Of Presidents, Governors, and Mayors:  
The Politics of Decentralization in Latin America

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Abstract: Does decentralization always transfer power from the national executive to governors and mayors? Both advocates and critics of decentralization have traditionally assumed this to be true. However, a closer examination of the consequences of decentralization across countries reveals that the magnitude of this transfer can range from substantial to insignificant. Combining institutional and bargaining analysis, I propose a sequential theory of decentralization that rejects the limitations of static theories in favor of a dynamic account of institutional evolution that incorporates policy feedbacks effects. I define decentralization as a set of policies that involves fiscal, administrative, and political reforms, and distinguish between the partisan and territorial interests of bargaining actors. The main argument of the paper is that the type of territorial interests that prevail at the beginning of the decentralization process and the sequence in which fiscal, administrative, and political decentralization take place are two key determinants of the resulting evolution of intergovernmental balance of power. I test the argument by comparing the ways in which decentralization policies originated and unfolded in Argentina and Colombia. Against commonly held beliefs, the paper shows that the process of decentralization in Argentina did not increase the degree of subnational officials’ autonomy relative to the president. In contrast, the way in which decentralization reforms unfolded in Colombia since 1986 led to higher degrees of autonomy of the subnational authorities relative to the national executive.

“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. As a matter of fact administrative 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. When the legislator undertakes to scatter this administrative force that he had concentrated at one point, he does not know where to start or begin because he can not remove a piece of the work without putting the whole thing into disorder.” (Alexis de Tocqueville, “Political Effects of Administrative Decentralization”, in Schleifer 1980: 137-8).

Introduction

If Alexis de Tocqueville came to life today and traveled south of the Río Grande, he would be surprised to find that decentralization is taking place in Latin American countries after decades of centralized governments and states. As Willis, Garman, and Haggard say, “one of the most significant developments in Latin American politics and political economy in the last two decades has been the increasing decentralization of government” (Willis, Garman, and Haggard 1999: 7). This global wave is not only confined to Latin America, as central governments in Asia, and in Western and Eastern Europe are also transferring resources, responsibilities, and authority to subnational governments. In developing countries, the recent processes of decentralization of government have accompanied the transitions to democracy and free-market economies. Decentralization has indeed affected those transitions in fundamental ways. In South America, for example, after centuries of appointed subnational officials, thanks to political decentralization, all mayors and two thirds of the governors are now popularly elected. Thanks to decentralization also, the share of public expenditures in Argentina, Bolivia, Brazil, Chile, Mexico, Paraguay, and Perú increased from an average of 15% in 1980, to more than 22% in 1997, and to 27% in 2000. Finally, the administration of public social services, such as education and health, has also been transferred to lower levels of government in Argentina, Bolivia, Brazil, Chile, Colombia, and Mexico, among other countries (Di Gropello 1998; Malpica Faustor 1995).

As the movement toward decentralization progressed, the literature on its consequences grew rapidly. A clear split between advocates and critics of decentralization soon became apparent. The advocates argue that decentralization leads to higher levels of community involvement, accountability, and administrative and fiscal efficiency. The critics, on the other

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1 There is an extensive literature on decentralization reforms outside of Latin America. Among other studies see: Manor (1999), Stoner-Weiss (1997), and Treisman (1999).
2 Data from International Monetary Fund (1998; 1999) and World Bank (1999).
3 These studies were, for the most part, based on two theories. On the political side, they drew from local government theory, which argues that decentralization improves democracy by bringing the government closer to the people. This thesis dates back to Alexis de Tocqueville and many scholars applied it to Latin American countries, particularly as they were making their transitions from authoritarian to democratic regimes (see Borja et al. 1989; Cabrero Mendoza 1998; Calderón and Dos Santos 1991; García del Castillo 1999). On the economic side, the advocates of decentralization based their recommendations on new fiscal federalism theory. Almost fifty years ago, Charles Tiebout argued that fiscal decentralization improves resource allocation through better knowledge of local preferences and competition among jurisdictions (Tiebout 1956). Other scholars further developed Tiebout’s thesis (Bennet 1990; Oates 1972; Oates 1977; Shah 1994; Weingast 1995), and fiscal decentralization was recommended for Latin
hand, argue that decentralization may lead to soft-budget constraints, macro-economic
instability, enlargements of bureaucracies, increasing subnational heterogeneity, and clientelism. Interestingly, although there is no consensus on the goods or evils of decentralization, both advocates and critics of decentralization take for granted that these reforms necessarily increase the power of subnational governments. In both approaches, an increase in the power of subnational officials is the intervening variable between decentralization policies and either good or bad outcomes. However, a closer examination of the consequences of decentralization across countries reveals that despite the implementation of apparently similar policy reforms, their impact on the distribution of power among levels of government varies widely from one country to another. In fact, despite the burgeoning literature on the consequences of decentralization two basic and fundamental questions remain unanswered. Does decentralization transfer power to governors and mayors? If it does, what are the determinants of different degrees of change in the intergovernmental balance of power across countries?

To answer these questions—which should indeed precede the evaluations about the consequences of decentralization on other economic, political, and policy outcomes—, the paper is organized in five sections. The first section provides a definition of intergovernmental balance of power and summarizes its evolution in Argentina, Colombia, and Mexico before and after decentralization. The second section points to the shortcomings of alternative explanations and of the literature on decentralization to explain change in intergovernmental relations. In the third section, I propose a sequential theory of decentralization that has three main features: (a) it distinguishes between three different types of decentralization reforms; (b) it takes into account the territorial interests of bargaining actors; and (c) it provides a dynamic account of institutional evolution in which issues of timing, sequencing, and self-reinforcing (and reactive) mechanisms are of crucial importance. Unpacking the process of decentralization this way and drawing from the concept of “layered structure of institutional action” (Skowronek 1993), I argue that the degree of change that decentralization brings about in intergovernmental power is largely dependent on the sequence in which decentralization reforms take place and the type of territorial interests that prevail in each round of reform (particularly in the early reforms). To illustrate my

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5 Several commonalities make Argentina, Colombia, and Mexico suitable countries for comparison. First, they all underwent similar decentralization policies, albeit—as I show below—with different impact on the distribution of power among levels of government. Second, due to their size (these are the three largest Latin American countries after Brazil), it is safe to assume that relationships between centers and peripheries have been historically contentious and that issues of decentralization are politically relevant. Third, they all have three-tier intergovernmental structures of similar size. Fourth, their political party systems are the least fragmented of Latin America (Burki, Perry, and Dillinger 1998: 19), which becomes relevant when analyzing the bargaining strategies of the actors involved in the negotiations over decentralization. Moreover, two pair-wise differences among these countries allow for controls to the main argument advanced in this article. On the one hand, in terms of their constitutional design, Argentina and Mexico are federal countries while Colombia is a unitary country. On the other hand, regarding nomination procedures and electoral rules, Argentina and Colombia have “decentralized” party systems (Archer 1995; Garman, Haggard, and Willis 2001; Levitsky 2003), while Mexico has a “centralized” party system (Craig and Cornelius 1995; Mainwaring and Scully 1995).
theory, in the fourth section, I analyze the evolution of decentralization and its impact on intergovernmental balance of power in Colombia and Argentina. The final section concludes highlighting the paper’s main findings and contributions to the literature on decentralization.

1. Outcomes: The Evolution of Intergovernmental Balance of Power in Argentina, Colombia, and Mexico

As William Riker rightly pointed out almost thirty years ago, power is an elusive and complex concept (Riker 1964b). This does not mean, as he was willing to propose, that the concept should be discarded. Here, I draw from structuralist and behavioralist studies on power.\(^6\) I 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 horizon to which economic resources can reach; and (c) organizational capacities, which facilitate coordination and flow of information in each level of government. Intergovernmental balance of power is, therefore, defined as the relative power of subnational officials with regard to national officials. In other words, intergovernmental balance of power is the degree of autonomy of subnational officials relative to national officials.\(^7\)

Because the main concern of this paper is with the effects of decentralization on the evolution of balance of power, in operationalizing the dependent variable I focus precisely on those dimensions of intergovernmental power that are susceptible of change due to the implementation of decentralization policies. I build upon the works of Stepan (forthcoming 2003) and Mainwaring and Samuels (1999), and operationalize intergovernmental balance of power in four dimensions: (a) the subnational share of expenditures, which measures the percentage of public money allocated by subnational governments (provincial and municipal);\(^8\)\(^9\) (b) policy-making authority, which measures the degree of autonomy of subnational officials to design, evaluate, and decide on issues concerning public education;\(^10\) (c) political appointment authority, which records whether governors and mayors are elected or appointed; and (d) the territorial representation of interest in the national legislatures, which reports the average degree of overrepresentation of the provinces (or states or departments) in the lower and upper chamber.

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\(^6\) In particular, I draw from the works of Bachrach and Baratz (1962; 1963), Dahl (1961; 1968), Goldman (1986), and Lukes (1986).

\(^7\) In this relationship I pay special attention to the degree of autonomy of governors and mayors relative to the national executive.

\(^8\) Because in the three countries analyzed here the changes in collection of revenues by subnational governments were very marginal, I do not consider this variable in the operationalization of intergovernmental balance of power. If applied to other countries, it would be advisable to add subnational share of revenues as one of the variables used to measure the impact of decentralization on intergovernmental balance of power.

\(^9\) Subnational share of expenditures includes state- and local-levied taxes and both earmarked and non-earmarked transfers. Non-earmarked transfers give higher autonomy to subnational officials than earmarked transfers, since they can be allocated at the discretion of subnational officials. However, earmarked transfers are also powerful policy tools in the hands of subnational officials.

\(^10\) Other policy areas could have been chosen to measure the degree of policy-making authority of subnational officials. I choose the education sector due to its policy and political relevance, as well its size (larger in terms of human and fiscal resources than any other sectors of the public administration).
Table 1 shows that after decentralization subnational governments in Argentina, Colombia, and Mexico had more economic resources, legal authority, and organizational capacities than they used to have in the late 1970s. The share of subnational expenditures, for example, increased from 34% to 41% in Argentina between 1978 and 1999. During the same period, subnational governments in Mexico passed from allocating 18% to allocate 29% of the total expenditures; while in Colombia, governors and mayors passed from allocating 28% of the expenditures in 1978 to allocate 40% of the national expenditures in 1995. Similar trends are observed in policy-making authority. By the mid 1990s, the subnational governments of the three countries had more responsibilities with regard to training teachers; managing schools; making decisions about hiring, firing, and relocating teachers; and negotiating teachers’ salaries than they used to have two decades earlier. By 1999 the three countries also had competitive elections at the subnational level, and the national executives practically exercised no influence in the nomination of local and state-level politicians. Finally, with regard to representation of territorial interests in the national legislature, constitutional reforms in Colombia led to a higher degree of representation of some of the subnational units in the chamber of deputies. Thus, if we compare the three countries before and after decentralization in a static manner, we see that before decentralization Argentina is the country with the highest level of autonomy of subnational officials. It was followed by Mexico and Colombia, which had similar (low) levels of relative autonomy of subnational officials before decentralization reforms were implemented. After decentralization, Argentina still was the country with the highest level of relative autonomy of subnational officials. At this time, it was followed very close by Colombia, and Mexico came last.

Nevertheless, if we look at the overall change in balance of power associated with decentralization policies between 1978 and 1999 we find that while Colombia, followed by Mexico, experienced a big shift in balance of power in favor of the subnational authorities, in Argentina intergovernmental balance of power stayed practically the same. This was despite the fact that during this period various decentralization reforms were implemented in Argentina. In Colombia, thanks to decentralization, the subnational share of expenditures increased by a ratio of 0.43, governors and mayors gained significant authority in the administration of public education, the president lost the authority to appoint subnational officials, and territorial overrepresentation in the chamber of deputies almost tripled its prior level. In Mexico, after decentralization governors and mayors allocated a ration of 0.55 more expenditures than they used to. Mexican governors increased their role in the administration of public education. Thanks to political decentralization, governors and mayors also gained political autonomy from the president. In Argentina, instead, the intergovernmental balance of power remained practically unchanged. 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, who already in 1978 were responsible for the administration and management of about half of the public education system. Political decentralization, while largely beneficial for the city of Buenos Aires (whose mayor was popularly elected since 1996), did not have an impact on the rest of the provinces. As a World Bank publication said “Argentina is arguably one

\footnote{For the cases of Argentina and Mexico in the mid 1990s, this measure was previously used in Gibson, Calvo, and Falleti (1999).}
of the most decentralized countries in the [Latin America] region but has essentially the same political and fiscal structure it had before the military intervened in 1976” (Burki, Perry, and Dillinger 1998: 11). Why, despite the implementation of decentralization reforms, did Argentina’s fiscal and political intergovernmental structure remain practically the same?

In summary, a closer examination at how much change Argentina, Mexico, and Colombia experienced in their intergovernmental balance of power due to decentralization, reveals puzzling differences. We find that the ordering of countries is as follows: Colombia is the country that changed the most, followed by Mexico, with Argentina last. This ordering, rather than the static rankings based on the level of balance of power, reflects the potential of decentralization reforms for altering the intergovernmental balance of power. It is precisely this ordering, the evolution of balance of power, that I seek to explain.

2. Alternative Explanations and Shortcomings of the Decentralization Literature

Why did decentralization reforms lead to the expected results in Colombia and Mexico but not in Argentina? At least three explanations can be identified in the literature. First, drawing from Riker’s theory of federalism, some authors have argued that the degree of autonomy of subnational officials once decentralization is implemented can be explained by reference to the internal structure of the political parties. The core of this argument is that if given certain electoral and nomination procedures national legislators are more accountable to the national executive, they will tend to lean toward more centralization of authority in the design and bargaining over decentralization reforms. On the contrary, if the national legislators are accountable to subnational officials, they will press for further decentralization of power in designing these policies (Garman, Haggard, and Willis 2001). This explanation, however, cannot account for my findings. Argentina has a “decentralized” or “hybrid” political party system, with national legislators accountable to national as well as to subnational authorities (Eaton 2002a; 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 1.

Based on the constitutional type of government, the second alternative explanation 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 (Shefter 1978). My cases show the opposite. In Colombia, a unitary country, decentralization had the most significant impact on the evolution of intergovernmental balance of power. In the federal republic of Argentina, instead, decentralization had the least impact on the distribution of power among levels of government.

Third, it could be argued that the fact that governors and mayors in Argentina had a high level of autonomy relative to the president before decentralization reforms were implemented, explains the country’s little evolution in intergovernmental balance of power. In other words, it could be argued that there is an “upper limit” in the degree of change that decentralization can bring about to the intergovernmental structure. This explanation is problematic from a comparative as well a case-specific perspectives. Comparatively, other countries--such as

12 The citation continues: “In contrast, Colombia has radically increased the power and responsibilities of subnational units of government” (Burki, Perry, and Dillinger 1998: 11).
Argentina’s neighbor Brazil—where subnational officials had a high level of autonomy at the beginning of the decentralization process, have achieved higher degrees of change in intergovernmental balance of power than Argentina. From the perspective of the potential changes that decentralization could have brought to bear in Argentina, the upper-limit explanation does not hold either. First, the subnational share of expenditures increased steadily since 1988 until 1992, when it reached 46% of the total expenditures. It then dropped to 41% and remained at that level until 1999. 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, the analysis of failed fiscal and political decentralization proposals put forward by provincial representatives in the constitutional convention of 1994 reveals that such proposals existed, but they failed due to the bargaining dominance of the national executive at the time. Below, I argue that such bargaining power of the national executive regarding fiscal and political decentralization reforms increased due to the way in which previous decentralization policies had unfolded in Argentina since 1978.

Thus, alternative explanations cannot account for the outcomes presented here. Moreover, I would argue that most of the literature on decentralization suffers from four main shortcomings that render it inadequate to explain the evolution of intergovernmental balance of power. First, by prioritizing certain questions and theoretical and methodological approaches, the literature on decentralization has tended to focus on a single type of decentralization. Processes of administrative, political, and fiscal decentralization have all been analyzed, but in an isolated manner. 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; Merino Juárez 1999). 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 or political decentralization (Garman, Haggard, and Willis 2001; Riker 1964a; Shefter 1978). In this way, 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 decentralization reforms in one area interact with, reinforce, or halt reforms in other areas.

A second shortcoming of the political science literature on decentralization is that it provides static accounts of decentralization. This is largely due to the type of variables used to explain the occurrence or degrees of decentralization. Variables such as political party systems, electoral systems, and nomination procedures tend to be stable over time. Therefore, while these studies provide accurate snapshots of the degree of decentralization at one given point in time (Garman, Haggard, and Willis 2001; Penfold-Becerra 1999), they cannot explain changes over time, as their independent variables are either static or evolve too slowly. More importantly, these studies do not incorporate the analysis of the effects of prior intergovernmental policy reforms on later policies’ bargaining.

Third, the puzzle of why national politicians choose or agree to give power away 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

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13 Brazilian subnational governments increased their expenditures by 111%, rising from a share of 26% of the total expenditures in the early 1980s, to 55% ten years later (Garman, Haggard, and Willis 2001).
between the national executive and the legislature (Eaton 2002b; Willis, Garman, and Haggard 1999). By focusing on the role of ruling national politicians, decentralization studies have largely ignored the crucial role of subnational actors and opposition parties in the proposals, designing, and negotiations over different types and levels of decentralization reforms. In Colombia, for example, with a divided government during the Conservative Party presidency of Belisario Betancur (1982-1986), political and fiscal decentralization would not have passed in congress without the support of the opposition Liberal Party. In fact, Liberal Party leaders actively supported the democratic election of mayors and with their support in congress the bill was passed in 1986. Furthermore, this reform would not have come about without the pressure of subnational actors, who were the fuel feeding this reform.

Finally, electoral incentives have been overemphasized. My cases show that political decentralization does not lie in the national politicians’ calculations about their chances of winning elections. If this had been the case, political decentralization of the mayoral offices of Buenos Aires (1994) and Mexico City (1996) would never have happened, as the ruling national parties knew that they would lose the mayoral elections in both cases. Previous decentralization reforms and the interests of heterogeneous political coalitions must be taken into account to successfully explain how these political reforms came about. The emphasis on political competition and political party affiliation, has led to disregarding the territorial aspect of interests’ representation and bargaining. In the remainder of the paper, I emphasize the territorial component of politicians’ interests.

3. Sequential Theory of Decentralization

I propose in this section a dynamic, sequential theory of decentralization. I contend that the causes that explain different degrees of change in balance of power are endogenous to the process of decentralization. While the initial conditions under which decentralization begins depend on factors exogenous to the process (such as the type of regime, the legitimacy of the government, the features of the party system, or the fiscal situation), the extent and degree of the reforms, in other words, how much power is gained by the subnational governments at the end of the process compared with their situation at the beginning of the reforms, is endogenously dependent on how the process of decentralization unfolds over time.

Three central features distinguish my approach to decentralization from previous works. First, I analyze the process of decentralization as connected bargaining situations over different types of decentralization. Unpacking the concept of decentralization this way, I can evaluate both its positive and negative impact on the power of subnational executives. Second, I move the focus of analysis from the horizontal bargaining between national branches of government (executive and legislature), to the vertical bargaining among presidents, governors, and mayors. This allows me to distinguish between partisan and territorial interests of the actors that form the coalitions that advance decentralization reforms. Third, my approach to the process of decentralization is dynamic. It incorporates the policy effects that previous stages of decentralization had on reshaping the preferences of bargaining actors and on producing institutional changes that affect the later rounds of reforms.

3.1. Types of Decentralization

Before describing my approach to types of decentralization, let me briefly state how I define decentralization. Decentralization is the set of policy reforms that transfer resources,
responsibilities, or authority from the national to the subnational (intermediate or local) levels of government and that take place in the context of a post-developmental state. Although the conflicts between center and peripheries over distribution of power are one of the few constants in the political history of Latin America (these struggles characterized the period of state formation as well as state consolidation and evolution in all the large countries of the region), the process of decentralization, as defined here, is part of the state reforms of the last quarter of the 20th century. These reforms followed the end of the developmental state. Thus, the decentralization policies analyzed here coincided with the move toward free-market economies. They took place in the context of “neoliberal” states.14

Within the set of decentralization policies, I distinguish among three types of reforms: fiscal, administrative, and political decentralization. By fiscal decentralization, I refer to the set of policies that increase the revenues of subnational units either through higher levels of transfers from the central government, the creation of new subnational taxes, or the delegation of taxing authority. 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 units. Administrative decentralization often entails the devolution of decision-making authority about these policies to subnational governments (although this is not a pre-requisite of this type of reforms). Finally, by political decentralization, I mean the set of constitutional amendments and electoral reforms designed to open new—or activate existing by ‘dormant’ or ineffective—spaces for the representation of subnational polities. Political decentralization reforms are also those designed to devolve electoral capacities to subnational actors. Examples of this type of reforms are the popular election of mayors and governors (who were previously appointed), the creation of subnational legislative assemblies, constitutional reforms that strengthen the political autonomy of subnational governments, or changes in the procedures for nomination and election of subnational politicians.

As I show in the next section, the three types of decentralization reforms are part of the same process, they are intimately related and interact with each other. Furthermore, unpacking decentralization policies this way, we see that two of these types of reforms (fiscal and administrative decentralization) can produce a decrease in the power of subnational officials, something that both advocates and critics of decentralization failed to conceptualize. Administrative decentralization reforms can have a positive impact on the autonomy of the subnational levels of government with regard to the national executive, if they serve to increase the organizational capacities of the subnational level by improving local and state bureaucracies, by fostering training of local officials, or by facilitating learning through the practice of delivering new responsibilities. Nevertheless, if administrative decentralization takes place without resources, this reform may decrease the autonomy of the subnational level, which will be increasingly dependent on the national transfers for the delivery of public social services, as I show it happened in Argentina after 1978.

Similarly, fiscal decentralization can have both a negative or positive impact on the degree of autonomy of the subnational level. The result will depend largely on the type of fiscal decentralization that is 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

14 I follow Ben Ross Schneider’s (1999) definition of developmental state and identify the neoliberal state with the policy recommendations of the so-called “Washington consensus” (see Williamson 1997).
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.\textsuperscript{15} Prosperous subnational units prefer to collect their own taxes, but poor states or municipalities are negatively affected every time revenues are decentralized and the horizontal redistribution of transfers is cut.

### 3.2. Territorial Interests: Bargaining Actors’ Preferences

To study the impact of decentralization on the intergovernmental structure of government requires moving the focus of analysis from the study of the relations between the national executive and the legislature, characteristic of most comparative studies on decentralization reforms, to the bargaining situations involving presidents, governors, and mayors. In fact, a wide array of social and political actors including the unions of the sectors to be decentralized, the president, the national ministers of economy, education, and interior, the governors and their ministers, the mayors, the members of congress, and other actors of civil society are the makers of decentralization. In the bargaining over specific policy reforms, these actors tend to be either in favor or against decentralization depending on the gains and losses that they expect from the policy change. In other words, they identify with either national or subnational territorial interests toward decentralization reforms.\textsuperscript{16}

While most of the literature on decentralization focuses on the partisan interests and electoral incentives of bargaining actors, I argue that every time politicians are elected in subnational districts, territorial interests can also be distinguished. Territorial interests are defined by the intergovernmental level (national, state, or municipal) that politicians or social actors represent. Presidents, for example, care about macroeconomic stability. Governors, instead, are more preoccupied with increasing their own revenues—if possible through automatic transfers from the central government--and accessing new sources of borrowing, regardless of the macroeconomic consequences of their behavior for the country as a whole. Mayors care about the policies that affect their locality, without much care for the externalities of their policies in neighboring municipalities (think for instance of garbage and sewage treatment in big cities). Furthermore, territorial interests are also defined by the characteristics of the territorial unit (rich or poor provinces, big cities or small towns) politicians or social actors represent. Here,

\textsuperscript{15} This was the case of the transfer of the tax on new automobiles from the national level to the states in the mid 1990s in Mexico. After being transferred, the taxing authority was soon returned to the national level.

\textsuperscript{16} It is worth noting that in other types of policy reforms, such as privatization, flexibilization of labor, or welfare reforms, it might be hard—if not impossible--to identify and classify \textit{ex-ante} the interests of the social and political actors involved in the processes of reform. (I owe to Prof. Dietrich Rueschemeyer for calling my attention to this important issue). In the case of decentralization, however, it is easier to identify the coalition of actors whose interests lie with further decentralization of power and the coalition of actors interested in preventing decentralization of power or even trying to centralize power. National bureaucracies and national unions, for example, are invariably opposed to decentralization because these reforms threaten the bases of their power and, in some cases, their mere existence. This is clear when we analyze the position of the bureaucracies of the national ministries of education in Argentina, Colombia, and Mexico towards decentralization of education. The same is true of the positions of the national teachers’ unions (CTERA, FECODE, and SNTE) towards decentralization of education. National bureaucracies and national unions clearly represent “national” interests in the negotiations towards decentralization. Their preferences are closer to those of the center than to those of the subnational actors.
a classic example would be the different interests of legislators, governors, and mayors of rich versus poor states with regard to the criteria to distribute the national transfers among the subnational units. While the politicians who come from rich states prefer a formula that weights more heavily the fiscal efforts of the subnational units in the collection of revenues, politicians from backward states defend the population or poverty criteria. Another example would be the territorial interests of politicians who belong to oil producing states. They invariably demand control upon their natural resources, while the representatives from non-oil producing units prefer that those resources remain at the central level.

Partisan interests, on the other hand, are those defined by the political party to which politicians belong or under which they have been elected. Partisan interests are oriented by electoral incentives and political parties’ ideologies, and they are effective to the extent that there is party discipline. With regard to decentralization policies, politicians’ partisan and territorial interests are often in conflict, particularly for the subnational officials of ruling parties. Thus, when bargaining over decentralization policies takes place, the content and the type of policy reform to be implemented (and therefore its impact on intergovernmental relations) depend on how the conflict between partisan and territorial interests evolves and is solved.

Drawing from the literature on decentralization and from in-depth interviews, carried out with national and subnational politicians and public officials, I can describe the set of preferences of the national and subnational actors with regard to types of decentralization. In general, I argue that the preferences of the center are administrative decentralization preferred to fiscal decentralization preferred to political decentralization (A>F>P). The rationale of this ordering is that the national government prefers divesting itself of expenditure responsibilities first and foremost. “We would expect the president to be more inclined to transfer responsibilities than the resources to meet them” (Garman, Haggard, and Willis 2001: 209). In fact, this outcome is greatly preferred over the other two, because the central government knows that if it were to give more financial or political autonomy to the subnational governments, further fiscal and political reforms would follow. If the center has to choose between surrendering fiscal or political autonomy, the center prefers to give away fiscal autonomy, because political control of subnational officials may result in control of their expenditure decisions as well. Also, as Garman et al. say, “growth in the political influence of subnational

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17 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.

18 Please note that in this model preferences are not fixed. Once the process of decentralization has started, the policy effects of the first round of reforms can reshape the interests of national and subnational officials for the next rounds of reforms. For example, decentralization of primary schools in 1978 in Argentina had the effect of expanding the administrative capacities of the subnational executives, which in turn reshaped the preferences of governors toward fiscal decentralization in 1988 and toward the second round of administrative decentralization in 1992. The fact that policy effects can reshape preferences means that a game theoretical approach to decentralization (a sequential game for instance) would be inappropriate because it would fail to capture the change of preferences of bargaining actors after each decentralization node or move. In contrast, a path dependent approach that incorporates policy feedback mechanisms has the advantage of accounting for the institutional legacies that explain the first decentralization move, and also for the reshaping of preferences and policy effects along the trajectory of reforms. (I thank professors Kathleen Thelen and Paul Pierson for their comments and input regarding this issue).
politicians is subsequently reflected in fiscal practice through greater decentralization’ (Garman, Haggard, and Willis 2001: 208).

The same rationale can be applied to explain the reverse order of preferences of the subnational governments. They prefer first and foremost political decentralization, and if they cannot achieve political decentralization (or if a fairly high level of political autonomy already exists), they want fiscal decentralization. Lastly, they want administrative decentralization, particularly if the unions of the public sectors to be decentralized are large and strong. In other words, subnational executives prefer political autonomy, money, and responsibilities, in that order (P>F>A). Table 2 summarizes the preferences of the national, state, and local governments toward the types of decentralization.19

Table 2 About Here

3.3. Interests, Sequences, and Outcomes

As stated in the introduction, we may conceive of intergovernmental relations as a layered structure. In this structure, three layers or orderings--using Skowronek’s (1993) terminology--can be identified: the fiscal layer, the policy layer, and the authority layer. Decentralization policies affect each of these orderings. Fiscal decentralization affects the fiscal layer, administrative decentralization changes the policy layer, and political decentralization redefines the authority layer. Most often these reforms take place in a sequential manner; they are separated in time. Only rarely do decentralization reforms change the three orderings at the same time. More frequently, specific decentralization policies target one of the intergovernmental layers at a time. Because they are all part of the same structure, early reforms in one layer have spillover effects on the other layers. 20 The path dependency literature (Mahoney 2000; Pierson 1992; Pierson 2000; Thelen forthcoming 2003) provides good analytical tools to study such effects. I focus on the concept of “policy feedback effects.”

Combining the proposed definitions of types of decentralization and territorial interests, my general argument is that the type of territorial interests that prevail in the first round of reform will most likely determine the type of decentralization that is pursued first. This policy reform in turn will have an important impact on the prevailing interests and types of decentralization that will occur later on. It will produce policy feedback effects that will largely explain the order and characteristics of the decentralization reforms in the other two intergovernmental layers. The final sequence of decentralization will in turn explain the degree of change in intergovernmental balance of power. Thus, the prevailing type of territorial interests and the sequence of the reform are key determinants of the overall change in intergovernmental

19 Although this issue will not be further developed in this paper, it is worth noting that national and subnational actors also have different preferences with regard to the level towards which decentralization is implemented. Presidents prefer to decentralize toward the municipal level (since mayors pose less of an electoral and financial threat than governors), while governors and mayors prefer decentralization to take place toward their own levels of government. For a theoretical discussion and empirical analysis of decisions about the level of government toward which decentralization takes place, see Falleti (2003).

20 If the decentralization policies overlap during a period of time, I consider the date of the first reform in each layer to determine the ordering or sequence of reforms.
balance of power that results after the first cycle of reforms. Table 3 graphically summarizes the core of my argument.

**Table 3 About Here**

If subnational interests prevail in the first round of negotiations, political decentralization will most likely happen first. This reform will enhance the power and capacities of subnational politicians and public officials for the next rounds of reforms. It will likely produce what Huber and Stephens (2001) call a *policy ratchet effect*: a group of supporters who—in this particular case—will continue to push forward in the direction of decentralizing resources and authority but not necessarily responsibilities (which is the last option in the order of preferences of subnational actors). Governors and mayors will find themselves in a better position to advance their preferences because they enjoy greater political autonomy from the national executive. They will most likely demand fiscal decentralization as the second type of decentralization reform, and will be influential in setting the terms of such reform. Administrative decentralization will be the last type of reform. As such, it will not bear a big impact on the consequences of the whole process. The final outcome of this trajectory of decentralization that conforms to the preferences of the subnational officials (political decentralization followed by fiscal decentralization, in turn followed by administrative decentralization) is likely to be a large shift in intergovernmental balance of power, or a greater degree of autonomy of subnational officials with respect to the national executive. I show in the next section that Colombia followed this decentralization path.

In the second path of decentralization outlined in Table 3, the national interests prevail at the beginning of the process. Administrative decentralization is, therefore, likely to occur first. If fiscal resources do not accompany the transfer of responsibilities, owing to a *power reproduction* mechanism (Stinchcombe 1968) that benefits the national executive, the national level will prevail in the negotiations on the second round of decentralization reforms. Fiscal decentralization will follow under the terms set by the central level (under fiscal strain the subnational actors are in no position to reject its terms). In this trajectory, political decentralization will be the third—practically “residual”—type of reform, and therefore will not confer much autonomy to the subnational level nor foster a significant “group of followers.” The outcome of this trajectory of reforms that conforms to the preferences of the national executive is likely to be a small change in the redistribution of power toward the subnational authorities. I show below that Argentina followed this path of reforms.

Using this conceptual framework, in the next section, I integrate types of decentralization and territorial interests in theoretically explicit narratives (Aminzade 1993) and analyze the unfolding of decentralization processes in Colombia and Argentina.

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21 For simplicity, I refer to the first complete cycle of decentralization reforms, even though the argument could easily be extended to account for subsequent cycles. I consider a cycle to be complete once the three types of decentralization reforms (administrative, fiscal, and political) have all taken place.

22 The two paths presented here assume that one type of territorial interests (national or subnational) prevail in the first round of reforms and that there are self-reinforcing mechanisms at work. In previous work (Falleti 2003), I also take into account those paths in which territorial interests are tied, and those in which reactive mechanisms take place.
4. Decentralization Sequences: Colombia and Argentina Compared

Between the late 1970s and the mid 1990s, both Colombia and Argentina 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. In both cases also decentralization was pursued under the rhetoric of strengthening the periphery. In spite of the similarities, the processes of decentralization and the consequences they brought about for intergovernmental relations in the two countries were radically different. Such differences can only be appreciated when the whole process of political, fiscal, and administrative reforms is taken into account. In what follows, I argue that the different outcomes for intergovernmental balance of power are less a result of the letter of the policy reforms (which is nonetheless important) than a product of the evolution of such reforms and of the type of actors they empower along the way.

4.1. 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. It has also had the most significant economic and social repercussions. Moreover, decentralization constitutes one of the keys to war and peace, because it creates the democratic space that must exist in order to incorporate armed rebels who wish to participate in regional and local public life. (Castro 1998: 13)

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 to 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.\(^{23}\)

Prior to 1986, 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 high turnover rates, and corruption was pervasive.\(^{24}\) Very often mayors were not native to the town they ruled. There were those called “professional mayors,” who “would travel around all the municipalities of one department until they were discredited in all of them.”\(^{25}\) The decision to popularly elect the mayors was not solely the result of the president—or congress members—conviction about its impact on local accountability. Part of the political establishment thought that the popular election of mayors would constitute a political venue for the incorporation of the armed guerrillas into the legal political system, who since then could compete for those local posts.


\(^{24}\) According to Colombian authors Gaitán Pavía and Moreno Ospina (1992: 150-1), prior to 1986 the average tenure of mayors was three months.

\(^{25}\) Interview with Luis Camilo Osorio, State Councillor, in Bogotá, July 30 1998.
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. The latter element clearly reveals the presence of territorial, subnational, interests in the coalition that pushed decentralization forward.

During the 1960s and 1970s, the planning and implementation of developmental policies had been transferred to parastatal institutions. These were relatively autonomous agencies attached to central offices and ministries. They were equipped with significant inflows of financial resources and were supposed 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 the parastatal agencies tended to focus more heavily on those regions that were prone to private investment. Peripheral, poorer regions were left unattended. This pattern of investment and developmental policies created profound regional inequalities (Collins 1988: 426-7; Maldonado 2000: 72). Moreover, local government expenditure had dropped from 18% of total expenditures in 1967 to 14% in 1978 and had 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% had to do with ecological problems (Velásquez 1995: 246). The majority of these strikes occurred in mid-size municipalities (those with between ten and fifty thousand people) in the country’s peripheral regions, particularly in the departments of the Atlantic coast and in Nariño (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 this form of protest voiced the territorial interests of the underdeveloped regions of the country. As Jaime Castro said:

The civic strikes had become the mechanisms of protest of la provincia [the periphery] 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.  

26 Charles D. Collins analyzed a sample of 160 civic strikes and found that in a subset of those strikes employers associations, schools, the church, trade unions, political parties, and merchants were all part of the protest movement (see Collins 1988). In 10% of the civic strikes studied, mayors and council members also joined the protests. In each of these cases, they were later replaced, fired, or forced to resign.

Indeed, 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 to deliver public services. Second, they were a sign that the old system of handpicked mayors was coming to an end. Local bosses and traditional clientelist practices had proved unable to control or ease the popular discontent. Finally, the strikes showed that there were locally based citizens that were demanding accountability and better services in their municipalities. This mobilizations led to a movement of decentralization initiated from below. Decentralization was fueled by the protests of the local communities. Thus, when the 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 prevailed in the first round of reforms explains why the process of decentralization started with a political decentralization reform in Colombia.

What were the consequences of the direct election of mayors? The immediate result was a decline in the number of civic strikes. New actors were incorporated in the political system. In some cities and regions, the grip on power of traditional caciques and local bosses loosened, and competition for public office presented them with new challenges they did not have to face in the past (Angell, Lowden, and Thorp 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 in 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. A significant departure from traditional politics occurred in the election of representatives to the constitutional assembly. 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 power that regional political brokers had over the nomination of candidates in separated, regionally supported, party lists. Moreover, members of congress or the executive were not allowed to run for assembly seats without first resigning their posts (Nielson and Shugart 1999: 328; O’Neill 1999). Unlike the national congress, the political make-up of the conventional assembly made it favorable to decentralization policies. The assembly, in sessions from February to July of 1991, was organized in five committees. The second committee was responsible for territorial organization. One of the main issues discussed in this committee was the degree of autonomy to be conferred to the intermediate level of government and the popular election of governors. The assembly was split between the so-called departamentalistas, who were in favor of the popular election of governors, and the municipalistas, who were against it. However, against the background of the popular election of mayors, the election of governors became to be seen as the inevitable next reform. As one of the conventionalists 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.

28 There were 51 strikes in 1987, 35 in 1988, and only 19 by 1989 (Correa Henao 1994: 48-54).
29 In 1992, 30% of the municipalities went to candidates that did not run on the traditional political parties’ platforms (Restrepo Botero 1997).
30 Interview with Jaime Castro, in Bogotá, March 29, 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 further deepening the policy change implemented, in this case decentralization. The clearest manifestation of such an effect was the creation of the Colombian Federation of Municipalities (Federación Colombiana de Municipios or FCM). In 1988, with technical support from the Spanish Federation of Municipalities and Provinces 31 and the Friedrich Ebert Colombian Foundation, the first cohort of elected mayors created the Colombian Federation of Municipalities. As expressed in its statutes, the mission of the association is:

…to represent the collective interests of the municipalities, to lead and support the development of the municipal management, and to promote the deepening of decentralization. 32

In 1991, the FCM was very active in lobbying conventionalists for the extension of their tenure from two to three years, the recognition of their authority in the constitution, and for the transfer of more fiscal resources. 33 Despite the reluctance of the national executive toward some of these reforms, they were all approved. Article 357 of the constitution established that the transfers to municipalities would increase from a level of 14% of the national current income in 1993 to 22% in 2002. This article expanded the rate as well as the base of the automatic transfers. 34 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). 35

The fiscal decentralization measure introduced in the 1991 constitution did not find its expenditure counterpart until Law 60 was passed in Congress in 1993. The initial impulse to pass this law came from the national government, eager to establish a new distribution of responsibilities among levels of government as a means to cut the double spending and the fiscal deficit that fiscal decentralization was creating. Thus, Law 60 ruled on the distribution of resources among departments for the financing of education and health services, and among municipalities for investment in the infrastructure and maintenance of schools, health services, housing, water and sewage, and other local programs.

The national executive sent the administrative decentralization bill proposal to congress in mid 1992. The negotiations that then started in congress reveal the territorial interests of the different key players. Three groups can be identified according to their territorial interests and positions. First, were traditional politicians with a strong hold at the departmental level who wanted to be the mediators between the national government and the municipalities. Second, were a group of technocrats of the national level (mainly from the ministry of finance and the national planning department) who, allied with the representatives of the municipalities (institutionally organized in the Federation of Municipalities), wanted to take decentralization of...
education to the municipal level. Third, was the national teachers’ union, FECODE, which was against decentralization, particularly toward the municipal level.

It took one year from the presentation of the bill proposal until its final approval in August of 1993. It became to be known as the “framework” law of administrative decentralization and it was the result of compromises among the interest groups outlined above. The national minister of education mediated between the interests of the ministry of economy and the department of national planning on the one hand, and the union on the other. The compromise reached between the union and the national government was that decentralization of the administration of the educational system would take place toward the intermediate level of government, with funds guaranteed from the national level (Angell, Lowden, and Thorp 2001: 178). The departments became, thus, responsible for paying and training teachers. They could also give vouchers (subsidies on demand) to students with 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, basic primary and secondary school, and high school. The national level retained the prerogatives over curriculum and general educational guidelines, and the three levels shared responsibilities over the evaluation of the educational system. Besides 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. The law recognized that in the case of the educational sector the Estatuto Docente of 1979 ruled labor relations. It also granted the Colombian Federation of Municipalities 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).

As illustrated in Figure 1, in Colombia, the 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 fiscal decentralization respectively. Administrative decentralization was the last, almost residual, type of reform. It was pushed forward by the national executive. However, since 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, this measure did not have a negative effect on the capacities of subnational governments.

This first cycle of political, fiscal, and administrative decentralization reforms, empowered governors and (particularly) mayors in Colombia. As we saw in Table 1, 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. After one hundred years of

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36 A temporary clause allowed municipalities to pay teachers’ salaries until 1995, but the clause was later extended, so in reality both departments and municipalities are paying teachers in Colombia.

37 The Federation thus received about 100 million pesos in 1994, and amount that increased with the municipal transfers in successive years (Jamarillo Pérez 1994: 76).
presidential appointments, both governors and mayors became popularly elected. Finally, new regions are represented in both the house and in the senate since 1991, and the degree of overrepresentation of some units in the house augmented 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. In this respect, the differences with the characteristics and consequences of decentralization in Argentina are startling, as I show below.

4.2. Argentina: The National Road to Decentralization

Opposite to 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. Political decentralization lastly came about in 1994.

On June 5 1978, as images of Buenos Aires were broadcast to the world during the World Cup, 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.\textsuperscript{38} 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.\textsuperscript{39} The decrees had a retroactive effect to January 1\textsuperscript{st} 1978. Since 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 the expenditures involved in the provision of preschool and primary education. No revenues or fiscal capacities were transferred. The reform implied a cut of 207 billion pesos in national expenditures, approximately 20% of the total amount that the provinces received in revenue transfers from the national government (FIEL 1993: 148).

In this first round of decentralization, national interests prevailed. In the context of a military regime, the national executive was able to impose on the provinces its most preferred decentralization outcome: \textit{administrative decentralization}. The central government was interested in decentralization for several reasons. First, they saw the provinces as enclaves of conservatism, in which future right wing political parties could develop. Second and more importantly, in the context of a neoliberal program of government (and with a rapidly growing foreign debt), the central government was interested in cutting the size of the federal bureaucracy and the national deficit (Filmus 1998: 68; Novick de Senén González 1995: 138). Third, an increase in the collection of revenues (and consequently of the automatic transfers to the

\textsuperscript{38} These were “laws” 21,809 and 21,810.

\textsuperscript{39} The exact numbers of transferred schools, personnel, and students vary among sources. Here, I follow the data of the 1978 national budget. A 1980 report commissioned by the national ministry of education to evaluate the transfer of primary education states that the total number of transferred personnel was 44,050 (number also cited in Filmus 1998; and Kisilevsky 1990). When reporting data from the national teachers’ health insurance provider, however, the same document says that the total number of agents transferred to the provinces was 62,572 (Ministerio de Cultura y Educación 1980: Vol.1, p. 130, 148). If nothing else, these discrepancies show that in 1978 the national government did not have reliable information on how many schools and personnel were under its jurisdiction (this was confirmed by education specialists and officials I interviewed).
provinces) during 1977 made for a favorable context to transfer expenditures without resources (Ministerio de Cultura y Educación 1980).\footnote{Accounting for the antecedents of the 1978 transfer, a report by the national ministry of education said: “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 decides to initiate a policy of transfer of social services, among which is education.” (Ministerio de Cultura y Educación 1980: Vol.1, p. 151). According to an Argentine scholar, provincial revenues increased from 0.88% of the national GDP in 1976 to 1.56% in 1977 (Kisilevsky 1998: 55).} Unfunded decentralization of primary education constituted an excellent opportunity to cut national expenditures and devolve responsibilities to the provinces. Finally, the national government could justify the transfer and the national fiscal cut by appealing to the constitution. The 1978 national budget reads:

\[\ldots\text{a policy of transfer of services to the provinces has been implemented.}\ldots\text{With these transfers, not only did we try to lighten national state expenditures, but we also wanted the provinces to be responsible for the administrative aspects that take place in their jurisdictions, as it corresponds to a truly federal country.}\] (Emphasis added, cited in Ministerio de Cultura y Educación 1980: Vol. 2, 224).\footnote{It is clear from this document that the military junta decentralized primary education with the goal of cutting national expenditures. It is paradoxical, however, that in doing so the military dictators appealed to the federal character of the constitution, whose guarantees had been suspended since the military coup on March 24, 1976.}

Despite the authoritarian context in which the reform was taking place, the governors voiced their concerns. The governor of the northern province of Salta wrote to the minister of interior in November of 1977: “by no means the provincial treasury is in a situation such to afford the total costs of the services to be transferred.” 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. But at the peak of the military’s hold over power, national interests prevailed and the transfer was imposed on the governors without the transfer of resources.\footnote{A fund named “Programa 050” (Program 050) was created in 1978 to help the provinces with fewer resources to cover the deficits introduced by the transfer of schools (Ministerio de Cultura y Educación 1980: Vol.1, p. 44). However, this fund was transitory, the national government had discretionary power over its distribution, and the transfers were later discounted from the revenues that the provinces shared with the national level. It was not actually a transfer of fiscal resources, but rather a system of temporary advance payments that were later discounted from the provincial budgets.}

This administrative decentralization reform had disastrous fiscal and political consequences for the provinces. First, the governors became more dependent on the transfers from the national government. The allocation of provincial resources for education increased from 14% in 1977 to almost 20% in 1982. During the same period, the national expenditures on education decreased from 9% to 6% of total national expenditures (International Monetary Fund 1985). The fiscal situation in the provinces was aggravated by the fact that automatic transfers decreased from 48.5% in 1976 to 29% in 1983 (FIEL 1993: 151).

Second, and partially as a consequence of the increasing fiscal dependence of the provinces on national resources, the first administrative decentralization reform \textit{reshaped the governors’ preferences} toward the next types of decentralization. With the return to democracy in 1983, the first measure governors requested was an increase in the transfers to the provinces. It is very interesting that although there was a proposal to reform the constitution that would have
granted more power to subnational officials, governors focused on the signing of a new revenue-sharing agreement. The revenue-sharing law of 1973 was in place at the time and about to expire in December of 1984. Given the prior round of administrative decentralization, governors were so urged to negotiate an increase in fiscal transfers, that 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 (Pírez 1986: 68). President Alfonsín was successful in delaying the approval of a fiscal decentralization reform until 1988. Meanwhile, the transfers of revenues to the provinces were done in bilateral agreements, with a large proportion of discretionary funds. Discretionary transfers (or national treasury subsidies, Aportes del Tesoro Nacional, ATNs) amounted to 59% of the total transfers in 1985 and 54% in 1986 (Ministerio de Economía 1989: 177-179). In the hands of the national executive, discretionary transfers were mechanisms to buy the support of peronist senators who responded to the interests of peronists governors. 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 in congress.

After the 1987-midterm elections, the national ruling party lost the majority in the house (from 51 to 46% of the seats) and five governorships to peronism. Under these circumstances, Alfonsín agreed to the governors’ demand about distribution of revenue-shared taxes. On January 7, 1988, congress passed a tax revenue-sharing law or Ley de Coparticipación (Law 23,548) by which provinces were granted 57.66% and the national government 42.34% of all revenue-shared taxes. The discreional transfers were cut to 1% of the shared-revenues. By all accounts this fiscal decentralization law was a governors’ victory, which came about when an exogenous change (the mid-term elections of 1987) altered the balance of power between the president and the governors inherited from the previous round of administrative decentralization. But it took subnational interests ten years to prevail since the first reform in 1978, and they would not prevail for too long.

The third effect that the first round of decentralization brought about was incrementalism within the administrative layer of intergovernmental relations. It allowed for unfunded administrative decentralization in 1991. On December 6 1991, 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. Along with the schools, this law also transferred two food programs and the few hospitals that remained under national jurisdiction, which were located in the provinces of Buenos Aires, Entre Ríos, and the Municipality of Buenos Aires. These services were added in the law’s appendix. 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.

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43 The 1.2 billion consisted of 890 million for the transferred schools, 200 million for the food programs, and 120 for the hospitals (Law 24,049, Appendix). In 1991, the total provincial expenditures were almost 14 billion, while the automatic transfers from the center represented 8.5 billion (Data from the Ministry of Economy).
would be paid with provincial resources. In this second administrative round of decentralization, the national executive dominated in the bargaining with the provincial executives. The national executive was able to pass an unfunded administrative decentralization mainly through means of cooptation of the governors of the smaller provinces. Also, because as a result of the convertibility law of 1991 the absolute amount of revenues in the provinces had doubled between 1990 and 1992, it was easier to pass an unfunded administrative decentralization reform. However, the policy effects of the 1978 decentralization were also important. While the national secondary schools were administered de jure by the national government until 1992, de facto a process of decentralization was already under way largely as a result of the previous process of decentralization of schools in 1978. As the governor of Mendoza said:

...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.

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

There were [national] schools that for 10 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. (Barry nd: 34)

Or as a member of the ministry of economy put it: “only in their plates were the schools national.”

Under these conditions, the governors were more inclined to accept a transfer of schools, even if it was to be primarily funded with provincial resources. In other words, unfunded administrative decentralization in 1978 had an incremental effect. It made easier to pass a policy reform with very similar features, albeit in a democratic context, thirteen years later.

The last type of decentralization that took place in Argentina was political decentralization. It came about when the national executive exchange it as a bargaining chip for his reelection. In fact, behind the decision to reform the constitution there was a coalition formed by the national leaders of the ruling and main opposition party (which materialized in the “Olivos Pact”). While the constitutional reform conferred political autonomy to the city of Buenos Aires, several decentralization reforms that were proposed in the constitutional assembly by provincial representatives failed to be approved. Decentralization reforms such as a larger

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46 Governors were able to negotiate a clause (Article 15) stating that whenever the revenues collected in a given month were under the average of the April-December 1991 period, the national government would transfer the 1.2 billion or the difference required to match that amount. It has been difficult to infer from the national accounts if such guarantee has ever been used. Government documents and interviews with national and subnational officials suggest that such guarantee has not been enacted. (For further information see Falleti 2003, particularly pp.136-155).


48 Interview with Juan Carlos Pezoa, in Buenos Aires, February 13 2001.

49 The story is even more striking once we consider a reform that took place eight months after the transfer of schools. In August of 1992, the national government and the governors signed a fiscal pact by which 15% of the revenue-sharing was cut. The same than in 1991, the coalition behind this reform was a ruling coalition formed by the national executive and the governors of the ruling party. As a result of this pact the provinces lost 9 billion dollars in transfers from 1993 to 1999. Even if we consider two compensatory funds that were created after the pact was signed, the provinces still lost 5 billion dollars.
percentage of revenue sharing, more control of natural resources on the hands of the provinces, and municipal autonomy were all proposed by provincial representatives and subsequently aborted by the pressure of the national executive on the ruling and main opposition party (UCR) conventionalists.

In sum, as a consequence of the first round of administrative decentralization, the preferences of the governors were reshaped in a way that could not have been anticipated by the general preferences outlined in the third section of the paper. The reform had an incremental effect such that further unfunded decentralization measures were possible. Finally, due to the consequences of the previous rounds of reforms, the national executive controlled the timing of both fiscal and political decentralization, as well as the contents of political decentralization.

The result of this sequence of administrative, fiscal, and political reforms—illustrated in Figure 2—was a very low change in the relative power of the governors and mayors in Argentina. The subnational share of expenditures increased but at a lower rate than the changes experienced by Colombia or Mexico. This was in spite of the fact that since 1978 the provinces were transferred responsibilities whose cost amounted to approximately 35% of the total transfers they received from the center. Regarding policy-making authority, subnational executives had the same prerogatives in the educational sector until 1993. In that year, a new Federal Law of Education was passed, which established the new distribution of policy-making responsibilities among levels of government (Corrales 2003). The appointment of subnational officials remained the same with the exception of the mayor of Buenos Aires, who has been popularly elected since 1996. Finally, the territorial representation of interests in congress remained unchanged throughout the period.

5. Conclusions and Contributions

The fascinating feature of decentralization policies is their potential to reverse long, deeply embedded features of intergovernmental institutions. 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 authority to the subnational units to levy taxes, can undo the “skillful organization of authority,” the “complicated administrative machine” described by Tocqueville in this paper’s epigraph. But this is not always the case. The first conclusion drawn from this paper is that decentralization does not always transfer power to governors and mayors. Decentralization policies such as administrative decentralization in Argentina, made governors more dependent on the national government.

Second, the degree of change in intergovernmental balance of power is largely dependent on the type of interests that prevail in the early rounds of reform and on the sequence of decentralization reforms that follows. 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 next rounds of reforms. If political decentralization happens first (either through the popular election of previously appointed authorities or through other electoral and constitutional reforms that give more power

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50 Given the effects administrative decentralization had on the provincial coffers, it comes as no surprise that since the Argentine economy entered recession in 1998, governors have resorted to larger amounts of debt and to the printing of bonds to afford payment obligations.
to subnational levels), the subnational authorities are in a better position to advance their preferences in the next rounds of decentralization because they enjoy greater political autonomy from the national executive. The final outcome is, therefore, likely to be a significant change in the degree of autonomy of subnational officials, as the Colombian case illustrates. By 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 necessarily transferring the 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 administrative decentralization. In this situation, the national executive also prevails in setting the terms for the final round of political reforms. The outcome, therefore, is 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.

The paper also makes five contributions to the literature on decentralization. First, it unpacks the concept of decentralization in its administrative, fiscal, and political components, and shows the benefits of analyzing these reforms together. Second, it proposes a sequential theory of decentralization that can travel to other countries and regions of the world. The domain of this theory is constituted by those countries that combine the following characteristics: (a) they underwent decentralization reforms as part of the movement from state-led to free-market economies; (b) they have at least two levels of government (even if the subnational level is not politically autonomous from the central level); and (c) at least two types of decentralization reforms occurred at different points in time. In such cases, the type of interests that prevail in the first round of reforms and the sequence in which decentralization takes place will be two main determinants of the resulting degree of change in intergovernmental balance of power. Third, the paper brings to the center of the analysis the issues of territorial interests and politics, which have been largely ignored in the recent developments in comparative politics that have focus on national dynamics. Fourth, it provides evidence of how policies can shape institutions and politics in general. Finally, it calls to reconsider the consequences of decentralization in light of its effects on intergovernmental balance of power.
<table>
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<th>Argentina Before</th>
<th>Argentina After</th>
<th>Change</th>
<th>Mexico Before</th>
<th>Mexico After</th>
<th>Change</th>
<th>Colombia Before</th>
<th>Colombia After</th>
<th>Change</th>
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<td>A/E</td>
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²⁵² PMA: Policy-making Authority. Data collected from secondary sources and education laws. Values assigned to National level responsibility (N)=0, Concurrent (C)=0.5, Subnational (S)=1. PMA change results from resting value in ‘PMA before’ from ‘PMA after.’

²⁵³ SOA: Subnational Officials Appointment. Data collected from secondary sources and national constitutions. Values assigned to Elected (E)=1, Appointed and Elected (A/E)=0.5, Appointed (A)=0. SOA Change results from resting value in ‘SOA before’ from ‘SOA after.’

²⁵⁴ TRI: Territorial Representation of Interests: Over-Representation in the House and Over-Representation in the Senate = Ratio of state’s percentage share of seats (that are not elected in national district) to state’s percentage share of the population. A score of 1 means that seat allocations are proportional to population. Data for Argentina from: National Constitution and INDEC (1997); data for Mexico from: Sánchez Gutiérrez (1992: 94), Lujambio (Lujambio 2000: 35, 73-76) and INEGI (1995); data for Colombia from: Registraduría Nacional del Estado Civil (various years). TRI Change value results from resting the value of ‘territorial overrepresentation before’ from the ‘after decentralization’ value.

²⁵⁵ Overall Change is an ordinal and descriptive measure of change in intergovernmental balance of power. It is the average of the relative position of each country (measured from a low of 1 to a high of 3) in each dimension (Σᵢ₌₁⁴ score, / 4). Thus, the score of Argentina equals--following the chart’s order of dimensions--(1+1+1+1.5)/4 or 1.125. Following the same procedure, the score of Mexico is (3+2.5+2+1.5)/4 or 2.25, and the score of Colombia is (2+2.5+3+3)/4 or 2.625. Therefore the classifications of “low,” “medium,” and “high” changes of balance of power, respectively for each country.
<table>
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<th>Table 2. Preferences of Bargaining Actors</th>
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<td>Mayors</td>
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Figure 1. Colombia: Sequence of Decentralization, 1986-1994

Political Layer
- Pol. Elect. Mayors
- Pol. Elect. Governors

Fiscal Layer

Adm. Layer
- Funded Adm.Dec. Law 60

Year
- 1986
- 1991
- 1993

Figure 2. Argentina: Sequence of Decentralization, 1978-1994

Adm. Layer
- Unfunded Transfer Respons.
- Unfunded Transfer Respons.

Fiscal Layer
- Transfer Resources

Political Layer
- Autonomy City of Bs.As.

Year
- 1978
- 1988
- 1991/2
- 1994
6. References


