

After Decentralization: Patterns of Intergovernmental Conflict in Argentina, Brazil, Spain, and Mexico

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Recent scholarship on the political determinants of decentralization has been useful for explaining initial decisions by national elites to decentralize, but the electoral independent variables favored by these analyses are insufficient to explain the complex process of decentralization over time. Distributional conflicts involving national chief executives and subnational governments occurring after decentralization is initiated shape the process in ways that alter initial conditions. This study assesses change in the degree, pattern, and pace of decentralization in four countries: Argentina, Brazil, Mexico, and Spain.

Numerous scholars and international financial agencies now focus on decentralization as a means for democratizing political regimes and enhancing the efficiency of public policy.¹ Although the jury is still very much out on the implications for service delivery and democracy, more light has been shed on the political determinants of the process of devolving resources and policy responsibilities to subnational governments. Eliza Willis, Chris Garman, and Stephan Haggard argue that “decentralization has a discernable logic that is rooted in features of the constitutional, electoral, and party systems.”² These authors argue that the structure of political party systems, specifically their level of internal centralization, determines the fiscal structure of the state (the *degree* of decentralization).³ Based on small-n comparisons of Latin American cases (both federal and non-federal decentralized states), Willis et al. find that more centralized parties allow chief executives to more effectively restrain subnational demands for greater decentralization. Less understood is the pacing of these reforms and the patterns they take (i.e., the configurations of revenue-raising, revenue-sharing, grants, limits on borrowing, and expenditures that are decentralized).

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¹See Inter-American Development Bank (IDB), *Latin America After a Decade of Reforms* (Washington, DC: IDB, 1997); IDB, *Economic and Social Progress in Latin America, 1994 Report. Special Report: Fiscal Decentralization* (Washington, DC: IDB, 1994); Ricardo López Murphy, ed., *Fiscal Decentralization in Latin America* (Washington, DC: IDB, 1995).

²Eliza Willis, Christopher da C. B. Garman, and Stephan Haggard, “The Politics of Decentralization in Latin America,” *Latin American Research Review* 34 (1999): 8.

³Christopher Garman, Stephan Haggard, and Eliza Willis, “Fiscal Decentralization: A Political Theory with Latin American Cases,” *World Politics* 53 (January 2001): 207.

Although recent work on political determinants has proven effective in illustrating cross-national variations in the degree of decentralization in regions such as Latin America, the focus on electoral independent variables is insufficient for explaining the trajectory of change over time. The “electoralist” variables favored by this analysis make for useful starting points, but these are “snapshots,” far too static to anticipate the distributional struggles in intergovernmental relations that reshape initial conditions, sometimes in ways that alter dramatically the degree, pattern, and pace of decentralization without corresponding changes in electoral factors. This essay builds on the comparisons of Willis et al. but it takes them a step beyond the “comparative statics” of their initial surveys. The main argument in this article is that distributional struggles, particularly those involving national chief executives and subnational governments (executives and legislatures), that occur after national politicians decentralize are crucial for understanding the process of decentralization. The essay fleshes out two variables that are exogenous to the electoral arena—macroeconomic crises and coordination among subnational governments—but it stops short of a systemic test of these as competing variables. Rather, the purpose of this study is to use the comparative method to highlight the importance of these variables in explaining change and therefore suggest ways in which electoralist approaches might be amended to enhance their explanatory power.

Following Willis et al., my analysis will focus on what the authors term “functional decentralization,” that is, the “transfer of policy responsibilities and expenditure and revenue-raising powers.” I subdivide this dependent variable into three categories: the degree, the pattern, and the pace of functional decentralization. The degree of decentralization refers to gradations in the devolution of policy authorities and resources. The pattern of decentralization varies in terms of whether revenue-raising (e.g., taxation) and expenditures (e.g., transfers and revenue-shares) are decentralized or whether only the latter is devolved. The pace of these changes refers to the rate at which intergovernmental fiscal authorities are decentralized (gradually or more rapidly). The research program lacks a universal metric for these variations; therefore, my analysis will depend on observations of relative difference among the cases.

Changes in subnational dependence on central authorities for control over policy mandates and resources occur through the evolution of hard budget constraints on subnational spending and borrowing, fiscal transfers and devolution of service responsibilities, and subnational autonomy over their own resources. A key assumption is that central authorities, and particularly presidents, are unlikely to devolve access to resources or policy authority unless doing so serves their political interests in maintaining power.¹ If they do decentralize, they will prefer to devolve expenditures

¹Ibid., 209.

rather than revenue-raising authority because the latter represents a greater sacrifice of national government power over subnational states.⁵ National elites will also prefer to slow down the process of decentralization to reinforce their attempts to control it.

The capacity of chief executives to achieve these preferences is a function of their leverage over subnational governments. Scholars of comparative federalism have typically operationalized this variable with reference to the way that party structures, executive-legislative relations, and "robust" federalism create numerous "veto points" against decisive use of executive authority.⁶ For example, the location of "party brokers"—leaders who shape political careers—is a determinant of the degree and pattern of decentralization. Where these brokers are subnational, the degree of decentralization will be high and the pattern will favor the devolution of revenue-raising capacity. The Brazilian case is an example of one of the extremes. The historic power of the governors to distribute patronage has made them, and not federal legislators, the "party brokers."⁷ This explains why Brazil remains one of the most fiscally decentralized countries in Latin America.⁸

Another variant of the electoralist approach holds that political parties that have a stronger subnational than national base will favor decentralization.⁹ Conversely, parties with a stronger national position (executive and ruling party in the legislature) will prefer less decentralization. Furthermore, where legislative bodies are controlled by parties in opposition to the executive, congress will seek decentralization to limit the powers of the president. Alternatively, where legislators belong to the president's party, these tendencies will be reversed.

Electoralist approaches are useful for identifying veto points and assessing their strength, but they do not explain all change in intergovernmental relations, and especially when formal institutional incentives remain constant. Even as the number of institutional veto points did not change in the 1990s, chief executives re-centralized fiscal resources in Argentina and Brazil and decentralized them in Spain. This was true even as intergovernmental partisan loyalties remained largely congruent in Argentina and Spain but not in Brazil. In Mexico, the political system became more competitive, but subnational governments, increasingly

⁵Arend Lijphart, *Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries* (New Haven, CT: Yale University Press, 1999), p. 192.

⁶Scott Mainwaring and David J. Samuels, "Federalism, Constraints on the Central Government, and Economic Reform in Democratic Brazil," (paper presented at the conference on Federalism, Democracy, and Public Policy, Centro de Investigación y Docencia Económicas, Mexico City, June 1999).

⁷David J. Samuels, "Careerism and its Consequences: Federalism, Elections, and Policy-Making in Brazil," (Ph.D. diss., University of California, San Diego, 1998).

⁸Garman et al., "Fiscal Decentralization."

⁹Kathleen M. O'Neill, "Changing Decentralization in Bolivia: Electoral Incentives and Outcomes," (paper presented at the conference on Decentralization in Latin America, University of Minnesota, Minneapolis, February 2000).

dominated by opposition parties, were constrained in their spending due to tight federal mandates. Comparison of these four cases demonstrates that understanding the dynamic of intergovernmental relations after decentralization is initiated requires analysis of variables omitted from electoralist approaches. These are factors exogenous to the partisan and legislative arenas.

Two such exogenous factors enhance the leverage of chief executives over subnational governments. The first is the advent of macroeconomic crises that undercut the autonomy of subnational governments. Inflationary and fiscal crises limit subnational authority over spending and policymaking while they make these governments more dependent on the national government for reformist public goods, such as anti-inflation plans and fiscal bailouts. Such "crises effects" help to explain a number of recent cases of successful re-centralization after hyper-inflationary periods in Argentina and Brazil.¹⁰

The second exogenous factor involves the capacity of subnational governments to coordinate their actions before determined presidents. Crises effects undercut this capacity by allowing chief executives to divide the states with selective incentives to collaborate with national reform-initiatives. In the absence of crises effects, subnational governments may be able to use cross-jurisdictional political ties (i.e., common party alliances), joint policy processes (e.g., regional policy) in which they have voice, and non-legislative arenas such as the judiciary for asserting their interests. Despite a highly centralized party system in Spain, the regions were able to engineer a historic decentralization of policy authorities and resources during the 1980s and 1990s by pursuing a coordinated strategy. The inability of subnational governments to create a similar level of coordination in Mexico reinforced the persistence of federal mandates over the states.

In the next sections, I compare the dynamics of the decentralization process in four countries that electoralist approaches commonly use to support their hypotheses: Mexico, Spain, Argentina, and Brazil. These are all recently decentralized states that vary in terms of the centralization of their party systems but exhibit similarities in the degree, pacing, and pattern of decentralization that electoralist approaches do not explain.

SUSTAINED CENTRALIZATION: MEXICO

Mexico remained a case of sustained centralization due to the persistence of an extraordinarily strong presidency that remained the chief articulator of the country's economic reform agenda. Even as the hegemonic Institutional Revolutionary Party (PRI), which governed the country since 1929,

¹⁰Shadid J. Burki, G. E. Perry, and W. R. Dillinger, *Beyond the Center: Decentralizing the State* (Washington, DC: World Bank, 2000). On the role of "crises effects," see Roy Bahl and Johannes Linn, *Urban Public Finance in Developing Countries* (New York: Oxford University Press, 1992), pp. 392-393.

saw its supremacy wither during the 1990s, the state governments, which increasingly came under the control of the opposition, could not coordinate a notable decentralization of authority over spending.¹¹ As a result, decentralization was gradual, limited in degree, and based on the transfer of expenditures and grants with high levels of federal discretion.

Beginning with the José López Portillo *sexenio* and extending into the terms of his successors, Miguel de la Madrid and Carlos Salinas de Gortari, Mexican governments embraced decentralization as a mechanism of promoting efficiency and "democratization."¹² These reforms, however, maintained, and in some cases extended, federal discretion over subnational taxation and spending. In 1980, President López Portillo expanded the powers of state and municipal governments. Under a new *Ley de Coordinación Fiscal*, the federal government allocated more of its revenue to the states.¹³ In return, the states surrendered their more than one-third share of the federal sales tax and their excise taxes on consumption and production. This continued a historical trend in which, by 1991, state tax revenues were just over a third less than what they had been before 1940, and municipal revenues were a quarter of what they had been prior to the revolution.¹⁴ Under the new *Sistema Nacional de Coordinación Fiscal* (SNCF) (National System of Fiscal Coordination), intergovernmental contracts coordinated by the federal *Secretaría de Hacienda y Crédito Público* (SHCP) required states to trade constitutionally protected tax authorities for increases in federal transfers. These nominally voluntary provisions known as *convenios de adhesión* were accompanied by strict federal guidelines that required the states to pursue tax evaders (*convenio de colaboración administrativa*).¹⁵ Under the new formulaic revenue-sharing system, the federal government maintained control over the tax system, including collection of the country's chief tax, the value-added tax. Constitutional constraints on foreign borrowing and substantial discretion by the Ministry of Finance and the national development bank (Banobras) over the contracting of subnational

¹¹It was not until 1989 that an opposition party assumed control of the first state governorship (the PAN in Baja California Norte). By early 1999, the opposition had won seven more state governorships.

¹²Victoria E. Rodríguez, "The Politics of Decentralization in Mexico: From Municipio Libre to Solidaridad," *Bulletin of Latin American Research* 12 (1993): 134.

¹³The 1980 reform changed the tax system, granting the states the task of collecting the federal value-added tax (*impuesto al valor agregado* - IVA), which substituted for the federal sales tax (*impuesto sobre ingresos mercantiles* - ISIM). The states would then forward IVA revenues to the federal treasury that would then transfer a portion of these resources to the states and municipalities according to a national formula. The states were also required to transfer 20 percent of the federal revenues they collected to the municipalities. Under the new *Ley de Coordinación Fiscal*, federal transfers were organized into three funds—the Fondo General de Participaciones (FGP), the Fondo Financiero Complementario (FFC), and the Fondo de Fomento Municipal (FFM). A reform in 1990 grouped the FGP and the FFC into a single fund that retained the name FGP. The 1990 reform also centralized collection of the IVA.

¹⁴Alberto Díaz Cayeros, *Desarrollo económico e inequidad regional: Hacia un nuevo pacto federal en México* (Mexico City: Miguel Ángel Porrúa, 1995), pp. 81-82.

¹⁵Although these contracts were "voluntary," the states' failure to adhere to them would require the surrender of all claims to federal funding. See Emily Edmonds Elías, "Fiscal Decentralization and Municipal Governance in Mexico: The Case of Chihuahua," (paper presented at the annual meeting of the Latin American Studies Association, Guadalajara, Mexico, April 1997).

debt created hard budget constraints that kept the states' debt to only 2 percent of GDP during the 1990s.¹⁶ These practices added to existing constitutional prohibitions on state duties on internal and external trade such as sales taxes and taxes on natural resources. They also upheld exclusive federal authorities to regulate financial institutions, impose taxes on foreign trade, and natural resources.¹⁷

Federal discretion over the new revenue-sharing system made the states "dependent sovereignties" as it kept the power of the purse strings firmly in the hands of the presidency and his chief economic ministries.¹⁸ This served to undercut the ability of the states to coordinate an "all for one and one for all" strategy against the center. First, federal discretion favored PRI-affiliated states and severely constrained the activities of state governments under the command of the opposition Partido Acción Nacional (PAN) and the Partido de la Revolución Democrática (PRD); yet the opposition parties did little to coordinate a common response across interjurisdictional boundaries. Second, the lack of their own resources under the SNCF continued to weaken incentives for the governors to coordinate welfare or economic policies to attract investments. For example, attempts by the states to levy "temporary" taxes (e.g., the proposal in Chihuahua to impose a tax on the *maquiladoras*) were stymied by federal fiscal discretion.¹⁹

While social spending was increasingly decentralized, control over the earmarking of these funds continued to be strongly centralized. De la Madrid, while still Secretary of Programming and the Budget (SPP) for López Portillo, organized joint federal-state financing of public works through a series of agreements known as *convenios*.²⁰ These were later consolidated into a singular "regional development" budget (*ramo* 26) that was directly managed by federal officials. Through joint private-public "planning cells" and local offices of the Secretariat of Programming and the Budget, the *convenios* financed projects first defined by SPP officials in the National Development Plan and later allocated after bargaining between federal and state authorities. This system produced patterns of social spending that have upheld federal priorities, whether these are based on objective criteria or particular political interests.²¹ The Salinas *sexenio's* decentralized system of social spending—the Program of National Solidarity

¹⁶William Dillinger, Guillermo Perry, and Steven B. Webb, "Macroeconomic Management in Decentralized Democracies: The Quest for Hard Budget Constraints in Latin America," (paper presented at the annual meeting of the Latin American Studies Association, Miami, March 2000), 20-21.

¹⁷Alberto Díaz Cayeros, "Do Federal Institutions Matter? Rules and Political Practices in Mexico" (paper presented at the conference on Federalism, Democracy, and Public Policy, Centro de Investigación y Docencia Económicas, Mexico City, June 1999).

¹⁸Victoria E. Rodríguez, *Decentralization in Mexico: From Reforma Municipal to Solidaridad to Nuevo Federalismo* (Boulder, CO: Westview Press, 1997).

¹⁹Peter M. Ward and Victoria E. Rodríguez, *New Federalism and State Government in Mexico: Bringing the States Back In* (Austin, TX: University of Texas, 1999), pp. 97-124.

²⁰These were initially organized as *Convenios Unidos de Desarrollo* (CUDs) but were later renamed *Convenios de Desarrollo Social* (CDSs) during the Salinas *sexenio*.

²¹Díaz Cayeros, "Do Federal Institutions Matter?"

(PRONASOL)—continued to reinforce federal discretion. The program was directly administered by the SPP, and later, its successor, the Ministry of Social Development (SEDESOL).²²

Such examples of federal control over the “dependent sovereignties” have persisted despite an increasingly more competitive electoral system that makes governors more important actors within their parties. Conflicts between PRI presidents and governors and increasing electoral competition from the PAN and PRD in both national and subnational elections have provided unprecedented threats to the pattern of sustained centralization.²³ In June 1997, the PRI lost control over the Chamber of Deputies. The opposition parties took several governorships at a time when the office of governor had become more important in the political careers of Mexican politicians.²⁴ For example, Mexican politicians tend to run for governor after finishing their terms in the Senate.²⁵ Perhaps the most notable change, however, occurred in 2000 when Vicente Fox, a former PAN governor of Guanajuato state, was elected president. A large piece of Fox’s reform agenda includes strengthening the state governments through unprecedented decentralization of resources and policy authority.

While these changes in the Mexican political landscape should not be ignored, they have thus far not represented a substantial shift of leverage between central and subnational authorities sufficient enough to undo close-ended federal mandates, hard budget constraints on subnational spending and borrowing, and indirect influence by central authorities on subnational policymaking. The persisting stickiness of these institutions is a function of the continued dominance of the presidency and its leverage over subnational interests. Part of this leverage is based on an understanding of electoralist factors. Legislators and governors continue to depend on the presidency for career advancement because they cannot be reelected (consecutively in the case of legislators, and not at all in the case of governors). This central constraint will continue to orient these politicians toward national interests

²²SEDESOL was created to replace SPP in 1992. During the Salinas *sexenio* both PRONASOL, and the CDSs and their “planning cells” functioned simultaneously. Once funded by the Treasury with federal transfers, SEDESOL, along with governors and federal agency officials involved with the local “planning cells,” selected candidate municipalities for PRONASOL funding. The Zedillo administration slashed SEDESOL funding and redirected funds to municipal governments through targeted federal grants (*ramo* 33). For more on federal and partisan control over PRONASOL/SEDESOL, see Juan Molinar Horcasitas and Jeffrey A. Weldon, “Electoral Determinants and Consequences of National Solidarity,” *Transforming State-Society Relations in Mexico: The National Solidarity Strategy*, eds. Wayne Cornelius, Ann L. Craig, and Jonathan Fox (La Jolla: University of California, San Diego, 1994); Kathleen Bruhn, “Social Spending and Political Support: The ‘Lessons’ of the National Solidarity Program in Mexico,” *Comparative Politics* 28 (January 1996): 151-177.

²³Wayne A. Cornelius, “Subnational Politics and Democratization: Tensions between Center and Periphery in the Mexican Political System,” *Subnational Politics and Democratization in Mexico*, eds. Wayne A. Cornelius, Todd A. Eisenstadt, and Jane Hindley (La Jolla: University of California, San Diego, 1999), pp. 3-16.

²⁴Evidence of this is the fact that the major contenders for the presidency in 2000, including the two primary candidates of the PRI in 1999, held gubernatorial office prior to their campaigns.

²⁵Díaz Cayeros, “Do Federal Institutions Matter?”

and policies, even as opposition parties take the presidency.²⁶ Although the last PRI president, Ernesto Zedillo, forfeited the president's supreme control over the selection of his partisan successor (the mythical "pointed finger" or *dedazo*) and renounced the practice of choosing the PRI's legislative candidates, the presidency still wields control over party leadership and internal procedures, and continues to maintain extraordinary legislative and veto powers largely independent of the parties.²⁷

Nonetheless, political economic factors have greatly reinforced the leverage the presidency continues to wield over the states. The proven capacity of the federal government to maintain control over the content of macroeconomic policy and neoliberal reform even after the disastrous peso crisis of December 1994, has kept political economic bargaining power centralized, reinforcing the power of the presidency. Analyses of reforms granting autonomy to the central bank,²⁸ negotiations over the North American Free Trade Agreement (NAFTA),²⁹ and management of the peso crisis³⁰ have all pointed to the strategic control the Mexican president retains over economic policymaking. These trends continued to consolidate under Zedillo's *sexenio* as he sought to reverse Salinas's politicization of economic policymaking by insulating the economic bureaucracy.³¹ Despite his somewhat brash, populist style, Fox, in the months following his election, showed little inclination to reverse this model of policymaking, thus making the "new federalism" his campaign promised to deepen more of a "wish list."³²

GRADUALLY EXPANDING SUBNATIONAL AUTONOMY: SPAIN

The Spanish transition to democracy evolved through consensual "elite settlements" and consolidated after the Socialist party (*Partido Socialista Obrero Español*-PSOE), led by Felipe González, won a landslide electoral victory in 1982 and held an absolute majority in the Spanish Cortes (parliament) for two terms (1982-1989). Although the PSOE would, in 1993, be forced to

²⁶Miguel Centeno, "The Failure of Presidential Authoritarianism: Transition in Mexico," *Politics, Society, and Democracy: Latin America*, eds. Scott Mainwaring and Arturo Valenzuela (Boulder, CO: Westview Press, 1998), pp. 39-43.

²⁷Jeffrey Weldon, "Political Sources of Presidentialismo in Mexico," *Presidentialism and Democracy in Latin America*, eds. Scott Mainwaring and Matthew Soberg Shugart (New York: Cambridge University Press, 1997), pp. 225-258.

²⁸Delia Boylan, "Democratization and Institutional Change in Mexico: The Logic of Partial Insulation" (paper presented at the annual Latin American Studies Association, Chicago, September (revised), 1999).

²⁹Carol Wise, "NAFTA, Mexico, and the Western Hemisphere," *The Post-NAFTA Political Economy: Mexico and the Western Hemisphere*, ed. Carol Wise (University Park: Pennsylvania State University Press, 1998), pp. 14-15.

³⁰Denise Dresser, "Falling From the Tightrope: The Political Economy of the Mexican Crisis," *Mexico 1994: Anatomy of an Emerging-Market Crash*, eds. Sebastian Edwards and Moisés Naím (Washington, DC: Carnegie Endowment, 1997), pp. 55-79.

³¹Denise Dresser, "Post-NAFTA Politics in Mexico," *The Post-NAFTA Political Economy: Mexico and the Western Hemisphere*, ed. Wise, p. 225.

³²Ward and Rodríguez, *New Federalism*, pp. 159-170.

form a parliamentary alliance with the Catalonian nationalist party, *Convergència i Unió* (CiU), to retain a governing majority, the Socialists would remain in power until 1996. Robust party discipline reinforced by an electoral system based on proportional representation (PR) with party-defined candidate lists added to the extensive power of the center. Additionally, the prime minister's office and his cabinet retained strong legislative and oversight authorities.³³ Under these conditions, the PSOE government enjoyed elements of centralized control over the evolving Spanish federation.³⁴ This capacity, however, was counterbalanced by the emerging authorities and resources of regional governments. The particular role of the "regional question" in Spanish history forced democratic elites to create federal institutions that allowed regional governments to negotiate extensions of their fiscal and policymaking authorities and resources, even in ways that set Socialist regions against the national PSOE leadership. Interjurisdictional coordination through the judiciary hindered national government attempts to impose a coherent and lasting national fiscal structure. Intergovernmental conflicts gradually shifted leverage away from the national party and in favor of regional governments that sought ways of responding on their own to the economic and political challenges created by the integration of Spain into the European Union (EU).

Francisco Franco's death in 1975 did more than raise the possibility for a transition to democracy; it encouraged nationalist regions, particularly Catalonia and the Basque Country, to reclaim fiscal, cultural, and political authorities instituted in "statutes of autonomy" during the Second Republic and later abrogated by the dictator in the 1930s.³⁵ These interests were voiced prior to the signing of the Moncloa Pacts in 1977 that established core agreements on economic and political issues paving the way for the drafting of the 1978 Constitution. During this time, the Basque separatist group, Basque Homeland and Freedom (*Euskadi ta Askatasuna*—ETA), pressed the nationalist cause violently while nationalist parties pursued negotiations with the two main parties of the transition, Adolfo Suárez's ruling centrist Union of the Democratic Center (UCD) and González's Socialists. With the "regional question" hanging like a Sword of Damocles over the democratic transition, national political party elites were compelled to prepare constitutional rules in 1977-1978 that envisioned a decentralized state called *the Estado de las Autonomías* (state of the autonomies).³⁶

³³Paul Heywood, "Governing in a New Democracy: The Power of the Prime Minister in Spain," *West European Politics* 14 (April 1991): 97-115.

³⁴Nancy Bermeo and José García-Durán, "Spain: Dual Transition Implemented by Two Parties," *Voting For Reform: Democracy, Political Liberalization, and Economic Adjustment*, eds. Stephan Haggard and Steven B. Webb (New York: Oxford University Press, 1994), pp. 118-120.

³⁵Raymond Carr and Juan Pablo Fusi, *Spain: Dictatorship to Democracy* (London: Allen and Unwin, 1981).

³⁶Robert Agranoff, "Federal Evolution in Spain," *International Political Science Review* 17 (1996); César Enrique Díaz-López, "The State of the Autonomic Process in Spain," *Publius: The Journal of Federalism* 11 (Summer 1981): 385-401.

Under Title VIII, the new constitution created two routes to regional "autonomy"—the "fast track" and the "slow track." "Fast track" regions, which included the nationalist regions of the Basque Country, Catalonia, and Galicia plus Andalusia due to its economic underdevelopment, achieved autonomy almost immediately and received greater degrees of revenue shares (and in the case of the Basque Country, control over its own revenue-raising system), intergovernmental transfers, and corresponding spending duties.³⁷ All other regions governed by a "slow track" achieved autonomy by 1983; however, they did not remain content with substantial but still relatively lesser authority and resources. They continued to press for extensions of their authority to tax and spend. Suffering from high annual rates of unemployment (over 20 percent) and, by the mid-1980s, well into a restructuring of unproductive heavy industries, regional governments launched their own industrial and social policies. The asymmetry of the distribution of powers and resources between fast- and slow-track regions produced other incentives for the latter to engineer additional transfers of authority. Given that the "statutes of autonomy" were each periodically negotiated during the 1980s and 1990s, individual regions had both incentives and multiple opportunities to extend their policymaking authority.³⁸ Protecting the right of each region to periodically (re)negotiate its statute of autonomy became a common interest of all seventeen regions. This created an "all for one and one for all" coordination in the area of fiscal federalism.

Fiscal and policy decentralization produced appreciable changes in the structure of the Spanish state. During the first twelve years of the *Estado de las Autonomías*, the central government went from administering 90 percent of public spending to 65 percent, while the regions increased their share to 25 percent.³⁹ Another indicator of the expanding role of the regional autonomies became the sheer number of laws and decrees the regions issued vis-à-vis the national government. Between 1981 and 1990, the regions went from administering 30 percent of all laws and 15 percent of all decrees to promulgating 85 percent of all laws and more than two-thirds of all decrees.⁴⁰ The process of intergovernmental negotiation and pressure along the political fault line of the "regional question" allowed subnational

³⁷The latter included extensive responsibilities in education and health care in addition to housing, transportation, environmental protection, infrastructure, welfare, and economic development, areas in which all 17 autonomous regions share responsibility with the central government. For a thorough review of shared and exclusive powers, see Robert Agranoff and Juan Antonio Ramos Gallarín, "Toward Federal Democracy in Spain: An Examination of Intergovernmental Relations," *Publius: The Journal of Federalism* 27 (Fall 1997): 1-38.

³⁸Beginning with a landmark decision in August 1983 and continuing in a series of subsequent cases, the Constitutional Tribunal, the supreme judicial body of Spain, interpreted the Constitution as granting the regional statutes the status of "higher law," thereby limiting national control over regional policymaking.

³⁹José Luis Curbelo, "Las regiones en la transición española," *Revista Latinoamericana de Estudios Urbano Regionales (EURE)* 20 (December 1994): 7.

⁴⁰Agranoff, "Federal Evolution in Spain," 388-389.

governments a significant level of autonomy; it gradually undercut national party discipline, and it raised the costs of the PSOE's preparation of Spain for accession to the EU and the Maastricht convergence criteria for monetary union.

Even as the PSOE sought to impose national coherence on the emerging federal structure, intergovernmental conflicts, sometimes involving Socialist regions, prevented the kind of top-down control of the fiscal and policymaking structure that became prevalent in Mexico. An attempt to harmonize the process of negotiating the fiscal authorities contained in the statutes of autonomy was struck down as unconstitutional in 1983 as part of a case brought by the regional governments. Despite their sweeping electoral victory in October 1982, the Socialists were unable to institutionalize their version of fiscal federalism, the *Ley Orgánica de Financiación de las Comunidades Autónomas* (Organic Law of Financing for the Autonomous Communities, LOFCA). Periodic bargaining over the statutes of autonomy and continued lobbying by regional interests prevented the formulation of a unified, close-ended fiscal structure. In absolute terms, all of the regional governments increased their share of fiscal resources under the evolving LOFCA system, but the system also created incentives for the regions to expand these resources and attendant authorities.

LOFCA decentralized resources but failed to do the same with taxation functions. Fiscal transfers composed 80 percent of the funding for subnational expenditures while the regions collected 14 percent of their revenues through local taxes.⁴¹ About 55 percent of federal transfers were earmarked for social spending and education. Reforms of LOFCA in 1986 and 1992 loosened these constraints by increasing the percentage of unearmarked transfers and expanding the devolution of revenue-raising. The latter is a trend that is expected to increase subnational own-tax revenues over the next few years.⁴²

The Constitution of 1978 and the statutes of autonomy granted the regions extensive discretion over the use of non-earmarked transfers for the "fomenting" of industrial development.⁴³ These powers included the right to create a development apparatus and implement regional industrial policies. While the Constitution charged that these policies must remain "in accordance with the general, economic objectives of the central state,"

⁴¹The "autonomous communities" receive their financing from five sources stipulated by the Constitution and then later elaborated upon by LOFCA: 1) taxes ceded by the central state in part or completely; 2) autonomously administered regional taxes; 3) fiscal transfers from the central state that are either earmarked in the annual budget of Spain or are unearmarked; 4) all profits and capital produced by firms and agencies owned by the regional governments; and 5) all financial operations administered by the regional governments, including debt, which cannot exceed 25 percent of total revenues. In turn, the regional governments are required to transfer 20 percent of the federal grants they receive to the municipalities.

⁴²Agranoff and Ramos Gallarín, "Toward Federal Democracy in Spain."

⁴³Jordi Rosell and Lourdes Viladomiu, "La política regional en los ochenta: ¿continuidad o ruptura?" *La reestructuración del capitalismo en España, 1970-1990*, ed. M. Etxezarreta (Barcelona: Economía Crítica, 1991), pp. 286-287.

such terms were ambiguous enough to allow regional governments and their agencies the power to set their own priorities.⁴⁴ The statutes of autonomy made the use of these powers more flexible by allowing most regions to claim authorities that were not specifically devolved in the 1978 Constitution.⁴⁵

Regional industrial policies became both a political and an economic response to the Socialists' plans for restructuring the public sector during the 1980s in anticipation of Spain's accession to the EU. By 1985, the PSOE was well into an industrial "reconversion" program that began an ambitious down-sizing of public firms through multi-sectoral job cuts.⁴⁶ In mid-1985, the PSOE's pursuit of industrial "reconversion" caused a split between Felipe González and the Socialist unions, which were organized by the *Unión General de Trabajadores* (General Union of Workers, UGT). Animus between the UGT leader Nicolás Redondo and González only reinforced close PSOE-UGT ties at the regional level as subnational Socialist leaders in regions dependent upon public sector jobs launched regional lobbies to petition Madrid for "compensatory" policies.⁴⁷ These involved the expansion of worker retraining programs and unemployment benefits, but they also required the creation and funding of regional "development plans" designed by subnational politicians and economic bureaucracies. Although central-state managers later argued that these decentralized policies were programed "horizontal industrial policies," others admitted that the regional governments and their labor and business allies were instrumental in lobbying Madrid for control of these programs.⁴⁸

Armed with substantial rights to engineer their own economic policies and bolstered by union support, the national PSOE leadership was unable to consolidate centralized management of regional spending. The shift of bargaining leverage to the regions increased the costs for the PSOE of meeting the Maastricht Treaty's convergence criteria for monetary union during the 1990s. Competition among the regions to attract foreign investment and to fund expansive economic bureaucracies supplying infrastructure, information, finance, and training to local firms took on perverse "race to the bottom" dynamics.⁴⁹ Elevated levels of spending at

⁴⁴A. Jiménez-Blanco, "La distribución de competencias económicas entre el estado y las Comunidades Autónomas." *La reestructuración del capitalismo en España, 1970-1990*, ed. Etxezarreta, pp. 381-410.

⁴⁵José María Serrano Sanz, "La intervención económica en el Estado de las Autonomías." *España: Economía*, ed. José Luis García Delgado (Madrid: Espasa-Calpe, 1988), pp. 511-512.

⁴⁶Miquel Navarro Arancegui, *Política de reconversión: balance crítico* (Madrid: EUEMA, 1990); W. Rand Smith, *The Left's Dirty Job: The Politics of Industrial Restructuring in France and Spain* (Pittsburgh: University of Pittsburgh Press, 1998).

⁴⁷Segundo Brú Parra, "La dimensión espacial de la política industrial," *Economía Industrial* (March-April 1988): 42.

⁴⁸Author interview with Óscar Fanjul, REPSOL chief and former advisor to Solchaga, July 18, 1994, Madrid; author interview with Gervasio Cordero Mestanza, Subdirector General of Regional Planning, Ministry of Economy, July 11, 1994, Madrid; and author interview with César Molinas Sans, Director General of Planning, Ministry of Economy, July 11, 1994, Madrid.

⁴⁹Juan F. Corona, Luis M. Alonso, and Pedro Puy, *Hacia un federalismo competitivo: Propuesta para reformar el sistema de financiación autonómica* (Madrid: Círculo de Empresarios, 1998), p. 52.

the subnational level coupled with national fiscal restraints forced the Spanish regions to increase their debt to finance their economic policies.⁵⁰ Total subnational debt increased substantially between 1984 and 1996, growing by 28 times.⁵¹ Such increases in subnational spending led the economic minister, Carlos Solchaga, to declare that irresponsible regional governments were threatening Spain's compliance with the Maastricht targets for monetary convergence.⁵² Although Spain eventually met the targets, the gradually expanding autonomy of the regions had increased the costs of the transition.

These costs continued under the centrist governments of the People's Party (PP), led by José María Aznar, which first formed a government in 1996 but then gained an absolute majority in 2000. Despite the ruling party's dominant position in a centralized party state, the regions continued to acquire authorities and resources even though the PP attempted to limit such transfers.⁵³

DECENTRALIZATION AND RAPID RE-CENTRALIZATION: ARGENTINA

The Argentine experience with decentralization most closely follows the predictions of electoralist explanations. Yet the case also demonstrates how presidents who once embraced the interests of subnational governments can strategically use the resources of the executive office to get the better of these governments in subsequent distributive conflicts. The Argentine case shows that divided government can be an important cause of decentralization and that unified government can be a catalyst to re-centralization, but the process cannot be understood without reference to a larger strategic game involving the presidency, macroeconomic reform, and the coordination capacity of subnational governments.

Since the 1930s, Argentina's federal system has evolved along patterns of decentralization in the form mostly of automatic, unearmarked revenue-sharing called "coparticipation" (*coparticipaciones*) and periods of re-centralization of these authorities and resources.⁵⁴ The overall pattern, however, through the late 1980s was one of continued decentralization of revenue-sharing. During the bureaucratic-authoritarian period (1976-1983), the military transferred policy responsibilities in utilities, health, and education to the provincial governments, but retained discretionary control over revenues.

⁵⁰Carlos Monasterio Escudero, "Los límites al endeudamiento de los gobiernos subcentrales: Teoría y evidencia para el caso español," *Papeles de Economía Española* 67 (1996): 279.

⁵¹Corona et al., *Hacia un federalismo competitivo*, p. 55.

⁵²*El País*, 14 October 1992.

⁵³"Survey: Spain, A Country of Many Faces," *The Economist* 25 November 2000, pp. 6-7.

⁵⁴The federal government collects most taxes and distributes revenues according to a formula.

The return to democratic rule, however, produced a divided government that threatened centralized control. Raúl Alfonsín's *Unión Cívica Radical* (UCR) enjoyed a majority in the Chamber of Deputies, the lower house, but the opposition Peronists (*Justicialista* Party) claimed most of the provincial governments and a majority in the Senate.⁵⁵ Divided government accelerated decentralization of policy authorities and resources while preventing Alfonsín from constructing a coherent revenue-sharing system. Eager to forge local support for his economic policies, the Radicals increased transfers to subnational governments. Moreover, the failure of a series of macroeconomic plans during the Radical administration greatly limited Alfonsín's ability to resist the demands of provincial governments for more revenue shares. With few hard budget constraints on provincial spending, subnational governments generated almost half of the public sector deficit, exacerbating hyperinflation and compelling the central treasury to finance the shortfall.⁵⁶

These conditions worsened in 1987 when sweeping Peronist electoral victories gave the Justicialista party a majority in both houses of Congress and control of more provinces. The new legislature in 1988 passed a revenue-sharing law that increased provincial tax shares from 48.5 percent to 57.7 percent and severely curtailed federal discretion over the use of these monies by subnational governments.⁵⁷ Additionally, distributive conflicts between center and periphery increased during the remainder of Alfonsín's mandate. Provincial governments lobbied Buenos Aires for more discretionary transfers and financing for subnational deficits. The latter increased from 1 percent to 4.6 percent of GDP between 1983 and 1987.

While divided government during Alfonsín's administration facilitated decentralization, unified government under the Peronists shifted authority rapidly back to the national government. Once in power by 1989 and in command of both houses of Congress, Carlos Menem and his Peronists sought to avoid Alfonsín's mistakes by implementing a fiscal and macroeconomic adjustment program designed to rein in inflation and deficits. Both goals required re-centralizing control over the automatic distribution of tax revenues and reforms to expand tax revenues.⁵⁸ Legislators were compelled to follow the president's agenda as the *menemista* leadership of the Justicialista party maintained control over candidate selection for Congress. Closed-list proportional representation (PR) reinforced Menem's command of his partisan rank-and-file. As a result,

⁵⁵In 1987, victories in 12 of 22 governorships and provincial assemblies, which elect two delegates each to the Senate, allowed the Peronists to control the upper house.

⁵⁶Dillinger et al., "Macroeconomic Management in Decentralized Democracies," 13.

⁵⁷Kent Eaton, "Political Obstacles to Decentralization in Argentina and the Philippines" (paper presented at the annual meeting of the Latin American Studies Association, Chicago, September 1998), 4-5.

⁵⁸Kent Eaton, "Decentralization, Democratization, and Liberalization: The History of Revenue Sharing in Argentina" (paper presented at the conference Decentralization and Democracy in Latin America, University of Minnesota, Minneapolis, February 2000), 27; Larry Sawers, *The Other Argentina: The Interior and National Development* (Boulder, CO: Westview Press, 1996), pp. 241-248.

Peronist governors developed strong political incentives to slow the growth of subnational deficits. Greater fiscal austerity by Peronist-controlled governments in large provinces such as Buenos Aires and Santa Fe were particularly useful in holding down the growth of subnational debt.⁵⁹

The relative success of re-centralization and macroeconomic reform in Argentina, however, was not as dependent on partisan cohesion as electoralist arguments charge. Dissent within the Peronist party to Menem's reform agenda is well known.⁶⁰ More important, the president's ability to sequence and distribute side payments to some recalcitrant provinces enhanced presidential discretion over revenue-shares and helped preempt subnational opposition. The pressure created by the Mexican peso crisis reinforced Menem's emergency tactics and strengthened hard budget constraints on the provinces.

Menem's negotiation strategy enhanced the centralization of authority and resources. The president deftly sequenced his reforms to elicit broad-based legislative and provincial support before seeking legislation designed to curtail subnational discretion over revenue shares. The president was able to garner extensive endorsements for revenue increases from subnational governments that continued to enjoy control over most tax shares. In such a seemingly positive-sum context, the political costs of eliciting provincial support for re-centralizing control over the distribution of revenue shares were lower than they would have been otherwise.⁶¹

By decentralizing responsibilities in education and social services while increasing federal control over the distribution of revenues, Menem tightened the president's discretionary grip on subnational spending. In 1992, Menem elicited provincial support for legislation designed to withhold 15 percent of automatic revenue shares to shore up the national social security system. A substantial portion of these monies was subsequently hijacked by the president and used to cover the costs of tax collection.⁶² The 1992 fiscal pact also established hard budget constraints on provincial expenditures, which under the new law, could not increase over 10 percent. The rate of growth in revenue transfers to the provinces was also fixed. This helped to increase federal control over revenues as tax receipts rose by 152 percent between 1991 and 1995. Meanwhile, the provinces enjoyed a decreasing share of these additional resources, effectively reversing the fiscal decentralization engineered in 1988. The pact also advanced federal discretion over transfers. It decentralized already earmarked funds in potable water, utilities, highways, and housing. A second pact in 1993 implemented a tax reform that simplified the provincial tax system with a

⁵⁹Dillinger et al., "Macroeconomic Management in Decentralized Democracies, 14.

⁶⁰Steven Levitsky, "From Laborism to Liberalism: Institutionalization and Labor-Based Party Adaptation in Argentina (1983-1997)" (Ph.D. diss., University of California, Berkeley, 1999).

⁶¹Eaton, "Political Obstacles to Decentralization in Argentina and the Philippines."

⁶²Karen L. Remmer and Erik Wibbels, "The Subnational Politics of Economic Adjustment: Provincial Politics and Fiscal Performance in Argentina," *Comparative Political Studies* 33 (May 2000): 419-451.

retail sales tax. The second pact, however, also expanded federal discretion over subnational spending, and it made guaranteed transfers contingent upon subnational fiscal reforms such as privatization of provincial banks and public firms and pension reform. In December 1995, Menem's decree law 892/95 decentralized additional responsibilities in social policy and extended federal discretion over the earmarking of revenue shares in this area.

The two fiscal pacts were watersheds in the reform of fiscal federalism, but they could not have been possible had Menem relied exclusively on legislative or Peronist support. Menem had to provide side payments to particular governors to preempt opposition to the 1992 pact and subsequent reforms. The president solicited support of governors, even Radical ones, by distributing selectively from a "fiscal disequilibria" fund financed by additional deductions from automatic revenue transfers. Governors refusing to sign the 1992 fiscal pact were selectively punished with no payments. Support for the 1993 fiscal pact was generated with similar strategies. Selective debt relief, tax abatements on firms located in cooperative provinces, and federal infrastructure investments added to the repertoire of side payments Menem used to curry subnational support. Although these monies were intended to ameliorate the transition costs of reforms at the subnational level, they also served the political purpose of preempting provincial opposition to increasing federal discretion over revenue shares and subnational policy responsibilities.

The fiscal crisis following the Mexican peso debacle in 1994-1995 added decisively to Menem's capacity to force remaining recalcitrant provinces and the city of Buenos Aires to enact austerity measures. The economic crisis helped to weaken the governors' power of the purse by increasing interest costs on debt and reducing real revenues from their own taxes and revenue sharing. These costs were greatest for recalcitrant, opposition provinces, such as Córdoba, that could not avoid adopting the fiscal pacts in the face of eroding public accounts. The crisis allowed the federal government to keep half of all fiscal transfers to the states without the ability to service their debt.⁶³ Driven by the 1991 Convertibility Law's priority of controlling inflation, the Central Bank was restricted from directly bailing out provincial governments in arrears or facilitating their access to credit from their own subnational public banks.⁶⁴ By using confiscated transfers to finance debt servicing, the federal government was able to prevent provincial bankruptcies without allowing the Central Bank to bail out the provinces by assuming their debt.

⁶³Dillinger et al., "Macroeconomic Management in Decentralized Democracies," 14. A significant difference between federal intervention in this case and in Brazil was that the Argentine central government did not bail out indebted states by assuming their debt. It financed provincial service payments at market rates. The one exception was the federalization of provincial pension funds.

⁶⁴The Argentine government has made steady progress since the 1994-1995 crisis in getting the provinces to privatize their banks. Only a few have yet to be sold off.

The chief political legacy of these events for intergovernmental relations has been the continued weakness of coordination among the Argentine states and the deepening of federal controls over subnational spending. Even as the new coalition government in 2000, led by Fernando de la Rúa's UCR, reeled from widespread allegations of corruption across the party system and the legislature, the national government has only tightened its controls on subnational spending, thus preventing a return to the hyperinflationary crisis of the last UCR government.

EXTENSIVE DECENTRALIZATION WITH AD HOC RE-CENTRALIZATION: BRAZIL

The Brazilian case is the most decentralized of our cohort, and it maintains the most decentralized party system, with the governors playing the role of party brokers.⁶⁵ According to electoralist approaches, President Fernando Henrique Cardoso should not have been able to engineer the ad hoc re-centralization that he did during his two terms (1995-2002). Faced with an eroding macroeconomic situation, Cardoso used the powers of his office to keep the states uncoordinated and to raise the costs of subnational defection from economic reforms composed by Finance Ministry and central monetary authorities.

Functional decentralization in Brazil expanded rapidly during the 1980s as part of the transition to democracy. Governors were directly elected in 1982 before the president could be elected in 1989. As a result, the governors became the standard bearers of the transition. Their enhanced status facilitated their attempts to decentralize taxation and expenditures. More than a decade earlier, the military had granted the states control over the *Imposto sobre Circulação de Mercadorias* (Tax on the Circulation of Goods—ICMS), a value-added tax. During the 1980s, the governors' political machines lobbied to expand their control over the ICMS.⁶⁶ The first indirectly elected president, José Sarney, and federal politicians curried the political support of the governors by satisfying their interests in controlling the ICMS. These powers expanded during the Constituent Assembly of 1987 as regional lobbies extracted constitutional rights to unearmarked fiscal transfers, revenue-raising, and policy responsibilities.⁶⁷ Competition among state ICMS rates and profligate spending exacerbated hyper-inflation.

⁶⁵David J. Samuels, "The Gubernatorial Coattails Effect: Federalism and Congressional Elections in Brazil," *The Journal of Politics* 62 (February 2000): 240-253.

⁶⁶The 'S' stood for "services," which were subsequently included in the tax.

⁶⁷By the end of the 1980s, the Brazilian states had garnered significant control over tax revenues and transfers. Federal tax revenues fell from 70.4 percent of the national share in 1985 to 66.2 percent in the 1990-94 period. By comparison, state tax revenues expanded from 27 to 29.1 percent in the same period. State discretion over resources also expanded. Over 90 percent of intergovernmental transfers went unearmarked and funds generally earmarked for health and education were spent largely at the discretion of the governors. See Celina Souza, *Constitutional Engineering in Brazil: The Politics of Federalism and Decentralization* (New York: St. Martin's Press, 1997); José Roberto Rodrigues Afonso, "Descentralização Fiscal: Revendo Idéias," *Ensaíos FEE* 15 (1994).

Twenty-four of Brazil's 27 states owned state banks, which the governors used to finance growing subnational deficits. Both competition among state tax-abatement programs to attract foreign investment (the so-called "fiscal war") and over-lending by state banks forced the Central Bank to periodically bail out the states in response to political pressures placed on national politicians who sought the governors' support.

The vicious circle of subnational spending and hyper-inflation was brought to a halt through a series of ad hoc efforts by the executive, including a successful macroeconomic stabilization reform and the strategic use of central monetary and fiscal authority. Only the inauguration of Cardoso's Real Plan in 1994 partially freed the presidency from the "emergency agenda" of macroeconomic stabilization and raised the costs for states that failed to enact fiscal reforms. The Real Plan increased interest costs on debt and removed inflation as a means for holding down the costs of civil-service payrolls. As these real costs increased, the subsequent banking crisis forced the states to save their faltering financial institutions and their eroding accounts by turning to the federal government for bailouts. As the crisis undercut the governors' bargaining leverage, Cardoso took advantage of the situation by authorizing bailouts in return for privatization of these financial institutions.⁶⁸ Although progress has been slow, the major state banks have been privatized or are on their way to privatization.⁶⁹ Moreover, the Central Bank under Cardoso intervened to reform several state banks in trouble, enforced capital requirements, restructured administration, improved accounting systems, and slated some banks for privatization. Non-financial state firms, including utility, public works, and transport companies, were sold off, generating \$23.5(US) billion by mid-1999. State banks that remained public were subject to limits on the granting of new loans to the public sector, the sale of state bonds, and the contracting of new foreign debt; yet all are slated for privatization.

Supportive federal legislation enhanced Cardoso's position vis-à-vis the states. The Fiscal Stabilization Fund (FEF) (1993-1994) allowed the presidency to control at least six percent of fiscal transfers constitutionally earmarked for the states and cities (approximately \$1.5(US) billion annually). The Camata Law (passed in 1995) set limits on state payroll expenditures, including pensions, to 60 percent of net revenues by 2003. The Kandir Law (passed in 1996 and implemented in 1998) pressured state revenues by exempting exports from the ICMS. Compensation for revenue losses remained contingent upon keeping state payments on rescheduled debt current. In September 1998, the Senate passed Resolution 78

⁶⁸Lourdes Sola, Christopher Garman, and Moises Marques, "Central Banking, Democratic Governance and Political Authority: The Case of Brazil in a Comparative Perspective," *Revista de Economia Política* 18 (April/June 1998): 117-121.

⁶⁹Between 1997 and 2000, seven state-owned or recently federalized state banks sold (Banerj, Credicial, Bemge, Bandepe, Beneb, Banestado, and Banespa) for \$5 billion. Seven more, with assets totaling \$8 billion, awaited sale at the end of 2000.

empowering the Central Bank to impose debt ceilings and other limits on subnational borrowing, including proscriptions against the issuing of bonds until 2010. The National Monetary Council gained more robust discretion over financial lending. Finally, the Law of Fiscal Responsibility (LRF) (passed in June 2000) imposed even tighter borrowing and expenditure constraints on the states, including the prohibition of refinancing all accumulated debts by the federal government, and it enforced these limits through threatened and actual withholding of transfers and an assortment of criminal penalties.

The increasing credibility of commitments by the center to enforce subnational austerity compelled the governors, albeit incompletely, to enact reforms. Early privatizers, such as Rio de Janeiro, saw the writing on the wall after the federalization of state banks such as BANESPA in São Paulo, the largest debtor.⁷⁰ Increasingly, state debt reschedulings were accompanied by privatization of state banks and utility companies, the proceeds of which jumped during the 1996-1999 period. The LRF made the link between reform and financing rescheduled debt much tighter by forcing the states to finance current expenditures with revenues. This prompted some states to impose draconian cuts in the civil service.⁷¹ Others, such as Bahia, used proceeds from state privatizations to finance public pensions and reduce civil-service costs.⁷² Through the beginning of 2001, the LRF remained (despite several court challenges and intense lobbying by newly elected mayors) the source of a new level of hard budget constraints imposed on states and municipalities by the center.⁷³

Poor coordination by the states, partly due to Cardoso's shrewd strategy of employing threats and selective incentives to keep the governors divided, limited political attempts to hinder re-centralization. The most notable of these involved Itamar Franco, governor of Minas Gerais, who became Cardoso's staunchest subnational opponent. He challenged the Kandir Law and the FEF in January 1999 by threatening to withhold debt payments to the federal government. The ensuing conflict sparked a macroeconomic crisis that forced the Central Bank to float the *Real*. Cardoso froze federal transfers to Minas Gerais and used escrow accounts belonging to Minas to pay bills in arrears. In subsequent months, Franco's attacks on Cardoso remained verbal, and no other governor attempted a similar "fiscal revolt," despite the states' significant control over tax collection. Both the weakness of political parties, which might otherwise create reliable horizontal linkages

⁷⁰Author interview with Levy Pinto de Castro, ex-Finance Director of Rio de Janeiro's and director of state task force on privatization, June 4, 1995, Rio de Janeiro, RJ.

⁷¹For example, Mato Grosso do Sul's governor, José Orcírio Miranda dos Santos ("Zeca") of the Workers' Party, launched a sweeping reform in November 2000 that cut the civil service by 50 percent, capped salary increases, and reduced the number of state secretariats for an annual savings of R\$74 million. See "Finanças públicas—Austeridade vira lei no ano do ajuste," *Estado de São Paulo*, 30 December 2000, p. 4.

⁷²Liliana Lavoratti, "Atitude paternalista da União prejudica Lei Fiscal," *Estado de São Paulo*, 4 May 2000.

⁷³Ricardo Mignone, "Marta diz que governo faz 'Carnaval' sobre mudanças em LRF," *Folha de São Paulo*, 22 March 2001, p. 6.

across state governments, and the competition of the "fiscal war" have kept the states divided. Taking a page from Menem, Cardoso used the fiscal war to his advantage in 1999 by allocating federal incentives for a new Ford plant in Bahia that was originally promised to the opposition governor of Rio Grande do Sul. By sparking competition between the northeastern states that rallied behind Bahia and the industrial states of the South, led by opposition parties, Cardoso has kept the governors divided. In this way, the president's ability to distribute costs and benefits selectively has reinforced the re-centralization trend.

CONCLUSION

Decentralization is a process involving change in degree, pacing, and pattern. Electoralist arguments have provided useful insights into the way that the structure of party systems predict the overall degree of decentralization. Yet they have failed to completely explain changes in the process over time. Despite Spain's centralized party system, the PSOE leadership was unable to impose a coherent, national model of fiscal federalism. The PRI in Mexico was able to sustain tight federal mandates on subnational spending even as the opposition PAN and PRD wore away its hegemony in national and subnational government and as the governors became more important partisan brokers. The power of the governors in Brazil and the weakness of national party government were not enough to "veto" significant re-centralizing reforms during the Cardoso administration. Finally, Menem's fiscal re-centralization benefited from a unified party system, but this factor was insufficient for explaining the pacing and pattern of reform. Reference to static, institutional variables cannot explain these dynamic aspects of decentralization.

In all four of these cases, intergovernmental distributional conflicts between chief executives and subnational governments played a role in shaping the decentralization process. The advent of macroeconomic crises and subsequent solutions strengthened the hand of presidents in Mexico, Argentina, and Brazil and raised the costs of subnational "defection" from national reform efforts. Some of these costs of defection were engineered through presidential distribution of selective incentives (Menem and Cardoso) or through the use of extant hard budget constraints (Zedillo). Subnational dependence on anti-inflation reform and fiscal public goods distributed by the center undercut the ability of subnational governments to individually control decentralization. In Spain, the absence of a significant macroeconomic crisis made microeconomic issues such as industrial reconversion more salient. Yet, on these issues, regional governments could form alliances with labor unions and business associations on behalf of subnational reform options. In this way, the "crises effects" mentioned earlier have distinct implications according to their type. Macroeconomic crises,

such as the 1995 Mexican peso crisis or the hyper-inflationary period in Argentina and Brazil, create opportunities to strengthen the leverage of chief executives, particularly if they are able to impose a usable reform option such as the Argentine Convertibility Plan or the Brazilian *Real Plan*. Microeconomic crises involving industrial restructuring, labor-market reform, and unemployment provide opportunities for subnational governments to justify their protagonist role in the economy, and therefore further the decentralization of resources and policymaking authority.

The capacity of subnational governments to coordinate their actions is a second, relevant factor that is at least partially exogenous to the partisan arena. Cross-jurisdictional coordination in the judiciary and in a common policy area allowed the Spanish regions to lobby effectively and in a sustained manner for decentralization. The inability to forge such interjurisdictional ties due to extant fiscal institutions (Mexico) or the capacity of chief executives to create fissures across states (Argentina and Brazil) explains sustained centralization and the success of continuing and ad hoc re-centralization efforts.

Although none of these cases witnessed an overwhelming change in the degree of decentralization, the cases reflect appreciable transformations in the governance of decentralization and in subnational autonomy from the center. Furthermore, intergovernmental conflicts help explain the pace of change. Shifts in intergovernmental leverage were not as swift in Mexico or Spain as they were in Argentina and Brazil. Consequently, the pace of decentralization was relatively more gradual in the former. However, the pattern of decentralizing expenditures in combination with revenue-raising powers is more predictable. In none of the cases was the overall pattern altered appreciably. In Mexico and Argentina, for example, national executives and the major political parties were motivated to support some decentralization of expenditures. However, these elites continued to favor the centralization of revenue-raising, and they were able to maintain that pattern in the face of escalating subnational attempts to accelerate and expand the decentralization process. This suggests that the pattern of decentralization is most resilient and that change on this dimension might require more fundamental changes in political structures.

The comparisons in this study suggest that electoralist arguments must be supplemented with an understanding of intergovernmental distributive conflicts in arenas exogenous to the partisan and legislative ones. Although electoralist arguments might explain the overall pattern and degree of decentralization, explaining specific changes in subnational autonomy requires the inclusion of dynamic models that capture the nuances of intergovernmental coordination games.⁷⁴

⁷⁴See Steven L. Solnick, "Hanging Separately? Cooperation, Cooptation, and Cheating in Developing Federations" (paper presented at the annual meeting of the American Political Science Association, Boston, MA, September 1998).

This observation generates several implications for research on decentralization. First, the study of decentralization must expand the relevant analytical arena to include the non-partisan and non-legislative. Although these are important rule-making and leverage-defining areas, they are not uniquely so. Second, scholars must trace the ways in which politicians and political organizations coordinate in multiple arenas within the larger domain of intergovernmental relations. They must focus attention on how coordination “games” played in one arena affect the relative leverage of actors in a connected arena. Finally, the larger decentralization process must be treated as an iterated game. Scholars must be more specific about the strategies and resources that explain particular shifts in subnational autonomy and executive leverage over time. Operationalizing variables and defining indicators below the aggregate numbers on fiscal decentralization will be the most difficult methodological task for future studies of decentralization in comparative perspective. However, moving in these directions will only enhance the explanatory power of electoralist approaches to decentralization by highlighting significant policy and institutional changes in the governance of the process.