

gained region wide attention as a highly important political topic only when the move towards democratization during the last decades provoked a tendency to delegate part of political autonomy to the sub-national level. However, the process of decentralization in Latin America has not only led to positive outcomes. Instead, many decentralization processes are still plagued with deficiencies, which are not only due to the resistance of centralist governments. Rather, building state structures compatible with the principle of subsidiarity and market preserving federalism has been complicated by immense coordination problems at several levels of government and among several types of political actors. Given this background, this essay provides a short overview on the normative aspirations and the empirical reality of decentralization processes in Latin American. Furthermore, it attempts to provide explanatory factors, which are able to account for the lasting deficiencies and incoherencies of decentralization processes in the region. The essay concludes with a special emphasis on the failure of political parties to act as organizers of more coherent decentralization processes in the region.

Normative Hopes and Empirical Realities

From a normative political perspective, decentralization in Latin America has been aiming to bring political legitimacy and state services closer to the average citizen in order to sustain, promote and further consolidate the process of democratization. Additionally, from a normative economic perspective, decentralization has been promoted because of the incentives *market-preserving federalism* is supposed to have on economic development. According to this concept developed by political scientist

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The Political Economy of Decentralization in Latin America

Several Latin American countries have historic experiences with federal arrangements and decentralized forms of governance. However, decentralization has

Barry Weingast, beyond democratic subnational elections, subnational entities should have a high level of fiscal and administrative autonomy in order to compete among each other for investment and human capital. Following theoretic considerations, high levels of fiscal and administrative subnational manoeuvring space then would not only limit discretionary attempts of the central state to politically allocate financial resources and administrative responsibilities. Additionally, sustainable competition would also foster policy innovation and imitation among subnational entities. Yet, the concept of market preserving federalism also embodies principles against “market failure” of subnational competition. For instance, central governments need to keep strong fiscal responsibilities, oriented at preventing subnational governments from becoming excessively indebted and guaranteeing the free flow of capital and human resources within the national territory. Therefore, market-preserving federalism is closely connected to the principle of subsidiarity. States organized according to the principle of subsidiarity, too, leave as much resources and administrative competences as possible at the subnational level. Only when certain collective goods like macroeconomic stability, security against external threat or the free flow of goods, finance and persons cannot be guaranteed by subnational entities, the central government has to take over such functions. While it is a normatively and empirically highly debated issue, which exact administrative responsibilities fall under the latter category, the functionality of subsidiarity for economic development and political legitimacy is highly accepted among scholars and political practitioners.

Confronting these normative guidelines for reorganizing state structures in Latin America with the reality of the “decentralized” state in Latin America demonstrates

that the results of decentralization processes have only been partly successful. On the one hand, subnational entities in Latin America today have significantly more fiscal resources and administrative competences than three decades ago. Subnationally elected bodies often do have a broader base of political legitimacy than the national executive and legislative. Successfully governing municipalities and provinces has opened new political avenues for members of formerly excluded social groups, so that decentralization has helped to broaden the social basis of national political elites. Finally, political, fiscal and administrative decentralization has improved living conditions and economic development in several municipalities and provinces around Latin America. Nevertheless, on the other hand decentralization processes have been plagued with deficiencies, which demonstrate that overall decentralization processes can lead to the weakening of the central government, but also can be obstructed by centralist elites.

Perhaps the most prominent deficiency of decentralization connected with the weakening of the central government has consisted in problems of subnational indebtedness. In most Latin American countries, Chile being a noteworthy exception, the rising political autonomy from the centre and the increasing political dependency from subnational interests has set incentives for subnational governments to become excessively indebted. The subsequent “transfer” of subnational debt to the national level has further increased the difficulties of guaranteeing macroeconomic stability. Beyond this challenge of organizing the compatibility between fiscal decentralization and macroeconomic stability, decentralization processes have generally increased tendencies of domestic fragmentation. This, because such processes have risen opportunities for regional groups to

more effectively pronounce their regional or sector specific interests, making it harder for central governments to embody these interests in an encompassing institutional framework.

In many cases however, central governments and rather centralist interests groups such as health and education unions have at least partly been successful in preventing municipalities and provinces from obtaining more autonomy. Still most of the poor, small and remote municipalities lack resources and administrative capacities. More strikingly, decentralization has not always led to a strengthening of subnational governments. For instance, if administrative competences have been delegated to lower levels of government without adequately taking into account the subsequent increase of financial needs, subnational entities become politically more dependent on fiscal transfers from the government. In this context, the strong dependence of most governments and municipalities on fiscal transfer from the centre and their respectively low reliance on own fiscal revenues has created new vertical dependencies. In many cases, this dependency on fiscal transfers has created bazaar-like situations, where political actors from the national and subnational levels continuously haggle over quotas and amounts, making transfer rules prone to rather erratic political bargaining processes.

Decentralization and the Challenges of Successfully Coordinating Institutional Change

As already has been insinuated, decentralization and the process of transforming state structures according to the principles of market preserving federalism and subsidiarity is a deeply political process. Overly optimistic perspectives on decen-

tralization have proved to be rather naïve, because they assumed that decentralization processes would be ordered by civil society groups around the above-explained normative principles. This is not to say that such groups and participation of local communities have not helped to reduce clientelism and exclusionary structures of policy processes at the subnational level. NGOs also have made important contributions when promoting the topic of decentralization at the national level. Unfortunately however, local communities are often guided by leaders dependent on vertical structures of clientelistic networks or party structures. Some of the most powerful social groups at the national level, labour unions, are generally opposed to decentralization. More importantly, local and provincial governments, the national executive and political parties play a crucial role in shaping the specific courses of decentralization processes. These actors' diverging interests and their increasing amount makes it extremely difficult to organize the decentralization process around the normative principles of market preserving federalism and subsidiarity.

Decentralization attempts to fundamentally change the structure of political, financial and administrative institutions. As institutions are the formal and informal rules which allocate legitimacy, financial resources and policy responsibilities, deep institutional change comes along with distribution conflicts. This argument has already been made frequently with regard to the *vertical conflict dimension* of decentralization processes, where central governments are confronted with losing substantial influence. What has been made less clear is that the characteristics of vertical conflict between the national and subnational level also depend on the concrete dimension of decentralization. From a central government's perspective, political

decentralization is the most worrisome, because political autonomy reduces the influence of central governments on the political careers of subnational politicians. Comparing fiscal and administrative decentralization, the central government prefers to delegate administrative competences to fiscal resources because the grip on financial resources allows the central government to control at least partially the policy agenda of subnational political actors. Within the fiscal realm, central governments tend to prefer transfers to the delegation of revenue competences, the latter leaving the government with more manoeuvring room than the former. As subnational preferences generally are ordered in the opposite way, this simple differentiation already allows for several bargaining outcomes. Furthermore, the resulting conflicts not only result in struggles between the central government and subnational entities but also between municipalities and provinces. For instance, the increasing importance of regional/provincial entities in some Andean countries like Ecuador, Bolivia and Peru has come along with questions on how to adequately integrate provincial governments into the institutional setting between municipalities and the central government.

A more complex analysis of country-specific dynamics of decentralization also has to take into account the *horizontal conflict dimension*. The above made differentiation implicitly has assumed that each level of government tends to follow similar strategies. However, empirical evidence from Latin America dismantles this assumption to be weak. Decentralization also provokes serious distribution conflicts at each level of government. For instance, fiscal decentralization encompasses a reorganization of fiscal accounts, which tend to influence sector ministries differently and create conflicts within the government. Conflicts within the central

government are also common, when administrative decentralization creates winners and losers at the national level. In this context, sector ministries counting on the centralist orientation of highly organized unions are better positioned when it comes to delay the delegation of competences - even if such delegation is adequate from a normative perspective.

At lower levels of government, provinces and municipalities are often too many and too heterogeneous to develop coherent, concrete and long-lasting strategies; a classical collective action problem, which can only be partly resolved by municipal or provincial associations (which are often highly politicised and weak). For example, in Peru more than 1800 municipalities simply have not been capable to organize durable organizational strength against the centralist powerhouse located in Lima. Beyond, there are also structural differences among subnational entities, making it more difficult to organize coherent demands of fiscal and administrative decentralization. For instance, weak and poor municipalities tend to prefer financial transfers against greater fiscal autonomy because they know that at least in the medium term they will be unable to create a sufficient tax base. The opposite is the case with regard to big and relatively wealthy cities. Finally, unanimity among subnational entities are also common when it comes to promote a common formula of transfer distribution (including criteria such as size, poverty, regional location, rural population, etc.).

The combination of vertical and horizontal conflict potential and the need to differentiate actor's preferences with regard to the three different dimensions of decentralization illustrates the enormous difficulties of successfully coordinating a coherent decentralization process. It is therefore of little surprise, that one of the mayor deficiencies of decentralization

processes in Latin America has been a high degree of incoherency. While a certain degree of incoherency is probably endogenous to every process of decentralization, highly incoherent distributional arrangements with regard to political, fiscal, and administrative decentralization are incompatible with the ordering principles of market preserving federalism and subsidiarity.

However, it would be misleading to conclude from such an analysis that decentralization is a cause of continuous political instability in several Latin American countries. Distribution conflicts and coordination problems are endogenous to every decentralization process. Yet, the intensity of conflicts and coordination problems depend to a high degree on the heterogeneity of interests and the varying degree of organizational strength among the political actors involved. As such, like democratization, the attempt of building subsidiarity oriented state structures clearly reveals the shortcomings of inclusive nation and state building in many Latin American countries during the past two centuries. Highly centralized state structures, the political, economic and ethnic marginalization of many social groups and the continuous provision of privileges for narrow elites have created a situation, where the reform of state structures necessarily opens up a Pandora box of many shortcomings. To proclaim subsidiarity-oriented decentralization as dysfunctional for increasing democratic legitimacy and promoting economic development thus would be as misleading conclusion. What are more likely to have catalyzed (but not caused) phenomena of political instability are the parallel processes of democratization, decentralization and economic liberalization, which altogether have overburdened the collective action capacities of Latin American societies.

Political Parties and the Encompassing Interest of Coherent Decentralization

The above-mentioned problems of distribution conflicts and distribution problems highlight the collective action problems of successful decentralization. As subnational and central actors follow rather special interests in this process, the search for organizers of coherent decentralization processes has to focus on actors outside the national and subnational executive bodies. Unfortunately, civil society is only to a very limited extent capable to fulfil such a function. The function of vivid and multi-faceted civil society groups in democratic systems consists in articulating the political concerns and interests of citizens rather than in aggregating the diversity of interests into consistent political strategies. The aggregation of interests in representative democracy is the central task of political parties. Especially in decentralization processes, where the central government has its own special interests, political parties have a crucial role as potential organizers of the encompassing interest of subsidiarity-oriented decentralization. As political parties play an important role on each level of government and party elites will include successful politicians from each level of government, party structures seem to be the most adequate place to develop encompassing and coherent strategies of decentralization. Unfortunately, most of Latin American party systems seem to be ill equipped for such a demanding task. First, many party systems in Latin American democracies are experiencing a problematic process of fragmentation. When party systems split into many small organizations, each party will represent rather small sector and/or region specific interests, thereby losing its capacity to provide coherent programmes for organizing the decentraliza-

tion process. Second, the decentralization process itself includes incentives for further fragmenting party structures and party systems because it tends to give local and regional actors more voice. This again will make it more difficult to organize encompassing political programs. However, the institutional character of party organizations in Latin America still varies considerably. In this context, comparative research has shown that, on the one hand, parties which give more autonomy to regional and local actors tend to be characterized by a higher level of fragmentation than highly disciplined and centralist parties. On the other hand, highly centralized party structures in Latin America are mostly characterized by traditional Caudillo-structures impeding intra-party democracy and promoting populist and volatile policy-behaviour. Consequently, we should not expect parties to take over the role of organizers of an encompassing interest in the near future. Instead, decentralization processes in most Latin America countries will continue to be volatile and incoherent. This is, however, no reason to stop promoting subsidiarity-oriented state reform in the region, because constructing such state structures is one of the most important challenges to guarantee a development-oriented and democratically legitimated state.

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