

OXFORD

FEDERAL DYNAMICS

Continuity, Change, & the Varieties of Federalism

EDITED BY
ARTHUR BENZ
& JÖRG BROSCHEK



BENZ & BROSCHEK

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Federal systems are praised for creating political stability, but they are also blamed for causing rigidity. They are said to balance powers, but apparently they are also threatened by instability due to drifts in power. Federalism should support democratization, but it can also constrain the power of the demos and strengthen the executive. In short, there is widespread agreement that federal systems are dynamic. The forces, mechanisms, and consequences of federal dynamics, however, are not sufficiently understood so far.

This book brings together leading experts in the field of comparative federalism to highlight how the interplay of continuity and change systematically generates and reinforces varieties of federalism and varieties of federal dynamics. *Federal Dynamics: Continuity, Change, and the Varieties of Federalism* investigates mechanisms and resulting patterns of federal development. It offers new analytical concepts and discusses different theoretical propositions to systematically compare convergent and divergent trends in federal systems. Acknowledging the theoretical pluralism that dominates the field, the book is organized around four sections: Models, Varieties, and Dimensions of Federalism; Timing, Sequencing, and Historical Evolution; Social Change and Political Structuring; and Actors, Institutions, and Internal Dynamics.

The contributions to this volume are variously concerned with three guiding questions: What changes within federal systems, how, and why? The focus provided by these three guiding questions allows for a dialogue between strands of the literature that have not talked to each other in a sufficient manner. In this way, the book makes a significant contribution to the growing literature on continuity and change in federal systems. Ultimately, it represents a substantive effort in advancing research on comparative federalism.

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Federalism

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Acknowledgements

Like each book, this one has a particular story. The idea to work on federal dynamics surfaced about three years ago when we had a conversation on our future research plans. We realized that the different approaches we were applying to understand the historical development, the success or failure of constitutional reforms, and the stability or instability of federal systems had a common ground, although they had been elaborated and still are discussed in separate scientific discourses. We concluded that it might be worthwhile to bring together scholars working from different theoretical backgrounds on the continuity and change of federalism, and organize an exchange of views. For this purpose, we approached federalism scholars from Europe and North America who drew our attention due to their contributions to advancing theory-building in the field of comparative federalism. Our invitation to a workshop received enthusiastic responses—more so than we had initially envisaged.

The first meeting took place in May 2010 at the University of Hagen (*Ferrn-Universität Hagen*), where we were teaching at the time. The quality of the papers, the lively and creative discussions, the interest and commitment of all participants, and their encouraging suggestions motivated us to proceed with a book. To discuss the drafts for the book chapters, we organized a second workshop at the Darmstadt University (*Technische Universität Darmstadt*), which took place in June 2011. Again, we experienced a stimulating atmosphere with excellent contributions. Close collaboration among participants continued after the workshop, in the exchanges of comments and revised versions of the chapters. Our largest debt, therefore, is to our authors for their cooperation over the last two years and their contributions to this volume.

We also are grateful to Nathalie Behnke, Jan Erik Florian Grotz, André Kaiser, Fritz Scharpf, Michael Stoiber, and Wilfried Swenden, who contributed with very helpful comments to our discussions in the first workshop or commented on the concluding chapter in a meeting of German political scientists. In editing the book, we profited from a number of “helping hands.” Jared Sornicksen, political scientist at the University of Bonn, did an excellent job in language editing. Sebastian Gessler and Andreas Haaf assisted us in our editorial work.

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Arthur Benz, Jörg Broschek
Darmstadt, March 2012

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List of Contributors

- Banfield, Andrew C.** is Lecturer in the School of Politics and International Relations at the Australian National University, Canberra. He holds a PhD from the University of Calgary. His main research fields include: federalism, public law, and comparative institutions.
- Bednar, Jenna** is Associate Professor of Political Science at the University of Michigan. Her work crosses disciplines, addressing constitutional questions using the methods of complex systems analysis and game theory, and has been published in law reviews as well as journals in political science, economics, and sociology. She is the author of *The Robust Federation: Principles of Design* published by Cambridge University Press in 2009. Professor Bednar earned her PhD from Stanford University in 1998.
- Béland, Daniel** is Canada Research Chair in Public Policy and Professor at the Johnson-Shoyama School of Public Policy (University of Saskatchewan campus). A political sociologist studying policy development from an historical, political, and comparative perspective, he has published eight books and more than sixty articles in peer-reviewed journals. Professor Béland has held visiting fellowships at the University of Chicago, Harvard University, the Woodrow Wilson International Center for Scholars, and George Washington University.
- Benz, Arthur** is Professor of Political Science at the Technische Universität Darmstadt, Germany. Before he accepted his chair in Darmstadt in 2010, he taught at the Universities of Konstanz, Halle-Wittenberg, and Hagen. In 2007/08, he was the John G. Diefenbaker-Scholar at Carleton University in Ottawa.
- Bolleyer, Nicole** is Lecturer in Politics at the University of Essex in the United Kingdom. After her studies at the Universität Mannheim (Germany) and at the Johns Hopkins University in Baltimore (the US), Dr Bolleyer completed her PhD in political science at the European University Institute of Florence (Italy) in 2007. Her first monograph *Intergovernmental Cooperation: Rational Choices in Federal Systems* (2009) was published by Oxford University Press. Her articles appeared in *West European Politics, European Political Science Review, Publius: The Journal of Federalism, Party Politics*, and *Regional and Federal Studies*.
- Braun, Dietmar** is Professor of Political Science at the University of Lausanne. His main research interests are federal studies, governance in science and technology policy as well as health policies, and theory development. He has published a number of books (the most recent with F. Gilardi: *Delegation in Contemporary Democracy*,

Routledge) and published in a variety of political science journals. He is Research Councillor at the Swiss National Science Foundation.

Broschek, Jörg is Lecturer at the Technische Universität Darmstadt. He is author of a book on Canadian federalism (*Der kanadische Föderalismus. Eine historisch-institutionalistische Analyse*, Wiesbaden, 2009). His articles have been published in academic journals including the *Canadian Journal of Political Science*, *Publius: The Journal of Federalism*, *Regional and Federal Studies*, and the *Swiss Political Science Review*.

Colino, César is Associate Professor in the Department of Political Science and Public Administration at the Spanish National Distance-Learning University (UNED) in Madrid. Before he taught at the University of Salamanca, the Autonomous University of Madrid, and was Visiting Researcher at the Max-Planck Institute for the Study of Society (MPfG) in Cologne, and Visiting Fellow at the Center for Federal Studies at the University of Kent (UK).

Falletti, Tullia G. is Assistant Professor at the University of Pennsylvania (the US). She holds a PhD in social science from Northwestern University and has studied sociology (BA), statistics for the social sciences, and political science (MA) in Buenos Aires (Argentina) and at the Northwestern University. Her book *Decentralization and Subnational Politics in Latin America* (Cambridge University Press, 2010) was co-winner of the first Donna Lee Van Cott Award for the best book in Latin American political institutions from the Political Institutions Section of the Latin American Studies Association (LASA).

Filippov, Mikhail is Assistant Professor of Political Science in the Department of Political Science at the Binghamton University, State University of New York. Dr. Philippov holds a PhD in Economics and Political Science from the California Institute of Technology. His work, *A Theory of Self-Sustainable Federal Institutions*, co-authored with Peter Ordeshook and Olga Shvetsova, was published by Cambridge University Press and received an Honorable Mention for the William H. Riker Prize of the Political Economy Section of the American Political Science Association in 2005.

Hueglin, Thomas O. is Professor of Political Science at Wilfrid Laurier University, Waterloo, Canada. He holds a PhD in political science from St. Gall University in Switzerland. He has published widely on Federalism and Political Theory. He is author of *Comparative Federalism: A Systematic Inquiry* (with Alan Fenna, University of Toronto Press, 2006).

Karcher, Sebastian is a PhD candidate in the Department of Political Science, Northwestern University and currently Guest Scholar at the Kellogg Institute for International Studies, University of Notre Dame. His research investigates the politics of institutional change, with a special focus on labor market politics in advanced industrialized and emerging economies. Recent publications include "Complementarities and continuities in the political economy of labour markets in Latin America," *Socio-Economic Review*, 2010 (with Ben Ross Schneider).

Lécours, André is Associate Professor in the School of Political Studies at the University of Ottawa. His main research interests are Canadian politics, European politics, nationalism (with a focus on Quebec, Scotland, Flanders, Catalonia, and the Basque country) and federalism. He is the editor of *New Institutionalism: Theory and Analysis* published by the University of Toronto Press in 2005, the author of *Basque Nationalism and the Spanish State* (University of Nevada Press, 2007), and the co-author (with Daniel Béland) of *Nationalism and Social Policy: The Politics of Territorial Solidarity* (Oxford University Press, 2008).

Thoriakson, Lori is Associate Professor at the University of Alberta, Edmonton. She holds a PhD from the London School of Economics. Her research interests focus on European politics, party competition and constitutional design in multi-level systems. Her articles have been published in academic journals including the *European Journal of Political Research*, the *Journal of Common Market Studies*, *Party Politics*, and *West European Politics*.

Petersohn, Bettina is a research fellow at the University of Konstanz Germany. In the context of a comparative project, funded by the German Research Foundation, she works on constitutional reforms in federal systems, in particular Canada, Belgium, and Spain. Her publications focus on stability and instability in multinational democracies.

Sayers, Anthony M. is an associate professor in the Department of Political Science and Research Fellow in the School of Public Policy at the University of Calgary and an honorary research fellow in political science and international relations at the University of Western Australia. His published research encompasses political parties and theories of representation, the dynamics of federal states, and provincial politics in Alberta.

Shvetsova, Olga is Associate Professor of Political Science and Economics at Binghamton University in New York. She received her PhD in social sciences at the California Institute of Technology in 1995 and is working in the fields of constitutional political economy and institutional design. She published in *The American Journal of Political Science*, *The Journal of Democracy*, *Journal of Theoretical Politics*, *Comparative Political Studies*, *Electoral Studies*, *Law and Society Review*, *Legislative Studies Quarterly*, *Constitutional Political Economy*, and other peer-reviewed journals. She has also published a number of chapters in edited volumes and a book *Designing Federalism*, co-authored with Mikhail Philippov and Peter Ordeshook.

Swenden, Wilfried is Senior Lecturer in the field of politics and international relations in the School of Social and Political Science at the University of Edinburgh. He has completed his PhD in Politics at the University of Oxford, St. Antony's College. His research areas are comparative federalism and territorial politics, intergovernmental relations in federal states, organization and strategy of parties in a multi-level settings and institutional engineering for divided societies. He has published in the *Journal of Common Market Studies*, *Publius: The Journal of Federalism*, *West European Politics*, and other peer-reviewed journals.

List of Contributors

Thelen, Kathleen is Ford Professor at the Massachusetts Institute of Technology (MIT) in Cambridge, MA, and a permanent external member of the Max Planck Institute for the Study of Society in Cologne Germany. She studied Political Science at the University of Kansas (B.A.) and completed her Master and PhD at the University of California, Berkeley. One of her multiple awarded works is her latest publication *How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States and Japan*.

Toubeau, Simon is a García Pelayo Fellow at the Centre for Political and Constitutional Studies (CEPC), Madrid, and a scientific collaborator at the CEVIPOL (Centre d'Étude de la Vie Politique) at the Université Libre de Bruxelles. He obtained his PhD from the European University Institute (2010), and was an ESRC post-doctoral fellow at the University of Edinburgh. His research interests focus on comparative territorial politics and federalism, nationalism, parties, and party systems, political institutions, and institutional theory.

Trein, Philipp is a PhD candidate at the University of Lausanne. He holds an MA in political science and history from the University of Heidelberg. His dissertation project is part of the research project "Multi-level governance in Health Policy," which is funded by the Swiss National Science Foundation. His research interests include comparative health policy, federalism, fiscal policy, and economic voting.

Temporal analysis allows for periodization, sequencing of events, and the uncovering of causal mechanisms. By the end of the first part of this chapter, we shall then be in a better position to appreciate the importance and effects that the timing and sequences of policies have on political outcomes. The second part compares two Latin American federations that had similar federal arrangements before their processes of neoliberal decentralization started (circa the late 1970s), but that nonetheless arrived at divergent outcomes in terms of the balance of power among national and subnational officials by the end of the process (in the late 1990s). I will show that whereas decentralization reforms strengthened the autonomy of subnational officials in Brazil, similar decentralization reforms, but taking place in a different order, weakened the power of subnational officials in Argentina. Hence, a careful theorization of time is indispensable to fully appreciate how decentralization policies may (or may not) affect the federal dynamics of change.

7.2 Why and How Does Time Matter to Decentralization and Federal Dynamics of Change?

In the recent past, excellent scholarship has been produced regarding the importance of time in social science explanations (for example, Abbott 2001; Thelen 2003; Pierson 2004; Grzymala-Busse 2010); earlier works also exist (Adam 1994). In what follows, rather than engaging on a general discussion of how time should be incorporated in social theory, I zoom in on the reasons for why and how time matters as applied to the analysis of a specific process of policy reforms. I argue that time matters to decentralization policies, and hence to federal dynamics of change, for three main reasons: (a) time allows researchers to contextualize analytically equivalent decentralization processes; (b) time allows researchers to order events within processes of decentralization such that causally relevant sequences result; and (c) through process-tracing analysis, time allows researchers to specify the causal mechanisms that connect causally relevant events within decentralization processes.

7.2.1 Contextualization of Analytically Equivalent Processes

When undertaking a comparative research project, it is crucial that the compared processes that are thought to pertain to a single domain will indeed be analytically equivalent. The validity of causal inferences for the domain of reference rests upon this *sine qua non* condition. In the case of processes that span over time, the researcher must clearly specify the temporal beginning and ending points of the causal narrative. This requires making a theoretical decision about *temporal unit homogeneity* for the underlying process of interest.

7 Decentralization in time: A process-tracing approach to federal dynamics of change

Tullia G. Falletti*

7.1 Introduction

According to Daniel Elazar (1994: p. xv) federalism is an institutional arrangement in which the autonomy of the constituent units is constitutionally protected. Decentralization of government—this is, the set of policies that transfer responsibilities, resources, or authority from higher to lower levels of government—is a structural feature of federalism. This is because decentralization reforms are likely to augment the autonomy of the subnational units, a feature that is at the core of federal constitutional arrangements. However, the degree to which decentralization reforms affect federalism is dependent on the order or sequencing in which different types of decentralization reforms unfold over time. Focusing on federal dynamics of change, I show in this chapter how decentralization policies change federal arrangements. As in my previous work (Falletti 2005, 2010), I argue that the sequence in which different types of decentralization policies unfold over time is the key to understanding how the distribution of power between national and subnational levels of governments evolves in federal countries.

The chapter is organized in two parts. In the first, I focus on the more general question of how and why time matters to decentralization—which in turn affects the federal dynamics of change that are the focus of this volume. I argue that time is crucial to the study of decentralization processes.

* I thank James Mahoney and the organizers and participants of the *Federal Dynamics* workshop (Darmstadt, Germany), the panel on “Events, Processes, and Historical Temporality” at the 36th Annual Meeting of the Social Science and History Association (Boston, MA), and the Comparative Working Group at the University of North Carolina in Chapel Hill for very helpful comments.

In the specific case of decentralization processes—that is, the set of policy reforms that transfer responsibilities, resources, or authority from higher to lower levels of government—these have taken place in different historic periods, from the inception of the nation-states to nowadays. If we analyze the distribution of responsibilities, resources, and authority between levels of government (central, state, and local) in the temporal *longue durée*, we appreciate the ebb and flow of (de)centralization policies and periods. These fluctuations result from a host of structural or contextual conditions, which are beyond the scope of this chapter.

All decentralization policies, however, seek to reform the administration of the state by altering the vertical distribution of responsibilities, resources, or authority among the tiers of government. My claim is that the *meanings* and *goals* of decentralization policies are largely dictated by the *type of nation-state* that they seek to reform. In other words, from the point of view of unit homogeneity, decentralization policies taking place in different types of state contexts are not analytically equivalent. The researcher could compare decentralization processes pertaining to different historic periods and types of states (for an example, see Eaton 2004). But my claim is that the same causal inferences should not be drawn from processes that are ostensibly different due to the varying temporal or spatial contexts in which they take place.

This point is best illustrated with a few examples, which I draw from the Latin America region. In the context of *oligarchic states*, which in Latin America predominated during the late nineteenth and early twentieth century, decentralization policies were implemented mostly with the objective of balancing the power of regional elites. At the time of formation and consolidation of the nation-states in the region, policies that transferred responsibilities, resources, or authority from central to state or provincial level governments were implemented in order to address or resolve the interregional elite conflicts that stood in the way of consolidating the nation-state. By contrast, during the period of the *developmentalist* state, which in the large countries of Latin America (Argentina, Brazil, Colombia, and Mexico) existed during the 1960s, policies of decentralization of government, such as the creation of decentralized para-state agencies for regional infrastructural development, were implemented with the explicit goal of creating the necessary structural conditions that would attract foreign capital and investment. Lastly, in the context of *neoliberal states*, which in the case of Latin America were the norm from the late 1970s to the late 1990s, decentralization of government policies were implemented primarily to address problems of macro-economic stability or, put simply, to shrink what was believed to be a large and atrophied national state bureaucracy.

As these brief historical vignettes illustrate, decentralization policies adopted in different temporal contexts or, more precisely, in the context of

different types of nation-states, were implemented for largely divergent reasons and were likely to yield different outcomes. Hence, when comparatively analyzing decentralization policies across countries, a temporal perspective affords us the possibility of comparing processes that are analytically equivalent and avoid the pitfalls of treating as homogenous decentralization policies that only in name are similar and whose meanings and goals are radically different and render them non-comparable. And, as I have argued, such analytically equivalent periodization must be guided by the type of state (oligarchic, developmentalist, neoliberal, etc.) that decentralization policies seek to reform.

7.2.2 Sequencing of Decentralization Reforms

Second, time matters to decentralization processes because it allows us to construct temporal sequences of decentralization policies or events. In my previous work, I have distinguished among different types of decentralization policies (Falletti 2005, 2010). Other authors have also drawn similar distinctions, emphasizing the fact that decentralization policies are not all equal (Parker 1995; Schneider 2003; Samuels 2004). I propose a definition of decentralization policies that has the advantage of putting forward exhaustive and mutually exclusionary categories. I define decentralization as a process provoked by three types of policy reforms. *Administrative decentralization* is the set of policies that transfer the dispensation of social services (such as education, health, housing, welfare programs, etc.) to subnational governments. If new fiscal resources are transferred to afford such services, administrative decentralization is funded; otherwise, it is unfunded. *Fiscal decentralization* policies are those designed to increase the *revenues* or fiscal authority of subnational governments. Examples of fiscal decentralization policies are the transfer of revenue collection capacities that rested previously with the national government, or the transfer of fiscal resources that are not directly linked to a simultaneous transfer of responsibilities.¹ Last, by *political decentralization* I mean the constitutional or electoral reforms designed to devolve political authority to subnational actors and to create or activate spaces for the political representation of subnational polities (Falletti 2010: chapters 1 and 2).²

¹ Note that unlike other definitions of fiscal decentralization that take the decentralization of expenditures to be part of fiscal decentralization, I only consider the policies that decentralize revenues or revenue collection capacities as cases of fiscal decentralization. To me, the decentralization of expenditures could be cases of funded administrative decentralization if such transfer of resources is meant to cover the costs of transferred services or responsibilities (cf. Schneider 2003; Montero and Samuels 2004).

² I draw a clear distinction between political decentralization policies and democratization reforms. The former are reforms that *explicitly* target the subnational level of government (such as the move to have direct elections of subnational offices only), while the latter do not require

This definition of decentralization policies permits to single out each of these policies and their chronological ordering. Thus, we can study the effects of earlier policies on later ones. As long as all decentralization policies did not happen at once, they can be temporally ordered, whether these policies were negotiated and implemented over the period of a decade or more, or just over a few days of congressional deliberations and bureaucratic implementation.³ Thus, time and a theoretically informed process-tracing approach allow us to order decentralization policies by *when* they occurred in a sequence of analytically equivalent processes.

Now, if in a given process of decentralization of government the three types of decentralization policies were all to occur (which empirically is almost invariably the case) and if we focused on the first episode of each type of decentralization, then we would have six possible sequences of decentralization reforms: (1) AD → FD → PD; (2) AD → PD → FD; (3) PD → FD → AD; (4) PD → AD → FD; (5) FD → PD → AD; and (6) FD → AD → PD.

In my previous work, I have shown that these sequences result from different predominant territorial interests. If the coalitions that push forward processes of decentralization are dominated by subnational-level territorial interests, they are likely to push forward political decentralization types of reforms first and foremost. Whereas if national-level territorial interests predominate in the first coalition that pushes forward decentralization, administrative decentralization is the most likely type of reform to take place first (Falletti 2010: chapter 2).⁴ Different sequences of decentralization are also likely to yield divergent outcomes in terms of the balance of power between national and subnational executives, as I will illustrate when analyzing the cases of Argentina and Brazil.

Time thus grants us the opportunity to study episodes of decentralization as sequences of policy reform. We can focus on the causal importance that the ordering (and in some instances, the *pace*) of different types of decentralization reforms carries for the outcomes of this process.

such explicit targeting (such as a nationwide move to have popular elections at all levels of government). Even if democratization reforms (such as the increase in competitiveness) have the effect of augmenting the power of some subnational units, I do not consider them cases of political decentralization in that those reforms would not have been explicitly designed to target or affect subnational polities or the distribution of authority among levels of government.

³ Empirically, very few cases exist in which the three types of policies were implemented simultaneously. One such example is the Bolivian Law of Popular Participation of 1994, which at once decentralized administrative responsibilities, fiscal resources, and political authority from the central to the subnational governments.

⁴ I consider the sequences that start with a fiscal decentralization reform result from a compromise between national and subnational actors. Neither side can impose its most preferred option and they both settle for the second one.

7.2.3 Uncovering Causal Mechanisms

Finally, I argue that time is crucial to the understanding of decentralization processes even if we keep the causes that brought about the first decentralization reform and the outcome of interest of the whole process out of sight. A large amount of the literature on decentralization asks the important questions of what are the causes and what are effects of these processes. Yet very few studies have seriously analyzed the effects that prior decentralization reforms have on subsequent ones. To put it graphically, many scholars proposed explanations that address the sequence that runs from "Cause" to "Decentralization" episode to "Outcome":

[Cause → Decentralization → Outcome]

However, if we take time seriously and if we get the most out of the method of process-tracing, we can unpack the middle process of decentralization and consequently learn a great deal about *how* the putative cause of decentralization led to the putative outcome.

[Cause → [AD → FD → PD] → Outcome]

Most importantly, if we take time, sequence, and process-tracing seriously, as I am proposing here, we are likely to find that once the "Decentralization" middle black-box is opened up and different sequences of reforms are allowed for, the same cause, followed by a different sequence of decentralization, is likely to result in a different outcome. In other words, a temporal approach allows us to get to the *causal mechanisms* that connect the different stages of the decentralization process and that produce a series of important effects by the end of the process that are likely to affect the outcome of interest.

In my book *Decentralization and Subnational Politics*, I identify a number of causal mechanisms connecting the relevant episodes or events within a decentralization process. Among these causal mechanisms are self-reinforcing ones, such as the reproduction of power, incrementalism, demonstration effect, policy ratchet effect, as well as reactive mechanisms, such as compensation.

7.3 Decentralization and Federal Dynamics of Change in Two Latin American Federations

This empirical section focuses on the decentralization reforms that took place in Argentina and Brazil, two Latin American federations, during the time of the neoliberal state. This was the type of state whose main feature was to retreat from intervention in the economy. It was the type of state that moved toward the implementation of market-oriented reforms that would

significantly diminish the intervention of the state in the economy as producer or regulator. Examples of such market-oriented reforms are privatization of state-owned enterprises, trade liberalization, and deregulation of economic activities.

Although Argentina and Brazil are very different in size and population,⁵ both countries have federal systems of governments and are among the most decentralized of Latin America.⁶ Argentina has twenty-four provinces and 2,216 local governments. Brazil has twenty-seven states and 5,561 municipalities.⁷ Both countries have presidential political systems with bicameral national congresses. In periods of democratic rule, governors and state legislators are popularly elected. There are also elected mayors and mayoral councils in both countries.⁸

In terms of their intergovernmental institutions, prior to the last military regimes both Argentina and Brazil were among the most decentralized of Latin America. Table 7.1 compares the evolution of the distribution of power between national and subnational governments from the late 1970s to the mid- to late 1990s. Six dimensions relating to the characteristics of intergovernmental institutions are used to assess the power of subnational officials vis-à-vis national officials at the beginning and end of this period.⁹ These are: (1) the subnational share of revenues (SSR), which records the total amount of resources collected at the subnational levels of government; (2) the subnational share of expenditures (SSE), or the total amount of monies that are spent by the subnational governments; (3) the distribution of policy-making authority in the education sector (PMA), which measures the distribution of authority between levels of governments regarding the curricula, teacher training, evaluation of the sector, management of schools, decisions to hire, fire, and relocate teachers, and teachers' salaries;¹⁰ (4) the type of appointment of subnational officials (ASO), which indicates whether governors and mayors are elected or not; (5) the territorial representation of interests (TRI) in the national legislatures, which scores the average level of over-representation of the subnational member units of the federation in each chamber of

⁵ Brazil is roughly four times larger than Argentina. Argentina has almost 40 million inhabitants in a territory of 2.7 million square kilometers, while Brazil counts with 188 million people and a territory of 8.5 million square kilometers.

⁶ Mexico and Venezuela are the other two Latin American federations, but in them power has historically been much more centralized.

⁷ In both countries, the capital federal district is included in the province or state count.

⁸ One important institutional difference between the two countries is that whereas Argentina has a close-list electoral system, Brazil has an open-list electoral system. This gives Brazilian political candidates greater autonomy from the party leadership.

⁹ For a justification of the selection of variables, see Falletti (2005, 2010).

¹⁰ I choose the education sector over other policy areas (such as health or poverty alleviation) because in most Latin American countries education was the first sector to be decentralized. In Brazil, however, important changes in the health sector predated those in education.

Table 7.1. The evolution of the intergovernmental balance of power in Argentina and Brazil, 1978-99

Variable	Argentina		Brazil	
	Prior to Dec	After Dec	Prior to Dec	After Dec
Subnat. Share of Revenues (SSR)	21% (1983)	19% (1999)	25% (1980)	33% (1995)
Subnat. Share of Expenditures (SSE)	34% (1978)	41% (1999)	32% (1980)	44% (1995)
Policy-making Authority (PMA)				
Curricula	C	C	C	S
Teachers' training	C	C	C	S
Evaluation	C	C	C	S
School management	C	S	C	S
Hire, fire, relocation	C	S	C	S
Salary	C	S	C	S
Appointment of Subnat. Officials (ASO)	(1978)	(1994)	(1982)	(1995)
Governors	A	E	A	E
Mayors	A	E	A/E	E
Territorial Rep. of Interests (TRI)	(1978)	(1996)	(1982)	(1994)
Overrep. Deputies	1.94	1.85	1.51	1.92
Overrep. Senate	3.15	3.40	2.66	3.94
Number of Subnat. Associations (NSA)	(1983)	(1995)	(1962/78)	(1995)
Of Governors	0	0	0	0
Of Mayors	0	1	1	3

Notes: PMA: N: National, C: Concurrent, S: Sub-national.

ASO: E: Elected, A: Appointed, A/E: only formally elected or with appointment of some offices.

Sources: SSR: Argentina: 1983 data from Artana et al. (1995: 79; and 1999) data from the Ministry of Economy and Production, Argentina (both figures include taxes on labor); Brazil, Samuels (2003: 161). SSE: for Argentina: IMF (1985, 2001); Brazil, Samuels (2003). PMA: data collected from secondary sources and education laws. ASO: data collected from secondary sources and national constitutions. TRI: for Argentina: República Argentina (1994) and INDEC (1997); Brazil: data provided by David Samuels.

Congress;¹¹ and (6) the number of sub-national associations (NSA) of governors and mayors that represent their corporatist interest. It is worth noting that while other (or even more) variables could be selected to describe the inter-governmental relations structures, the six dimensions proposed here are both comprehensive and relevant. They are comprehensive because they characterize the fiscal, policy-making, political, and organizational arenas of intergovernmental relations. Moreover, these six dimensions are relevant in that they record important aspects of intergovernmental relations, such as the availability of resources, the policy-making authority, and the political leverage

¹¹ A value of one (1) in this variable indicates perfect proportionality in the distribution of seats according to population among the states. The greater the value is over 1, the more skewed is the distribution of seats in favor of some of the subnational units.

of subnational governments. Hence, together they provide an accurate representation of the intergovernmental balance of power in the countries of interest.

As can be seen in Table 7.1, in the early 1980s the institutions of intergovernmental relations of Argentina and Brazil looked very similar. In their fiscal systems, the subnational shares of revenues (21 percent in Argentina and 25 percent in Brazil) and of expenditures (34 percent in Argentina and 32 percent in Brazil) were about the same. In policy-making schemes, all responsibilities in the education sector were concurrent; this is to say, they were shared between the national and subnational levels of government. The governors were (mostly) appointed in each country during the dictatorial regimes.¹² The average levels of representation of territorial interests in both congresses were about the same.¹³ And in terms of subnational associations for the representation of mayors or governors corporatist interests, there was only one such association of mayors in Brazil, the Brazilian Association of Municipalities (or ABM) which had been funded in the 1950s. Yet, the main difference in the intergovernmental institutions of each country was that whereas the military regime appointed the mayors in Argentina, the majority of the mayors were still elected during the military regime in Brazil.¹⁴

By the mid- to late 1990s, the intergovernmental institutions of Brazil and Argentina no longer looked alike. By then, Brazil's subnational governments collected significantly more revenues than their counterparts in Argentina (33 percent versus 19 percent) and spent more as well (44 percent compared to 41 percent). Regarding the distribution of authority in the education sector, all the policy domains considered were in the hands of either states or municipalities in Brazil, while in Argentina more authority stayed with the national ministry of education. Also, due to constitutional and territorial changes (such as the creation of new States), the territorial representation of interests in Brazil (particularly in the Senate) increased more than in Argentina. And while neither country has a formal association of governors, in Brazil two new and very active associations of mayors were formed (the National Confederation of Municipalities, or CNM, and the National Front of Mayors, or FNP), whereas in Argentina the one association of mayors formed in 1997 remains quite weak and largely irrelevant in intergovernmental issues.

How can we account for the fact that both countries initiated their postdevelopmental decentralization processes with similar intergovernmental institutions, but that by the end of the 1990s those same institutions looked

¹² In Brazil, governors were directly elected in 1965 and after 1982, as I explain below.

¹³ In Argentina, the scores of overrepresentation in deputies and the Senate correspond to the first year of democratic government (1983) because, unlike Brazil, congress was closed during the military regime.

¹⁴ The exceptions were about 200 mayors from capital cities and cities considered of national security importance, who were appointed by higher level officials.

significantly different? As I will elaborate in the next sections, it was the order in which different types of decentralization reforms unfolded over time that matters the most to account for the divergent outcomes and evolution of federal dynamics in these two countries. Drawing from the first part of this chapter in which I theorized about the importance of time for the analysis of decentralization processes, I will first justify the periodization, then present the sequence of decentralization policies undertaken in Argentina and Brazil during the period under study, and finally end by highlighting the causal mechanisms that connected the main events in the two processes of interest.

7.3.1 Contextualization of Neoliberal Decentralization Reforms in Argentina and Brazil

The method of process-tracing requires us to be very explicit about when the process of interest starts and when it ends. Because the express goal of decentralization policies is to affect the organization of the state by shifting the vertical distribution of responsibilities, resources, and authority between the levels of government, I consider that analytically equivalent processes of decentralization must be defined by the type of state that the reforms of interest seek to reform, as argued earlier in this chapter.

For me, then, the start of the process of interest takes place with the first presidential administration that moved the state away from intervention in the economy and toward the implementation of market-oriented economic reforms. In the case of Argentina, this was the administration of the first military junta, presided by Jorge R. Videla, after the 1976 military coup d'état, which initiated the process of economic market-liberalization in Argentina. As for the case of Brazil, the transition from the prior developmental type of state to the neoliberal one was far more gradual. As a Brazilian economist put it: "In Brazil, between the developmental state and the neoliberal state, we had the 1980s."¹⁵ Yet the military government of João Figueiredo, initiated in 1979 and with Delfim Neto as minister of finance, was the first administration to implement a package of IMF-proposed market-oriented economic reforms, similar to those that were being implemented in Chile and Argentina at the time and as a way of addressing the economic crisis that affected the country in the late 1970s. Facing the economic hardships caused by the foreign debt crises and the second oil crises, his government moved the state away from direct intervention in the economy. He ended the developmental policies of his predecessor,¹⁶ and less than a year into his

¹⁵ Interview with Fabro Giambiagi, economist IPEA, Rio de Janeiro, Brazil, August 16, 2006.

¹⁶ Military President Ernesto Geisel (1974-79) had a developmentalist economic agenda, as made explicit in his Second National Development Plan.

administration, Figueredo announced major changes to the economy (Skidmore 1988: 422 fn. 21). Delfim Netto, minister of planning at the time, adopted a strategy of devaluation and pre-fixed indexation. Delfim thought the neoliberal military regimes of Argentina and Chile had found the road to financial stability, and in order to stabilize the economy and curb inflation, he implemented similar orthodox adjustment policies akin to those being proposed by the IMF (Skidmore 1988: 422 fn. 21). Delfim's economic strategy was the Brazilian version of the supply-side arguments made in the United States at the time (Coes 1995: 144). Admittedly, his measures were half-hearted and eventually failed, leading to heterodox economic policies in the following presidency of civilian leader, José Sarney (1985–89) (Weyland 2002: 77–81). But starting with Figueredo's administration, investment in state enterprises—those with controlled ownership by federal, state, or municipal governments—fell sharply, from 8.7 percent of the GDP in 1979 to 4.3 percent in 1980 and continued declining until it reached 1.8 percent in 1990 (Coes 1995: 142–5, 204). Although some developmentalist policies such as trade protection and regulation of the domestic economy continued throughout the 1980s,¹⁷ by the time of the Figueredo administration, the second phase of import substitution industrialization and the developmentalist project had ended. Hence, my analysis of the neoliberal (or more precisely the *post-developmental*) sequence of decentralization policies starts with Figueredo's inauguration in 1979.

The end of the process of neoliberal reforms would stretch until the last administration that would have implemented these neoliberal type of economic policies. Once a significant departure in economic policies takes place (say toward re-nationalization or increasing state regulation of economic activities, such as has happened in a number of Latin American countries since the early 2000s), we could say that the neoliberal state period and the neoliberal decentralization process have come to an end.

Yet theoretically, I find that it is possible, and arguably desirable when analyzing the contemporary period, to focus our attention in the first complete cycle of neoliberal decentralization reforms. By first cycle I mean the period of time in which all the three types of decentralization reforms were implemented: administrative, fiscal, and political. Thus periodization would start with the inception of the first national administration or government that moved the state away from intervention in the economy and end by the time that the three types of decentralization have all taken place. The

¹⁷ As Ben R. Schneider put it, "...in many years it seemed like inertia, as if developmentalism continued because the government was too preoccupied with other matters (the transition to democracy, inflation, the new constitution, Sarney's 5th year of mandate, etc.) to undertake major economic reforms" (communication with Schneider, October 18, 2006).

justification for this periodization is that once the three types of reforms have taken place and we can establish the sequence of reforms, future decentralization events are likely to be contingent on the effects that the first cycle of reforms brought about. Thus, whether or not the end point in the first cycle of decentralization stretches all the way forward to the end of the neoliberal type of state is less relevant.

I believe there is strong theoretical justification for considering the first cycle of neoliberal decentralization reforms rather than the whole process that evolves from the start to the end of the neoliberal type of nation-state. If, following the conceptualization of institutions proposed by Orren and Skowronek (1994), we think of intergovernmental relations as a layered structure of institutional action, then an important cycle has been completed once change has occurred in the three layers of intergovernmental relations that decentralization policies can affect. Once administrative, fiscal, and political decentralization have all taken place, hence affecting the administrative, fiscal, and political layers of the intergovernmental institutional structure, future (de)centralization policies would have to confront the conditions and distribution of power left by that first cycle of (neoliberal) decentralization reforms. In other words, there is a strong path-dependent nature in the way that prior policies and sequential policy configurations affect future ones. An in-depth study of the first cycle of decentralization reforms to take place within the context of a(ny) given type of state, strongly sets the tone—or constraints and opportunities—for the policy reforms that are to follow. As I will show in the next section, the first cycle of neoliberal decentralization reforms spans from 1976 to 1994 in Argentina, and from 1980 to 1988 in Brazil.

7.3.2 The Sequencing of Neoliberal Decentralization Reforms

Analyzing in depth the first cycle of decentralization of government reforms in Argentina after 1976 and Brazil after 1979, we find that they followed opposite sequences. In both Argentina and Brazil, the processes of post-developmental decentralization began during the last military regimes and continued throughout their transitions to democracy. But whereas the Argentine military imposed an *administrative* type of decentralization on the provinces, the Brazilian military initiated the process of decentralization with a *political* decentralization reform. Argentina followed a sequence of decentralization after the collapse of the developmentalist state that started with administrative decentralization (1978), continued with fiscal decentralization (1988), and ended with political decentralization (1994), or AD → FD → PD; whereas Brazil's sequence of reform was the opposite: starting with political decentralization (1980–82), continuing with fiscal decentralization (1983–88), and ending with administrative decentralization (mid to late 1990s), or PD → FD → AD.

Elsewhere I have argued that variation in the institutional organization of state power in the authoritarian military regimes (a closed-authoritarian regime in Argentina versus an electoral authoritarian regime in Brazil) account for the predominance of different types of territorial interest in the coalitions that pushed forward the first type of neoliberal decentralization reform. National-level interests predominated in Argentina and pushed forward administrative decentralization first, whereas subnational-level interests aided by the existence of a national legislature and subnational elections prevailed in Brazil and pushed forward political decentralization first (see Falletti 2011). I also explain that different sequences of reform lead to varying degrees of change in the intergovernmental balance of power (with the sequence followed by Brazil being the one that confers the greatest amount of autonomy to subnational regimes, whereas the sequence of reforms experienced by Argentina is the one that affects the intergovernmental relations status quo the least) (see Falletti 2010: in particular chapters 3 and 5). In this contribution, however, rather than focusing on the antecedent causes of decentralization, I focus on the specific reforms and the way in which different causal mechanisms connect them, in other words, I open the blackbox of "decentralization."

7.3.2.1 THE SEQUENCING OF NEOLIBERAL DECENTRALIZATION REFORMS IN ARGENTINA

Argentina started its process of neoliberal decentralization with the transfer of primary education from the national government to the provinces. On June 5, 1978, the national military junta passed two decrees transferring all national preschools and primary schools to the provinces, the city of Buenos Aires, and the territory of Tierra del Fuego. Retroactive to January 1, approximately 6,500 schools, 65,000 public employees, and 900,000 students (about one-third of the primary public education system) were transferred to the provincial administrations. No revenues or fiscal capacities were transferred with the schools, and yet the transfer had a cost of 207 billion pesos—equivalent to 20 percent of the total national transfers (FIEL 1993: 148).

In the context of an authoritarian regime, the national executive was able to impose this reform on the provinces. The central government was interested in administrative decentralization for several reasons. First, they saw the provinces as enclaves of conservatism, in which future right wing political parties could develop. Second, the central government was interested in cutting the size of the federal bureaucracy and the national deficit, in the spirit of a neoliberal program of government (Novick de Senén González 1995: 138). Third, an increase in provincial revenues—which rose from 0.88 percent in 1976 to 1.56 percent of the GDP in 1977 (Kisilevsky 1998)—established a favorable environment to transfer expenditures *without* resources. A report by

the national ministry of education gave the following account of conditions before the 1978 transfer:

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

Despite the authoritarian regime, the governors voiced their concerns. Among others, the governor of Salta wrote to the minister of interior in November 1977: "by no means is the provincial treasury in a situation to afford the total costs of the services to be transferred" (Kisilevsky 1990: 20). At this time, however, the military's grip on power was at its strongest, and the unfunded transfer was imposed from above. The administrative decentralization of 1978 had disastrous fiscal consequences for the provinces. The allocation of provincial resources for education had to increase from 14 percent in 1977 to almost 20 percent in 1982 (IMF 1985), at the same time that automatic transfers to the provinces decreased from 48.5 percent to 29 percent of all shared revenues (FIEL 1993: 151). Thirteen percent of the primary schools (about 3,400 schools) closed down prior to 1980, and governors were forced to beg for discretionary transfers from the national executive to avoid further closures.

Given the design of the first round of administrative decentralization, with the transition to democracy in 1983, governors were eager to negotiate an increase in fiscal transfers. When the revenue-sharing law of 1973 expired at the end of 1984, governors pushed to have a new revenue-sharing law in place. Carlos Menem, who at the time was the governor of the northwestern province of La Rioja, proposed that the interior provinces rebel and cut the supply of energy to the city of Buenos Aires until an agreement on fiscal transfers was reached with the president (Pérez 1986: 68). But president Raúl Alfonsín (1983–89) of the *Unión Cívica Radical* (UCR) controlled the timing of the reform and was successful in delaying its approval. Meanwhile, he used discretionary transfers to buy the political support of opposition governors. Discretionary transfers amounted to 59 percent of the total transfers in 1985 and 54 percent in 1986 (Ministerio de Economía 1989). Thus, from 1984 to 1987, Alfonsín gained bargaining power vis-à-vis the governors by using the fiscal transfers to the provinces—which they desperately needed after unfunded administrative decentralization—in exchange for political support (mainly in the Senate).

Only after the 1987 mid-term elections, when the ruling party lost its majority in the House (passing from 51 percent to 46 percent of the seats) and five governorships to the opposition Justicialist Party (*Partido Justicialista*, PJ), President Alfonsín agreed to the governors' demand for redistribution of revenue-shared taxes. On January 7, 1988, congress passed a new revenue-

sharing law (*Ley de Coparticipación*, or Law 23(548)) by which the provinces were granted 57.66 percent and the national government 42.34 percent of all revenue-shared taxes, and the discretionary transfers were cut to 1 percent of the shared taxes. By all accounts, this fiscal decentralization law was a victory for the governors, which came about when an exogenous change (the midterm elections of 1987) altered the balance of power between the president and the governors inherited from the first round of decentralization reforms. But the reform was also instrumental to the national executive. By that point, mounting economic problems and adverse mid-term electoral results had made it clear that the ruling party would not retain the presidency after 1989. If the PJ were to win the 1989 presidential election, the new co-participation law would guarantee resources to UCR governors.

The provincial fiscal recovery did not last long, however. Soon after the new revenue-sharing law was passed, the national executive (now in the hands of the PJ) was able to push forward a second round of unfunded administrative decentralization, which neutralized the effects of fiscal decentralization. On December 6, 1991, the Argentine congress passed Law 24(049) according to which the administration of all national secondary and adult schools and the supervision of private schools were transferred to the provinces and the city of Buenos Aires. Two food programs and the few remaining national hospitals were also transferred. The estimated cost of the transfer was 1.2 billion dollars per year, the equivalent of almost 10 percent of the total provincial expenditures and 15 percent of the total national transfers. Over 2,000 national schools, 72,000 teachers, and 700,000 students were incorporated into the provincial systems of education, which also had to supervise more than 2,500 private schools. Article 14 of the law established that the cost of the transferred services would be paid with provincial resources, whereas Article 15 stated that whenever the revenues collected in a given month were below the average of the April–December 1991 period, the national government would transfer 1.2 billion pesos or the difference required to match that amount. Government documents and interviews with national and subnational officials suggest that such guarantee was not enacted and the transfer of responsibilities was largely unfunded.

Political decentralization came last in the first cycle of neoliberal decentralization reforms in Argentina. It occurred in 1994, when President Menem (1989–95 and 1995–99) exchanged constitutional reforms as a bargaining chip for his re-election. Political autonomy was granted to the city of Buenos Aires (a political bastion of the opposition UCR party), but various decentralization reforms proposed in the constitutional assembly by provincial representatives failed to pass. Reforms such as a higher share of subnational revenues or provincial control of natural resources were proposed in the constituent assembly, but due to the political pressure of the national

executive all these fiscal and political decentralization proposals did not pass. In other words, the national executive was able to control the timing as well as the main contents of the political decentralization reform of 1994.

7.3.2.2 THE SEQUENCING OF NEOLIBERAL DECENTRALIZATION REFORMS IN BRAZIL

The first complete cycle of neoliberal decentralization reforms started with a political decentralization measure: the Constitutional Amendment No. 15 of 1980 that reinstated the direct election of governors. Military President João Figueiredo (1979–85) presented to Congress the constitutional amendment bill (Proposta de Emenda a Constituição, PEC 76/1980) that would reinstate the direct election of governors.¹⁸ That the president was the one to introduce the bill is not surprising considering the executive branch had an active role in introducing bills and modifying laws during the military period.¹⁹ The measure was also part of a gradual and controlled liberalization process that Figueiredo had coined *abertura* (opening), a continuation of the *distensão* (decompression) started by Geisel in 1974. In the bill sent to Congress, Figueiredo explicitly portrayed the amendment as part of a larger democratization process that included previous measures such as the elimination of the extraordinary powers of the executive, the Amnesty law, and the party reform law that had ended the bipartisan system.²⁰

Why did Figueiredo introduce the bill for the direct election of governors? In a process of political regime transition characterized by pacts and transactions (Viola and Mainwaring 1985; O'Donnell and Schmitter 1986), it is likely that by allowing the direct election of governors, the military sought to control the liberalization process. The military may have calculated that a certain degree of decentralization of power would strengthen the conservative elites of the northern and northeastern regions and foster a conservative transition to democracy (Kinzo 1988; communication with Samuels 2006). However, in introducing this bill, President Figueiredo was also giving in to

¹⁸ República Federativa do Brasil, *Diário do Congresso Nacional*, August 23, 1980: 2065. Note that unlike the case of Argentina, the national and state legislatures continued to operate during most of the military regime.

¹⁹ Schmitter (1973: 190–1) counted more than 10,000 decrees and decree-laws, twelve institutional Acts, and over eighty complementary Acts passed at the president's initiative during the first four years of the military regime.

²⁰ The latter was the political party reform of 1979. As a result of this reform, the Democratic Social Party (*Partido Democrático Social*, PDS) became the new government party and several parties emerged in the opposition: among them, the Brazilian Democratic Movement (*Partido do Movimento Democrático Brasileiro*, PMDB), direct political heir of the MDB; the Workers Party (*Partido dos Trabalhadores*, PT); and the Brazilian Communist Party (*Partido Comunista Brasileiro*, PCB). As the process of political reforms advanced, all these opposition parties would become strong supporters of the decentralization-participation binomial (Figueiredo and Cheibub 1982: 39; Cardoso 1992: 293; Assis 1993: 46).

the opposition and the ruling party (Senator José Passos Porto, who introduced the bill, was himself a member of the ruling party).²⁴

The Passos Porto fiscal decentralization measure was followed by another fiscal decentralizing measure, Constitutional Amendment No. 27 of 1985, which further increased the percentage of subnational revenue-sharing as well as the municipal tax collection authority.²⁵ Finally, the process of fiscal decentralization achieved its climax in the constitutional reform of 1988 (Souza 2001: 519). As Montero writes, "Imbued with political and resource autonomy [due to the direct election of governors and the fiscal reforms of 1983 and 1985], the *banca*s subnacionais emerged in their strongest position yet during the New Republic. They exerted their influence most clearly in the Constituent Assembly of 1987–88 where they played a leading role in shaping the rules governing fiscal federalism to favor subnational autonomy" (Montero 2004: 147). During the constitutional reform, political decentralization—particularly benefiting the municipal level of government—also continued. In deepening both political and fiscal decentralization, subnational interests were paramount.

The constitutional reform of 1988 would also put forward the last type of decentralization reform to take place during the first cycle of neoliberal decentralization: administrative decentralization. But in this case, it was through sectoral pressure (particularly in the health sector) that the social services were decentralized. Furthermore, due to the prior rounds of decentralization policies, such administrative decentralization would be funded.

7.3.4 Uncovering the Causal Mechanisms of Neoliberal Decentralization (and its Effects)

The processes of neoliberal decentralization in Argentina and Brazil are characterized by the presence of self-reinforcing mechanisms that strengthened the bargaining power of the territorial actors that were victorious in the first round of reforms. A temporal approach to the study of these processes allows us to uncover those connecting mechanisms.

²⁴ This "mini-tax" reform (as it was called) was the synthesis of five previous proposals: PECs No. 22–3, 38–40 of 1983, introduced respectively by Deputy Paulo Lustosa (PDS, Ceará), Senator Afonso Camargo (PMDB, Paraná), Deputy Irajá Rodrigues (PMDB, Rio Grande do Sul), Senator Márcio Maciel (PDS, Pernambuco), and Senator Carlos Chiarélli (PDS, Rio Grande do Sul).

²⁵ The "Ayrton Sandoval" amendment, introduced by opposition Federal Deputy Ayrton Sandoval (PMDB, São Paulo) in 1984 and passed by Congress on November 28, 1985, increased the share of automatic transfers to states (FPE) and municipalities (FPM), delegated the roadways tax (*Taxa Rodoviária Única*) to states and municipalities in equal shares, changed the distribution of taxes on transportation (*Imposto sobre Transporte Rodoviário*) such that states and municipalities received a larger portion of it (from 20 to 50 percent and from 0 to 20 percent, respectively), and redistributed other taxes toward municipalities (Lopreato 2000: 11–12, ft. 15; República Federativa do Brasil, *Diário do Congresso Nacional*, November 29, 1985).

the demands of higher levels of political and fiscal decentralization that the political opposition in the national legislature had voiced (and presented in prior bills) in the years leading to 1980 (Falletti 2011).

The first political decentralization reform had the effect of empowering subnational actors. As a consequence of political decentralization, by late 1983 the pressure from subnational officials had markedly increased. After the 1982 election, governors denounced the chaos of the states' finances and demanded a fiscal reform that would decentralize revenues (Souza 1997: 36). Mayors also mobilized in favor of fiscal decentralization. In September of 1983, 2,000 mayors (half of all mayors at the time) converged in Brasília to demand an increase in municipal revenues. Confronted with a negative response from the president and his cabinet, governors and mayors lobbied legislators of all parties, and less than two months later succeeded in securing more subnational revenues.²¹ Open letters were published in national newspapers demanding greater state and municipal autonomy, and national meetings of subnational authorities were convened in favor of decentralization and local participation.²² National legislators could not ignore these pressures. Even ruling party legislators realized that they needed the support of local officials.

The fiscal decentralization measure "Emenda Passos Porto" (Constitutional Amendment No. 23 of 1983) modified the system of revenue sharing that had been created in 1966, in the early stages of the military period.²³ It increased the portion of money given to states and municipalities from the two most important taxes collected by the federal government, the income tax and the industrial production tax. The share of these taxes received by the states, the federal district of Brasília, and the territories, known as the States Revenue-Sharing Fund (*Fundo de Participação dos Estados*, FPE) increased from 10.5 percent to 14 percent and that of municipalities, known as the Municipalities Revenue-Sharing Fund (*Fundo de Participação dos Municípios*, FPM), increased from 10.5 percent to 16 percent. Although the national executive made explicit its opposition to the reform, the Passos Porto Amendment was supported by a multi-partisan coalition in Congress that included members of

²¹ See "Brazil: Congress passes 'mini tax reform,'" *Latin American Weekly Report*, December 1, 1983.

²² See, for example, the open letter from the President of the Association of Municipalities of São Paulo, Orestes Queirós, to the National Congress published in *Folha de São Paulo*, on November 22, 1983. See also the statement issued at the second national meeting of municipalities in Olinda, Pernambuco that same year, that demanded greater decentralization and democratization, tax reforms, and the direct election of mayors of capital cities and national security municipalities. Both are transcribed in República Federativa do Brasil, *Diário do Congresso Nacional*, November 24, 1983: 2491–2.

²³ For information on the 1966 tax reform and its consequences on intergovernmental fiscal relations, see Mahar (1976: 268–78) and Lopreato (2002: 49–62).

7.3.4.1 CAUSAL MECHANISMS IN THE CASE OF ARGENTINA

The first unfunded administrative decentralization of primary schools in 1978 had three important policy effects: (1) it contributed to the *reproduction of power* of the national executive; (2) it produced a *demonstration effect* by providing an example that future policymakers could follow; and (3) it produced *incrementalism* within the educational sector toward further unfunded decentralization of responsibilities.

The first round of administrative decentralization of 1978 in Argentina initiated the reproduction of the bargaining power of the presidents, who were then able to control not only the timing of fiscal and political decentralization but also the contents and extent of those reforms. Unfunded administrative decentralization in 1978 reproduced the power of the national executive, who was able to delay a fiscal decentralization measure until an exogenous event—the mid-term elections of 1987—shifted the political playing field in favor of the governors. As Figure 7.1 illustrates, this is how the first and second stages of the decentralization reform process are connected in Argentina.

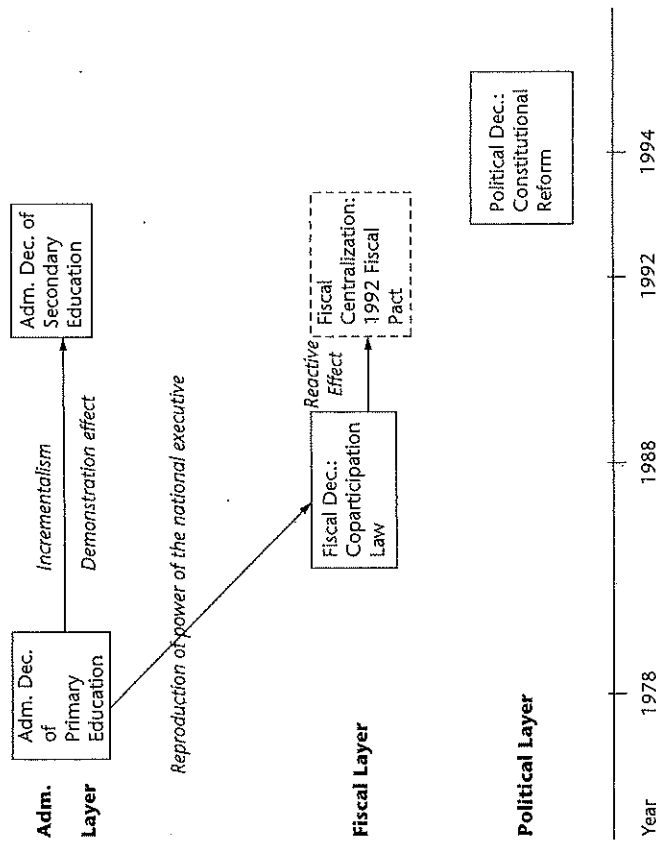


Figure 7.1. Sequence and policy effects of neoliberal decentralization, Argentina, 1978–94

Note: The dotted rectangle indicates that the Fiscal Pact of 1992 was a fiscally centralizing reform.

Second, the first round of unfunded administrative decentralization had a demonstration effect for the second round of administrative decentralization. In 1991, as a result of the convertibility law, the absolute amount of revenues in the provinces had doubled—the automatic transfers passed from 4,810 million dollars in 1990 to 8,846 million in 1992 (Subsecretaría de Relaciones Fiscales y Económicas con las Provincias 1994: 15). In this context, as in 1978, it was easier to pass an unfunded administrative decentralization reform. Minister of economy Domingo Cavallo appealed to the same arguments used in 1978 by minister of economy Martínez de Hoz to justify the transfer of responsibilities. In meetings with the governors, Cavallo argued that the increase in revenues would allow the provinces to afford the expenditures generated by the transfer of social services. Once national-level policy-makers observed that unfunded administrative decentralization had worked in a context of fiscal expansion, they were able to adopt the same type of unfunded decentralization policy, although this time under a democratic political regime.

Finally, the first round of decentralization had an incremental effect in that additional unfunded administrative decentralization measures were made possible. Although the national secondary schools were administered *de jure* by the national government until 1992, a process of decentralization of responsibilities was already under way. In the words of the governor of Mendoza:

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

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

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

Or as a member of the ministry of economy put it: "only in their plates were the schools national" (Pezoa, Juan Carlos, interview by author, Buenos Aires, February 13, 2001). Under these conditions, the governors were more inclined to accept a transfer of schools, even if it was to be funded primarily with provincial resources. The 1978 round of administrative decentralization enabled the national executive to pass a similar policy reform, albeit in a democratic context, thirteen years later. By forcing provincial governments

the process, namely the reproduction of power of subnational actors, as can be graphically seen in Figure 7.2.

Both at the state and local levels a self-reinforcing *policy-ratchet effect* was unfolding. A self-reinforcing effect is one that creates positive feedback (Pierson 2004: 21) and that moves an ongoing process further along the direction previously taken or chosen. As new choices are made (and also as time elapses), it becomes increasingly difficult and costly for policies to move in different directions (an option that might have been highly likely at the start of the sequence of choices). Moreover, a policy-ratchet effect is such that once a policy (or a reform in general) is widely accepted, it sets the base point for discussion about further policy reforms (Huber and Stephens 2001: 334). Political decentralization was one such reform that had self-reinforcing and policy-ratchet effects on subnational politics.

As a result of the first political decentralization policy in Brazil, a new set of actors emerged: directly elected governors, and more politically active and autonomous mayors. Governors and mayors could make a claim of electoral legitimacy that the military president could not make and this gave them significant political leverage (particularly throughout Congress) to negotiate the next round of decentralization policies. The result was Constitutional Amendment No. 23 of 1983, or "Emenda Passos Porto," a fiscal decentralization measure that significantly increased the automatic transfers received by states and municipalities through the system of revenue-sharing. Encouraged by their political and fiscal successes, the subnational actors pushed for

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to augment their responsibilities in the educational sector, the first type of policy reform made governors more receptive to further decentralization of educational services.

The fiscal decentralization of 1988, in turn, had a reactive effect. In 1992, the national executive pursued a cut in automatic transfers to the provinces. This cut would not have been possible had decentralization produced a group of followers after the first stage of the process. Finally, political decentralization did not come about as a consequence of the way in which the prior decentralization reforms evolved in Argentina (note that in Figure 7.1 there is no arrow connecting political decentralization and the prior reforms). On the contrary, political decentralization merely happened due to a national-level negotiation in which President Carlos Menem used the political autonomy of the City of Buenos Aires as a bargaining chip in his bid for re-election.

The sequence of decentralization reforms experienced by Argentina did not empower the subnational officials. Instead, governors were loaded with more responsibilities, had less relative revenues, and had the same amount of political authority as they had enjoyed in the early 1970s, before the process of post-developmental decentralization started.

7.3.4.2 CAUSAL MECHANISMS IN THE CASE OF BRAZIL

As a result of the first neoliberal political decentralization measure, the elections of 1982 were the widest and most important Brazil had experienced in two decades, encompassing the election of governors, mayors, and state and national legislators. Gathering 58.5 percent of the votes, the opposition won ten of the twenty-two governorships (nine went to the PMDB and one to the PDT), eighty-two mayoralties among the one hundred largest cities of the country, and city council majorities in nineteen of the twenty-three state capitals (Selcher 1986: 61–2; IBGE 2003: chapter 24, tables 4 and 5).²⁶ As Linz and Stepan (1992: 133) write: "Elections can create agendas, can create actors, can reconstruct identities, help legitimate and delegitimize claims to obedience, and create power." This was precisely the effect of holding subnational gubernatorial and mayoral elections prior to the introduction of nationwide elections for the presidency (Samuels and Abrucio 2000). Governors and mayors could make a claim to electoral legitimacy that the president could not make, and grew increasingly independent of the central government. The process of neoliberal decentralization in Brazil is thus characterized by the presence of a self-reinforcing mechanism connecting the different stages of

²⁶ in the election for Congress, the government party, PDS, won fifteen senatorial and 235 deputies' seats. The opposition, meanwhile, won ten senatorial (nine PMDB, one PDT) and 244 federal deputies' seats (200 PMDB, twenty-three PDT, thirteen PTB, and eight PT).

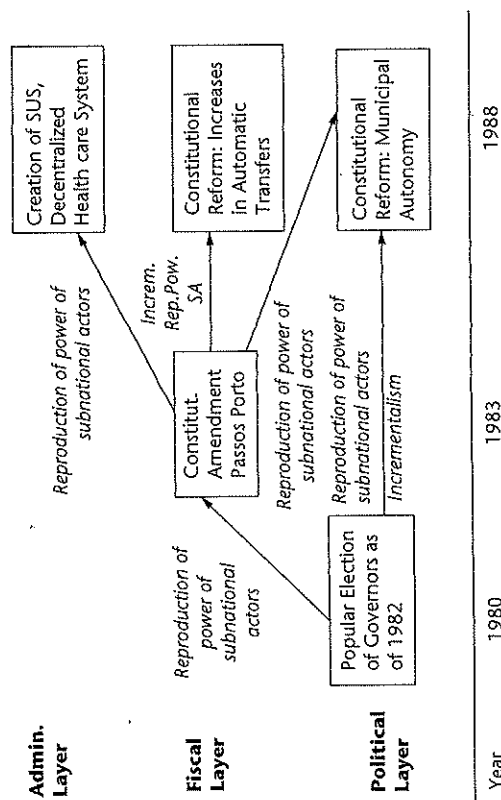


Figure 7.2. Sequence and policy effects of neoliberal decentralization in Brazil, 1980–88

further changes, leading to the 1988 constitutional reform which, among other measures, recognized municipal governments as units of the federation (that is, granting municipalities the same constitutional autonomy as member states), and expanded the automatic transfers and the revenue base of states and municipalities.

Administrative decentralization was the last type of neoliberal decentralization policy to be implemented. The first changes occurred in the health sector where, decentralization was pursued by a *subnational coalition* formed by a reformist health movement and governors and mayors of the opposition. By the mid-1990s, the national executive branch implemented decentralization measures in education as well. But unlike the case of administrative decentralization in Argentina, administrative decentralization in Brazil was initially demanded by a subnational coalition that equated funded administrative decentralization with democratization. The reproduction of power of subnational actors that resulted from the prior two rounds of political and fiscal reforms led to a decentralized health-care system, in which funds would be guaranteed.

Along the process of neoliberal decentralization in Brazil, we also see incrementalism taking place within the intergovernmental layers that were first reformed. The popular election of subnational officials in 1982 led to incremental pressures for constitutional municipal autonomy in 1988. And the fiscal decentralization measure of 1983 also led incrementally to a similar reform a couple of years later. As a result of neoliberal decentralization, Brazilian governors and mayors have more fiscal resources, deliver and manage more social services, have greater constitutional autonomy from the central government, and are better organized to collectively represent their territorial interests.

7.4 Conclusion

The importance of conceptualizing time in social science explanations has been amply documented (Adam 1994; Pierson 2004). In this contribution, my aim is to spell out why and how time matters to the study of a process of policy reforms. I underscore the several advantages that a temporal and process-tracing methodological approach to the study of decentralization provides. First, time-sensitive conceptualization allows to carefully periodize processes that are analytically equivalent for the purposes of causally comparing them. Second, a process-tracing temporal approach permits to order events, which turn out to be causally relevant, in sequences of reforms. And, third, careful periodization and sequencing of events within processes of interest give us the necessary analytical leverage to uncover the causal mechanisms that connect the different events and relevant stages of the process.

These three advantage points were illustrated in the analysis of the first cycles of neoliberal decentralization reforms of Argentina and Brazil. In Argentina, despite the implementation of decentralization policies, the power of governors and mayors has remained practically unchanged. Whereas the subnational share of expenditures increased during the period of reforms, the share of revenues decreased slightly, thus heightening the dependence of subnational governments on fiscal transfers originating at the center. Practically overnight, provincial governments in Argentina became responsible for more social services, but those administrative transfers were unfunded and posed serious policy-making and political constraints on the governors. Despite the enactment of a constitutional reform in 1994, the constitutional autonomy of governors and mayors did not change in Argentina. And although a mayoral association was formed in 1997, it remains weak and ineffective for organizing the corporatist interests of Argentine municipalities. As succinctly stated in a World Bank report, "Argentina is arguably one of the most decentralized countries [in Latin America] but has essentially the same political and fiscal structure it had before the military intervened in 1976" (Burki et al. 1999: 11).

Brazil, instead, followed the opposite sequence of decentralization reforms. It started with a political decentralization reform: the decision, approved in 1980, to return to the popular election of governors. When the newly elected governors were chosen in 1982, they had a claim to legitimacy that the military national executive did not have. Subnational actors were able to demand, and ultimately to pursue, a course of fiscal decentralization against the wishes of the central government. Both reforms continued reproducing the power of subnational actors, who were in a favorable position to negotiate other fiscal, political, and administrative reforms in 1988. Within the political and fiscal layers, earlier reforms also had policy ratchet and incremental effects on later ones. This sequence of reforms resulted in a significant devolution of power to subnational officials.

Arriving at these conclusions regarding the ways in which patterns of decentralization affected the federal arrangements in these two countries would have been impossible without a very careful conceptualization of the processes of interest as they unfolded overtime. It matters greatly, for example, how earlier events (or policies) in the process (of decentralization) affected winners and losers and how those changes altered the playing field for subsequent events (or policy changes). While here I apply a temporal framework to the analysis of decentralization processes, virtually any process that unfolds over time and whose coherence or unit homogeneity can be established, can (and should) be studied *in time*. The opportunity costs of not applying a temporal sequential analysis to processes such as democratization, privatization, trade liberalization, or nationalization, to name just a few, are very high. The pay-offs of studying *processes in time* are immense.

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8

Federalism, democracy, and democratization

Mikhail Filippov and Olga Shvetsova

8.1 Introduction

Much of the literature on federalism and democracy claims it as an empirical fact that federalism is beneficial for democratic development, especially in large and diverse societies.¹ As Stepan has observed, "in fact, every single longstanding democracy in a territorially based multilingual and multinational polity is a federal state. Although there are many multinational polities in the world, few of them are democracies. Those multinational democracies that do exist, however (Switzerland, Canada, Belgium, Spain, and India), are all federal" (Stepan 1999: 19–20).

Where theoretical literature elaborates on the connection between federalism and democracy, the reasoning derives from the consensus that to be successful federalism requires all of its benefits: well-functioning democratic institutions, judicial system, integrated national political parties, and appropriate electoral incentives created by democratic political competition. The basic finding of the literature is that only in well-functioning democracies can federalism be a stable and effective form of government. And conversely, outside the democratic context, federalism is ultimately an unstable form, which logically progresses either to territorial disintegration or to becoming a mere constitutional formality.

Meanwhile, showing that democracy is crucial for maintaining federal stability does not in any way imply that federalism helps to achieve democratic success. In fact, what federal theories show is that in the long run, in *equilibrium*, democracy must be present in order for federalism to thrive. This has no bearing on what adding federalism to a political regime would do. In

¹ Although, see Gibson (2004) and Lane and Ersson (2005).