Decentralization: The Latin American Experience

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Latin America experienced a revolution of local empowerment in the closing decades of the twentieth century. Beginning with the reinstatement of local elections in Ecuador and Peru in 1979 and 1980, local elections have resumed in Argentina and Chile, and mayors have been elected for the first time in Colombia (1988), Venezuela (1989), and throughout Bolivia (1995). Opposition victories were recognized for the first time in Mexico’s state and local elections in the 1980s and the first election of mayors in the capital cities of Argentina and Mexico occurred in 1995 and 1997, respectively. The Inter-American Development Bank notes:

Among the borrowing members of the Inter-American Development Bank, only 13 countries had democratic governments in 1980. Today, all 26 countries are not only democracies but also are becoming more decentralized. While only three countries in the region elected their mayors directly in 1980, 17 countries today use this form of local representation, while in six others mayors are appointed by elected municipal councils (Inter-American Development Bank 1997: 99).

Along with this initiation or renaissance of local elections, the region has also witnessed a series of changes that have bolstered the financial autonomy of locally elected officials. Thus, newly elected officials in some countries enjoy more than just status; they control real fiscal resources.

These dramatic changes have reinvigorated debates along two dimensions: the debate over economic gains from fiscal federalism and the ongoing discussion of democratic quality within the region. In the first, scholars have assessed whether fiscal federalism as practiced in Latin America has generated the efficiency gains promised in economic theory (Tiebout 1956, Musgrave 1959, Rubinfeld 1987, Bird 1990, Oates 1998). Many have found the results disappointing (Bahl and Linn 1994, Prud’homme 1995, Munin 1998, Rodden 2000). In the second, scholars have sought to understand decentralization’s potential for improving democracy’s quality and sustainability in the region. Here, most analysts trumpet decentralization for increasing democratic practice (Fox 1994), providing an entry point into the political arena for ethnic groups and opposition parties (Dahl 1971, Diamond 1999), encouraging policy experimentation (de Tocqueville 1843), as well as simply empowering citizens at the local level. Some observers find fault, however. In Latin America, specific concerns have been raised that decentralization may simply legitimize the power of local bosses, create subnational authoritarian enclaves (Cornelius 1999; Snyder 1999) or, in Colombia particularly, empower agents supported by guerrilla movements, right-wing paramilitary units, and the narcotics trade (Gaitán 1992). On decentralization’s contribution to economic efficiency and democratic quality, the jury remains out.

This paper seeks to add some empirical results from Latin America’s policy experiments to these debates and to sketch a few preliminary conclusions regarding both fiscal federalism and democratic practice.

**Fiscal Federalism**

While Latin American countries are generally more decentralized today than they were ten or twenty years ago, decentralization programs in each country differ in
theoretically and empirically different ways. As each country has crafted its own set of reforms, the region has become a veritable laboratory of decentralization experiments. By looking across this set of countries, one can draw some conclusions about the causes and effects of different policy approaches. A survey carried out by the Inter-American Development Bank in 1995 provides a snapshot of fiscal decentralization across a range of countries and across a range of criteria.

**Table 1: Depth of Fiscal Decentralization**

<table>
<thead>
<tr>
<th>Country</th>
<th>Amount</th>
<th>Collection</th>
<th>Distribution</th>
<th>Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>H</td>
<td>H</td>
<td>H</td>
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<td>Colombia</td>
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<td>Venezuela</td>
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<tr>
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<td>M</td>
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<tr>
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<td>Ecuador</td>
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<td>H</td>
<td>H</td>
<td>L</td>
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<tr>
<td>Peru</td>
<td>L</td>
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</tbody>
</table>

This table displays four different metrics of fiscal decentralization: a measure of the overall amount of fiscal resources devolved to subnational governments, the extent to which the collection of money for distribution to subnational levels is transparent, the extent to which the disbursement of fiscal transfers to subnational governments is transparent, and the extent to which subnational governments have discretion over how to spend their financial resources. This table clarifies the extent to which the experience of decentralization differs across countries, demonstrating that some subnational governments enjoy a large amount of funding whose distribution is transparent and over which the national government exerts little discretion in how it may be spent while other countries face small and unpredictable flows of financing over which they face very little discretion in how it might be spent. Clearly the quality of decentralization in some countries is higher than in others. Furthermore, it is not hard to imagine that the shape of these different decentralizing reforms will affect their ability to deliver the positive outcomes that theories of fiscal federalism suggest should come from decentralizing reforms. In particular, when transfers are highly discretionary, subnational governments have difficulty planning any long-range projects that require multiple years of funding.

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1 Table 1 is constructed from information in a report published by the Inter-American Development Bank (1997) on levels of fiscal decentralization in 1995, where H=high, M=medium, and L=low. "Amount" categorizes countries according to the percentage of total government spending that occurs at subnational levels; I categorize eight countries by their subnational spending as a percentage of national spending, yielding three categories: "high" (>30%), "medium" (30%>xx>15%), and “low” (<15%). "Collection" refers to the transparency with which monies are collected/reserved for subnational governments. "Distribution" calibrates the extent to which intergovernmental transfers are distributed through fixed formulae to subnational levels. Finally, "Allocation" categorizes the level of discretion that subnational governments exercise over the expenditure of intergovernmental transfers. For Collection, Distribution and Allocation: High >80%, Low <20%.

2 By transparency I am referring to whether or not clear formulae exist for the collection and disbursement of fiscal resources to subnational governments.
thus shortening policy-makers' time horizons and leading to suboptimal subnational investments.

In addition, it is worth pointing out that movement within each of the categories shown in Table 1 has occurred over time for each country, with a discernible trend toward the recentralization of fiscal authority. This recentralization has taken various forms: in some cases (Colombia and Argentina, for example) the amount of fiscal transfers has been cut by the central government; in other cases (Argentina and Peru, for example) the distribution of funds to subnational governments has become more susceptible to the national government's discretion. In other work, I have developed a model that links the recentralization of fiscal power to the electoral concerns of parties in power in the national government, mediated by the structure of parties and the fiscal situation of the state. The upshot of this research is that fiscal recentralization is more likely when the party holding the reins of power at the center has weak regional bases of electoral support and the less institutionalized and centrally controlled is that party, regardless of the country's fiscal situation (O'Neill, 2001).

Of course, the differences in fiscal decentralization experiments stretches well beyond the amount and nature of fiscal transfers across governments. There is also much to be learned from these cases about the nature of hard or soft budget constraints on subnational government spending and its implications for national budget balance. Also, there are less obvious features of these decentralization policies that appear to have profound impacts on the type of investments pursued by subnational governments and the extent to which these improve social welfare. On the first point, it seems clear from the work of several scholars (Rodden, Shah) that instituting hard borrowing constraints on subnational governments is a necessary condition for creating incentives for wise spending and for national budget balance. At this point, all countries in the region that initially created soft budget constraints have taken dramatic steps to firm them up. On the second point, some of the factors that have appeared to have a major impact on subnational expenditures are: participatory budgeting processes, as exemplified by Bolivia (Faguet 2001); the presence of parties in power at the subnational level that can be classified as opposition parties from the perspective of the national government, as exemplified by Venezuela (Kraemer 1999); and the size of municipalities coupled with their reliance on central government funding, as exemplified by the comparison between Mexico and Bolivia (Rowland 2001). To name just a few. Clearly there is much still to be learned as the process of decentralization grows and develops in the countries of Latin America.

**Democratic Practice**

In addition to the fiscal lessons that can be drawn from Latin America's experience with decentralization, a set of fascinating questions arises from comparing the political consequences of decentralization across the region's countries that have decentralized power. The rest of this document will take up three political questions regarding decentralization's effects: what has been the effect on voter participation across country and why have some decentralization experiments drawn out more voters than others? What has been the effect thus far on political parties? And, what has been the impact on political careers for politicians across these countries? Based on my own expertise and access to data, these sections will focus primarily on the experiences of the
Andean countries: Bolivia, Colombia, Ecuador, Peru and Venezuela but I will draw on examples from as many other countries as possible.

**Participation**

One measure of how political decentralization has changed democratic participation in Latin America is the rate of voter participation in local and regional elections. Specifically, I will examine the comparison between participation in national elections and subnational elections within countries in Latin America and look at the evolution of participation in subnational elections over time. This first cut at the question of how political decentralization has influenced political life at the grass roots level provides an interesting set of patterns, with different countries demonstrating wildly different patterns of voting behavior. I will first discuss these trends across countries and then speculate a bit about what might be causing these different patterns.

Most scholars of elections and voting behavior have remarked a trend in which voters turn out in much smaller numbers for elections at more local levels of government. Looking at the turnout rates in the U.S., there appears to be a linear decline in participation rates as the power invested in the office for which elections are being held declines. In the 1996 presidential elections, national voter turnout in the U.S. reached 48.91%, while for congressional elections, the number reached 45.6%. Looking at one county, gubernatorial turnout in 1996 reached just shy of 45%, while voting in local elections reached only 25% in a year when the mayor was being elected (1997) and did not even reach 15% in 1999 when the mayor's position was not open to election. This gap between voter turnout in national and subnational elections in the U.S. is illustrative of a trend throughout the developed democracies.

In Latin America, where voter turnout tends to be higher in general than in the U.S., it is notable that the difference between voting at the national level and in subnational elections differs much less in many cases. More interesting still is the pattern of turnout across different nations in the region and the trend in voter turnout at different levels over time within countries.

Comparing the number of people voting in national and local elections in Bolivia, Colombia and Ecuador provides an interesting set of results. National turnout in Bolivia rose significantly between 1993 and 1997, but turnout for local elections grew even more dramatically between the years when local officials were few and poorly funded (pre-1994) and the first post-local-reform election (1995). In fact, the number of people who voted in 1995 local elections actually exceeded the number of people who voted in the previous year's national elections. This trend toward higher local turnout has not been sustained, however: in the 1999 local elections, turnout fell 31% and fell below the number of voters who had cast votes in the 1991 local contests. A different trend obtained in Colombia, where elections for local offices in 1994 drew only 61% as many voters as the first-round presidential election (and only 48% of the voters as the second-round of that election); however, the gubernatorial race in 1997 drew more voters than either round of presidential voting in 1994 and, while national vote totals one year later exceeded the gubernatorial totals, local votes in 2000 were more than double the totals for the first round of national elections in 1994 and just shy of double the second round totals. This last outcome is particularly surprising, given the widespread threats of

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3 Bernalillo County, which includes the city of Albuquerque, New Mexico.
violence made by guerrilla groups leading up to these elections. Finally, Ecuador provides a case where both national and local vote levels are increasing, but the turnout at the national level appears to be increasing at a much faster rate than turnout for local elections, creating a growing gap in the absolute numbers of voters who participate in the two types of contests. Comparing national and regional voting in Venezuela shows a dramatic jump in the number of voters participating in regional polls, with more than three times as many valid votes cast in 2000 than in 1995. While national votes have been climbing over the same period, the number of valid regional votes cast was 88% of the national votes cast in 2000 - a rather small gap. A much wider gap can be seen in comparing 1992 gubernatorial votes with 1994 presidential votes in 9 Mexican states; here the number of valid votes cast in regional elections was only 58% of the number of valid votes cast in presidential elections two years later.

Presenting these data visually, one discerns that regional and local participation is lower in all countries except for recent elections in Colombia and one pair of elections in Bolivia. In the Ecuador and Venezuela, subnational participation is below national participation in all years, but with the gap growing in Ecuador but shrinking in Venezuela.

What does this mean? In rough terms, these differences in turnout reflect popular sentiment about the meaningfulness of subnational governments. There is a rough correspondence between the gap in voting in national and subnational polls and the gap in power between these levels of government. Where decentralization has led to meaningful autonomy for subnational governments and to real resources put at their disposal, participation in subnational elections has grown both absolutely and relatively to national voting. Bolivia's curvilinear pattern for participation in local contests suggests some caution that voter enthusiasm for new local institutions may encounter an initial boost followed by a decline as optimism about these new institutions wanes. It is also worth pointing out that Bolivia is the only case treated here where mayors are indirectly elected by municipal councils when no party wins a majority of the vote; it also has a system allowing municipal councilors to oust the mayor and elect someone from their own number to the local executive on a yearly basis.

Impact on Major Parties

One potential effect of decentralization is the proliferation of parties in subnational elections as the threshold for organizing political support on the local or regional level is seen by political entrepreneurs and independents as smaller than at the national level. Some scholars view this as a major benefit for democracy, while others caution that these fissures at the local and/or regional level may lead to a drop in party coherence and in policy coherence across levels of government over time. Again, looking across countries, we find very different experiences along this dimension of decentralization's political effects.

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Aguascalientes, Chihuahua, Durango, Oaxaca, Puebla, Sinaloa, Tlaxcala, Veracruz, and Zacatecas.
In Bolivia, the percentage of the vote won by the three major parties in local contests has remained rather high, hovering around 50% of the vote in 1997 after dropping from just over 50% of the vote between 1991 and 1995. In Colombia, the Liberals and Conservatives have gone from a high of winning 86% of the mayoral contests in 1988, to a low of winning 63% in 2000. Traditional parties in Ecuador and Peru have experienced first an increase in the percentage of local contests won and then a steep decline over time. In Ecuador, the major parties won a high 86% of local contests in 1996, then dropped to a low of 50% in 1998; in Peru, the major parties won nearly every local contest in 1986, but won only 17% in 1993. Venezuela's traditional parties have seen steady erosion in the percentage of local contests won between 1988 and 2000.

These changes in the electoral fortunes of traditional parties cannot be wholly linked either to the onset of decentralization in these countries or to the particular contents of decentralizing reforms. In Peru and Venezuela, in particular, the precipitous fall in support for the traditional parties had much more to do with failed economic policies and perceived corruption. However, it is interesting to note the comparison between Colombia and Bolivia, where traditional parties have maintained a great deal of their popularity overall. Here, I believe a major difference in the ability of Bolivia's parties to retain their hegemony in local elections has to do with specific electoral laws forcing candidates to run on established party platforms and disqualifying "independent" candidates. In Colombia (and Peru, also), in contrast, independent candidates have multiplied at a quick pace. What cannot be measured in these simple graphs is the extent to which forcing candidates to find a party affiliation has hurt the internal coherence of those parties that have accepted popular locals as standard bearers within Bolivia or the effect his has had on voters who perceive a rather closed system of options there.

Impact on Political Careers

The decentralization of real fiscal resources and the opening up of subnational leadership positions to electoral contestation has a third plausible impact on political practice in Latin America that is worth further exploration: it introduces new career paths to ambitious politicians. Looking through history at the typical political trajectory toward the presidency in Latin American countries, one would find very few executive biographies listing gubernatorial or mayoral positions. Instead, the political resumes of Latin American presidents typically included either prominent positions within the legislature or influential ministry positions or both. Today, the number of presidents and presidential hopefuls with a history of executive service at either the regional or the local level is multiplying at a rapid rate. The most recent round of presidential elections in Latin America includes a Mexican election won by a former governor (Vicente Fox) and contested also by a former mayor of the capital city (Cárdenas). Argentina's current

5 MNR (Movimiento Nacional Revolucionario), MIR (Movimiento de Izquierda Revolucionario) and the ADN (Acción Democrática Nacionalista).
6 CFP (Concentración de Fuerzas Populares), PSC (Partido Social Cristiano), ID (Izquierda Democrática), and the PRE (Partido Roldosista Ecuatoriano).
7 APRA (Alianza Popular Revolucionaria Americana) and AP (Acción Popular).
8 AD (Acción Democrática) and COPEI (Comité de Organización Política Electoral Independiente).
president served both in the Senate and as the Jefe del Gobierno de la Ciudad be Buenos Aires before winning the national election. Although Chile's president Lagos has a résumé peppered mainly with cabinet positions, his main opponent, Joaquín Lavín was a mayor of Las Condes. The winner of Ecuador's most recent presidential election had been the mayor of the capital city, Quito; Colombia's president Pastrana served as mayor of Bogotá, Colombia's capital, and he faced a more recent mayor of that city in the first round of voting. Though Hugo Chávez in Venezuela has no previous governing experience, his main competitor, Arias Cárdenas was the two-term governor of Zulia. Of the large and medium sized countries in Latin America, only Peru and Bolivia did not have major candidates in the most recent presidential elections with experience in elected regional or local positions.

In at least one country (Brazil) with powerful state and local governments, there is also a tendency for those who serve in the national government - mostly legislators, but occasionally an ex-president - to run for subnational executive positions after serving in the national government (Samuels 2000). See also (Hawkins 2001) on Venezuela.

Both of these trends - governors and mayors running for higher office as well as national office holders turning to regional and local executive positions for career advancement - have potentially profound consequences for the evolution of political parties in decentralized countries. Where independents can achieve power in a subnational contest and use their performance in that position to launch a presidential bid for power, traditional parties lose their ability to control access to the national electoral arena. More importantly, where popular party members can use subnational elective positions to leverage their possibility of winning nominations within parties, traditional party elite lose their influence over political succession and, perhaps, over party coherence. While some would applaud the creation of new avenues to power and the reining in of party elite, others will reflect on how this diminishes a party's ability to discipline its members within legislatures once new executives have been selected and how it may shorten time horizons as executives become less accountable to party organizations in general.

Overall, the political consequences of decentralization are mixed and, as yet, unclear. Here I have begun to speculate about the different democratic experiences of decentralizing countries in Latin America - a veritable laboratory of decentralizing reforms. Let me distill a few tentative conclusions in closing. First, it appears that participation has increased in local and regional elections in almost all countries where meaningful reforms have occurred. In Ecuador, where reforms have been slowest in coming, participation has suffered the most relative to national level participation. There is some danger that participation over time may peak early and then decline as voter hopes for new elected governments are not met in practice. Second, party proliferation in subnational elections appears to be increasing across the board, except in Bolivia where independent candidacies are not allowed in local contests. Third, decentralization has added a new element to the career trajectories of ambitious career politicians. Across the region - and particularly where local and regional governments are invested with real policymaking powers - subnational executives are playing a larger role in national executive contests. Whether this has a positive net effect, by bringing to power individuals with practical executive experience or a negative effect, by weakening party
coherence over time, cannot yet be concluded from this brief summary of Latin America's experience with decentralization.
Graph 1: Voter Participation; National and Subnational
Graph 2: Party Proliferation in Local Contests
Sources Cited


Political Database of the Americas. http://www.georgetown.edu/


