



**A SEQUENTIAL THEORY OF DECENTRALIZATION AND ITS EFFECTS ON  
THE INTERGOVERNMENTAL BALANCE OF POWER: LATIN AMERICAN  
CASES IN COMPARATIVE PERSPECTIVE**

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**Keywords:** Decentralization, Path Dependence, Argentina, Colombia, Intergovernmental Relations, Balance of Power, Education, Territoriality.



## ABSTRACT

Both advocates and critics of decentralization assume that decentralization invariably increases the power of subnational governments. However, a closer examination of the consequences of decentralization across countries reveals that the magnitude of such change can range from substantial to insignificant. To explain this variation, I propose a *sequential theory of decentralization* that has three main characteristics: a) it defines decentralization as a *process*; b) it takes into account the *territorial interests* of bargaining actors; and c) it incorporates *policy feedback effects* in the analysis of bargaining situations. I argue that the sequencing of different types of decentralization (fiscal, administrative, and political) is a key determinant of the evolution of intergovernmental balance of power. I measure this evolution in the four largest Latin American countries and apply the theory to the two extreme cases: Colombia and Argentina. I show that, contrary to commonly held opinion, decentralization in Argentina did not increase the power of governors and mayors relative to the president. In contrast, in Colombia, a different sequence of decentralization reforms led to higher degrees of autonomy of the governors and mayors relative to the president.

## RESUMEN

Tanto los defensores como los críticos de la descentralización asumen que este proceso invariablemente aumenta el poder de los gobiernos subnacionales. Sin embargo, una mirada más cercana a las consecuencias de la descentralización en diferentes países, revela que la magnitud de este cambio varía de sustancial a insignificante. Para explicar tal variación, propongo en este artículo una *teoría secuencial de la descentralización* que tiene tres características principales: a) define descentralización como un *proceso*; b) toma en cuenta *los intereses territoriales* de los actores que negocian las reformas; y c) incorpora los *efectos de retroalimentación de políticas públicas* al analizar las situaciones de negociación. El argumento central del artículo es que el orden o secuencias en que se producen distintos tipos de descentralización (fiscal, administrativa y política) es un elemento central en la evolución del balance de poder entre niveles de gobierno. El artículo mide esta evolución en los cuatro países más grandes de América Latina y aplica la teoría secuencial a los dos casos extremos: Colombia y Argentina. Contrariamente a lo que comúnmente se cree, el artículo muestra que la descentralización no aumentó el poder de los gobernadores e intendentes en Argentina. Por lo contrario, en Colombia, una secuencia de reformas descentralizadoras diferente condujo a niveles más altos de autonomía de gobernadores y alcaldes en relación con el presidente.



Once administrative centralization has lasted for a while, the same power that founded it, were it later to want to destroy it, is always incapable of bringing about its ruin. ... [A]dministrative centralization assumes a skillful organization of authority; it forms a complicated machine of which all the gears engage each other and lend each other mutual support. (Alexis de Tocqueville, "Political Effects of Administrative Decentralization," in Schleifer 1980, 137–8)

## INTRODUCTION

If Alexis de Tocqueville came to life today, he would be surprised to find that a wave of decentralization of government has spread throughout the world after decades of centralized economies and states. As this movement has progressed, the political science literature on its consequences has grown rapidly and a clear split has become apparent. The advocates—who draw from local government or fiscal federalism theories—argue that decentralization leads to higher levels of political participation, accountability, and administrative and fiscal efficiency (IDB 1994; Oates 1972, 1977; Shah 1994; Weingast 1995; Wiesner Durán 1992). The critics, on the other hand, contend that decentralization leads to soft-budget constraints, macro-economic instability, clientelism, and enlargement of bureaucracies (Cornelius 1999; Fox and Aranda 1996; Rodden 2000; Rodden and Wibbels 2002; Stein 1998). Although there is no consensus on the good or vice of decentralization, both approaches assume an increase of subnational officials' power as the intervening variable between decentralization and either good or bad outcomes.

However, a closer examination of the consequences of decentralization across countries reveals that, despite the implementation of apparently similar reforms, their impact on the distribution of power among levels of government varies widely from one country to another. Considering the four largest countries of Latin America, the region that took the lead in the implementation of decentralization reforms (Camdessus 1999), we see that decentralization increased the degree of autonomy of governors and mayors in Colombia, Brazil, and Mexico, but not in Argentina. The existing literature on decentralization cannot provide a satisfactory explanation of the reasons behind these differences. In fact, despite the burgeoning literature on the consequences of decentralization, two fundamental questions remain unanswered. *Does decentralization always transfer power to governors and mayors? If it does, what are the determinants of*

*the degree of change in intergovernmental balance of power?*

The article answers these questions by proposing the following twofold argument. First, I claim that in studying the downward reallocation of authority, much is gained from a clear taxonomy of decentralization based on the type of authority devolved. I propose a definition of decentralization that distinguishes between administrative, fiscal, and political decentralization. Unpacking the concept of decentralization in this way offers theoretical and methodological advantages. It reveals how certain types of decentralization reforms may *decrease* the power of subnational officials. Also, it allows one to distinguish between the interests of national and subnational executives regarding different types of decentralization. Finally, it provides the possibility of analyzing the sequences in which different types of decentralization take place.

The second part of the argument is that different sequences of decentralization account for the resulting amount of change in intergovernmental balance of power. I argue that if political decentralization takes place first, it enhances the bargaining power of subnational actors in subsequent rounds of negotiations over other types of decentralization. In this case, fiscal decentralization is likely to follow, with administrative decentralization occurring last. This sequence of reforms leads to a higher degree of autonomy for governors and mayors. At the other extreme, if administrative decentralization takes place first and is followed by fiscal decentralization and then political decentralization, this sequence of reforms enhances the power of the national executive and sets serious fiscal constraints on subnational executives.

To develop the argument, the article is organized in five sections. The first section defines the main concepts and states the assumptions that lie at the basis of my *sequential theory of decentralization*. The second section measures the evolution of intergovernmental balance of power in the four largest Latin American countries. I operationalize intergovernmental balance of power in four dimensions and rank the countries according to the magnitude of change in each one of them. The third section points to the shortcomings of the existing literature in accounting for the observed outcomes. The fourth section applies the sequential theory of decentralization to analyze the evolution of intergovernmental balance of power in the two extreme cases (Colombia and Argentina). The final section concludes by highlighting the article's main findings

and contributions to the literature on decentralization.

## A SEQUENTIAL THEORY OF DECENTRALIZATION

I propose a *sequential theory of decentralization* that has three main characteristics: a) it defines decentralization as a *process*; b) it takes into account the *territorial interests* of bargaining actors; and c) by incorporating *policy feedback effects*, it provides a dynamic account of institutional evolution.

### Decentralization as a Process

As defined here, decentralization is a process. It is a *set of policy reforms* aimed at transferring responsibilities, resources, or authority from higher to lower levels of government.<sup>1</sup> The concept is not used as an adjective to qualify a given political or fiscal system. Decentralization is a set of *state reforms*. As such, decentralization does not include transfers of authority to non-state actors (as in the case of privatization reforms). In general, the decentralization reforms analyzed here followed the collapse of the developmental state and accompanied the move toward free-market economies characteristic of the last quarter of the twentieth century.<sup>2</sup> Finally, as defined here, decentralization reforms may take place in authoritarian as well as democratic contexts, which means that the concepts of decentralization and democratization should not be conflated. I classify decentralization policies as belonging to one of three categories—administrative, fiscal, and political—depending on the type of authority devolved.<sup>3,4</sup>

- *Administrative decentralization* comprises the set of policies that transfer the administration and delivery of social services such as education, health, social welfare, or housing to subnational governments. Administrative decentralization may entail the devolution of decision-making authority over these policies, but this is not a necessary condition. If revenues are transferred from the center to meet the costs of the administration and delivery of social services, administrative decentralization is funded (and coincides with fiscal decentralization). If subnational governments bear the costs of the administration and delivery of transferred services with their own pre-existing revenues, administrative decentralization is not funded.

- *Fiscal decentralization* refers to the set of policies designed to increase the revenues or fiscal autonomy of subnational governments. Fiscal decentralization policies can assume different institutional forms. An increase of transfers from the central government, the creation of new subnational taxes, and the delegation of tax authority that was previously national are all examples of fiscal decentralization.

- *Political decentralization* is the set of constitutional amendments and electoral reforms designed to open new—or activate existing but dormant or ineffective—spaces for the representation of subnational polities. Political decentralization policies are also designed to devolve electoral capacities to subnational actors. Examples of this type of reform are the popular election of mayors and governors (who were previously appointed), the creation of subnational legislative assemblies, or constitutional reforms that strengthen the political autonomy of subnational governments.

Regarding the consequences of each type of decentralization, I expect administrative decentralization to have either a positive or negative impact on the autonomy of subnational executives. If administrative decentralization improves local and state bureaucracies, fosters training of local officials, or facilitates learning through the practice of delivering new responsibilities, it will likely increase the organizational capacities of subnational governments. Nevertheless, if administrative decentralization takes place without the transfer of funds, this reform may decrease the autonomy of subnational officials, who will be more dependent on subsequent national fiscal transfers or subnational debt for the delivery of public social services. Similarly, fiscal decentralization can have either a positive or negative impact on the degree of autonomy of the subnational level. The result will depend largely on the design of the fiscal decentralization policy implemented. Higher levels of automatic transfers increase the autonomy of subnational officials because they benefit from higher levels of resources without being responsible for the costs (political and bureaucratic) of collecting those revenues. On the contrary, the delegation of taxing authority to subnational units that lack the administrative capacity to collect new taxes can set serious constraints on the local budgets, and increase the dependence of the local officials on the transfers from the center. Prosperous subnational units prefer to collect their own taxes, but poor states or municipalities are negatively affected every time the collection of taxes is decentralized



and, as a consequence, the horizontal redistribution of transfers from rich to poor subnational units is affected. Finally, political decentralization should always have a positive impact on the degree of autonomy of subnational officials from the center. As summarized in Table 1, by unpacking decentralization policies in this way, we see that, depending on their institutional design, two of these three types of decentralization can actually decrease the power of subnational officials with regard to the national executive. This is a feature of decentralization that both advocates and critics have failed to take into account.

**Table 1**

<b>Direction of the Impact of Different Types of Decentralization on the Degree of Autonomy of Governors and Mayors</b>	
Type of Decentralization	Direction of Impact
Administrative Decentralization	+ or –
Fiscal Decentralization	+ or –
Political Decentralization	+

Degree of Autonomy of Governors and Mayors

### **Territorial Interests Of Bargaining Actors**

Most comparative studies of decentralization have focused on bargaining between the national executive and national legislators (Eaton 2002; Garman et al. 2001). I propose, instead, to move the focus of analysis to bargaining among presidents, governors, and mayors. National and subnational executives have *territorial interests*, besides their partisan interests. Territorial interests are defined by the level of government (national, state, or municipal) and the characteristics of the territorial unit (for example, rich or poor province, big city or small town) politicians represent. Thus, drawing from the literature on decentralization and from in-depth interviews with national and subnational politicians and public officials,<sup>5</sup> I can describe the set of preferences of the

national and subnational actors with regard to types of decentralization. These are summarized in Table 2.<sup>6</sup>

<b>Table 2</b>	
<b>Preferences of Bargaining Actors</b>	
Actors	Preferences toward Types of Decentralization
President	$A > F > P$
Governors and Mayors	$P > F > A$
Reference: A: Administrative Decentralization, F: Fiscal Decentralization, P: Political Decentralization	

The national executive prefers administrative decentralization to fiscal decentralization, which in turn is preferred to political decentralization ( $A > F > P$ ). The rationale of this ordering is that the national government seeks to divest itself of expenditure responsibilities first and foremost. The main goal of the president is to cut the national expenditures through the downward transfer of responsibilities. Administrative decentralization is greatly preferred over the other two types of decentralization. As Garman et al. say: “[W]e would expect the president to be more inclined to transfer responsibilities than the resources to meet them.” (Garman et al. 2001, 209) If the center is forced to choose between surrendering fiscal or political authority, it will choose to give away fiscal authority and to retain political control, which may serve to influence the expenditure decisions made by subnational officials.

The same reasoning applies to explain the reverse order of preferences of the subnational governments ( $P > F > A$ ). Their preference, first and foremost, is political decentralization. If the president does not control (either *de jure* or through party nomination procedures) the appointment and removal of governors and mayors, they can push forward the issues and concerns of their territorial units without fear of retaliation from above. If governors and mayors have to choose between fiscal and administrative decentralization, they will choose the transfer of fiscal authority, particularly if the unions

representing the public sectors to be decentralized through administrative decentralization are large and strong. In other words, subnational executives prefer political autonomy, money, and responsibilities, in that order.

### **Sequences Of Decentralization**

The level of government whose territorial interests prevail at the outset of the decentralization process will likely dictate the first type of decentralization that is pursued. The first round of decentralization, in turn, produces policy feedback effects that account for the order and characteristics of the reforms that follow (on policy feedback effects, see Mahoney 2000; Pierson 2000, 1992; Thelen 2003). If subnational interests prevail in the first round of negotiations, political decentralization will most likely happen first, producing what Huber and Stephens (2001) call a *policy ratchet effect*: a group of supporters who—in this case—will continue to push in the direction of further decentralization. Political decentralization will enhance the power and capacities of subnational actors for the next rounds of reforms. Governors and mayors will find themselves in a better position to advance their preferences because they enjoy greater political autonomy from the national executive. Thus, in the second round of decentralization, governors and mayors will most likely demand fiscal decentralization and will influence the terms of such a reform. Administrative decentralization will follow as the last type of reform. As such, its impact on the process as a whole will be mitigated. The final outcome of this trajectory of decentralization that conforms to the preferences of the subnational officials (political decentralization followed by fiscal decentralization, followed by administrative decentralization) is very likely to be a large shift in intergovernmental balance of power, or a greater degree of autonomy for subnational officials with respect to the national executive. I show below that the case of Colombia follows this decentralization path.

If, instead, national interests prevail at the beginning of the process, administrative decentralization will likely occur first. If fiscal resources do not accompany the transfer of responsibilities, owing to a *power reproduction* mechanism (Stinchcombe 1968) for example, the national level will prevail in the negotiations over

the second round of decentralization reforms. Fiscal decentralization will follow under the terms set by the central level, as the fiscal strain placed on the subnational actors will have put them in no position to reject those terms. Following this trajectory, political decentralization will be the third type of reform, and therefore will not confer much autonomy to the subnational level nor foster a significant group of supporters. The outcome of this trajectory of reforms that conforms to the preferences of the national executive is likely to be little or no change in the redistribution of power to the subnational authorities. I show below that the case of Argentina follows this path of reforms. Table 3 graphically summarizes these two sequences of decentralization and their effects on the degree of change in intergovernmental balance of power.

**Table 3**

**Two Sequences of Decentralization and their Effects on the Intergovernmental Balance of Power**

Prevailing Interests In First Move	1st Type of Decentralization Reform	Feedback Mechanism	2nd Type of Decentralization Reform	3rd Type of Decentralization Reform	Degree of Change in Intergovernmental Balance of power
Subnational	→ <b>Political</b>	Self-reinf. → <i>(policy ratchet)</i>	<b>Fiscal</b> →	<b>Administrative</b>	= <b>High</b>
National	→ <b>Administrative</b>	Self-reinf. → <i>(power reproduction)</i>	<b>Fiscal</b> →	<b>Political</b>	= <b>High</b>

Note that I refer to the first complete cycle of decentralization reforms: when administrative, fiscal, and political decentralization have all taken place. The argument, however, could be easily extended to account for subsequent cycles of decentralization and their effects. I also assume that one type of territorial interests prevails in the first round of reforms. It is possible, however, that a compromise between national and subnational interests could be reached at the beginning of the process. In such a case, the second most preferred option of both national and subnational executives, fiscal decentralization, is likely to occur, and two other paths of reforms could be identified: F → P → A (if subnational interests prevail in the second round) and F → A → P (if national interests prevail in the second round). Table 3 also assumes that self-reinforcing

mechanisms are at work between the first and second rounds of reforms. However, it is feasible that reactive, instead of self-reinforcing, mechanisms could take place at that point. Under those circumstances, two other paths of decentralization could be specified:  $A \rightarrow P \rightarrow F$  (when the national interests prevail in the first round but reactive mechanisms follow) and  $P \rightarrow A \rightarrow F$  (when subnational interests prevail in the first round and reactive mechanisms follow). For reasons of space and because according to path dependence theory reactive mechanisms are less likely to occur, I do not include the discussion of those alternative sequences in this article (for a full discussion of the six paths of decentralization, please refer to Falleti 2003, chapter 1.)

### EVOLUTION OF INTERGOVERNMENTAL BALANCE OF POWER

As William Riker rightly pointed out thirty years ago, power is an elusive and complex concept (Riker 1964b). I draw from the structuralist and behavioralist traditions on power (particularly, Bachrach and Baratz 1963, 1962; Dahl 1968, 1961; Goldman 1986) and contend that *intergovernmental power* is dependent on: (a) *economic resources*, which enhance the capacity of political actors to pursue their desired courses of action; (b) *legal authority*, which sets the institutional limit that economic resources can reach; and (c) *organizational capacities*, which facilitate the coordination and flow of information at each level of government. Thus, intergovernmental balance of power is the *relative* power of subnational officials with regard to national officials. In other words, intergovernmental balance of power reflects the degree of autonomy of subnational officials relative to national officials.

Because this article is concerned with the effects of decentralization on the evolution of balance of power, in operationalizing this concept I focus precisely on those dimensions of intergovernmental power susceptible to change due to the implementation of decentralization policies. Building upon the works of Stepan (2003) and Mainwaring and Samuels (1999), I operationalize intergovernmental balance of power in four dimensions: 1) the subnational share of expenditures (SSE), which measures the percentage of public money allocated by subnational governments (provincial and municipal);<sup>7</sup> 2) policy-making authority (PMA), which measures the degree of autonomy

of subnational officials to design, evaluate, and decide on issues concerning public education;<sup>8</sup> 3) the type of appointment of subnational officials (SOA), which records whether governors and mayors are elected or appointed; and 4) the territorial representation of interests (TRI) in the national legislatures, which reports the average degree of overrepresentation of the subnational units in the lower and upper chambers of congress.<sup>9</sup> If decentralization reforms were always to increase the power of subnational officials, we would observe a positive change in all the indicators. If, however, it is possible for decentralization not to increase the power of subnational officials, we would expect some of these indicators to decrease in value or to remain unchanged.

I compared the intergovernmental balance of power in Argentina, Brazil, Colombia, and Mexico before and after decentralization reforms took place.<sup>10</sup> I ranked the cases along each dimension according to the net degree of change experienced over the course of the decentralization process. Then, I calculated the average ranking for each country along the four dimensions (see Table 4, last row). This average shows that Argentina—against commonly held beliefs—is the country where intergovernmental balance of power changed the least. Mexico and Brazil follow in that order with substantial degrees of change, and Colombia is the country where intergovernmental balance of power changed the most.

Table 4 shows that the subnational share of expenditures (SSE) increased in the four countries throughout the period. SSE increased from 34% to 41% in Argentina, from 18% to 29% in Mexico, from 32% to 44% in Brazil, and from 28% to 40% in Colombia. However, the magnitude of these changes varies widely. Argentina increased its subnational expenditures by 20.59%, whereas Mexico saw an increase that is threefold higher (61.11%). Brazil and Colombia—intermediate cases along this variable—changed their SSE by a ratio of 37.50% and 42.86%, respectively.

Regarding policy-making authority (PMA), I recorded the level of authority along six indicators of the educational sector. These were authority over the curricula; responsibility for training teachers; responsibility for evaluation of the educational system; management of schools; authority over the hiring, firing, and relocation of teachers; and authority over salaries. Brazil is the country that changed the most in terms of PMA. Whereas in 1982 the states and the federal government shared responsibilities

Table 4

## Evolution of Balance of Power Argentina, Brazil, Colombia, and Mexico, 1978–1999

Variable	Argentina			Mexico			Brazil			Colombia		
	Prior Decent'n	After Decent'n	Change	Prior Decent'n.	After Decent'n	Change	Prior Decent'n	After Decent'n	Change	Prior Decent'n	After Decent'n	Change
<b>Sub-National Share of Expenditures (SSE)</b>	34%	41%		18%	29%		32%	44%		28%	40%	
SSE Change	(1978)	(1999)	20.59%	(1978)	(1999)	61.11%	(1980)	(1995)	37.50%	(1978)	(1995)	42.86%
<i>SSE Change Ranking</i>			<i>1</i>			<i>4</i>			<i>2</i>			<i>3</i>
<b>Policy-Making Authority (PMA)</b>												
Curricula	C	C	0	N	N	0	C	S	0.5	N	N	0
Teachers' Training	C	C	0	N	C	0.5	C	S	0.5	N	C	0.5
Evaluation	C	C	0	N	N	0	C	S	0.5	N	C	0.5
School Management	C	S	0.5	C	S	0.5	C	S	0.5	S	S	0
Hire, Fire, Relocation	C	S	0.5	N	S	1	C	S	0.5	N	S	1
Salary	C	S	0.5	N	C	0.5	C	S	0.5	N	C	0.5
PMA Change	(1978)	(1994)	1.5	(1978)	(1994)	2.5	(1982)	(1995)	3	(1982)	(1994)	2.5
<i>PMA Change Ranking</i>			<i>1</i>			<i>2.5</i>			<i>4</i>			<i>2.5</i>
<b>Sub-National Officials Appointment (SOA)</b>												
Governors	E	E	0	A/E	E	0.5	E	E	0	A	E	1
Mayors	A/E	E	0.5	A/E	E	0.5	E	E	0	A	E	1
SOA Change	(1983)	(1996)	0.5	(1982)	(1994)	1	(1982)	(1994)	0	(1982)	(1991)	2
<i>SOA Change Ranking</i>			<i>2</i>			<i>3</i>			<i>1</i>			<i>4</i>
<b>Territorial Rep. of Interests (TRI)</b>												
Overrep. Deputies	1.94	1.85	-0.09	1.00	1.00	0	1.51	1.92	0.41	1.17	2.73	1.56
Overrep. Senate	3.15	3.40	0.25	1.96	1.96	0	2.66	3.94	1.28	1.25	nat.dist.	-0.25
TRI Change	(1983)	(1995)	0.16	(1979)	(1997)	0	(1962/78)	(1995)	1.69	(1982)	(1994)	1.31
<i>TRI Change Ranking</i>			<i>2</i>			<i>1</i>			<i>4</i>			<i>3</i>
<b>Average Ranking of Change IBOP</b>			<i>1.5</i>			<i>2.625</i>			<i>2.75</i>			<i>3.125</i>

Reference: IBOP: Intergovernmental Balance of Power, N: National, C: Concurrent, S: Subnational, E: Elected, A: Appointed, A/E: only formally elected or with appointment of some offices.

Note: “SSE Change” =  $(\text{SSE After} - \text{SSE Prior}) / \text{SSE Prior}$ . “PMA Change” value is 0 if level of authority did not change; 1 if authority moved from N to S; and 0.5 if it moved from N to C, or from C to S. “SOA Change” value is 0 if type of appointment did not change; 1 if it changed from A to E; and 0.5 if it changed from A/E to E, or from A to A/E. TRI is the national average of the proportion of seats over the proportion of population in each subnational unit. The coefficient 1 means perfect proportional representation across the subnational units. A coefficient higher than 1 reports overrepresentation and a coefficient lower than 1 reports underrepresentation. “TRI Change” values result from resting the value of TRI Prior from TRI After. “Average Ranking of Change IBOP” is the average of each country’s ranking position along the four variables. In the case of Argentina, for example, “Average Ranking of Change IBOP” is calculated as  $(1+1+2+2)/4 = 1.5$ .

*Sources:* SSE: for Argentina, IMF (1985; 2001); Mexico, IMF (1985, 2001); Brazil, Samuels (2002); Colombia, IMF (1985) and Dillinger and Webb (1999, 32). PMA: data collected from secondary sources and education laws. SOA: data collected from secondary sources and national constitutions. TRI: for Argentina, National Constitution and INDEC (1997); Mexico, Lujambio (2000, 35, 73–76) and INEGI (1995); Brazil, data provided by David Samuels; Colombia, Registraduría Nacional del Estado Civil (various years).



along all of these indicators (Tavares de Almeida 1995, 20, 27), by the mid–1990s all of these issues lay in the hands of governors, mayors, or school directors (Burki et al. 1999, 71). Mexico and Colombia follow Brazil in the amount of change in PMA. In Mexico, all issues of public education management were in the hands of the federal government in 1978 (with the sole exception of the management of school buildings). In 1992, after the signing of a decentralization agreement, authority over the curricula and evaluation of the system remained at the federal level, but all other issues were decided upon by the subnational level or jointly by both levels of government. The situation in the education sector in Colombia by the early 1980s was similar to that in Mexico: all responsibilities rested with the national government, with the exception of the maintenance of schools. But after the decentralization of education in 1992 and 1993, all educational issues became matters of state authority (with the sole exception of the design of the curricula, that remained in the hands of the central government). In Argentina, the situation was different. In contrast to the other countries, by the mid–1970s the Argentine provinces managed half of the public primary and secondary schools. Thus, by the mid–1970s all responsibilities concerning the public educational system were shared by the federal and provincial levels of government. Decentralization of primary and secondary schools (in 1978 and 1992 respectively) did not change much from the point of view of distribution of authority. Change only came when a new federal education law was passed in 1993 (Corrales 2003) and some issues became the sole domain of the provinces. As can be seen in Table 4, in terms of PMA, Brazil experienced the most change, followed by Mexico and Colombia. PMA in Argentina experienced the least change.

In the appointment of subnational officials (SOA), Colombia is the country that changed the most. Prior to decentralization, mayors and governors were appointed; their offices became popularly elected in 1988 and 1991, respectively. Mexico follows Colombia in degree of SOA change. While there were elections for subnational executives (with the exception of Mexico City’s mayor) prior to the decentralization reforms, the elections were not competitive. It was not until the mid–1990s that elections for mayors and governors became (by and large) fair and competitive in Mexico. Next in the change ranking is Argentina. The office of the mayor of the city of Buenos Aires was politically decentralized in 1994, but the other mayors and governors had been popularly

elected since the return to democracy in 1983. Finally, SOA remained constant in Brazil throughout the period of reforms. Along the SOA variable, Colombia underwent the most change, followed in decreasing order by Mexico, Argentina, and Brazil.

In the last dimension, territorial representation of interests (TRI), Brazil and Colombia are the countries that experienced the highest degrees of change in overrepresentation in either one or both of their chambers. In Brazil, the creation of two new states (Mato Grosso do Sul and Tocantis) and changes introduced in the 1988 constitutional reform meant that between 1962 and 1995, the degree of overrepresentation in the lower chamber increased from an average of 1.51 (the average distribution of seats in relation to population) to 1.92.<sup>11</sup> The changes were even more drastic in the Senate, where the allocation of seats to previously unrepresented and relatively small subnational units meant that the average degree of overrepresentation increased from 2.66 in 1978 to 3.94 in 1995.<sup>12</sup> In Colombia, as a consequence of the changes introduced in the 1991 constitutional reform and the allocation of seats to seven previously unrepresented departments, the average degree of overrepresentation of subnational units in the lower chamber increased from 1.17 in 1982 to 2.73 in 1994.<sup>13</sup> The Senate, whose seats were distributed among 23 departments according to population prior to 1991, was transformed after the constitutional reform into a proportionally representative chamber of 100 members chosen from a single national district. In Argentina and Mexico, the degrees of overrepresentation in the lower and upper chambers practically did not change. Argentina had a high degree of overrepresentation of subnational units in the Senate throughout the period of decentralization reforms (3.15 in 1983 and 3.40 in 1995 after the incorporation of the southern province of Tierra del Fuego) and had a moderately high degree of overrepresentation in the lower chamber (1.94 in 1983 and 1.85 in 1995). Mexico had a similar degree of overrepresentation in the Senate as had Argentina in its lower chamber (1.96)—and this stayed the same throughout the period. The representation was proportional in the lower chamber (1.00). Hence, in terms of degree of change experienced in TRI, Brazil experienced the most, followed in decreasing order by Colombia, Argentina, and Mexico.

In summary, after decentralization reforms were implemented in Latin America, governors and mayors in Argentina, Brazil, Colombia, and Mexico had more economic resources (represented by the increased levels of subnational share of expenditures), legal authority (as represented by the distribution of policy-making authority in the educational sector), and organizational capacities (as expressed by the independence of their appointments from the national executive and—for the most part—by the increase in the degrees of overrepresentation of the subnational units in the lower and upper chambers) than they had enjoyed in the late 1970s. Nevertheless, if we look at the overall change in balance of power that occurred after decentralization policies were implemented, we find that while Colombia, Brazil, and Mexico experienced significant shifts in balance of power in favor of the subnational authorities, the intergovernmental balance of power in Argentina stayed practically the same throughout the period. At one extreme, Colombia saw its subnational share of expenditures increase by a ratio of 0.43, its governors and mayors gain significant authority in the administration of public education, its president lose the authority to appoint subnational officials, and the territorial overrepresentation in its chamber of deputies almost triple. At the other extreme, Argentina saw virtually no change in intergovernmental balance of power. The share of expenditures increased, but only by a ratio of 0.20 compared to its initial level. Administrative decentralization did not confer new capacities to subnational executives until 1993. Political decentralization, while beneficial to the city of Buenos Aires (whose mayor was popularly elected starting in 1996), did not have an impact on the rest of the provinces. As described in a World Bank report, “Argentina is arguably one of the most decentralized countries in [Latin America] but has essentially the same political and fiscal structure it had before the military intervened in 1976. In contrast, Colombia has radically increased the power and responsibilities of subnational units of government” (Burki et al. 1999, 11). Why, despite the implementation of decentralization reforms, did Argentina’s fiscal and political intergovernmental structure remain unchanged, while Colombia’s fiscal and political intergovernmental relations changed so radically? Why did decentralization reforms lead to the expected results in Colombia, Mexico, and Brazil but not in Argentina?

## ALTERNATIVE EXPLANATIONS

At least three explanations can be identified in the political science literature to explain different degrees of autonomy of subnational governments after similar decentralization reforms have taken place. The first draws from Riker's theory of federalism (Riker 1964a) to argue that the degree of autonomy of subnational officials after the implementation of decentralization reforms can be explained by reference to the internal structure of the political parties (Garman et al. 2001). This argument states that if—given certain electoral and nomination procedures—national legislators are more accountable to the national executive, they will tend to push for more centralization of authority in the design of and bargaining over decentralization reforms. On the other hand, if the national legislators are accountable to subnational officials, they will press for further decentralization of power in designing these policies. This explanation cannot, however, account for my findings. Argentina has a “hybrid” political party system, with national legislators accountable to national as well as to subnational authorities (Eaton 2002; Jones et al. 2002). Nonetheless, Argentina is the country where intergovernmental balance of power evolved the least. Mexico, on the other hand, has a centralized party system, but its intergovernmental balance of power changed considerably once decentralization measures were undertaken, as shown in Table 4.

The second alternative explanation is based on the constitutional type of government, and states that because federal countries confer constitutional autonomy to their subnational units, this constitutional guarantee should lead to higher levels of devolution of power than experienced in unitary countries (Dahl 1986; Levi 1976; Martin 2003). My cases show the opposite to be true. In Colombia, a unitary country, decentralization had the most significant impact on the evolution of intergovernmental balance of power. In Argentina, a federal republic, decentralization had the least significant impact on the distribution of power among levels of government.

Third, it could be argued that there is an “upper limit” or ceiling on the degree of change that decentralization can produce in the intergovernmental structure. It could be argued that the reason for Argentina's minimal change in intergovernmental balance of power is simple: the high level of autonomy enjoyed by governors and mayors *before* the

implementation of decentralization reforms. This explanation is problematic for several reasons. First, the subnational share of expenditures increased steadily from 1988 until 1992 in Argentina, when it reached 46% of the total expenditures. It then dropped to 41% and remained at that level until 1999.<sup>14</sup> Thus, it cannot be said that Argentina reached its “upper-limit” of fiscal decentralization in the late 1990s, as in the early 1990s the fiscal system had already been more decentralized. Second, during the constitutional convention of 1994, provincial representatives criticized the centralization of power and put forward several proposals of further fiscal and political decentralization. These proposals, however, failed due to the bargaining dominance of the national executive and regardless of the prior degree of autonomy of governors and mayors, as I explain below. Finally, even from a comparative perspective, the upper-limit explanation does not hold. Table 4 shows that Brazil, whose mayors and governors entered the process of decentralization in circumstances similar to their counterparts in Argentina, achieved a higher degree of change in intergovernmental balance of power.

### **THE SEQUENTIAL THEORY OF DECENTRALIZATION APPLIED**

In this section, I apply the conceptual framework proposed in section one to analyze—in theoretically explicit narratives (Aminzade 1993)—two of the cases presented above. To illustrate the range of my proposed framework, I take the cases where intergovernmental balance of power changed the most and the least: Colombia and Argentina.

From the late 1970s to the mid-1990s, Colombia and Argentina both underwent processes of decentralization that accompanied the movement from state-led to free-market economies. In both cases, fiscal, administrative, and political decentralization reforms took place, and decentralization was pursued under the pretense of strengthening the subnational units. In spite of these similarities, the processes of decentralization and the consequences they brought about for intergovernmental relations were radically different, as depicted in Table 4. These differences can be appreciated more fully by analyzing the evolution of the entire process of political, fiscal, and administrative reforms. In what follows, I argue that the different outcomes for intergovernmental

balance of power are less a result of the particulars of individual policy reforms than a product of the *evolution* of such reforms and of the type of actors they empower along the way.

### **Colombia: The Subnational Road To Decentralization**

The process of decentralization that started in the mid–1980s is the most important political reform in content and in scope that Colombia has undergone in the last few decades. (Castro 1998, 13)<sup>15</sup>

In 1986, by initiative of President Belisario Betancur (1982–1986), the younger and less entrenched factions of the two traditional parties in congress (the Liberal and Conservative Parties) passed a constitutional amendment for the popular election of mayors (O'Neill 1999, 145). This law changed one hundred years of intergovernmental relations. Since 1886, the president had appointed the governors, who in turn appointed the mayors. President Betancur explained in the following terms his support for this measure:

I had the conviction; I had the obsession that the community should be closer to their representatives. I knew that as long as the community was closer to the rulers, those rulers would feel more stimulated, with greater support to govern... If popularly elected, mayors would be freer and more efficient. (Belisario Betancur, interview by author, Bogotá, 28 March 2001.)

However, the decision to popularly elect the mayors did not solely result from the conviction held by the president or by congress members that such a reform would have a positive impact on local accountability. Subnational social mobilizations against the shortcomings of developmental state policies were also important in explaining why the first *political decentralization* reform came about in the mid–1980s. This element reveals the presence of territorial subnational interests in the coalition that pushed political decentralization forward in Colombia.

During the 1960s and 1970s, the planning and implementation of developmental policies had been transferred to parastatal institutions, relatively autonomous agencies attached to central offices and ministries. They were equipped with significant financial resources and were designed to operate in a cost–recovery basis and on a nation–wide scale, as they sought to provide a more efficient, uniform, and non–local focus to state

action. These agencies supplanted the role of local government in areas such as urban planning, housing, health, education, and the provision of services such as electricity, water, and sewage. The coverage was not uniform, however. Large municipalities kept the management of more responsibilities, and peripheral, poorer regions were left largely unattended. The parastatal agencies tended to focus more heavily on those regions that were prone to private investment. This pattern of investment and developmental policies created profound regional inequalities (Collins 1988, 426–7; Maldonado 2000, 72). Moreover, local government expenditures had dropped from 18% of total expenditures in 1967 to 14% in 1978 and were concentrated in the largest cities. In 1979, the three largest municipalities (Bogotá, Medellín, and Cali) absorbed 72% of the total local government expenditures, and after the rest of the departmental capitals were considered, only 13% was left to be spent in more than 900 remaining municipalities (Collins 1988, 426; Nickson 1995, 146). This created ample discontent among the inhabitants of the poorer regions.

Between 1971 and 1985 over 200 civic strikes (*paros cívicos*) took place. These strikes “involved the total or partial paralysis of social and economic activity in urban centers and/or regions as a means of pressing the state to accede to demands” (Collins 1988, 425). Sixty percent of the strikes were related to problems in the delivery of electricity, water, and sewage; 9% to problems with roads; 6% to problems in education, and 5% to ecological problems (Velásquez 1995, 246). The majority of these strikes occurred in mid-size municipalities (with ten to fifty thousand people) in the country’s peripheral regions, particularly in the departments of the Atlantic coast (Maldonado 2000, 73). Broad sectors of the population participated in these strikes.

The civic strikes are a crucial antecedent of the popular election of mayors because these protests voiced the *territorial interests* of the underdeveloped regions of the country. As Jaime Castro, former mayor and member of the 1991 constitutional convention, said:

The civic strikes had become the mechanisms of protest of *la provincia* [the interior] in relation to the central government. The civic strikes brought to the forefront the fact that it was necessary to strengthen the municipalities and departments. ... They continued to happen after the popular election of mayors, but I would say that thanks to decentralization

civic strikes have now disappeared. (Jaime Castro, interview by author, Bogotá, 29 March 2001.)

The civic strikes brought local government to the center of the political scene in several ways. First, they pointed to the deficiencies of the parastatal agencies and the local administrations in delivering public services. Second, they were signs that the old system of handpicked mayors was coming to an end. Local bosses and traditional clientelist practices had proved inadequate in alleviating popular discontent. The political appointment of mayors had led to a system in which mayors were dependent on the legislator, the governor, or the president—whoever was politically responsible for their appointment—and only accountable to them. There were frequent changes of local administrations and corruption was pervasive (Gaitán Pavía and Moreno Ospina 1992, 150–1). Very often mayors were not native to the town they governed. A number of these became known as “professional mayors,” who “would travel around all the municipalities of one department until they were discredited in all of them” (Luis Camilo Osorio, interview by author, Bogotá, 30 July 1998). Finally, the strikes showed that there were locally based citizens who were demanding accountability and better services *in their municipalities*. Decentralization in Colombia was thereby initiated from below. It was fueled by the protests of the local communities. When national legislators passed the political decentralization reform of 1986, they were responding to those subnational demands and interests voiced in the civic strikes. Furthermore, the fact that subnational interests brought about the first round of reforms explains why the process of decentralization started with a *political* decentralization reform in Colombia.<sup>16</sup>

What were the consequences of the direct election of mayors? The immediate result was a decline in the number of civic strikes. There were 51 strikes in 1987, 35 in 1988, and only 19 in 1989 (Correa Henao 1994, 48–54). New actors were incorporated into the political system.<sup>17</sup> In some cities and regions, the grip of traditional caciques and local bosses loosened, and competition for public office presented them with new challenges they had never had to face in the past (Angell et al. 2001; Velásquez 1995). The direct election of mayors also produced two major policy feedback effects in intergovernmental relations: *incrementalism* and a *policy ratchet effect*.



The 1986 reform had an incremental effect on the devolution of political autonomy to subnational authorities. It created an impulse to further develop political decentralization, and this impulse would prove difficult to reverse. At the beginning of 1991, a constitutional assembly convened in Bogotá, which saw a significant departure from the traditional method of election of representatives (Nielson and Shugart 1999, 328). Through a series of negotiations, political party leaders agreed that the members of the assembly would be elected in a single national district instead of the regional districts used in congressional elections. This change weakened the influence that regional political brokers had over the nomination of candidates to separate, regionally supported, party lists. Moreover, members of congress and the executive were not allowed to run for assembly seats without first resigning their posts. Unlike the national congress, the political make-up of the conventional assembly predisposed it to decentralization policies (O'Neill 1999, 136–139). The assembly, in sessions from February to July of 1991, was organized into five committees. The second committee was responsible for territorial organization. Two of the main issues discussed in this committee were the popular election of governors and the degree of autonomy to be conferred to the intermediate level of government. The assembly was split between the so-called *departamentalistas* [those in favor of the departmental level], who were in favor of the popular election of governors, and the *municipalistas* [those in favor of the municipal level], who opposed it. However, against a backdrop of popularly elected mayors, the election of governors came to be seen as an inevitable next reform. As conventionalist Jaime Castro, who belonged to the *municipalista* group, said:

The popular election of governors appeared to some extent to be a complement to the popular election of mayors. *It was the next step.* (Jaime Castro, interview by author, Bogotá, 29 March 2001, emphasis added )

The popular election of mayors also created what Huber and Stephens (2001, 10) call a *policy ratchet effect*: the creation of a group of followers interested in deepening further the policy change implemented, in this case decentralization. The clearest manifestation of such an effect was the creation of an association of mayors. In 1988, with technical support from the Spanish Federation of Municipalities and Provinces and the Friedrich Ebert Colombian Foundation, the first cohort of elected mayors created the

Colombian Federation of Municipalities (*Federación Colombiana de Municipios*, or FEDEMUN). As expressed in its statutes, the mission of the association is:

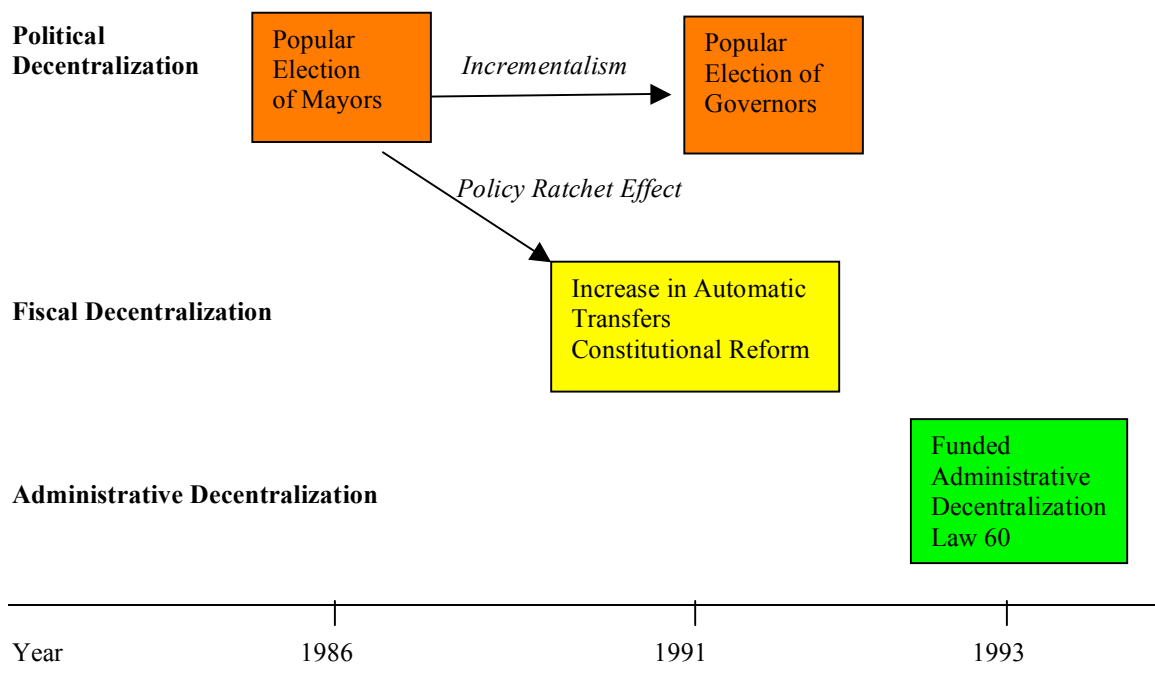
[T]o represent the collective interests of the municipalities, to lead and support the development of the municipal management, and *to promote the deepening of decentralization*. (FEDEMUN, 1991, *Misión de la Federación Colombiana de Municipios* [Mandate of FEDEMUN], emphasis added.)

In 1991, FEDEMUN was very active in lobbying conventionalists for the extension of their tenure from two to three years, for the recognition of municipal autonomy in the constitution, and for the transfer of more fiscal resources (*El Tiempo*, Bogotá, February 23 and March 23, 1991). Despite the reluctance of the national executive, all these reforms were approved by the constitutional convention. Regarding *fiscal decentralization*, article 357 of the new constitution established that the transfers to municipalities would increase from a level of 14% of the current national income in 1993 to 22% in 2002. This article expanded the rate as well as the base of the automatic transfers.<sup>18</sup> As a consequence, the total transfers to subnational governments (both departments and municipalities) passed from 38% to 52% of the current national income between 1991 and 1998 (Vargas González and Sarmiento Gómez 1997, 33).

The administrative counterpart to fiscal decentralization came about in 1993. The initial impetus to pass this reform came from the national executive, which was eager to establish a new distribution of responsibilities among levels of government as a means to cut the double spending and the deficit that fiscal decentralization had introduced in 1991. The national executive sent the administrative decentralization bill proposal to congress in mid-1992. It took one year from the presentation of the bill proposal until the final approval of Law 60 in August of 1993. Law 60 became to be known as the “framework law” of *administrative decentralization*. It ruled on the distribution of responsibilities among levels of government regarding education, health, housing, and water and sewage. It was the result of compromises made by the national executive, the representatives of states and municipalities, and the national teachers’ union. The national minister of education mediated between the interests of the ministry of economy and the department of national planning, who wanted to take decentralization of education to the municipal level, and those of the union, which was opposed to decentralization,

particularly toward the municipal level. With the agreement of subnational representatives, the compromise reached between the union and the national government was that decentralization of education would take place toward the intermediate level of government, *with funds guaranteed* from the national level (Angell et al. 2001, 178). The departments thereby became responsible for paying and training teachers. They could also give vouchers to students with special needs. The municipalities were responsible for investing in the construction and maintenance of school buildings. Together, departments and municipalities were responsible for managing the educational services of pre-school, primary school, secondary school, and high school. The national level retained jurisdiction over curricula and general educational guidelines, and the three levels shared responsibility for the evaluation of the educational system. Apart from the distribution of responsibilities between levels of government, the law also established the distribution of resources among the subnational units and the creation of committees (*comisiones veedoras*) both at the departmental and municipal levels to ensure that the transfers were properly allocated according to the law. It also granted FEDEMUN 0.01 % of the total transfers to the municipalities “for the promotion and representation of all its members, ...the districts and municipalities.” (Article 37, Law 60)<sup>19</sup>

As illustrated in Figure 1, Colombia’s process of decentralization followed a sequence of reforms that conformed to the preferences of subnational actors. Political autonomy was devolved first, followed by resources, and finally by responsibilities. The decision to popularly elect mayors in Colombia had self-reinforcing effects on the next rounds of political and fiscal reforms. It created incrementalism and a policy ratchet effect that led to the popular election of governors and to fiscal decentralization. Administrative decentralization was the last, almost residual, type of reform. It was pushed through by the national executive. However, owing to the sequence of previous decentralization reforms, subnational actors and the teachers’ union were able to get the guarantee that the fiscal resources necessary to afford the costs of the transferred services would also be transferred. As a result, this measure did not have a negative effect on the degree of autonomy of subnational executives with regard to the national government.

**Figure 1****Colombia: Sequence of Decentralization Reforms, 1986–1994**

This first cycle of political, fiscal, and administrative decentralization reforms empowered governors and mayors in Colombia. As is evident in Table 4, there was a significant change in the intergovernmental balance of power in favor of the subnational authorities. The subnational share of expenditures increased by 43%, relative to its 1978 level. The policy-making authority of subnational officials also increased considerably. After one hundred years of presidential appointments, both governors and mayors became popularly elected. Finally, new regions were given representation in both the House and in the Senate in 1991, and the degree of overrepresentation of some units in the House has increased significantly since then. The subnational interests that prevailed in the mid-1980s and pushed political decentralization forward, together with the sequence of reforms that followed, have led to a significant increase in the degree of autonomy of governors and mayors relative to the president in Colombia's intergovernmental structure.

### **Argentina: The National Road To Decentralization**

Unlike in the case of Colombia, Argentina's path of decentralization conformed to the preferences of the national executive. In Argentina, the process of decentralization started with an administrative reform in 1978. It was followed by fiscal decentralization in 1988, and finally by political decentralization in 1994.

On June 5 1978, the national military junta passed two decrees transferring all pre-schools and primary schools that belonged to the National Council of Education to the provinces, the Municipality of Buenos Aires, and the national territory of Tierra del Fuego. Approximately 6,500 schools, 65,000 public employees, and 900,000 students (about one third of the total system of primary public education) were transferred to the provinces. The decrees were retroactive to January 1, 1978. As of that day, all national education employees (teachers, administrators, maintenance, and supervision personnel) would join the provincial administrations and the provinces would be solely responsible for expenditures that went to the provision of pre-school and primary education. No revenues or fiscal capacities were transferred with the schools, and yet the reform implied a cost of 207 billion pesos—equivalent to 20% of the total amount that the provinces received in transfers from the national government (FIEL 1993, 148).

In this first round of decentralization, national interests prevailed. In the context of an authoritarian regime, the national executive was able to impose on the provinces its most preferred decentralization outcome: *administrative decentralization*. The central government was interested in administrative decentralization for several reasons. First, they saw the provinces as enclaves of conservatism, in which future right wing political parties could develop. More importantly, the central government was interested in cutting the size of the federal bureaucracy and the national deficit, in the spirit of a neo-liberal program of government and to combat a rapidly growing foreign debt (Filmus 1998, 68; Novick de Senén González 1995, 138). Third, an increase in the collection of revenues (and consequently in the automatic transfers to the provinces) in 1977 established a favorable environment to transfer expenditures without resources (Ministerio de Cultura y Educación 1980b).<sup>20</sup> The unfunded decentralization of primary education provided an

excellent opportunity to cut national expenditures and to devolve responsibilities to the provinces. A report by the national ministry of education gave the following account of conditions before the 1978 transfer:

At the end of 1977, the national minister of economy [José Martínez de Hoz], considered that there had been an increase in provincial revenues; therefore, he decided to initiate a policy of transfer of social services, among which was education. (Ministerio de Cultura y Educación 1980b, 1: 151)

Finally, the national government could justify the transfer and the national fiscal cut by appealing to federalism. The 1978 national budget reads:

... a policy of transfer of services to the provinces had been implemented. ... With these transfers, not only did we try to *lighten national state expenditures*, but we also wanted the provinces to be responsible for the administrative aspects that take place in their jurisdictions, *as it corresponds to a truly federal country*. (Cited in Ministerio de Cultura y Educación 1980b, 2: 224, emphasis added)

The governors voiced their concerns despite the authoritarian government in power at the time. The governor of the northern province of Salta wrote to the minister of interior in November of 1977: “by no means is the provincial treasury in a situation to afford the total costs of the services to be transferred” (Kisilevsky 1990, 20). The same concerns were expressed by the governors of La Pampa and Catamarca in their correspondence with the national executive, and by other governors in meetings with the national minister of education during 1976 and 1977. It was at this time, however, that the military’s grip on power was at its strongest, and the unfunded transfer was imposed on the governors.<sup>21</sup>

This administrative decentralization reform had disastrous fiscal and political consequences for the governors. On the one hand, the allocation of provincial resources for education had to increase from 14% in 1977 to almost 20% in 1982 (IMF 1985), at the same time that automatic transfers to the provinces decreased from 48.5% to 29% of the shared revenues (FIEL 1993, 151). Decentralization of schools constituted a heavy fiscal burden for the governors, who were forced to beg the national executive for discretionary transfers to avoid closing schools.<sup>22</sup>

On the other hand, this unfunded administrative decentralization also had the effect of *reshaping the governors’ preferences* toward the next types of reforms and—

due to the increasing importance of fiscal transfers—contributed to the *reproduction of power* in the national executive office. With the return to democracy in 1983, the first measure governors requested was fiscal decentralization. Although there was a proposal to reform the constitution that would have granted more political authority to subnational officials (a political decentralization reform), governors focused on the signing of a new revenue-sharing agreement instead (fiscal decentralization reform).<sup>23</sup> The revenue-sharing law of 1973 was in place at the time and about to expire in December of 1984. Given the design of the prior round of administrative decentralization (a transfer of schools without guaranteed resources), governors were eager to negotiate an increase in fiscal transfers.<sup>24</sup> But President Raúl Alfonsín (1983–1989) was successful in delaying the approval of a fiscal decentralization reform until 1988. Meanwhile, he used discretionary transfers to buy the political support of opposition governors. Discretionary transfers amounted to 59% of the total transfers in 1985 and 54% in 1986 (Ministerio de Economía 1989, 177–179). Thus, from 1984 to 1987, Alfonsín gained bargaining power vis-à-vis the governors by using the fiscal transfers to the provinces in exchange for political support.

After the 1987 midterm elections, the national ruling party lost its majority in the House (passing from 51% to 46% of the seats) and five governorships to the Peronist Party. Under these circumstances, President Alfonsín agreed to the governors' demand for redistribution of revenue-shared taxes. On January 7, 1988, congress passed a new revenue-sharing law (*Ley de Coparticipación*, or Law 23,548) by which the provinces were granted 57.66% and the national government 42.34% of all revenue-shared taxes, and the discretionary transfers were cut to 1% of the shared taxes. By all accounts this *fiscal decentralization* law was a victory for the governors, which only came about when an exogenous change (the mid-term elections of 1987) altered the balance of power between the president and the governors. It took subnational interests ten years (and a favorable election) to recover the bargaining power (and revenues) they had lost as a consequence of the 1978 administrative decentralization reform.

However, this recovery did not last. Soon after the new revenue-sharing law was passed, the national executive was able to push forward a second round of unfunded administrative decentralization, which neutralized the effect of the fiscal decentralization

reform. On December 6, 1991, the Argentine congress passed Law 24,049, according to which the administration of all national secondary and adult schools, and the supervision of private schools were transferred to the provinces and the Municipality of Buenos Aires.<sup>25</sup> The estimated financial cost of the transferred services was 1.2 billion dollars per year, the equivalent of almost 10% of the total provincial expenditures and 15% of the total national transfers. Over 2,000 national schools, 72,000 teachers, and 700,000 students were incorporated into the provincial systems of education, which also had to supervise more than 2,500 private schools. Article 14 of the law established that the cost of the transferred services would be paid with provincial resources.<sup>26</sup>

In this second round of administrative decentralization, the national executive dominated the bargaining with the provincial executives. The national executive was able to pass another unfunded administrative decentralization reform, mainly by buying the support of the governors of the smaller provinces. Also, as a result of the convertibility law of 1991 the absolute amount of revenues in the provinces had practically doubled between 1990 and 1992, and it was therefore easier to pass an unfunded administrative decentralization reform.<sup>27</sup> The policy effects of the 1978 decentralization also played an important role, however. While the national secondary schools were administered *de jure* by the national government until 1992, a *de facto* process of decentralization was already under way, largely as a result of the decentralization of schools in 1978. In the words of the governor of the western province of Mendoza:

...the truth is that a *de facto* transfer [of national schools] was already taking place, without recognition in the distribution of revenues. In practice, ...every time there was a problem in a national school, [people] came to the provincial government to ask for a solution. (José Octavio Bordón, interview by author, Buenos Aires, 8 February 2001)

National officials also recognized this situation. Secretary of education Luis A. Barry said:

There were [national] schools that for ten years had not had any supervision. They were managed by phone [from Buenos Aires] or ...by mail. The link was formal, epistolary, but not efficient. (X National Seminar on National Budget, Buenos Aires, Public Administrators Association)



Or as a member of the ministry of economy put it: “only in their plates were the schools national” (Juan Carlos Pezoa, interview by author, Buenos Aires, 13 February 2001). Under these conditions, the governors were more inclined to accept a transfer of schools, even if it was to be funded primarily with provincial resources. In other words, the unfunded administrative decentralization in 1978 had an *incremental effect*. It enabled the national executive to pass a policy reform with very similar features, albeit in a democratic context, thirteen years later.

*Political decentralization* came last in the first cycle of decentralization reforms in Argentina. It occurred in 1994, when President Carlos Menem exchanged constitutional reforms as a bargaining chip for his reelection. Political autonomy was granted to the city of Buenos Aires, but various decentralization reforms proposed in the constitutional assembly by provincial representatives failed to pass. Reforms such as a larger percentage of revenue sharing for the provinces, more control of natural resources in the hands of the provinces, and constitutionally guaranteed municipal autonomy were all proposed by provincial representatives in the constituent assembly of 1994. But due to the political pressure of the national executive on the conventionalists of the ruling party and the main opposition party, all these fiscal and political decentralization proposals were aborted. Thus, the national executive was able to control the timing as well as the main contents of the constitutional reform of 1994.

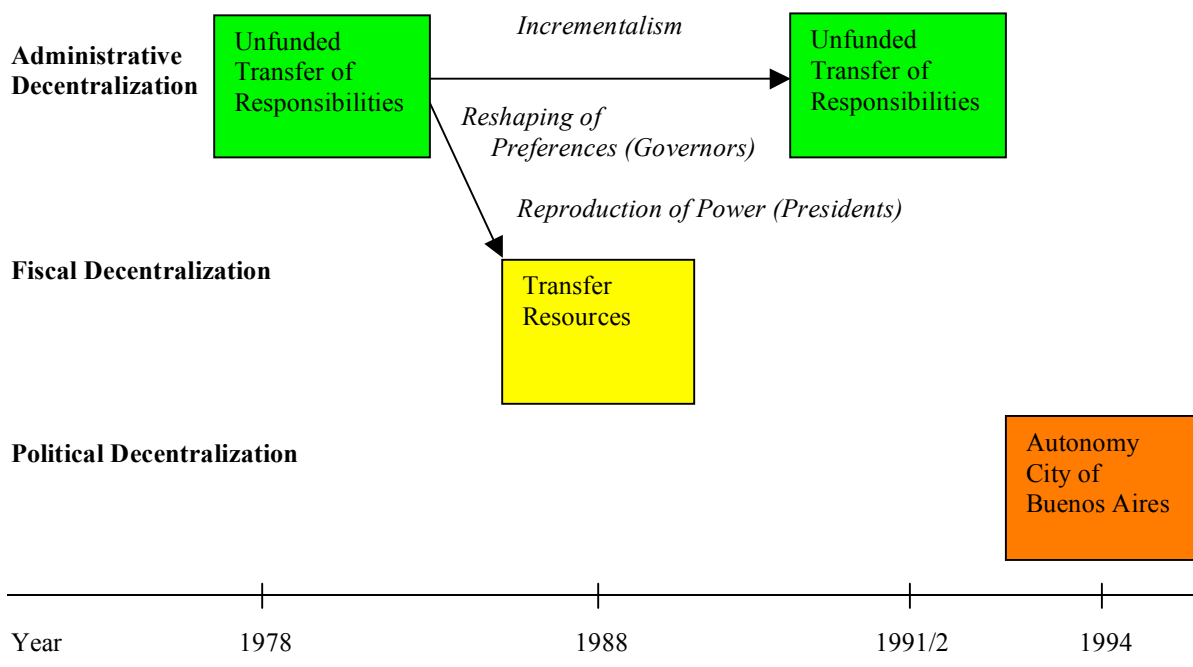
In sum, as a consequence of the first round of administrative decentralization, the preferences of the governors were reshaped. Because the 1978 transfer of schools was unfunded, governors were more concerned with revenues after the return to democracy than with more political authority. The 1978 reform also had an incremental effect in that additional unfunded administrative decentralization measures were made possible. Finally, the first round of administrative decentralization initiated a reproduction of the bargaining power of presidents in later decentralization reforms. National executives were then able to control not only the timing of fiscal and political decentralization, but also the contents and extent of these reforms.

The result of this sequence of administrative, fiscal, and political reforms—illustrated in Figure 2—was a very small change in the relative power of the governors and mayors in Argentina. The subnational share of expenditures increased, but by a lower

amount than the changes experienced by Colombia, Mexico, or Brazil. This was in spite of the fact that, beginning in 1978, the Argentine provinces were allocated responsibilities whose cost amounted to approximately 35% of the total transfers they received from the center. Policy-making authority in the educational sector remained unchanged until 1993, when the new federal law of education was passed. The appointment of subnational officials remained the same with the exception of the mayor of Buenos Aires, who became popularly elected in 1996. Finally, the territorial representation of interests in congress stayed more or less constant throughout the period. Despite the introduction of decentralization policies that transferred responsibilities, resources, and authority to subnational governments, the sequence in which the reforms took place meant that the intergovernmental balance of power remained unchanged in Argentina. In fact, compared to their situation prior to 1976, governors had acquired more responsibilities and fewer fiscal resources, with no change in their political authority.

**Figure 2**

**Argentina: Sequence of Decentralization Reforms, 1978–1994**



## CONCLUSION

It is a fascinating aspect of decentralization policies that they have the potential to reverse long-standing, deeply embedded features of intergovernmental relations. In a relatively short time span, decentralization reforms such as the direct election of governors and mayors, the transfer of national schools to states and municipalities, or the devolution of fiscal authority to the subnational units, can undo the “skillful organization of authority” and the “complicated administrative machine” described by Alexis de Tocqueville in this article’s epigraph. However, the impact of these reforms on the power of governors and mayors is not always the same.

The first conclusion drawn from this article is that decentralization does not always transfer power to governors and mayors. Decentralization policies such as unfunded administrative decentralization make subnational executives more dependent on the national government for fiscal resources. Furthermore, if this type of policies takes place at the beginning of the decentralization process, it may unleash a sequence of reforms where the national executive controls the contents and timing of the subsequent fiscal and political decentralization policies.

The second conclusion is that the degree of change in intergovernmental balance of power is largely dependent on the sequence in which administrative, fiscal, and political decentralization reforms take place. I have shown that if subnational interests prevail in the first round of reforms, *political decentralization* is likely to occur first. This first reform enhances the power and capacities of subnational politicians and public officials for the negotiations over the next rounds of reforms. Thus, according to the preferences of subnational actors, fiscal and administrative decentralization are likely to follow in that order. This sequence of decentralization that devolves political autonomy first, fiscal resources next, and administrative responsibilities last, is likely to produce a significant change in the degree of autonomy of subnational officials—as the Colombian case illustrates. In contrast, if national interests prevail at the beginning of the process, *administrative decentralization* is likely to occur first. If, through administrative decentralization, the center is able to offload responsibilities without transferring the fiscal resources to meet those responsibilities, the central government strengthens its dominance over subnational governments for the next rounds of reforms. Under fiscal

strain, subnational governments are more likely to agree to the terms set by the central level when fiscal decentralization follows. In this situation, the national executive also prevails in setting the terms for the final round of political reforms. The outcome is, therefore, likely to be a low degree of change in the autonomy of subnational officials, despite the implementation of the reforms—as the case of Argentina shows.

In sum, early reforms produce policy feedback effects that shape the next rounds of reforms. In this sense, decentralization processes are path dependent, because “earlier events matter much more than later ones” (Pierson 2000, 253), or “*when* things happen within a sequence affects *how* they happen” (Tilly 1984, 14). Using Skowronek’s (1993) terminology, we may conceive of intergovernmental relations as a layered structure of institutional action. In this structure, the fiscal, administrative, and political authority layers are distinguishable but highly interrelated, such that a change in one layer (a decentralization policy, for example) carries consequences for the other two layers. As I show in this article, this occurs via such mechanisms as *incrementalism*, *policy-ratchet effect* (through the creation of a group of supporters), *reshaping of preferences*, and *reproduction of power*.

This article’s main contribution to the political science literature on decentralization is to propose a *sequential theory of decentralization*. This approach departs from previous works in several ways. First, it analyzes fiscal, administrative, and political decentralization together, as part of the same process. While administrative, political, and fiscal decentralization reforms have all been analyzed previously, the three categories have been studied separately, in isolation from one another. Policy-oriented works have undertaken the study of administrative reforms, such as the transfers of education and health services (Di Gropello 1998; Malpica Faustor 1995). Another group of works, guided in whole or in part by rational choice assumptions, has sought to explain the reasons behind political decentralization or why rational actors choose to give power away (Grindle 2000; O’Neill 1999). Likewise, institutional approaches have argued that differences in the political systems explain the degrees of fiscal decentralization (Garman et. al. 2001; Riker 1964a). By prioritizing different theories and methodological approaches, the political science literature on decentralization has divided the process into its component parts, without the possibility of understanding how the transfer of

authority in one area interacts with, reinforces, or halts reforms in other areas. By analyzing fiscal, administrative, and political decentralization together, I can assess the consequences that reforms in one layer of intergovernmental relations carry for the other layers, and the effects of the process as a whole.

Second, the sequential theory of decentralization brings territorial interests and subnational actors to the center of the analysis. The puzzle of why national politicians choose or agree to give away power has led scholars to focus almost exclusively on the interests of national ruling politicians toward decentralization, either in the executive branch (Grindle 2000; O'Neill 1999) or in the relations between the national executive and the legislature (Eaton 2002; Garman et al. 2001). These studies have largely underestimated the crucial role of subnational actors and opposition parties in the proposal, design, and negotiation concerning different types of decentralization. By contrast, my approach allows distinction to be made between partisan and territorial interests of national as well as of subnational actors. Similarly, it allows for analysis of the bargaining among presidents, governors, and mayors regarding the enactment and design of different types of decentralization reforms.

Finally, the sequential theory of decentralization can travel to other countries and regions of the world. The domain of this theory are those countries that (a) underwent decentralization reforms as part of the movement from state-led to free-market economies; (b) have at least two levels of government (even if the subnational level is not politically autonomous from the central level); and (c) have seen at least two types of decentralization reforms occur at different points in time. In such cases, I expect the type of interests that prevail in the first round of decentralization and the sequence of policy reforms that follows to be the main determinants of the resulting degree of change in intergovernmental balance of power.

## ENDNOTES

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<sup>1</sup> The political science literature has advanced definitions of decentralization as a process. However, they tend to be too narrow—including only one (Agrawal 2001, 3; Rondinelli and Nellis 1986, 5) or at most two dimensions of the process (Garman et al. 2001, 206; O'Neill 1999, 27–29; Treisman 2000, 837)—or too encompassing—including the devolution of authority to non–state actors (Cheema and Rondinelli 1983, 24–25; von Haldenwang 1991, 60–62).

<sup>2</sup> Decentralization policies existed prior to the 1970s. However, in the context of different states (such as oligarchic or developmental), those policies belonged to a different set of reforms than the ones analyzed here.

<sup>3</sup> Two previous works identified administrative, fiscal, and political decentralization (Manor 1999, 4–12; Penfold–Becerra 1999). Manor assigns a hierarchy to these reforms—from administrative to democratic decentralization—and conflates political decentralization with democratization, which gives a normative flavor to his conceptual framework. Penfold–Becerra acknowledges that the three dimensions of decentralization are inherently intertwined, but claims “these three different dimensions of the decentralization process must be analyzed separately” (1999, 90–91). I show, instead, that much is gained from analyzing the three dimensions of decentralization together and from distinguishing between decentralization and democratization as two different (albeit sometimes reinforcing) processes.

<sup>4</sup> Notice I do not distinguish between policies according to the degree of authority devolved (i.e. de–concentration, decentralization, devolution, etc.). Unlike other authors (Cheema and Rondinelli 1983), I contend the degree of authority devolved is something to be explained rather than built into the definition.

<sup>5</sup> These are 120 in–depth interviews carried out in Argentina, Mexico, and Colombia during the summer of 1998, the spring of 1999, and the academic year 2000–2001 (interviewees’ list available upon request).

<sup>6</sup> Note in this model preferences are not fixed. Once decentralization has started, the policy effects of the first round of reforms may reshape the interests of bargaining actors for the next rounds of reforms. Also, national and subnational actors have different preferences with regard to the intergovernmental *level* targeted by decentralization. Presidents prefer decentralization toward the municipal level (because mayors pose less of an electoral and financial threat than governors), while governors and mayors in general prefer decentralization toward their own levels of government. These preferences affect the composition of the coalitions behind decentralization

initiatives. For reasons of space, I do not include preferences regarding intergovernmental level of decentralization. (For further analysis see Falleti 2003.)

<sup>7</sup> I do not include subnational shares of revenues because they have been historically low in Latin America and have practically not changed after fiscal decentralization reforms.

<sup>8</sup> Several reasons account for the selection of education over other policy areas. First, in most countries education was the first public sector to be decentralized, influencing the pace and characteristics of decentralization in other public sectors. Second, education is the largest public sector in the countries analyzed, both in terms of fiscal and human resources. The transfer of this sector carries, therefore, significant fiscal and administrative consequences for states and municipalities. Third, the education sector often has the strongest and largest unions in the public sector. This makes decentralization of education politically crucial for national and subnational executives, who have to negotiate with the teachers' unions.

<sup>9</sup> Overrepresentation coefficients report the degree of deviation from the principle "one citizen, one vote." If the overrepresentation coefficient is higher than one, it means that in some subnational units the "cost" of electing a deputy or a senator is lower than in other units. In Stepan's (2003) words, these senates and houses are "demos-constraining." The higher the overrepresentation coefficients, the easier it is for some of the deputies and senators in those congresses to represent the territorial interests of their subnational units and constituencies, instead of the interests of the national medium-voter.

<sup>10</sup> Several commonalities make Argentina, Brazil, Colombia, and Mexico suitable countries for comparison. First, due to their size—the four largest countries in Latin America—it is safe to assume that the relationships between center and periphery have been historically contentious and that issues of decentralization are politically relevant. Second, they all underwent similar decentralization policies, albeit with different impact on the distribution of power among levels of government. Third, they all have three tiers of government and bicameral national legislatures. Furthermore, differences among the cases allow for controls to the main argument and alternative explanations. On the one hand, Argentina, Brazil, and Mexico are federal countries while Colombia is a unitary country. On the other hand, Argentina, Brazil, and Colombia have hybrid or decentralized party systems (Archer 1995; Levitsky 2003; Samuels 2002), while Mexico has a centralized party system (Craig and Cornelius 1995).

<sup>11</sup> In 1962, Sao Paulo was the most underrepresented state (0.79) and Acre the most overrepresented (7.56). In 1995, Sao Paulo continued to be the most underrepresented (0.63) and Roraima the most overrepresented state (10.52).

<sup>12</sup> In 1978, a senator from Sao Paulo represented 83 times as many people as her colleague from Acre (0.22 and 18.28 overrepresentation values, respectively). In 1995, a senator from Sao Paulo represented 144 times as many people as a senator from Roraima (0.18 and 25.98 values, respectively).

<sup>13</sup> One vote for a national deputy in the department of Vaupes was worth 21 votes in Antioquia.

<sup>14</sup> Such reduction resulted from a fiscal pact signed in August of 1992 that cut the automatic transfers to the provinces by 15%. As a consequence, between 1993 and 1999, the provinces lost between 5 and 9 billion dollars, depending on whether or not two compensatory funds created after 1992 are considered.

<sup>15</sup> Unless otherwise noted, all translations from Spanish (texts and interviews) are my own.

<sup>16</sup> With the increase in political violence, part of the political establishment also saw the popular election of mayors as a political venue to incorporate members of the armed guerrillas into the legal system.

<sup>17</sup> In 1992, 30% of the municipalities went to candidates that did not run with the traditional parties (Restrepo Botero 1997).

<sup>18</sup> Prior to 1991, the automatic transfers to the municipalities were calculated as a portion of the ordinary national income that, unlike the current national income, does not include non-tax revenue.

<sup>19</sup> FEDEMUN received approximately 100 million pesos in 1994 (Jamarillo Pérez 1994, 76).

<sup>20</sup> Since 1935, a system of automatic revenue sharing between the federal government and the provinces has existed in Argentina. Due to the increase in collection of taxes, provincial revenues practically doubled between 1976 and 1977, passing from 0.88% to 1.56% of the GDP (Kisilevsky 1998, 55).

<sup>21</sup> “Program 050” was created in 1978 to help the provinces with fewer resources cover some of the costs of the transfer (Ministerio de Cultura y Educación 1980b, 1: 44). The fund, however, was transitory and the national government had discretionary power over its distribution. Furthermore, the transfers were later discounted from the revenues that the provinces shared with the national government. Thus, “Program 50” did not constitute a transfer of resources, but rather a system of temporary advance-payments later discounted from provincial budgets.

<sup>22</sup> Between 1975 and 1980, over 3,400 primary schools (13% of the total) were closed (Ministerio de Cultura y Educación 1980a, n.d).

<sup>23</sup> Arguably, governors could have pursued both types of reforms, but they did not. Between 1984 and 1987 they focused on fiscal decentralization.

<sup>24</sup> During the negotiations, Carlos Menem, Peronist governor of La Rioja at the time, proposed that the interior provinces rebelled against the national government and cut the supply of energy to the city of Buenos Aires—where the federal government seated—until an agreement on fiscal transfers was reached with the president (Pérez 1986, 68).

<sup>25</sup> Along with schools, this law transferred two food programs and the few hospitals that remained under national jurisdiction, located in the provinces of Buenos Aires and Entre Rios, and the city of Buenos Aires.

<sup>26</sup> Governors were able to negotiate a clause (Article 15) stating that whenever the revenues collected in a given month were below the average of the April–December 1991 period, the national government would transfer 1.2 billion pesos or the difference required to match that amount. Government documents and interviews with national and subnational officials suggest that such guarantee has not been enacted (see Falleti 2003, 136–155).

<sup>27</sup> The automatic transfer received by the provinces increased from 4,810 million dollars in 1990 to 8,846 million in 1992 (Subsecretaría de Relaciones Fiscales y Económicas con las Provincias 1994, 15).



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