and southeastern regions (Shah 1991, 35). Less-developed states thus benefited from revenue sharing, while more-developed states gained from increases in the VAT revenue base.

11. Afonso estimated that 60 percent of all transferred revenue in Brazil is not linked to any specific program (1994, 356), and that number increases to 90 percent if generic transfers to health and education are included. The Imposto sobre Circulação e Mercadorias (ICM) was fused with the Imposto Unico sobre Minerais (IUM), the Imposto Unico sobre Energia Elétrica (IUEE), the Imposto Unico sobre Lubrificantes e Combustíveis (IULC), the Imposto sobre Comunicações (ISC), and the Imposto Territorial Rural (ITR) (Gonzaga n.d., 31). The revenue base of the value-added tax (ICM) was expanded by incorporating five taxes that were previously federal. Municipalities also gained from receiving 50 percent of revenue from the rural property tax, all payroll deductions of income taxes, 70 percent of the tax on gold (IOF), 2.3 percent of oil revenues, and 50 percent of taxes on hydroelectricity and minerals. For details, see Shah (1991, 42).

12. Before the new Constitution of 1988, convênios accounted for 22 percent of total federal transfers and 8 percent of federal revenues, 90 percent of which went to states and only 10 percent to municipalities. In 1988 President José Sarney's home state of Maranhão received the highest level of transfers in the northern region, while the richer states in the Southeast received 60 percent of total negotiated transfers (90 percent of which went to the state of São Paulo). By 1989, however, except for meeting its obligations for programs such as the Sistema Unificado e Descentralizado de Saúde (SUDS), the federal government did not distribute any additional funds through convênios (Shah 1991, 30).

have shown that the share of transfers through convênios decreased in direct proportion to the increased amounts distributed through revenue sharing. The constitution thus decreased the executive's ability to use convênios as a tool of governing.

Although the constitution increased the amount of revenue transferred to states and municipalities, it lacked clarity regarding the distribution of responsibilities (CEDEC 1995, 8; Afonso 1994; Camargo 1994; Shah 1991). This vagueness allowed subnational governments to obtain more money without the burden of offering more services or being held electorally accountable for their provision. The federal government has therefore maintained responsibility for providing many of the same services nominally transferred to lower levels, but with fewer resources. As a result, decentralization has contributed to Brazil's overall fiscal deficits.

A major new stabilization effort initiated in 1993 contained a series of measures designed to address the country's continuing fiscal imbalances by restructuring intergovernmental fiscal relations. The suggestions for immediate action presented to President Itamar Franco by Minister of Finance Fernando Henrique Cardoso clearly reflected the interests of the center. They sought to reduce all nonconstitutional transfers in the federal budget, bring states and municipalities up to date in their payments to the union, and limit the indebtedness of states and municipalities.¹³ The central government also sought to reign in the abuse of state banks by granting the Banco Central independent authority to enforce capital requirements while limiting its capacity to bail out the state banks. The program also limited state banks' ability to make loans to the public sector or to state-owned public enterprises.

During Cardoso's presidency, the government has acted to free itself from constitutional constraints on its spending¹⁴ and intervened directly in a few state banks, but it generally has not succeeded in carrying out most of its proposals for reforming intergovernmental fiscal relations. Cardoso's efforts as finance minister and president to push through a consti-

13. The Ministério da Fazenda sought to achieve this goal by various means: suspending new contracts and revenue-sharing funds with all states in arrears to the Union (except for constitutionally mandated ones); suspending all exceptional grants by financial institutions; negotiating rollover agreements with the states; withholding all state and municipal participation funds for those defaulting on payments to the social security system or other federal agencies; requiring all federal banks to execute contractual guarantees of all overdue debts; suspending authorizations for any type of credit operation contracts between the federal government and defaulters among state and municipal governments; suspending or limiting guarantees from the National Treasury for debtor subnational governments; and placing limits on the public indebtedness of subnational governments.

14. This objective was accomplished by creating the Fundo Social de Emergência and its successor, the Fundo de Estabilização Fiscal, which unlinked 20 percent of major federal funds from constitutional spending obligations. But the federal government was required to compensate the municipal governments for some of the revenue lost as a result.

tutional reform of revenue sharing met with failure. The states claimed that their assigned responsibilities exceeded available revenues, even though the root of growing state fiscal problems appears to lie in debt service and high state spending on personnel (typically associated with patronage). In an interesting twist, many state governors have supported Cardoso's proposal for a constitutional amendment that would permit them to fire public employees hired by their predecessors. Members of Cardoso's own coalition in Congress, however, have refused to pass this amendment.¹⁵

As noted, the most recent pendulum swing in power toward subnational governments began under the military, driven by electoral calculations that forced executive and legislative attention to the emerging political opposition at the subnational level. Following the transition to democracy, a decentralized party structure weakened incentives for legislators to identify with either executive or collective party interests and has led to unusual powers on the part of subnational governments. The result is an uncommon degree of decentralization: substantial automatic transfers, weak conditionality over the use of funds, increased subnational taxing powers, and a weak delineation of responsibilities.

ARGENTINA: THE SHIFTING BALANCE OF CENTRAL AND PROVINCIAL POWER

In Argentina the combination of constitutional design, electoral rules, and the evolution of the party system has yielded a delicate and shifting balance between central and provincial powers. On the one hand, the period since the transition to democracy has witnessed a steady march of decentralizing initiatives. As in Brazil, transfers have evolved toward a fixed formula with a low level of earmarking. During the administration of President Raúl Alfonsín, the center appeared to lose control over intergovernmental finances altogether. On the other hand, President Carlos Menem has acted to check the runaway decentralization evident in Brazil by successfully reversing destabilizing transfers and guaranteeing that the provinces take on new functional responsibilities (Artana et al. 1995, 83).

What accounts for this outcome? Until the constitutional revisions of 1994, Argentina had a bicameral legislature in which each provincial assembly elected two delegates to the Senate. The interests of provincial political elites were thus strongly represented at the national level.¹⁶ Provin-

15. "Battle Joined over Civil Service Reform: Cardoso's Allies Unhappy about Ending Jobs for Life," *Latin American Weekly Report*, 2 Nov. 1995, p. 496.

16. The constitution even encouraged formation of provincial parties (Balestra and Ossona 1983): the Partido Renovador de Salta, Partido Liberal de Corrientes, Partido Autonomista de Corrientes, Movimiento Popular Neuquino, Movimiento Popular Feguino, Acción Chaquena, and *bloquismo* in San Juan.

cial party machines have also exercised influence over the presidential nomination process. Nonetheless, several features of Argentine politics give the president advantages that have at least periodically served to offset the pull from the regions. In contrast to Brazil, a closed-list system encourages categorical voting and buttresses the position of national party leaders within the two dominant parties. The coincidence of election of the president and with that of half of the lower house every six years further induces voters to opt for the parties of the major presidential contenders (McGuire 1995, 228–29). Despite the ability of provincial party elites to influence nominations, the president as party leader retains the power to veto provincial-level nominations. Last, until recent constitutional reform, the president was formally empowered to intervene in provincial affairs (in Article 6), leading many analysts to call Argentina a *de facto* unitary state (Sabsay 1991, 121). Legislators therefore remain significantly beholden to national party leaders (often the president) for their political advancement, a situation that allows the executive to avert the runaway decentralization prevailing in Brazil.

The Argentine case nonetheless indicates that bargaining between levels of government is further mediated by whether or not the president enjoys a legislative majority. Presidential influence over decentralization wanes with a unified opposition and is conversely magnified when the chief of state can act as the *de facto* party leader of the majority party in the legislative branch.

Following the centralization of taxing powers in the late nineteenth century, Argentine provinces came to rely on transfers and a federal revenue-sharing system called *coparticipación* that granted them a fixed percentage of federally collected taxes. Yet the provinces have never been able to depend on the center as a stable source of revenue because the revenue-sharing system was legislated and altered repeatedly according to shifting central government priorities and changes of regime (Carciofi 1990; Porto and Sanguinetti 1993). The Peronist governments of the 1970s sharply increased transfers (World Bank 1990, 18). But the military government (1976–1983), an executive-dominant system par excellence, sought to reverse the Peronist fiscal deficits (Rock 1987, 368; Beccaria and Carciofi 1995, 206). One way was to transfer greater responsibilities to the provinces. Between 1978 and 1982, the central government transferred responsibilities for primary education, water, electricity, and a number of hospitals to the provinces while actually reducing the ability of provinces to tap central government resources (World Bank 1990, 19).

By the end of the military period in Argentina, provinces were hungry for more resources to finance their additional responsibilities. The party system and executive-legislative relations influenced the way in which these provincial demands were processed. Under Alfonsín's presidency (1983–1989), the Unión Cívica Radical (UCR) controlled the presi-

dency and held a majority in the *Cámara de Diputados*. But the Peronist Partido Justicialista (PJ) won twelve of twenty-two governorships, with seven going to the UCR and the remainder to provincial parties (Sabsay 1991, 123). Because the provincial assemblies elected the senators, the Peronists were able to construct a working majority in the Senate that could veto virtually all legislative proposals advanced by Alfonsín (Haggard and Kaufman 1995, chap. 6; Jones 1995, 94).

The first consequence of divided government was deadlock, the inability of the major parties to agree on a new revenue-sharing law (Mustapic and Goretti 1992). With provinces strapped for revenue and Peronists controlling most provincial governments, the Radicals had little incentive to agree to a favorable revenue-sharing scheme, and the Peronists lacked the political wherewithal to generate one. As a result, no revenue-sharing system governed central transfers to provinces from 1984 through 1987, and provinces received central-government financing through discretionary grants issued from the Treasury (*Aportes del Tesouro Nacional*).

Under unified government or strong presidential and party control over subnational units, such a system might favor the executive. In this instance, it provided opportunities for opposition legislators in the Senate and the provincial capitals to blackmail the politically weak Alfonsín administration. Because the Treasury distributed grants to make up for provincial budgetary shortfalls, provinces engaged in competitive bidding for support by running high budget deficits (World Bank 1990, 4). Legislators from both parties aided and abetted this tendency because legislative support could be traded for transfers (Haggard and Kaufman 1995, 192). In short, divided government and the mode of representation in the Senate combined to allow provincial interests to extract resources from the center.

The congressional and gubernatorial elections of 1987 proved disastrous for the Radicals. The Peronists gained additional governorships, and a majority in the *Cámara de Diputados* allowed them to pass a new revenue-sharing law in 1987 (Peñalva, Pérez, and Rofman 1989, 169). As we would have predicted, the new law substantially reduced the central government's discretion over transfers. Provinces were to receive 57.7 percent of revenue from shared taxes, up from 48.5 percent, and discretionary grants from the Treasury were limited to 1 percent of that total (Artana et al. 1995, 85; World Bank 1990, 90). Any additional intergovernmental transfers had to be approved by the Congress, and the monitoring of provincial accounts at the central bank was tightened.

Provinces benefited from the decrease in central government discretion, but the new revenue-sharing system proved insufficient to meet provincial financial needs. This shortfall is explained in part by a decline in revenue collected from the pool of shared taxes.¹⁷ But it is also due to

17. This decline is explained in turn by increased inflation and a decline in the general ef-

the fact that redemocratization coupled with new statutory responsibilities made provincial politics a new locus for politically motivated spending (World Bank 1990, 23). From 1983 to 1987, the central government reduced its deficits substantially, but provincial deficits climbed from an average of 1.0 percent of GDP to 4.6 percent as spending jumped and tax collection fell (Schenone 1991, 19). Throughout 1988, the last year of the Alfonsín administration, provinces repeatedly pressured the central government for financial assistance. They were aided in this effort by organized national-level interest groups hostile to decentralization, such as primary school teachers (Beccaria and Carciofi 1995; World Bank 1991). The government was ultimately forced to provide financial relief to the provinces (World Bank 1990, 26–27).

Menem's rise within the Peronist party resulted from the ascent of a federalist faction.¹⁸ Menem campaigned under the banner "Federalismo y Liberación" and prevailed by securing support from sitting Peronist governors (Peñalva, Pérez, and Rofman, 1989, 169). When Menem took office in 1989, he enjoyed a Peronist majority in both houses of Congress. He quickly exploited that majority and executive powers to stabilize the country's hyperinflation and initiate a wide-ranging set of structural reforms (Haggard and Kaufman 1995, chap. 6).

Menem also undertook decentralizing measures that reflected a mixture of his interest in restoring fiscal health and the provincial concerns of the "federalist coalition" that had backed him within his party. The first step came with a series of decentralizing reforms called *El Acuerdo de Reafirmación Federal*.¹⁹ In August 1992, the government passed a law (*Acuerdo Nación-Provincias, Ley n. 24.103*), also signed by governors, which gave provinces financial relief and more discretion over the use of some transfers.

Although provincial governments have expanded their resources under the Menem administration, the president has also relied on party

efficiency of tax collection for shared revenues. Also contributing to the decline were fiscal losses generated by a program for promoting industry, which provided incentives for poorer provinces by granting them the power to extend tax breaks to new investment.

18. Midway through his administration, Alfonsín sought to shore up his sagging political fortunes by playing a federalist card: he proposed that the capitol be moved from Buenos Aires to Videma-Carmen de Patagones. While the proposal ultimately failed, it split the Peronist party. The *corriente renovador* faction, whose leaders came from Buenos Aires and had been pushing for internal changes within the party to make it more democratic, opposed the measure. The *referentes* faction supported the proposal (Peñalva, Pérez, and Rofman 1989, 162–69). The center-local cleavage resurfaced at the party's internal nomination elections for the presidential ticket. This time Menem and the referentes prevailed.

19. The most prominent of these were giving provinces the ability to sign international financial accords; transferring state-owned enterprises to provinces; redesigning the revenue-sharing system; and reforming the financial system to safeguard the needs of provincial banking (Sabsay 1991, 126–27).

discipline to maintain overall fiscal discipline and establish a clear distribution of responsibilities among levels of government. The federal government agreed to provide the provinces with a monthly stipend of \$725 million as of December 1993, but in exchange for provincial spending limits and the ability to retain 15 percent of revenue from shared taxes to meet national financial obligations. The federal government also agreed to automatic transfers from a number of funds but earmarked them for particular uses.²⁰ Although the provinces gained financial relief and increased autonomy over the use of central transfers, the federal government protected the budget by successfully passing legislation in 1992 (Law 24049) to transfer responsibility for higher education to the provinces and the city of Buenos Aires (Artana et al. 1995, 64).

The constitutional reforms of 1994 reflect two factors: a political bargain struck between Menem and Alfonsín in the Pacto de Olivos, in which Menem traded a reduction of executive branch powers in exchange for support in his bid for reelection (Jones 1997); and Menem's dependence on provincial forces within the Peronist party. These reforms consequently contain decentralizing elements. New constitutional provisions placed checks on the ability of the executive to intervene in provincial politics without the consent of the Congress, and therefore from the provinces' representatives in the Senate (Dromi and Menem 1994, 411; Argentine Constitution of 1994, Article 75, Clause 31, and Article 99, Clause 20). The new constitution also established that laws governing revenue sharing must be transparent, and changes in these laws and changes in the division of responsibilities must be approved by the provinces (Constitution of 1994, Article 75, Clause 2).²¹

Other provisions passed in 1994, however, favor tighter central government control over the decentralization process. An amendment establishing the popular election of senators is likely to undermine the ability of provincial party bosses to control legislative elections to the same extent. In the years when senatorial elections are held concurrently with the presidential election, we would expect national issues such as deficit reduction to increase in importance. In addition, abolition of the electoral college will reduce provincial influence over presidential elections.

The Argentine political structure has provided various opportuni-

20. These included the Fondo Nacional de la Vivienda (FONAVI), the Consejo Federal de Agua Potable y Saneamiento (COFAPyS), and the Fondo Vial Federal (see Artana et al. 1995, 86).

21. Additional changes that have strengthened provinces include the ability of provinces and Buenos Aires to create their own regions for economic development and organs to further those goals; the ability to enter into international agreements; and the right to control their own natural resources (Dromi and Menem 1994, 422). The new clause created a federal agency in charge of regulating this provision and assured representation of the provinces and Buenos Aires in its composition (Dromi and Menem 1994, 410).

ties for the provinces to reassert their interests since democratization in 1983. The role of the provinces in selecting senators and determining party nominations (including the office of president) and the opening provided by divided government under Alfonsín were key in this reassertion of provincial influence. But elements of centralism are also evident, particularly because the Peronists have enjoyed the advantage of unified government. Initiatives under Menem reflected the strategic use of decentralization to build provincial support but also the use of executive powers and legislative support to limit the fiscal damage associated with decentralization that is too rapid.

COLOMBIA: CONSTITUTIONAL REFORM AND DECENTRALIZATION

In view of its long history as a highly centralized unitary state, Colombia seemed an unlikely candidate for decentralization. Yet since the first decentralizing reforms were introduced in 1982, it has evolved into one of the more decentralized countries in Latin America. The initial impetus for decentralization came from presidents concerned with the costs of central control, but the extent was limited. Constitutional revisions passed in 1991 provided an opportunity for new political forces outside the country's two dominant parties to enter the political system and resulted in substantial political, functional, and fiscal decentralization. With the shift toward a more decentralized political structure in the early 1990s, the dynamic that we traced in Brazil began to operate with some force, as the expanding power of subnational politicians pushed national legislators and presidents toward further fiscal decentralization.

In our view, the politics of decentralization in Colombia have been structured by two principal institutions or "rules of the game." First, throughout much of the 1980s, Colombia's unitary state consisted of appointed departmental governors who exercised effective vetoes over the popularly elected departmental assemblies and municipal councils, thus limiting subnational competition. The second factor concerns the party structure of Colombia's two dominant political parties. In part because of an electoral system that allows for multiple lists from each party to compete at the departmental level, Colombian legislators are often beholden to regional vote brokers who control their departmental list rather than to national party leaders. Both sets of institutions complemented each other. While the party structure determined where the power rested within political parties, appointed departmental governors assured an effective monopoly for those two parties. As a result, much of the politics of decentralization have been structured around a recalcitrant legislature unwilling to give up its monopoly over resources distributed at the local level. Decentralization reforms were unleashed only when the local monopoly was broken.

After a brief flirtation with a federal system following independence in 1821, Colombia set in place the Constitution of 1886, which established a highly centralized unitary structure (Hartlyn 1988, 25). The constitution recognized subnational governments as separate units with distinct functional responsibilities but granted the president the power to appoint departmental governors. They in turn appointed the mayors of all other municipalities except Bogotá. These appointed governors exercised effective veto power over popularly elected departmental assemblies and municipal councils. Although departmental and municipal governments slowly regained some taxing authority and guaranteed revenues, the fiscal system remained highly centralized.

The long-standing preference for centralization is noteworthy because certain features of the Colombian social and political system reduced the cohesion of the two traditional dominant parties, Liberal and Conservative, and made individual legislators highly dependent on provincial and local elites (Hartlyn 1988; Osterling 1988). Although the electorate votes for a closed list, each district presents multiple lists of candidates affiliated with the same party. These lists are constructed not by the center but by local bosses who determine the ranking of candidates.

In this context of strong regional and local elites and intense intra-party competition, legislative candidates disregard party label in favor of a personal vote strategy. In a decentralized political system like Brazil's, such arrangements would constitute a formula for extensive and weakly controlled decentralization and large transfers to subnational governments. Such is not the case in a unitary system. Regional party bosses were not accountable to any electorate. Neither they nor national legislators had any interest in political or fiscal decentralization, which would have weakened legislative prerogatives and opened up new political uncertainties at the regional and local level.²²

Decentralization in Colombia began as a presidential response to a growing fiscal crisis among subnational administrations that threatened to undermine political stability. Early attempts at fiscal and functional decentralization by Presidents Alfonso López Michelsen (1974–1978) and Julio César Turbay Ayala (1978–1982) failed due to stiff congressional opposition. Because of weak party discipline, both presidents failed to gain support even from their own copartisans (Archer 1995).²³ It is significant that neither president sought political decentralization. Indeed, López

22. Moreover, introduction of the popular election of mayors or governors would have undermined the Frente Nacional agreement of 1958, in which parties agreed to the principle of parity in distributing all public offices without regard to election results (Orjuela 1991, 168). Few legislators were prepared to dismantle a successful political settlement from which they were deriving substantial benefit.

23. Turbay acted through presidential decrees to introduce minimal changes in the budgetary, planning, and investment powers of appointed subnational governments.

guaranteed potential supporters that the proposed reforms would involve no political decentralization nor any change in the electoral system.²⁴

The Conservative presidency of Belisario Betancur (1982–1986) introduced some decentralizing initiatives. Unlike his predecessors, Betancur advocated political as well as fiscal and administrative decentralization. The reasons were related to the challenge to political stability posed by the growing guerrilla movement. Turbay had responded with force, but Betancur initiated a peace process based on opening the political system. Betancur argued that a strong connection existed between political and functional decentralization: without increased autonomy and resources at the local level, measures to enhance political participation would be dismissed as meaningless (Hartlyn 1988, 226; Bird 1984; Orjuela 1992, 174).

Although Betancur enjoyed strong backing for his reform agenda in public-opinion polls, he encountered predictable opposition from the Liberal-dominated Congress. Weak party discipline meant that he could not count on the support of members of his own factionalized party (Bejarano 1990). National legislators were resistant to reforms that ultimately threatened to increase party competition for national as well as local offices, and they initially rejected all proposals for political reform (Hartlyn 1988, 226). By late 1985, however, Betancur succeeded in securing passage of a constitutional amendment that introduced popular election of mayors and provided citizens with a new right to hold referenda on local issues (Legislative Act No. 1).

What explains this decisive break with the Colombian tradition of extreme centralization in government? The impetus for reform came from a president who perceived decentralizing reforms as a response to protracted regional conflicts and broad pressures for political opening. The willingness of legislators to go along with Betancur's reforms seems more puzzling. Betancur's arguments linking excessive centralization and the country's political crisis were not disingenuous: legislators had ample evidence that the Colombian political system was facing basic challenges (Bejarano 1990; Orjuela 1991, 175). Betancur also succeeded because he was careful not to attack congressional prerogatives by altering electoral rules, campaign financing, or the distribution of patronage. The reforms allowed congressional representatives continued access to an important source of discretionary patronage—the *auxilios parlamentarios*, which they could use freely to fund projects in their own districts.²⁵ Congressional op-

24. López actually opposed introducing the popular election of mayors and governors because he felt elected officials would be even more likely to engage in patronage politics (Orjuela 1992, 40). According to Hartlyn, López chose the route of the Constituent Assembly to avoid conflicts among Liberals that were certain to arise if these reforms were debated in the Congress (Hartlyn 1988, 210).

25. Although these reforms substantially reduced the president's ability to make the sys-

position also diminished when proponents agreed to postpone the popular election of mayors until 1988 so that the 1986 congressional elections would not be affected by them (Hartlyn 1988, 229). This step delayed introduction of a new set of players and electoral incentives in intergovernmental relations, a clear indication of legislators' concern about the consequences of increasing political competition at the subnational level.

The design of Betancur's fiscal and administrative reforms did not seriously challenge central government control. Law 14 (passed in 1983) expanded departmental and municipal taxing powers but did not involve any increase in transfers from the central government.²⁶ The law proved inadequate, however, to meet the growing expenditure needs of both departments and municipalities. Law 12 (passed in 1986) went further in introducing a fixed formula for revenue sharing that substantially increased the amount of transfers to subnational governments from the centrally collected valued-added tax (Orjuela 1991, 1992; Ferreira and Valenzuela 1993; Dugas 1994; Nickson 1995). As a result of Law 12, municipalities stood to gain as much as 86 percent more revenue by 1992 than they received in 1986 (Bird 1984, 405). Moreover, the law expanded the areas in which municipalities could invest these new transfers.

Although the reform of revenue-sharing enhanced the autonomy of municipal governments, other provisions in the law reflected either continued central government control or the shifting of responsibilities to subnational governments without a mechanism ensuring that resources would match new responsibilities (Bird 1984, 407; Ferreira and Valenzuela 1993, 39). Evidence shows that government directives on the use of funds were sometimes ignored (Ferreira and Valenzuela 1993; Nickson 1995, 150), but municipalities were required to apply 75 percent of transfers received to public investments. These funds could not be used for operating expenses, as local politicians had in the past and would have preferred. The clearest demonstration of executive control was the fact that Law 12 granted the president extraordinary authority to issue decrees reassigning specific functions to local governments and eliminating the national agencies that had been performing those functions at the local level (Dugas 1994, 16).²⁷ Even with the cushion of the *auxilios parlamentarios*, many

tem of intergovernmental finances more transparent, their use increased between 1986 and 1991 (Ferreira and Valenzuela 1993).

26. Rather, Law 14 bolstered departmental revenues by standardizing surcharges on liquor and municipal revenues by improving collection of taxes on real property, industry, and commerce. Local governments gained the dubious privilege of raising rates within certain predetermined limits.

27. Decreto Ley 77 decentralized to the municipalities responsibility for water supply and sewerage, construction and maintenance of health clinics, schools, and roads, housing for the poor, agricultural extension, environmental health, urban transportation, and cadastral

local governments experienced serious imbalances between the assignment of new spending responsibilities and revenues.

Betancur's immediate successor, Liberal Virgilio Barco (1986–1990), initially confined his efforts to implementing the measures passed under Betancur (Dugas 1994; Nickson 1995). But growing guerrilla violence prompted Barco to follow Betancur's strategy of using greater decentralization to blunt fundamental political challenges. Barco's decisive electoral victory and his party's continuing dominance of the Congress should have facilitated passage of his proposals. But as in the past, lack of party discipline and the continuing dependence of legislators on local political bosses combined to defeat reform efforts (Bejarano 1990, 84; Dugas 1995, 6).

As happened during Betancur's presidency, political forces outside the executive and legislative branches placed reform back on the legislative agenda. A student movement advocating change through a popularly elected national constituent assembly organized an informal plebiscite to gauge public interest in constitutional reform (Dugas 1995, 7). After more than two million Colombians submitted informal ballots in their regular electoral envelopes, Barco used his state-of-siege powers to decree a formal plebiscite on constitutional change, which was approved by more than 85 percent of the votes cast (Shugart and Nielson n.d., 24).

The task of convening the *Asamblea Nacional Constituyente* was left to Barco's successor, César Gaviria Trujillo (1990–1994). Perhaps the most significant departure in electoral rules was the decision reached in negotiations with the parties to elect the seventy members of the *Asamblea* in a single national district instead of in the regional districts used in congressional elections (Shugart and Nielson n.d., 24). This change significantly affected delegate selection in weakening somewhat the regional bosses' power over nominations. The Liberals, usually the majority party in the Congress, captured only a third of assembly seats, while the *Partido Social Conservador* (the old *Partido Conservador*) garnered only about 7 percent. Led by dissident members of the Conservative party, nontraditional parties, including the *Alianza Democrática M-19* (which consisted of former members of the guerrilla movement and the *Salvación Movimiento Nacional*) captured nearly 40 percent of the seats.

Thus unlike previous Congresses, many delegates to the new *Asamblea Nacional Constituyente* were not bound to the same extent by the ties to local bosses that had limited decentralizing initiatives in the past. But they also could not rely on traditional forms of patronage to cement bases of support. Rather, they cultivated a broader, cross-regional constituency via programmatic appeals that included decentralization and improved provision of services at the local level. Even Liberal and So-

surveys. By most accounts, however, the process was poorly coordinated (Nickson 1995, 148; Ferreira and Valenzuela 1993).

cial Conservative party delegates who won their seats in the Assembly by more traditional clientelistic practices had to contend with pressure from newly elected mayors who now formed part of their regional constituencies (Shugart and Nielson n.d., 25). Recent work by Pedro Medellín Torres (1992) suggested that some political bosses who had originally opposed the popular election of mayors and governors have begun to seek these offices themselves to maintain their influence over the electoral process.

In sum, both "reformist" and "clientelistic" delegates had electoral incentives to support decentralization. As a result, the new constitution furthered political decentralization by introducing the popular election of departmental governors (although the president could still suspend or remove elected governors for reasons specified by law), lengthening the terms of provincial assembly delegates, and expanding citizens' rights to participate.

The new constitution also devolved more responsibilities to municipalities and departments and made significant changes in the mechanisms used to implement fiscal decentralization (Dugas 1994, 19). The law gave the departments the authority to allocate funds and assign responsibilities to the municipalities. Both departments and municipalities gained additional taxing authority, and in a radical departure from past practice, subnational government agencies can now issue their own debt instruments and borrow abroad (Ferreira and Valenzuela 1993; Moreno and Vargas 1995).

The constitution also reformed the system of revenue-sharing and provided for expansion of the amount of transfers flowing to departments and municipalities.²⁸ In response to considerable political pressure from local authorities, the Constitution of 1991 mandated a generous new structure for revenue-sharing with municipalities (Ferreira and Valenzuela 1993, 68–70).²⁹ New provisions also set forth a fixed formula for the distribution of these revenues, although Congress retained the authority to revise this formula every five years. The municipalities gained further from an increase in cofinancing arrangements with the national government to support specific investment projects and greater access to bonuses generated by oil exploration.

A major indicator of increased subnational influence is that Colombian departmental and municipal governments secured a guarantee that expenditure responsibilities would not be decentralized without the prior allocation of additional resources. Moreover, the Constituent Assembly favored distributing additional resources immediately while assigning new

28. These transfers will increase from 22.6 percent of current revenues in 1991 to an anticipated 46.5 percent by 2002 (Ferreira and Valenzuela 1993, 59). The *situación fiscal*, the main transfer to the departments, was projected to grow from a mere 12.6 percent of current revenues in 1993 to an anticipated 24.5 percent in 1996.

29. Municipal participation in current government revenues is scheduled to increase from 14 percent in 1993 to a minimum of 22 percent by 2002.

responsibilities only gradually, setting in motion a dynamic similar to the Brazilian experience in which local governments received additional revenues without additional responsibilities (Junguito et al. 1995; Ferreira and Valenzuela 1993, 43).

In contrast to Brazil, the central government managed to maintain its authority over the use of funds. Transfers in Colombia tend to be earmarked to a greater extent than in Brazil. Law 60 earmarked the entire *situado fiscal* (fiscal allowance) for spending on health and education and placed most responsibility for these functions on departmental and municipal governments. In addition, the law curtailed the discretion of local governments by requiring them to commit 80 percent of the total transfers received to social investments (Nickson 1995, 151). The new constitution also offered a somewhat more rigorous formula as a guide to distributing these funds among the departments. Nonetheless, the overall trend toward increased political as well as functional decentralization is pronounced.

In sum, the decentralization process in Colombia consisted of two distinct phases. During the first phase under a unitary government, the president's broad policy concerns with civil violence were paramount, but the extent of decentralization was limited. Neither President Betancur nor members of Congress wanted a form of decentralization that would significantly increase local political competition, enhance the autonomy of local governments, or curtail the control of the national government.

The political reforms introduced by the Constitution of 1991, however, opened a second phase of more extensive and wide-ranging decentralization. This political break can be explained by the decline of the traditional two-party duopoly and the ascent of new national politicians with broad programmatic concerns and an interest in breaking the electoral hold of the traditional parties through increased local competition. The introduction of mayoral elections in 1988 was a crucial turning point that opened new political opportunities. Once elected subnational politicians gained office, they began to influence the interests of national legislators. Other characteristics of the political system highlighted here, such as undisciplined parties and the introduction of nonconcurrent elections for subnational and national offices, augmented the power and resources wielded by subnational politicians.

Looking forward, a new constitutional provision establishing a single nationwide electoral district for senatorial candidates is likely to further this trend. The district magnitude coupled with the continuation of the multiple or personal list system makes senatorial contests even more candidate-centered. As a result, these politicians are likely to become more dependent on local politicians. If the local power brokers wield influence through their capacities as mayors or departmental governors, we expect the decentralization process to become even more like the Brazilian experience.

VENEZUELA: CONSTITUTIONAL REFORM AND CONTINUED PARTY CONTROL

Much like Colombia, Venezuela entered the 1980s with a democratic government that severely limited political participation at the local level. Governors and municipal leaders were appointed, and much of the political opposition to the two dominant parties during the 1980s took the form of demands for political decentralization. The politics of decentralization in Venezuela manifested themselves differently in part because of the party structure. Unlike Colombian counterparts who had a party structure that empowered regional brokers, political power in Venezuela was centralized in the national party leaders of its two dominant and highly disciplined parties, the AD (Acción Democrática) and COPEI (Comité Organizado por Elecciones Independientes). Thus even when political decentralization was enacted during the late 1980s, the center maintained a larger degree of control over fiscal transfers and the devolution of spending responsibilities in comparison with Colombia.

By the mid-1980s, a combination of economic and fiscal crisis, popular discontent with the AD-COPEI duopoly, and pressure from local co-partisans led party elites to introduce limited decentralizing legislation. As in Colombia, fiscal crisis and political protest outside the control of the dominant parties provided the initial impetus for reform. Political leaders in both countries proposed subnational elections as a means of counteracting growing political alienation and abstentionism. The sequence of reform in the two countries was also similar: political decentralization occurred first and created pressures for functional and fiscal decentralization.

These similarities should not obscure one crucial difference: Venezuelan parties have been far more cohesive and disciplined than their Colombian counterparts. As a result, Venezuelan decentralization has reflected the logic of interparty competition more than the intraparty rivalry and personalism that were so decisive in Brazil and Colombia.³⁰ Despite recent changes in electoral rules designed to increase the responsiveness of Venezuelan elected officials to the electorate, categorical voting makes candidates for national office strongly beholden to national party leaderships. The existence of relatively cohesive parties helps explain why functional and fiscal decentralization in Venezuela have been slower and less extensive than in Colombia.

Despite its federal constitution, the Venezuelan government prior to 1989 functioned more like a unitary state in which the organization of the electoral system and the process of candidate selection magnified the power of national party leaders. Concurrent elections for all offices—local (district councils), state (state assemblies), and national (president and members of both houses of Congress)—were held every five years. Voters

30. Ellner suggests, however, that intraparty rivalry played a role in the support shown for decentralization by Andrés Pérez's "renovation faction" of the AD (Ellner 1996, 92).

cast only two votes: one for president and the other for a closed party list made up of candidates running for all the other offices. Party control over the lists was so pervasive that the names of the candidates did not even appear on the ballots. In both COPEI and the AD, national executive committees assigned to district and regional committees the task of drawing up lists of candidates for legislative seats, but final decisions reflected the preferences of the top party elite (*"el cogollito"*).

Given such a cohesive and disciplined party system, it is not surprising that effective political and administrative power has been concentrated in the national government. The Constitution of 1961 granted Venezuelan presidents sole authority to appoint and remove state governors and further diluted local power by allowing for elected district councils that encompass several municipalities (Nickson 1995). State and local offices became little more than sinecures to be distributed among the party faithful or entry points for recruiting new party elites (Ellner 1993–1994). National party leaders, not elected congressional representatives, sponsored and secured funding for local projects (Carey 1996, 116).

Prior to the introduction of reforms in 1989, the Venezuelan national government typically dispensed nearly 80 percent of all public expenditures. The constitution sanctioned centralized control over spending by attributing to the national government all functions that corresponded to it by virtue of "their disposition or nature" (Brewer-Carías 1991). Broad interpretation of this provision by both presidents and Congress rendered meaningless another provision granting residual powers to state and local governments. States accounted for 15 percent of aggregate government spending but had no autonomous responsibility for providing any significant services. The constitution obligated *municipios* to supply certain minimal basic services (sewerage, water supply, road construction, and so on). But most of these functions were shared with or carried out directly by central government ministries (Nickson 1995, 263). The central government collected over 95 percent of revenues, more than 75 percent of which came from the federally controlled oil industry. Before 1994 Venezuela had no value-added tax, and income tax collection generated limited revenue. This high dependence on oil revenues produced great volatility and uncertainty in the amount of revenue generated and then distributed to sub-national governments.

Venezuelan states and municipalities have always been highly dependent on transfers from the central government. With minimal state authority to raise their own revenues, transfers have covered approximately 80 percent of state expenditures (Nickson 1995, 260). The Constitution of 1961 required authorities to transfer 15 percent of total central government revenues (the *situación constitucional*) to states according to a fixed formula (Nickson 1995, 264). But further reforms passed in 1975 tightened central government control over state government spending by earmark-

ing 50 percent of the *situado* for investment in projects or programs designed by central government agencies. The changes also curtailed the discretion of states by requiring them to transfer 10 percent of the remaining revenues to the municipalities (*situado municipal*), again according to a formula. Thus states received limited revenue from the center and exercised limited control over it.³¹

In many respects, the municipalities fared better than the states under the Constitution of 1961. They were granted wide discretionary authority to charge user fees on municipal services and to set tax rates on businesses, property, and vehicles. Such authority allowed them to cover at least half of their spending needs. The *situado municipal* covered the rest, although municipalities had to secure the prior approval of state governments before spending 50 percent of the amount transferred.

The mutually reinforcing relationship existing among presidentialism, strong parties, and fiscal centralization kept decentralization off the political agenda in Venezuela until the passage of the Ley Orgánica del Régimen Municipal (LORM) in 1978.³² This law established separate, non-concurrent elections for district councils, which were scheduled six months after the general elections (Ellner 1993–1994). According to Kornblith and Levine, nonconcurrent elections contributed to greater party diversity on municipal councils and legitimized “municipal politics as a relevant political space within the system” (1995, 63). Candidates from the AD and COPEI continued to receive the highest share of votes, but minor parties like MAS (Movimiento al Socialismo) began to establish an electoral presence in particular regions. Although national-party elites continued to control the nomination process, they now had to consider local concerns and competition in elaborating candidate lists for local offices.

Except for the Ley Orgánica del Régimen Municipal, national party leaders in the AD and COPEI continued to resist demands for greater political decentralization. President Jaime Lusinchi (AD, 1984–1989) argued that popular election of governors would permit the reemergence of regional caudillos (Ellner 1993–1994). Likelier reasons for this resistance were the loss of an important source of presidential largesse and the fear of losing some governorships to COPEI and other minor parties.

Despite Lusinchi’s obvious reluctance, he attempted to quiet critics by creating the Comisión Presidencial para la Reforma del Estado (COPRE)

31. Although states receive most of their revenues through the *situado*, they also have benefited from transfers called *aportes extraordinarios*. The *aportes* are essentially bailout funds distributed at the discretion of federal authorities when state governments cannot meet their financial obligations. They thus reflect the high level of Venezuelan government discretion over transfers (Knoop 1994).

32. This law, which should have been drafted immediately after the passage of the Constitution of 1961, was an attempt to increase the autonomy and capacity of municipalities (Kornblith and Levine 1995, 63).

in 1984, with the mandate of improving government accountability at all levels. With representation from all the major political parties (AD, COPEI, and MAS), COPRE was given responsibility for analyzing and proposing reforms on four fronts: party organization, elections, political decentralization, and municipal government.

As in Colombia, a variety of pressures led political elites to support the establishment of COPRE. Public discontent was running high in the mid-1980s following the debt crisis, and political leaders could no longer rely on the fiscal cushion provided by vast oil revenues (Kornblith and Levine 1995; Ellner 1993–1994). Growing anti-party sentiment and declining turnout in elections put pressure on the president and party leaders to pursue reform (Levine and Crisp 1995). Leaders in the AD and COPEI also confronted demands for intraparty reform from their own rank and file. For example, municipal councilors began to challenge national party leaders' control over nominating procedures (Kornblith and Levine 1995, 63–64). By the mid-1980s, the issue of internal party reform had become inextricably linked to the broader issue of political decentralization.

Before the end of Lusinchi's term, the Congress adopted several COPRE recommendations, including direct election of mayors and governors and the transfer of some resources and authority to municipalities (Coppedge 1994, 165). Following major riots in February 1989, Lusinchi's successor, Carlos Andrés Pérez, and the major parties in the Congress supported the passage of further reforms that transferred additional resources and authority to state governments and created more incentives for candidate-centered voting. New electoral rules offered voters the option of selecting gubernatorial and mayoral candidates by name and stipulated that elections for state and local offices would no longer be held concurrently with elections for national offices. Finally, beginning in 1993, half of the representatives in the *Cámara de Diputados* were to be elected by name in single-member districts, although the other half would continue to be elected from state-level closed lists (Carey 1996, 59).

Many analysts have argued that these new electoral laws should strengthen the link between Venezuelan voters and elected officials at all levels of government and give officials greater independence from national party elites (Coppedge 1994, 166; Carey 1996, 59). These changes should also enhance the bargaining position of state and local elected officials vis-à-vis federal authorities. According to Andrés Stambouli, "presidents must negotiate with popularly elected state governors, and the central structures of the political parties must pay greater attention to the regional organizations and leaders, as well as to cases of internal dissent regarding the positions assumed with respect to government policies" (Stambouli 1993, 121; see also Coppedge 1995). Although relatively few voters chose candidates by name in the 1989 election, José Enrique Molina Vega has argued that subnational officials became more directly beholden

to the electorate and have demanded that federal authorities grant them more resources to carry out their functions (1991, 204). The defeat of many mayors and governors who stood for reelection in 1992 would seem to confirm that greater electoral accountability has been established.

Shortly after state and local elections were held in December 1989, Congress passed a new law entitled *Ley Orgánica de Delimitación y Transferencia de Competencias* (LODT) to advance functional and fiscal decentralization. The timing of elections for state and local offices—just prior to determining the level of revenue sharing—served to politicize the decision-making process. National legislators may have approved further decentralization as a nod toward their recently elected copartisans. The fact that many nationally prominent politicians in COPEI, MAS, and even the AD ran for governorships in 1989 reflects the growing pull of sub-national politics. It also helps explain the decision to increase the states' revenues.

The LODT specified a "revenue-driven model" of fiscal decentralization in which revenues would be transferred without a commensurate transfer of functional responsibilities (Knoop 1994). The LODT proposed to strengthen state government revenues through gradually increasing the *situado constitucional* from 15 percent in 1989 to 20 percent by 1994. The law also expanded the amount of budget transfers to earmarked projects (World Bank 1992, viii) and allowed a variety of new taxes and user fees. Municipalities continued to rely on the same self-generated revenue sources but also on new taxes on rural land, commercial advertisements, and gambling. Local governments were also slated to receive an incremental increase in the *situado municipal* from 10 percent in 1989 to 20 percent by 1999.

Closer examination of the transfer of spending and taxing powers and resources before 1994 suggests that Venezuela remains highly centralized. First, the amount of increased revenue flowing to the state governments is relatively modest. According to one estimate, the *situado constitucional* and *situado municipal* will lower the revenues of the national government by only 6 percent (Knoop 1994). Introduction of a new value-added tax in 1994 has further minimized the impact of these transfers on the national budget. Second, discretionary spending by state and local governments is limited by the constitutional provision requiring them to commit half of the *situado constitucional* and the *situado municipal* to social spending. Although some have questioned whether the central government exercises effective control over this spending, the mechanism for doing so is in place.³³ Finally, in 1993 the national government still ac-

33. Some have accused state governors of depositing the additional income received in banks to earn interest to use for kickbacks or to support popular programs before elections (Ellner 1993–1994, 18).

counted for over 70 percent of government spending on the provision of social services.

Except for changes in the system of transfers, many of the provisions in the LODT actually reinforced central control over subnational governments' finances. For example, the LODT explicitly reminded governors that they were "agents" of the president and granted the Senate authority to remove any governor by a two-thirds vote. According to the law, the transfer of functions from the central government to the state governments can be initiated by state governors, the president, or the Congress, but it must be approved by a two-thirds vote in the Congress and by a majority in the state legislative assemblies. The Venezuelan Congress has proved reluctant to initiate or approve additional transfers of revenues or responsibilities because of the close ties between the parties and public-sector unions (Knoop 1994). No president has proposed transferring any functions to state governments. The minimal decentralization that has occurred has been initiated mostly by individual state governments.³⁴ Even some governors, especially those affiliated with the AD, have been reluctant to join in these efforts (Ellner 1993–1994, 18–19).

In sum, Venezuela remains relatively centralized when compared with Brazil, Colombia, or Argentina. Several political factors in the early 1990s appeared to tip the balance in favor of greater decentralization. The fact that a new breed of national party leaders such as Claudio Fermín (AD) began their careers in state and local government reveals the growing political clout of subnational governments. Election of half of the Cámara de Diputados in single-member districts in 1993 has weakened the control of national party elites by giving legislators stronger incentives for cultivating a personal vote in their regions. Moreover, the failure of the AD-COPEI duopoly to retain its majority in the Congress following the 1993 election also undermined the control of party elites.

Contrary to expectations, the decentralization process has not progressed much in Venezuela in the past few years. State and local governments have not experienced significant increases in their relative share of revenues or spending. Two factors may explain this stalled process. First, the change in electoral incentives affected only half of the deputies and none of the members of the Senate. Thus most members of Congress remain highly dependent on national party elites for their nomination and election. Second, President Rafael Caldera has not pushed the decentralization process out of fears of administrative confusion and deepening interregional inequality (Ellner 1996, 106). Soon after taking office, Caldera reversed Pérez's decision to grant governors the authority to ap-

34. The World Bank and politicians from the AD and COPEI have blamed the state governments for the slowness of the transfer process (Ellner 1993–1994, 18). But this criticism overlooks the fact that nearly all the functions transferred to date have come at the initiative of state governors.

point the heads of federal agencies located in their respective states (Ellner 1996, 91).

Given presidential opposition and lack of congressional support, decentralization seems unlikely to advance in Venezuela in the near future. Only a further deepening of Venezuelan democracy through additional changes in electoral rules or the election of a more sympathetic president will alter the status quo.

MEXICO: PRESIDENTIAL POWER AND CENTRALISM

Despite a long history of powerful regional forces (Meyer 1986) and a formally federal structure, Mexico was, until recent decentralizing initiatives, one of the most politically and economically centralized of all Latin American countries. The reasons are rooted in the constitutional powers of the president (which are substantial) and three additional features of the party system: the political and electoral dominance of the ruling party at all levels of government, strong party discipline, and the "metaconstitutional powers" that the president enjoys as party leader (Weldon 1997).

From the founding of the official party in 1929 until 1988, every senator elected in Mexico except one belonged to the Partido Revolucionario Institucional (PRI), and at least three-quarters of the seats of the lower house were held by PRIistas as well. Electoral reforms in the late 1980s have allowed substantial opposition gains and made it more difficult for the president to initiate constitutional changes and maintain legislative discipline (Craig and Cornelius 1995; Lujambio 1995, chaps. 3–4). But despite a narrow PRI victory in the federal elections of 1994, a less-than-proportional electoral formula guaranteed continuation of comfortable PRI majorities in both houses until 1997.

PRI dominance has been mirrored at the subnational level. The resurgence of competitive politics at the state and particularly municipal levels has been undeniable.³⁵ Cornelius (1996) estimated that at the end of 1995, up to a third of all Mexicans were being governed by opposition parties at the state or municipal level. Until PAN won the state house in Baja California in 1989, however, the PRI had won every single governorship contested in the postwar period.³⁶ Opposition forces have been more successful at the municipal level, but the significance of these victories for PRI control of the political system remains open to question.

Electoral dominance has been matched by strict party discipline. The PRI has used closed lists to nominate candidates for offices at all lev-

35. On the states, see Rodríguez and Ward, eds. (1995), and Cornelius, ed. (1997). On the municipal level, see Merino (1995) and López Chavarria (1994).

36. Since that time, the PRI has lost three more states (Chihuahua, Guanajuato, and Jalisco) and lost again in Baja.

els of government, with many key nominations made by national party headquarters or even the president himself.³⁷ In the mid-1990s, state party conventions were given a freer hand in selecting candidates, but these new nomination procedures have yet to be extended to congressional races. The prohibition on reelection at all levels serves to discipline politicians further. Future career paths depend less on accountability to constituents than on currying favor with the party hierarchy, which continues to control bureaucratic appointments.

Finally, central control is guaranteed in Mexico by an extraordinarily powerful president. The sources of presidential power are multiple, but recent analyses have focused on the dual powers that the president enjoys as head of state and as head of the party (Carpizo 1988; Weldon 1997). The president has the power to initiate legislation and constitutional reforms, introduce the budget, and undertake a long list of economic functions. Meanwhile, his role as head of the party guarantees that the legislature and lower levels of government will go along with his initiatives. Because of PRI party discipline, the splits between the executive and legislature that typify most Latin American presidential systems are muted (Shugart and Haggard 1996). Moreover, the president has enjoyed the informal power to unseat governors.

Recent developments are revealing how presidential power in Mexico has rested on a delicate balance of lower-level political support. Also, the president's powers vary greatly from one state to another (Kaufman and Trejo n.d.). We predict that increased subnational competition will generate new pressures for fuller political as well as fiscal and functional decentralization. To date, however, decentralizing initiatives in Mexico have been driven largely by executive and national party interests, have been limited in their extent, and have maintained substantial central-level discretion and control over the distribution and use of funds. One of the most astute observers of intergovernmental relations in Mexico characterized the 1980s as a period of fiscal recentralization (Bailey 1994).

The recent round of decentralizing initiatives can be traced to an overhaul of the tax system during the administration of José López Portillo (1976–1982) and a series of political and administrative reforms undertaken by the administration of Miguel de la Madrid (1982–1988) in the wake of the debt crisis. Prior to the 1980s, revenue-sharing in Mexico took the form of contractual relations between the federal government and the states. The *Ley de Coordinación Fiscal* of 1953 involved coordination of taxing powers in return for federal transfers from a sales tax, a portion of

37. We would expect greater discipline in party-list systems. Forty percent of all deputies in Mexico are selected from their party's lists. But this outcome is the result of electoral reforms that have allocated additional seats to opposition parties. Only a small fraction of PRI candidates are elected from the list. Most manage to gain office through election in single-member districts.

which (60 percent) was to be redistributed to the municipalities. Under the López Portillo reforms, states would give up their authority to tax certain forms of income in return for larger transfers from the center.³⁸

According to the new Ley de Coordinación Fiscal, the federal government is to allocate revenue to the states through three separate mechanisms: the Fondo General de Participaciones (FGP), the Fondo Financiero Complementario (FCP), and the Fondo de Fomento Municipal (FFM). In 1980 the Fondo General, the most important of the three and commonly known as *participaciones*, received 13 percent of the total federal tax take; by 1994 its share had risen to 21 percent.³⁹ Federal law also requires that states pass on at least 20 percent of their receipts from the FGP and FCP and all receipts from the FFM to the municipal administrations. Over time, dissatisfaction with this scheme arose at both federal and state levels. The poorer states wanted a more redistributive formula, while the central government was increasingly concerned that the states were not administering the IVA (value-added tax) aggressively (Bailey 1995; Díaz Cayeros 1996). In 1989 the federal government recentralized collection of the IVA and changed the formula to the disadvantage of the more productive northern states, where (not coincidentally) the PAN was politically strongest.

Assessing the Mexican revenue-sharing system is not a straightforward matter. The system is based on a formula, involves no earmarking, and stipulates that the federal government cannot manipulate the amount or date of collection. In this sense, the system appears advantageous to states and municipalities. Yet a number of other factors suggest a much more centralized structure. First, the formula itself reflects the political interests of the center and its allies in the PRI bastions in the poorer states (at the expense of the richer PRI states). Second, while revenue-sharing has undoubtedly grown, states had to “buy” increased transfers by abandoning previous constitutional rights to tax. State governments seeking greater independence from central dictates, particularly opposition governments, have been forced to look for new sources of revenue (Rodríguez 1993).

Substantial debate has occurred over whether and to what extent

38. The states would also administer the new federal value-added tax (*impuesto al valor agregado* or IVA), the main source of revenue-sharing funds, and forward it to the national treasury. The treasury would supplement it with additional revenues and transfer it back to the states according to a set formula.

39. Participaciones represent highly varying percentages of state and municipal budgets. States like Coahuila depend on the federal government for up to 90 percent of the state budget, while transfers to others (Nuevo León, for example) make up only 22 percent. Revenue sharing is typically the largest single source of municipal revenue as well, although some of the richer cities in the North have virtually weaned themselves from dependence on transfers (INEGI 1994).

the participaciones are manipulated politically (Rodríguez and Ward 1992, 1995; Nickson 1995, 205; Cabrero Mendoza 1995; Díaz Cayeros 1996; Fox and Aranda 1996; Kaufman and Trejo n.d.; Cornelius 1996). Although most studies point to some political manipulation, distribution is not altogether arbitrary, and some opposition governments at the state and municipal levels have reached a *modus vivendi* with higher levels of government (Bailey 1995). It is nonetheless clear that despite the formulaic nature of federal-state transfers, state transfers to the municipal level are subject to substantial discretion.

De la Madrid made decentralization a political priority during his presidential campaign. The debt crisis provided one motivation for restructuring intergovernmental fiscal relations. But as in Colombia, the president viewed decentralization as a means of managing growing opposition to the ruling party—in this case over the government's management of the economy—through promises of increased accountability. As Rodríguez noted, “Descentralizar es democratizar y democratizar es descentralizar” was one of de la Madrid's campaign slogans, and it was repeated nearly verbatim six years later by Carlos Salinas de Gortari (Rodríguez 1993, 134).

In addition to the long-standing goal of promoting regional development outside Mexico City, de la Madrid's “decentralizing reforms” had two main goals: to strengthen federalism by increasing the powers of state and local governments, and to decentralize federal agencies administratively and geographically. The first objective was achieved through amending Article 115 of the constitution, and it included expansion of the responsibilities of the municipalities and increased rights over property taxes and fees. Although really little more than a restatement of long-ignored commitments to the “*municipio libre*” of the Constitution of 1917, the amendment was considered an important step in increasing the financial and political independence of local governments.

The actual effects of the amendment on decentralization were more ambiguous. Municipalities increased their share of total government revenue collected from a mere 1 percent in 1982 to nearly 4 percent in 1992. But many small municipalities lack cadastral surveys and the administrative capacity to collect taxes. This predicament has forced them into collaborative agreements with states that provide opportunities for the diversion of funds (Nickson 1995, 106). The 1983 amendment also did not address the fact that state governments retain the power to establish tax rates. Changes in property assessments, the tax base, and rates must be approved by governors and state assemblies, both of which can veto reforms.

Expansion of municipal responsibilities was supported by important administrative changes in central government operations and growth in transfers in the form of what Tim Campbell (1991) has called “quasi-matching grants.” This second cluster of “decentralizing reforms,” a pre-

cursor to PRONASOL, did not entail transfers of decision-making authority to lower levels of government.

Under the administrations of Luis Echeverría and López Portillo, the central government experimented with administrative structures that would coordinate central, state, and local planning and budgeting while establishing consultative mechanisms to incorporate private-sector input (Bailey 1995). Even before de la Madrid became president, he used his position as Secretaría de Programación y Presupuesto under López Portillo to reshape these structures by creating Convenios Unicos de Desarrollo (CUDs, later Convenios de Desarrollo Social or CDSs under the Salinas administration). These treaty-like agreements between federal and state governments coordinated joint financing of public works (we refer to this transfer mechanism simply as “convenios”). The government also established Comités para la Planeación de Desarrollo Estatal (COPLADEs), which were joint public-private “planning cells” that brought together federal and state planning and budgeting agencies. On assuming the presidency, de la Madrid consolidated several federal development programs into one regular budget line, Desarrollo Regional or Ramo XXVI. The Desarrollo Regional budget in turn was largely disbursed through the CUDs. Over time, an increasing share of federal-level investment took place via this mechanism.⁴⁰

Operation of the CUDs and their successors is intricate and far from transparent (Masse Narváez and Sandoval Forero 1995). For our purposes, we need only underline a few of their salient political features. First, the CUDs and CDSs are closed-end matching grants (Campbell 1991). The central government extends a fixed amount of support and demands that lower levels of government match it in some specified ratio. Although the total amount of the federal budget to be used for matching grants is decided in advance, there is no allocation formula for establishing state entitlements. Each convenio is essentially a negotiated instrument. Second, there is no way to determine how a state’s total grant allocation will be spread among sectors or types of projects because this point too is negotiated. Because of excess demand for matching funds, some administrative system is required to determine which projects will be cofinanced, in Mexico a complex combination of decentralized ministry offices, the Secretaría de Programación y Presupuesto, and the COPLADEs and their successors. Given the Mexican political structure, the federal voice in these negotiations is a strong one, and where projects are implemented at the municipal level, the state government has influence. In sum, the convenios and administrative structures that support them re-

40. In 1990 the Desarrollo Regional budget amounted to 20 percent of capital expenditure and included investments in health and education, responsibility for which was shifted to lower levels of government. In fiscal year 1990, all relevant line ministries were required to spend at least 10 percent of their budget allocation through the Desarrollo Regional budget.

flect an even more overtly centralized means of revenue transfer than the participaciones.

This situation is even more true of the complex set of anti-poverty programs instituted by the Salinas administration under the title Programa Nacional de Solidaridad (PRONASOL or Solidaridad), which targeted the urban poor, peasant smallholders, and indigenous communities. Fox and Aranda have emphasized that not all Solidaridad programs were equally centralized (1996, 5). But the Secretaría de Hacienda (the treasury) and ultimately the president determined the program's overall budget and negotiated budgets for individual states.⁴¹ SEDESOL field offices then worked with state governors, COPLADEs, their municipal counterparts, and nongovernmental organizations (in some programs) to define projects.

For our purposes, the most important features of PRONASOL are the ones that served the political objectives of the executive (Dresser 1991; Cornelius, Craig, and Fox 1995). As Bailey observed succinctly, "Solidarity operates to reinforce executive dominance" (1994, 103). The new anti-poverty bureaucracy served multiple political ends: building support for the president and party in low-income communities where traditional corporatist structures either had begun to fray or were not working (as in urban slums); reducing Salinas's dependence on the traditional party hierarchy; and recruiting new leaders who could spearhead revitalization of the party.

In an outstanding analysis of the allocation of expenditures, Juan Molinar Horcasitas and Jeffrey Weldon have shown how the allocation of resources served electoral ends (1994). Yet all these purposes could be juggled precisely because the program was ultimately so centralized. Indeed, creation of a parallel bureaucratic organization that mirrored state and local governments even became an important source of conflict between the administration and PRI governors and mayors who believed that PRONASOL was gaining control of patronage resources that had once been the basis of their political power.

In sum, evidence suggests that the PRI has responded to broad political challenges to its hegemony and the resurgence of subnational political competition by devoting increased attention to economic and political developments at the state and municipal level. Revenue-sharing and transfers to lower levels of government have increased, government agencies have become more decentralized, and state and particularly local governments have gained new fiscal powers. Yet the striking feature of Mexico when viewed in comparative perspective is the continuing weight of presidential authority in this process. The centralized nature of the politi-

41. Solidaridad was ultimately elevated to cabinet status as the Secretaría de Desarrollo Social (SEDESOL), but it did not displace the regional-development mechanism.

cal system and continuing PRI dominance of state governments means that even transparent and formulaic transfers, such as those under the revenue-sharing scheme, reflect the political priorities of the president and the PRI. Programs like PRONASOL are even more transparent in this respect. The main question for the future is whether the weakening of presidential control, increased competition for legislative seats, and the resurgence of subnational political challenges will yield more thoroughgoing decentralization or a centralist (and more authoritarian) reaction. We would predict the first scenario, and new data collected by Díaz Cayeros and Merino (1998) support that view. But it is still too soon to tell.

CONCLUSION

Many of the recent monographs on decentralization in Latin America have sought to balance initial enthusiasm for the process with a sober look at the accountability and technical competence of subnational governments. If state and local governments are captured by local caciques or prove to be politically uncompetitive or technically incapable of providing mandated services, then decentralization will become an exercise in frustration. These problems can only be addressed by strengthening subnational governments, politically and administratively.

We have taken a different but complementary approach by locating decentralization in a larger political game that involves presidents, legislators, and subnational politicians. Our central point is a simple one: decentralization results from the incentives available to politicians at different levels of government and bargaining among them. The structure of political parties provides the medium through which such bargaining takes place.

Our study began by controlling for the level of formal political decentralization. We looked only at the five countries in which both state and local officials are now elected and have some policy autonomy. Yet as students of Latin American federalism know, the *de facto* is more important than the *de jure*. Some nominally federal systems, like Mexico and Venezuela, have been highly centralized, while others such as Brazil have granted extensive, even dominant powers to state and local officials. Our hypothesis is that these differences will be reflected in the way that decentralization unfolds.

In systems with strong presidents and centralized parties, such as Mexico, the basic challenge is to ensure that lower levels of government gain the policy autonomy that will allow them to learn to govern responsibly. Otherwise, "decentralization" may reflect little more than an effort to maintain central control and limit political challenges emanating from lower levels of government.

Centralized systems may be prone to a second difficulty, that of demanding more of subnational governments than they are capable of de-

living. Controlling the demands of subnational units is crucial, but failure to transfer adequate funds or taxing powers can create an imbalance between responsibilities and resources. Evidence from Mexico suggests that this imbalance can ignite a movement to expand subnational taxing capacity precisely to escape central control. But in poorer states where this approach is not a viable option, it may lead only to deterioration of services (Campbell et al. 1991).

Political systems characterized by strong centrifugal forces face a different set of problems. The most significant pathology is for subnational politicians to "take the money and run." As both Brazil and Argentina have shown, it is easy for decentralization to result in massive fiscal imbalances, subnational blackmail of the center, incomplete monitoring, and corresponding inefficiency and waste of resources.

A final problem that emerges regardless of system concerns distribution of the benefits of decentralization across jurisdictions. The politics of decentralization can easily pit richer states against poorer ones. For example, richer states prefer rules allowing them to keep a larger share of the revenues that they generate, while poorer ones seek redistribution. An important topic for further research is how these conflicts are worked out across countries. Studies are now starting to appear exploiting state and provincial data (Molinar and Weldon 1994). We expect, however, that distributive outcomes will be strongly influenced by the variables that we have highlighted here, including the competitiveness of subnational jurisdictions and the sensitivity of central-level politicians to demands coming from particular states and municipalities.

Our study highlights the fact that political institutions are far from immutable. The dialectic of decentralization in Latin America may run a course similar to that seen in the past: excessive decentralization setting in motion countervailing pressures. Even in weak party systems, the problems of excessive decentralization may create incentives for the president to exercise decree powers or for the parties to delegate responsibilities to the president for solving collective-action problems that threaten legislators' electoral chances (Geddes 1994; Cox and McCubbins 1996). Recent events in all the countries reviewed here signal that this reaction may have already begun.

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