

Decentralisation Policies, Subnational Autonomy and Federal Executive Power: A Comparison of Brazil and Mexico

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Decentralisation is assumed to benefit subnational government by increasing its autonomy from central government. This paper challenges this assumption by arguing that decentralisation can have mixed effects on vertical intergovernmental relations (national-subnational). Some decentralisation policies may result in greater subnational autonomy from national government, while some decentralisation policies may paradoxically increase a subnational unit's dependence on national government. By deconstructing decentralisation into its administrative, fiscal and political nature, and by identifying different patterns of fiscal and administrative decentralisation, the paper examines decentralisation policies in Mexico and Brazil. Although both countries have undergone decentralisation, its nature and patterns were very different and explain the different intergovernmental relations that resulted in each

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country. Brazil's decentralisation led to increased subnational autonomy, while Mexico's preserved or even increased federal executive power.

Keywords: decentralisation, subnational autonomy, inter-governmental relations, Mexico, Brazil

1. Introduction: Decentralisation and Subnational Autonomy

In the 1980s and 1990s decentralisation reforms swept across Latin America as almost every country, federal or unitary, with a relatively strong or weak subnational government, implemented measures to strengthen the role of local and regional governments. In political terms, this meant that where subnational officials had usually been appointed, now Latin American countries elected local authorities. In fiscal terms, new resources were decentralised to lower levels of government across the region. In functional terms, new functions and administrative capabilities were also transferred to subnational units in a number of countries (Seele, 2004: 3, 8; Gonzalez, 2008: 211).

There is an ongoing debate over the causes of decentralisation. Some scholars note that the decentralisation processes went hand in hand with democratisation processes in Latin America. Stronger local and regional governments would improve government efficiency, increase its accountability, allow wider political participation and thus contribute to better democratic governance. Thus decentralisation policies are linked to transitions to democracy in Latin America, and are considered a consequence of sociopolitical pressures released after transitions from authoritarian rule (Montero, 2001; Gonzalez, 2008: 214). Another approach sees decentralisation as a result of the economic and fiscal collapse of the import substitution industrialisation (ISI) strategy and central planning during the late 1970s. A third approach considers exogenous factors such as international financial organisations, the “Washington consensus”, and neoliberal reforms to have played an important role in promoting centralisation. Institutional approaches argue that political institutions such as electoral systems and nomination rules shape incentives, strategic decisions and the bargaining process. As part of the institutional approach, scholars consider decentralisation to occur as a result of power struggles between levels of government in a federation (Montero, 2001; Gonzalez,

2008: 215-216). Whatever the causes of decentralisation, all of these approaches share two assumptions: (1) the decision to decentralise occurs at the national (central) level, and (2) decentralisation results in a shift of power relations between the national (central) government and subnational government, allowing greater subnational autonomy from central government.

While the decentralisation process in unitary countries may be easily halted or reversed by the central government, the federal institutional design of a country creates far greater challenges for the central (federal) government due to the nature of intergovernmental relations. Federalism is a mode of governance that refers to multi-tiered government combining elements of shared-rule and regional self-rule. The main structural characteristic of federations is the existence of at least two orders (levels) of government (Kincaid, 2011: xxvi). Power is constitutionally divided and shared between (1) a federal (national) government having certain nationwide responsibilities, and (2) subnational governments having broad regional or local responsibilities. Thus federations feature 'dual sovereignty' where both orders of government retain their sovereignty. Once a federal government decides to decentralise, a reversal of decentralisation policies is more limited, especially if the decentralisation is a constitutional process. By contrast, in a non-federal polity, one *de jure* centre of power ordinarily has the authority to decentralise and recentralise power (Kincaid, 2011: 8-9).

Decentralisation affects intergovernmental relations in federal systems, and it is widely accepted that greater decentralisation increases subnational government autonomy from federal government and reduces the federal government's leverage (or hegemony) over subnational governments. In particular, the changing balance of vertical intergovernmental relations (national-subnational) has far greater implications for federal executive power than federal legislative power. Decentralisation seemingly curtails the chief executive's powers in running the country and creates additional constraints coming from the subnational level. Why then would the federal government (or more precisely, the executive) agree to decentralisation?

This question becomes more relevant in the context of Latin American presidentialism. The model of presidentialism in Latin America diverges from its archetypal model in the US by departing from the concept of the separation of powers and allowing for a very strong executive in the system. Constitutional expansion of executive powers, namely the introduction of lawmaking powers, is a signature feature of Latin American presi-

dentialism (Cheibub et al., 2011: 1707-1709). If the checks and balances system in horizontal intergovernmental relations (legislative-executive) is already skewed in favour of the powerful president, why would the president agree to decentralisation if doing so does not serve his/her political interests in maintaining power? On the contrary, decentralisation would constrain the president's power at the vertical level (national-subnational intergovernmental relations).

In this paper we will test the assumption that decentralisation means a shift of the balance of power in intergovernmental relations in favour of subnational autonomy, and not in favour of federal executive power. Indeed, we will argue that not only does decentralisation not necessarily increase subnational autonomy; on the contrary, in certain conditions it may actually increase subnational government dependency on central government and thus expand the executive power of federal government. In explaining the effects of decentralisation on intergovernmental relations, we will compare the two countries of Mexico and Brazil.

2. Understanding Decentralisation: Towards Hypotheses

2.1. Conceptualising Decentralisation

The very term “decentralisation” implies that it is a process. According to the UNDP definition, “[d]ecentralisation, or decentralising governance, refers to the restructuring or reorganisation of authority so that there is a system of co-responsibility between institutions of governance at the central, regional and local levels according to the principle of subsidiarity, thus increasing the overall quality and effectiveness of the system of governance, while increasing the authority and capacities of subnational levels” (UNDP, 1999: 2). However, the UNDP definition is normatively loaded by pointing out positive outcomes of decentralisation. It would be more value-neutral to define decentralisation as the restructuring or reorganisation of authority that includes a transfer of some degree of authority from a national government to subnational (regional or local) governments.

In literature decentralisation reforms are usually analysed through its several dimensions. Rondinelli (1981) identifies three key dimensions of decentralisation: political, administrative, and fiscal. Seele (2004: 11)

echoes that decentralisation reforms are reshaping state functions along these three dimensions. Gonzalez (2008: 218) also argues that decentralisation policies suppose transferences of political power, administrative structures and fiscal resources. As decentralisation reforms take various forms, it is crucial to deconstruct the concept of decentralisation into its administrative, fiscal and political dimensions. The author has chosen to use Falleti's (2005) deconstruction of decentralisation into three dimensions and the accompanying definitions, because she not only explains each dimension (nature of decentralisation) but identifies variable patterns within the administrative and fiscal dimensions, and also explains the degree of authority devolved in her definitions (Falleti, 2005: footnote 4):

- *Administrative decentralisation* comprises the set of policies that transfer the administration and delivery of social services such as education, health, social welfare, or housing to subnational governments. Administrative decentralisation may entail the devolution of decision-making authority over these policies, but this is not a necessary condition. If revenues are transferred from the centre to meet the costs of the administration and delivery of social services, administrative decentralisation is funded and coincides with a fiscal decentralisation measure. If subnational governments bear these costs using their own pre-existing revenues, administrative decentralisation is not funded.
- *Fiscal decentralisation* refers to the set of policies designed to increase the revenues or fiscal autonomy of subnational governments. Fiscal decentralisation policies can assume different institutional forms such as an increase of transfers from the central government, the creation of new subnational taxes, or the delegation of tax authority that was previously national.
- *Political decentralisation* is the set of constitutional amendments and electoral reforms designed to open new – or activate existing, but dormant or ineffective – spaces for the representation of subnational polities. Political decentralisation policies are designed to devolve political authority or electoral capacities to subnational actors. Examples of this type of reforms are popular elections of mayors and governors who in previous constitutional periods were appointed, the creation of subnational legislative assemblies, or constitutional reforms that strengthen the political autonomy of subnational governments (Falleti, 2005: 329).

Falletti's (2005) deconstruction of the concept into the nature of decentralisation (political, administrative, fiscal) and the pattern of decentralisation allows us to develop various hypotheses of decentralisation policies that may account for different outcomes in vertical intergovernmental relations and test those hypotheses on case studies.

2.2. Decentralisation Policies

Decentralisation policies have the potential to reverse long-standing, deeply embedded features of intergovernmental relations (Faletti, 2005: 343). By disaggregating decentralisation into the administrative, fiscal and political dimension, we can measure the pattern of decentralisation in each decentralising reform and more accurately capture the effects of decentralisation on intergovernmental relations.

In administrative decentralisation, the transfer of policy area may involve transferring either both administrative capacity and decision-making authority to subnational government, or only the former. Subnational government autonomy will increase if subnational government has decision-making authority over the policy it administers. If central government only transfers the administrative capacity to subnational government, without devolving decision-making authority, the central government will extend its leverage over subnational government activities. Thus such decentralisation reform will make subnational government subordinate and accountable to central government.

Also, in administrative decentralisation transfer of policy may be accompanied by a measure of fiscal decentralisation, or it may not be funded. If the central government assigns revenues for the decentralised policy area, subnational autonomy will be increased. Unfunded administrative decentralisation makes subnational executives more dependent on national government for fiscal resources (Faletti, 2005: 332), while central government will shed responsibility for that policy area.

Fiscal decentralisation policies may also produce different effects on intergovernmental relations. Federal systems vary widely in how fiscal resources are allocated among various government levels. As the resource base of subnational governments increases, the impact of decentralisation in constraining the central government also increases. Subnational governments with greater resources are able to pursue their own policies to a greater extent. They can more easily undermine (deliberately or not) or constrain the policies of the national government (Mainwaring & Samuels, 1999: 5).

On the contrary, subnational governments that are bereft of fiscal resources are likely to have less autonomy in pursuing their own objectives and less impact on national politics (Mainwaring & Samuels, 1999: 5).

The pattern of fiscal decentralisation varies in terms of whether revenue-raising (e.g. taxation) and expenditures (transfers and revenue shares) are decentralised or whether only the latter is involved (Montero, 2001: 44). Revenue-raising capacity will significantly boost the autonomy of subnational government as it will considerably lessen its dependence on central government resources and it will be free to decide on the tax policy and the spending of its collected revenues. If the central government decentralises expenditure but puts hard budget constraints on subnational spending and borrowing, or allocates grants for specific purposes and monitors or controls the spending, such decentralising reform increases the central government's control over subnational government. In light of this, the central authorities, and particularly the president, are unlikely to devolve access to resources unless doing so serves their political interests in maintaining power (Montero, 2001: 44).

As noted above, decentralisation does not always increase subnational autonomy. We submit that a certain nature of decentralisation (political, administrative, fiscal) and the pattern of decentralisation may result in the subnational government's increased dependency on the central government and the expansion of federal executive power. In subsequent chapters we will analyse the decentralisation process in Mexico and Brazil to test the hypotheses that the nature and pattern of decentralisation account for different outcomes in vertical intergovernmental relations.

3. Decentralisation Effects on Intergovernmental Relations

3.1. Comparing Mexico and Brazil: A Methodological Note

I used the comparative method to illustrate how the nature and pattern of decentralisation affect the different outcomes in relations between subnational and national governments. For my comparison I chose the Most Similar Systems research design (MSSD) by choosing two most similar countries that have different outcomes on the dependent variable (intergovernmental relations). I selected Mexico and Brazil as the two largest federations in Latin America. Both have strong presidential systems, both

have had authoritarian regimes (although Brazil had military bureaucratic authoritarianism, and Mexico had a civilian authoritarian regime), both democratised and underwent democratic transitions in the 1980s and 1990s, both are emerging markets with large economies and belong to the Top 15 by GDP, both have a large (and similar) number of very diverse subnational units, both have had a similar developmental path, and both have experienced economic crises (the Mexican peso crisis in 1994 and the hyperinflation period in Brazil in the period 1980-94) (Ward et al., 2010: 54-56).

The independent variable is decentralisation operationalised as a process of state reform composed of public policies that transfer responsibilities, resources or authority from central (federal) government to subnational government. Subnational government means lower-level government that is regional or local. In the case of Mexico and Brazil, regional government corresponds to states and local government corresponds to municipalities. I have differentiated decentralisation according to its nature: administrative, fiscal and political. Both Mexico and Brazil were highly centralised federations before the decentralisation process took place. They both implemented decentralisation reforms in the 1980s and 1990s, which transferred authority to subnational governments. It is worth noting that decentralisation policies transferred responsibilities, resources, or authority, so subnational governments were part of state reform projects that had largely different overarching political and economic objectives (Faletti, 2005: 330). For example, in Mexico the PRI-led governments of the 1980s and 1990s implemented a series of additional reforms expanding state and municipal functions, and increasing subnational government resources in response to the repeated crises of political legitimacy and the demands of an ever-growing opposition (Seele, 2004: 9). Mizrahi (2011) argues that the PRI gradually allowed the opposition to win spaces at the local level in order to deflect conflict away from national-level politics, but the increasing local success of the opposition parties helped gradually dislodge the PRI from power. At the same time, successive governments pursued sectoral decentralisation in health and education in the belief that this would make services more efficient and demand-driven. Yet, regardless of the intentions of decentralisation reform, the assumption holds that decentralisation increases subnational autonomy. A brief overview of some decentralisation reforms is illustrated in Table 1, Table 2 and Table 3. A detailed analysis of the nature and pattern of decentralisation in each country is discussed in subsequent chapters.

Table 1. Decentralisation in Brazil and Mexico in the 1980s and 1990s

	BRAZIL	MEXICO
Administrative Decentralisation	1988: Decentralisation of Healthcare 1995: Decentralisation of education	1983-86: Bilateral agreements with some states about decentralisation of education 1992: Decentralisation of education to all states
Fiscal Decentralisation	1983: Passos Porto Amendment (states received increased share from income and production, industrial taxes collected by federal government). 1988: Increased automatic transfers of revenues to states and municipalities	1995: Reform of fiscal coordination law 1997: Creation of new budget line directed to states and municipalities
Political Decentralisation	1980-1982: Popular elections of governors 1988: Municipal autonomy recognised in the constitution	1986: Constitution Article 115 on municipal autonomy 1986: Mexico City's legislative assembly created 1996: Popular elections

Sources: Falleti, 2005; Falleti, 2010

Table 2. Fiscal decentralisation in Brazil and Mexico

	BRAZIL		MEXICO	
	Prior to dec.	After dec.	Prior to dec.	After dec.
Subnational share of revenues	25% 1980	33% 1995	9% 1982	21% 1997
Subnational share of expenditures	32% 1980	44% 1995	18% 1978	29% 1999

Source: Falletti, 2005

Table 3. *Subnational governments' dependence on fiscal transfers (by level of government)*

	BRAZIL	MEXICO
Regional governments (states)	17%	91.4%
Local governments (municipalities)	67%*	70.6%

Source: Seele, 2004

* Local governments in Brazil depend on a mixture of federal and regional government transfers (Seele, 2004: 16).

3.2. Brazil: Decentralisation and Ad Hoc Recentralisation

The decentralisation process in Brazil can be characterised as a transition from an “extreme centralised federalism” that prevailed under military rule, to a highly decentralised federation (Melo & Rezende, 2004: 40). Decentralisation in Brazil meant a redefinition of federal government functions and a new assignment of functions and tax powers to subnational governments. As such, decentralisation was carried out as a response to the crisis of the authoritarian regime and was viewed as a requirement for the deepening of democracy (Melo & Rezende 2004: 40). High centralisation, bureaucratism, low accountability, and lack of inclusion and participation of society in public policy making were the elements attacked by the decentralisation strategy in a democratic context (Melo & Rezende 2004: 48).

Decentralisation in Brazil expanded rapidly during the 1980s as part of the transition to democracy. Political decentralisation occurred in 1980-1982 with the direct elections of local governments. All state governors were directly elected in 1982. By the end of the 1980s Brazilian states had garnered significant control over tax revenues and transfers. Subnational governments had acquired unearmarked fiscal transfers, revenue-raising and policy responsibilities. Over 90% of intergovernmental transfers went unearmarked and funds generally earmarked for health and education were spent largely at the discretion of the governors (Montero, 2001: 59).

The decentralisation process in Brazil also took on an important constitutional dimension. The decentralisation was encapsulated in a new constitution rather than through legislation. The new constitution established a high degree of fiscal decentralisation by fiscal federalism rules. Fiscal decentralisation in the 1988 constitution was a result of a set of measures

that a) increased the fiscal capacity of subnational units, and b) transferred resources from the federal to the lower levels of government. The states benefited mostly from the former type of measures (Cheibub et al., 2002: 3, see also Table 3). For the states, sales and services taxes (ICMS) were broadened as they absorbed taxes previously collected by the federal government, and the states could set the rates and administer the collection of ICMS. For municipalities, the transfer of resources from upper level governments (federal and regional) was mandated by the 1998 constitution (Cheibub et al., 2002: 3). Thus the pattern of fiscal decentralisation was not only to increase expenditure capacities of subnational governments, but also to increase their revenue-raising capacities. The far-reaching revenue-raising powers of Brazilian states have considerably boosted their subnational autonomy. While before decentralisation subnational revenue share was 25%, it jumped to 33% after the decentralisation reforms, and is 46% as of 2013 (see Table 4 below). The federal government has very limited control over subnational tax administration, budget formulation, execution and oversight, as well as wage and investment policies (Melo & Rezende, 2004: 37). The data shows that regional (state) governments of Brazil are dependent on fiscal transfers from the federal government for only 17% of their expenditures (Table 3).

The 1988 constitution recognised municipal autonomy and mandated attributions and a bigger share in general revenue to municipalities. Decentralisation proceeded at a significant pace in the 1990s. The national decentralisation policy included healthcare, social assistance and education. Decentralisation proceeded in most areas and was fully consolidated in many sectors, particularly health and education. “[H]aving acquired greater fiscal and policy making autonomy, the subnational governments, particularly municipalities, have become important loci of innovation and democratic governance” (Melo & Rezende, 2004: 44). In the mid-1990s the states were empowered to decide on the allocation of federal funds in the area of housing and sanitation. 58% of all municipalities were empowered to use federal resources for health as they deemed fit, and 33% of municipalities were empowered to use federal funds earmarked for social assistance at their discretion (Melo & Rezende, 2004: 44-45). By returning more than half of central revenues to the states and municipalities the 1998 constitution made subnational offices extremely attractive (Power, 2010: 20). Keeping in mind that resources for social spending were entirely centralised at the federal level in the mid-1980s, it could be argued that a revolution took place in the country in the area of intergovernmental relations (Melo & Rezende, 2004: 45). Although healthcare decentral-

isation in Brazil generated temporary conflicts between lower levels of government – states and municipalities (Gomez, 2008: 53) – healthcare clearly remains a subnational prerogative.

Political and administrative decentralisation is quite substantial as governors and mayors in Brazil enjoy unparalleled power within the Latin American context. Administrative decentralisation was always accompanied by devolution of decision-making authority and resource allocation to subnational governments. Such a pattern of administrative and fiscal decentralisation shaped intergovernmental relations in favour of greater subnational authority and diminishing executive power of the federal government.

In spite of extensive decentralisation in Brazil, the 1990s also witnessed a parallel *ad hoc* recentralisation by the federal executive under president Cardoso (Montero, 2001: 59; Armijo, 2006: 773-774). The vicious circle of subnational spending and hyperinflation was brought to a halt through a series of *ad hoc* efforts by the executive, including a successful macroeconomic stabilisation reform and strategic use of central monetary and fiscal authority (Montero, 2001). Cardoso's success in building a coalition and supportive federal legislation enhanced his position *vis-à-vis* the states. The recentralisation of resources was a stabilisation measure, but recentralisation measures remained rather minimal compared to the degree of fiscal decentralisation in Brazil. Strong presidentialism in Brazil may have had its own impact on intergovernmental relations between the federal executive and the subnational level. The Brazilian executive has very expansive rights of legislative initiation; he also has the right to request urgency for most bills, and under certain conditions can legislate via decree (Power, 2010: 22).

In conclusion, intergovernmental relations in Brazil witnessed a dramatic reformation due to the decentralisation process. The combination of political, administrative and fiscal decentralisation and the pattern of decentralisation that included devolution of policy-making authority, revenue allocation and revenue-raising competences have both shaped intergovernmental relations in the direction of high subnational autonomy, a significant decrease of dependency central government, and very limited federal executive power over subnational governments.

3.3. Mexico: 'Centralising' Decentralisation

One of the most peculiar features that have characterised the Mexican political system has been its excessive political and economic centralisa-

tion. Although Mexico officially has a federal system of government, in practice power has remained firmly concentrated at the federal level. Since the six-year term of Miguel de la Madrid (1982-1988) the country has begun to put into practice decentralisation policies. This is a result of the pressures of external debts and a drastic reduction in public spending. Given the government's deteriorating capacities to respond to the population's growing demands, and given the resulting erosion of political legitimacy of the authoritarian PRI government, the federal government was motivated to introduce administrative reforms aimed at decentralising functions, powers and resources to state and municipal governments (Santin del Rio, 2004: 167; Mizrahi, 2004: 138). Although the government promoted decentralisation as a democratic measure, in reality the federal government's intentions were neither to increase political participation nor to introduce democratic reforms, but to increase government efficiency and maintain the hegemony of PRI in power (Mizrahi, 2004: 138).

In 1986 Article 115 of the Mexican Constitution, dealing with municipal autonomy, was modified. This decentralisation reform tried to strengthen the legal base of municipality, to clarify and make explicit its functions and responsibilities. The reform authorised municipal governments to collect property tax and specified, in detailed manner, the public services for which they were responsible, but did not give the municipalities autonomy to promote social development or participate in the decision-making process. In spite of the reform of Article 115, few municipalities had a real ability to increase their own resources and, therefore, continued depending heavily on the transfers they received from the federal government (Mizrahi, 2004: 146).

Political decentralisation also took place in Mexico. Although under the authoritarian PRI elections were held for subnational offices (with the exception of the Mexico City mayor's office), they were not competitive and the PRI selected the candidates. It was not until the mid-1990s that elections for mayors and governors became competitive in Mexico (Faletti, 2005: 336) due to political decentralisation reforms. Finally, the 1996 reforms made the position of head (*Jefe*) of the Federal District, a combination governor of the nation's second-largest federal entity and mayor of the world's largest city, subject to election for the first time since before the revolution.

The pattern of decentralisation is extremely relevant to understanding decentralisation reforms in Mexico. Decentralisation policies in Mexico usually took the shape of administrative decentralisation, whose pattern rarely involved devolution of policy-making authority, and often did not

allocate resources (that is, administrative decentralisation was unfunded). The subnational governments were mere executors of the policy area that was planned at the central level. For instance, all issues of public education management were in the hands of the federal government in 1978 (with the sole exception of the management of school buildings). In 1992 after the signing of a decentralisation agreement, authority over the curriculum and evaluation of the system remained at the federal level; school building management and affairs of hiring, firing, and relocation were to be decided jointly by the governments; and other issues (teacher training, salary) were subnational (state) competences. In comparison, in 1982 Brazilian states and federal government shared all responsibilities but by the mid-1990s all these issues were devolved to governors, mayors and school directors (Faletti, 2005: 336). In Mexico, many governors complained openly about the way the federal government had decentralised the education system, and stated that in reality what had been decentralised were the problems, without giving the state governments autonomy and sufficient incentives to resolve them (Mizrahi, 2004: 151). The level of control retained by the federal government is so significant that some researchers of Mexican education did not call this reform decentralisation (Tatto, 1999: 259). The new decentralisation reform in education – the Fox National Program of Education: 2001-2006 which presents a vision for Mexican education for the year 2025 – actually reflects a continuity of the 1990s reforms rather than pointing to any significant change (Ornelas, 2004: 399). Ornelas (2004) argues that the president and the federal government created an overseeing institution, INEE, which is still not autonomous from the federal government.

Decentralisation of the health policy area left the federal government with continued powers to allocate resources to states, establish doctors' salaries and establish quality standards (Mizrahi, 2004: 153).

The propensity to opt for administrative decentralisation that is unfunded and without devolving decision-making authority for decentralised policy areas has been a major obstacle to the increase of subnational autonomy in Mexico, where decentralisation has been used paradoxically as a strategy for reaffirming the centre's control over subnational units.

This top-down decentralisation promoted by the federal government could not alone resolve the problems inherited from a centralised *presidencialista* (presidentialist) system (Santín del Río, 2004: 168; See: Whitehead, 2009). Mexico remained a case of sustained centralisation due to the persistence of an extraordinarily strong presidency that remained the chief articulator of the country's economic reform agenda (Montero, 2001: 46).

Furthermore, although formal presidential authority has diminished over the last three decades, while congressional powers have expanded, the presidency still wields control over party leadership, and maintains extraordinary legislative and veto powers largely independent of the parties (Montero, 2001: 50; Ugalde, 2001). Decentralisation policies in Mexico can be characterised as a continued dominance of the presidency and its leverage over subnational interests.

Although Mexican governments embraced decentralisation as a mechanism of promoting efficiency and democratisation, these reforms maintained, and in some cases extended, federal discretion over subnational taxation and spending. Despite the fact that amounts transferred to states and municipalities grew significantly, the most important decisions regarding how the transferred resources would be managed remained under control of the federal government. The close-ended mandates, and hard budget constraints on subnational spending and borrowing persisted in fiscal decentralisation policies, and fiscal decentralisation did not include devolution of revenue-raising authorities to subnational governments. Accordingly, this pattern of fiscal decentralisation led to indirect influence by a central authority on subnational policy making (when decision-making power was devolved) and increased the leverage of the federal executive over subnational governments. Although today the states and municipalities have greater economic resources, they continue to depend financially on the federal government and, perhaps more importantly, they lack the autonomy to manage those resources. Federal discretion over the new revenue-sharing made the Mexican states 'dependent sovereignties' firmly in the hands of the presidency (Montero, 2001: 48). The peso crisis of December 1994 has kept political economic bargaining power centralised, reinforcing the power of the presidency (Montero, 2001: 50).

The decentralisation pattern remains the same well into the 2000s. Mexico follows a revenue-sharing system whereby the federal government collects the main taxes, namely, corporate and personal income taxes, value-added tax, and most excise taxes. These constitute over 90% of the total public sector tax revenue (Hernandez-Trillo & Jarillo-Rabling, 2008: 1549). Hernandez-Trillo and Jarillo-Rabling (2008: 1549) identify the subnational governments' lack of tax independence as the main deficiency in the fiscal system. According to Table 3, both regional (state) governments and local (municipal) governments rely heavily on fiscal transfers from the federal government in their expenditure; that is, 90.4% of state and 70.6% of municipal expenditures rely on fiscal transfers. The New Federalism reform of the Ernesto Zedillo government (1994–2000) brought a clear-

er definition of the allocation of resources and administrative functions across federal, state and municipal levels (Topal, 2015: 1130); however, this did not devolve decision-making authority to subnational levels. The constitutional amendment of Article 115 in 1999 defined municipalities as political entities able to set policies for local affairs within their jurisdiction, like the states and the federal government. The reform also gave municipalities the authority to assume new administrative functions through agreements with state governments (Topal, 2015, p.1131); however, this administrative decentralisation remains unfunded. Mendoza (2013) concludes that the Mexican case makes clear that the transfer of greater powers to subnational governments does not necessarily mean an increase in their institutional capacities. The current fiscal framework in Mexico has generated huge vertical imbalances between the federal government and subnational governments. In comparison with Brazil, today's Mexican subnational governments have far less autonomy in revenue-raising and spending (see Table 4).

Table 4. Subnational revenue-expenditure proportions in Brazil and Mexico

	BRAZIL	MEXICO
Revenue	46%	9.20%
Expenditure	55%	48.21%

Source: Mendoza, 2013

All in all, decentralisation policies in Mexico were not conceived as instruments designed to change the balance of power among the different levels of government. Decentralisation did not have the political character it required, given that the federal executive (the presidency), desiring to continue having central control of decisions, only decentralised the problems but not the power of decision-making (Santin del Rio, 2004: 179). Relying on administrative decentralisation without accompanying fiscal decentralisation or devolution of decision-making power, decentralisation in Mexico increased the dependence of subnational governments on federal resources, reduced subnational governments to policy administrators, and paved the way for the federal government's direct or indirect influence over subnational policy making. Thus decentralisation, contrary to the expected outcome, increased federal executive power in vertical inter-governmental relations.

4. Conclusion

Decentralisation is a process of state reform composed of public policies that transfer responsibilities, resources or authority from the central government to subnational government. Due to authority transfers from one government to another, decentralisation has an impact on vertical intergovernmental relations. Although a commonly expected outcome of decentralisation is increased subnational autonomy, a more insightful analysis of decentralisation policies shows that this is not always the case. Decentralisation may have mixed effects on national-subnational relations. Deconstructing the concept of decentralisation into its administrative, fiscal and political dimensions and analysing its patterns reveals that certain types of reforms may actually decrease the power of subnational officials.

Analysing administrative decentralisation we can see that the transfer of policy area may involve transferring either both administrative capacity and decision-making authority to subnational government, or only the former. Subnational government autonomy increases if subnational government is provided with decision-making authority over the policy that it administers. If the central government only transfers the administrative capacity to the subnational government, without devolving decision-making authority, the central government extends its leverage over subnational government activities. Therefore a decentralisation reform will make subnational government subordinate and accountable to central government. Moreover, in administrative decentralisation, the transfer of policy may be accompanied by a measure of fiscal decentralisation or it may be unfunded. If the central government assigns the revenues for the decentralised policy area, subnational autonomy will be increased. But unfunded administrative decentralisation makes subnational executives more dependent on national government for fiscal resources. Fiscal decentralisation policies may also produce different effects on intergovernmental relations. Subnational governments with greater resources are able to pursue their own policies to a greater extent. However, the distinction between decentralising expenditures and revenue-raising capacities is crucial. Decentralised expenditures may increase subnational autonomy as long as the subnational government can spend money with a high degree of discretion. Conditional and earmarked funds may actually serve as a tool to expand federal executive power over subnational units. Decentralising revenue-raising capacities will significantly boost the autonomy of the subnational unit and reduce its dependence on national transfers.

The analysis of decentralisation policies that took place in Brazil and Mexico reveals that the balance of power changes in favour of subnational autonomy when there is a combination of administrative, fiscal and political decentralisation. When administrative decentralisation is accompanied by devolution of policy-making authority and allocated resources, it increases the autonomy of the subnational government. Also, fiscal decentralisation that transfers revenue-raising authority to subnational governments will have the same effect. This has been observed in the decentralisation policies of Brazil. On the contrary, a decentralisation pattern which opts for administrative decentralisation without devolving decision-making authority or allocating resources is most likely to have an opposite effect on intergovernmental relations by increasing subnational dependency on the federal government and by increasing federal executive power over subnational policy making. Fiscal decentralisation that involves only decentralising expenditure, without transferring revenue-raising authority, may also increase subnational dependence on federal resources, especially if the subnational government does not have discretion over expenditure. Such decentralisation reforms were observed in Mexico.

All in all, it is important to analyse decentralisation policies of countries by deconstructing decentralisation into its political, administrative and fiscal nature and see how various combinations of the three in a particular decentralisation reform affect the change in intergovernmental relations between national and subnational governments.

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DECENTRALISATION POLICIES, SUBNATIONAL AUTONOMY AND FEDERAL EXECUTIVE POWER: A COMPARISON OF BRAZIL AND MEXICO

Summary

Decentralisation is a process of state reform composed of public policies that transfer responsibilities, resources or authority from central government to subnational government. Due to authority transfers from one government to another, decentralisation has an impact on vertical intergovernmental relations. Although a commonly expected outcome of decentralisation is increased subnational autonomy, a more insightful analysis of decentralisation policies shows that this is not always the case. Decentralisation may have mixed effects on national-subnational relations. Deconstructing the concept of decentralisation into its administrative, fiscal and political dimensions based on Falleti's (2005) definition, and analysing decentralisation patterns, reveals that certain types of decentralisation reforms may actually decrease the power of subnational officials. The analysis of decentralisation policies that took place in Brazil and Mexico reveals that the balance of power changes in favour of subnational autonomy when there is a combination of administrative, fiscal and political decentralisation. When administrative decentralisation is accompanied by devolution of policy-making authority and allocated resources, it increases the autonomy of subnational government. Also, fiscal decentralisation that transfers revenue-raising authority to subnational governments will have the same effect. This has been observed in the decentralisation policies of Brazil. On the contrary, a decentralisation pattern which opts for administrative decentralisation without devolving decision-making authority or allocating resources is most likely to have an opposite effect on intergovernmental relations by increasing subnational dependency on federal government and by increasing federal executive power over subnational policy making. Fiscal decentralisation that involves only decentralising expenditure without transferring revenue-raising authority may also increase subnational dependence on federal resources, especially if the subnational government does not have discretion over spending. Such decentralisation reforms were observed in Mexico.

Keywords: decentralisation, subnational autonomy, intergovernmental relations, Mexico, Brazil

DECENTRALIZACIJSKE POLITIKE, SUBNACIONALNA AUTONOMIJA I FEDERALNA IZVRŠNA VLAST: USPOREDBA BRAZILA I MEKSIKA

Sažetak

Decentralizacija je reformi proces u okviru kojega se odgovornosti, sredstva ili ovlasti prenose sa središnje na subnacionalnu razinu vlast. Zbog prijenosa ovlasti s jedne na drugu razinu vlasti decentralizacija utječe na vertikalne odnose unutar upravnog sustava. Kao često očekivani ishod decentralizacije navodi se rast subnacionalne autonomije, no detaljniji uvid u decentralizacijske politike svjedoči da do toga ne dolazi uvijek. Decentralizacija može imati miješane posljedice na nacionalno (centralno) – subnacionalne (lokalne) odnose. Razdvajanje pojma decentralizacije u upravnu, fiskalnu i političku prema tumačenju T. Falletija (2005) te analiza načina provođenja decentralizacije otkriva kako neke vrste decentralizacijskih reformi mogu čak dovesti do smanjenja ovlasti na subnacionalnoj razini. Analiza decentralizacijskih politika u Brazilu i Meksiku otkriva kako se ravnoteža moći premješta na stranu subnacionalne razine kada se radi o kombinaciji upravne, fiskalne i političke decentralizacije. Ako je upravna decentralizacija popraćena devolucijom ovlasti nad kreiranjem politika i dodijeljenim sredstvima, razina subnacionalne autonomije raste. Isti učinak imat će i fiskalna decentralizacija popraćena prijenosom ovlasti nad prikupljanjem prihoda sa središnje na subnacionalnu razinu, što je vidljivo iz decentralizacijskih politika Brazila. S druge strane, ako se radi samo o upravnoj decentralizaciji, a da istovremeno ne dolazi do devolucije ovlasti nad odlučivanjem ili dodjelom sredstava, to će vjerojatno imati suprotan učinak na centralno-lokalne odnose te će subnacionalna razina vlasti u većoj mjeri ovisiti o federalnoj (centralnoj) vlasti čija će moć nad kreiranjem politika na subnacionalnoj razini također biti veća. Fiskalna decentralizacija koja podrazumijeva samu decentralizaciju troškova bez prijenosa ovlasti nad prikupljanjem prihoda također može rezultirati povećanom ovisnošću subnacionalne razine o federalnim sredstvima, pogotovo ako subnacionalna vlast nema pravo odlučivanja o trošenju sredstava, kao što je vidljivo iz decentralizacijskih reformi u Meksiku.

Ključne riječi: decentralizacija, subnacionalna autonomija, centralno-lokalni odnosi, Meksiko, Brazil