

Decentralization *and participation* in Latin America: *an economic perspective*

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If political decentralization is to generate efficiency, then local spending must be linked to the relevant fiscal effort, and local decision-making processes relating to the provision of public goods should be at least as democratic as those at the centralized level. Rarely are these basic conditions met in Latin America. This is attributed mainly to the fact that decentralization processes have been geared essentially towards the fulfilment of social objectives. Today, however, the autonomy of subnational spheres must be increased in order to strengthen economic competitiveness. This article considers ways of achieving this new objective not only without disregarding other aims and indeed creating synergies with them, for example stimulating citizen participation, reducing social and territorial inequities, and enhancing the efficiency of the State apparatus –including the fiscal sphere– in order to achieve these strategic objectives.

I

Introduction

Although the predominant trend in Latin America up to the debt crisis was for both political and economic decisions to be taken centrally by the national government, starting in the 1980s –as a result of democratization and the structural adjustments demanded by the crisis– a historic trend emerged whereby the provision of public goods has been partly transferred to democratic subnational processes (political decentralization), while production processes of publicly provided goods have been transferred to the field of economic competition (economic decentralization).¹

Political decentralization was expected to contribute decisively to constructive participation, to the efficiency of public management and to greater territorial and social equity. However, more than ten years since the earliest processes in the region were initiated, advances in local participation are uneven, while no conclusive results have been observed in terms of efficiency, and gross domestic income continues to be concentrated in just a few regions. Admittedly, social service coverage has been expanded, but in many cases inter-regional differences have become more pronounced. The transfer systems adopted are not conducive to fiscal efficiency (Finot, 1997) and the excessive debt levels of subnational governments are considered to have generated macroeconomic disequilibria (ECLAC, 1998). Thus, whereas decentralization at first aroused great expectations, its effectiveness has been called into question, but this can jeopardize advances in the democratization process, whose viability is contingent on political decentralization. Hence it is crucial to determine why the objectives of decentralization are not being fully

achieved in order to pinpoint some of the main issues to be addressed and to put these processes back on track.

ILPES has undertaken this task in compliance with a mandate from its member governments. While conscious of the essentially political nature of decentralization processes, it made an economic analysis² of the processes launched in the region in the 1980s in order to provide elements for reflection from this point of view, and some of the results of this analysis were presented at the tenth Meeting of Ministers and Heads of Planning (ILPES, 1998). On that occasion, a distinction was made between the functions the subnational governments fulfil as heads of autonomous regions and those they fulfil as agents of the central governments, which would imply a change in the current system of transfers. This article, prepared on the basis of those advances and other studies carried out by the author (see in particular Finot, 1997 and 2001), develops the conceptual framework (fiscal federalism³) underlying these proposals, focuses on the problems it reveals, and moves forward in the identification of the modifications demanded by the decentralization processes, not only for achieving the objectives already outlined in financially sustainable conditions but also in the light of a new objective: that of boosting the competitiveness of the economies of the region.

1. Conditions of efficiency

a) *Two types of allocation*

It is generally agreed that of the three fundamental economic functions of the State (stabilization,

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¹ See the justification for this differentiation in the conceptual framework developed as the first point of this paper.

² Based mainly on information generated by a regional ECLAC/GTZ project on fiscal decentralization executed between 1994 and 1997 and coordinated by Gabriel Aghon.

³ This is the term given in the literature to the economic theory of decentralization, whose first elements can be found in Ostrom, Tiebout and Warren (1961). In a recent article, Oates (1999), who coined the term “fiscal federalism” (Oates, 1977), bemoans the fact that he did not name this branch “decentralization theory”. The term “federalism” has helped to circumscribe these valuable analyses to the cases of federal countries, when they are in fact specially useful when applied to the analysis of decentralization to levels that are closer to the individual citizen.

distribution and allocation), the one to be decentralized is allocation. The function of allocation refers mainly to decisions relating to the provision of public goods: what goods, how many of each of them and with what portion of revenue –present or future– they should be provided publicly. However, these decisions, which are adopted mainly through the adoption of budgets, also include decisions as to what should be bought and what produced directly, and with respect to the latter, what combination of factors and inputs will be used to produce it: i.e., how it would be produced. Political decisions on allocation refer therefore to two types of allocation: one on **provision**, where it is decided what is to be provided and with what resources, and another on **production**, in which it is decided how to produce the goods that are to be provided.

b) *Allocation and efficiency*

By definition, the provision of public goods⁴ represents a cooperative solution⁵ and is done through democratic processes which, in order to serve as efficient mechanisms for revealing preferences, must link expenditure with the contributions to finance it (Musgrave and Musgrave, 1989). Like any cooperative solution, a public appropriation does not correspond to any individual preference but, in the best-case scenario, to the sum of citizens' preferences (Samuelson, 1954); it is justified when, through it, the community as a whole is better off than if there had been no such solution. The demand for public goods varies with the sphere of consumption of each of them: from those cases in which they transcend national boundaries –as in the case of goods generated by integration processes or even global public goods, such as international tribunals for judging war crimes– to those provided for use mainly by small rural or urban communities. Thus, following the rationale of the decentralization theorem (Oates, 1972), the provision of public goods will be all the more efficient if it is adapted to the territorially differentiated demand for such goods⁶. This differentiation is expressed effectively when citizens decide on the portion of their

income that they are prepared to use to finance different solutions corresponding to different spheres.

In order to bring the provision of public goods more in line with the various public preferences, once it has been determined that they will be provided exclusively by the national level (national choices) it would then be appropriate for the State apparatus to be brought as close as possible to the citizen, for various decision-making levels to be defined with respect to provision, and for such provision to be distributed among those levels by exclusion, as a bottom-up process. Moreover, an effort should be made to stimulate the development of cooperative solutions among territorial communities of the same level before resorting to centralized solutions at a higher level. This criterion for economic efficiency coincides with the political principle of subsidiarity, which reflects the tremendous potential of political decentralization for deepening democratization.

As regards the question of how to produce the goods to be provided, while in the case of private provision on a competitive basis producers must seek the combination of factors and inputs that implies a lower cost for them, the provision of public goods is basically monopolistic; moreover, the costs deriving from inefficiencies do not usually have automatic economic consequences for those who decide and execute the provision, thus eliminating the economic incentives for such combinations to be efficient. On the other hand, in the absence of efficient control of expenditure by those who defray it – which in turn has its own cost – individual interests can operate instead in the opposite way: the risks of inefficiency in public allocation become evident especially in cases of political corruption, mainly in the acquisition of inappropriate and/or overvalued equipment and infrastructure and in the practice of patronage.⁷

Hence, many decisions on the provision of public goods, like those relating to their production and, among the latter, those that relate to direct production, imply risks in terms of efficiency. "Allocative inefficiency" is the term used to refer to the sum of the differences between what citizens would wish to obtain in exchange for the portion of their income that they pay out for the provision of public goods and what they actually receive; and "productive inefficiency" is used to refer to the difference, in terms of cost/benefit ratio, between what would be produced with allocations of factors deriving from economic competition and what is effectively produced through combinations of factors

⁴ Public goods: in principle, rules, services and economic goods provided by State bodies, from whose consumption no citizen can be excluded.

⁵ A public or collective choice as opposed to a private or individual one. For an analysis of this approach, see Mueller (1984).

⁶ Basically because consumers can "vote with their feet" (to use Tiebout's expression (Tiebout, 1956)) in search of the region or locality that best corresponds to their choice of public goods, which introduces competition among territories (including countries).

⁷ According to Kurer's analysis (Kurer, 1993).

and inputs based on decisions through political and administrative procedures. Technical inefficiency, when it increases costs, heightens allocative inefficiency.

c) *Decentralization as a solution*

From the economic point of view, decentralization is basically a reform of public management aimed at reducing inefficiencies in allocative processes. It may assume two fundamental forms: i) political decentralization, which would imply transferring the provision of some public goods to local⁸ democratic processes, and ii) economic decentralization, which would consist in transferring or opening up decisions on combination of factors and inputs to economic competition.⁹

Political decentralization would reduce allocative inefficiency by harmonizing the provision of public goods with geographically differentiated preferences, by reducing the complexity of what is decided through political and administrative processes, and by facilitating transparency, representation and citizen participation; economic decentralization, for its part, would mitigate technical inefficiency by introducing market mechanisms in productive processes, but would also help to increase allocative efficiency, if it cuts costs and reduces the number of matters that must be dealt with by political and administrative decisions. Political decentralization is directly linked to greater democratic governance¹⁰ and economic decentralization to a form of regulation which ensures that the quasi-markets thus constituted operate in a socially beneficial manner.¹¹

⁸ In this study, the term “local” is used as the antonym for “central”.

⁹ The evolution of the concept of decentralization of the region has been already examined (Finot, 2001). The concept of economic decentralization which is defined here was based on Von Haldenwang’s (1990) concept, which includes both privatization and “deregulation”, understood as the opening up of production to non-State agencies whether they be profit- or non-profit-making. However, the main point of economic decentralization is deregulation and not the transfer of ownership, which is referred to as privatization. The main forms of economic decentralization are: the purchase of inputs (including outsourcing), concession (transfer of the production of services while maintaining ownership of the assets), and agreements for the provision of final goods. The last case would include private non-profit-making organizations devoted to scientific activities and to the production of health services which Bresser-Pereira (1997) describes as the “non-State public sector”, particularly when they are financed totally or partially with public funding.

¹⁰ Democratic governance: the capacity of a society to govern itself (Espíndola, 1998).

¹¹ Quasi-markets: demand is defined in political terms, while production is generated through economic competition. In other

The foregoing suggests that for political decentralization contributes to efficiency, it is necessary to transfer decision-making power not only in respect of local spending but also in respect of citizens’ financial contributions to that spending. The generation of public income can be viewed as the contributions that citizens make at the different levels of territorial organizations of the State to which they belong, and these levels in turn deal with different spheres of demand.¹² In order to facilitate the decisions on these contributions, each level should have its own tax bases and be able to modify the relevant rates so that the citizens and their representatives at each level can vote for alternative solutions with different costs.

Whether for political or economic decentralization, the basic criterion for transferring allocation decisions is that the decentralized processes should be more efficient than centralized processes. One –but not the only– prerequisite in the case of political decentralization is that demand should be differentiated at the territorial level, as already mentioned, and in the second case, private production on a competitive basis should be possible; but a *sine qua non* condition in order for decentralization (whether political or economic) to enhance efficiency is that it should increase participation in allocation mechanisms: citizen participation when provision is decentralized; economic participation when production is decentralized.¹³

On the other hand, the main point in economic decentralization processes is, supposedly, not the ownership of the productive establishments, but the fact that they are subject to economic competition. Thus, while it is often a good idea to privatize, in other cases such an action can destroy valuable institutional and social capital. But what would be a more important step for encouraging efficiency would be to open up to economic competition productive activities that are not

respects, improving economic competition is part of the development of democratic governance.

¹² Thus, it would not be appropriate to state, as is sometimes done, that a given region or locality generates the sum total of taxes that its citizens pay, since they contribute to different spheres of cooperative solutions.

¹³ For some authors (Palma, 1985), the concept of participation should only refer to cases where participants can effectively influence decisions, and for this reason they rule out participation in the market. This assertion, which is effective insofar as it refers to provision, would not be effective with respect to production, since in this case a citizen could exert as much or more influence by choosing between alternative producers than through a political decision.

exclusive to public administrations, but under proper regulation.

d) *Importance of citizen participation*

Political decentralization has been defined above as the transfer of the provision of some public goods –demand for which is differentiated regionally or locally (local goods)– to democratic processes which are responsible for this demand. To ensure efficiency, the relevant subnational communities must be able to choose freely which local goods they wish to be provided by themselves, in what quantities and with what percentage of their income. The subject of political decentralization should thus be the subnational communities, while their respective government apparatus would just be instruments for adopting and executing their decisions.

From the economic point of view, increasing democratic participation implies improving the process of revealing preferences under cooperative solutions. Hence, political decentralization can only increase allocative efficiency in the provision of public goods to the extent that it tends to give all citizens equal opportunities to participate and full representation of their interests with respect to decisions that directly affect their current and future income. It is evident, however, that if democratic participation is to be a viable instrument for revealing choices and is to generate incentives for social control of expenditure –and thus contribute to efficiency– it must be related to the complete allocation process, that is, both the expenditure and the contributions that citizens will make to defray its cost.

Direct and indirect citizen participation (Cunill, 1991) can be political, if it refers to territorial State organizations made up of elected bodies and to political parties, or social, if it is directed towards social organizations (associations), as indicated in Palma (1985). But the latter are not only representation media in their dealings with State organizations but also, and at times primarily, ways of managing cooperative solutions which, through work and voluntary contributions, frequently not only provide collective goods¹⁴ but also make significant contributions to the

¹⁴ Collective goods: cooperative solutions generated by social organizations, from which non-members are excluded. The goods generated by a social organization can be public goods to the extent that they benefit all the inhabitants of a region or locality and, in this regard, are termed “public goods” in studies prior to those generated by social organizations, but as Bresser-Pereira (1997) observes, if non-members of the organization that generates them can be excluded, then the goods are not public but rather, in his own words, “bienes corporativos” (corporative goods).

provision of public goods¹⁵ or generate significant positive externalities for the public interest.¹⁶ State management, effected fundamentally through territorial organizations of different levels (national, intermediate, municipal, submunicipal) should be subsidiary to this capacity. If we refer just to “decentralizing the State” this may misleadingly imply that, in order to achieve the desired objectives, it is sufficient to decentralize the State apparatus, whereas, under the principle of subsidiarity, decentralization of public management should make even public management subsidiary to the capacities of the social organizations. However, it should be borne in mind that all of the latter are organized around particular interests, as pointed out by Cunill (1991) and Bresser Pereira (1997), and an irreplaceable function of the State territorial organizations is to ensure that the interest of the collectivity takes precedence over that of the individual, especially with respect to the allocation of public resources.¹⁷

Citizen participation in the process of the provision of public and collective goods is not only a fundamental social¹⁸ and political objective but also a prerequisite for reducing inefficiencies. Whether citizens participate, however, depends on their perceiving that the benefit of participating is higher than the cost; if they are given the opportunity to participate in decisions that affect their current and future income, this can be a strong incentive for them to do so. In order to achieve this condition, political decentralization must be more than the mere transfer of power from one center to others; indeed, it must be based on a reform aimed at encouraging citizen involvement in (public and collective) cooperative solutions, with the limit on such involvement being the point at which efficiency gains are equal to the economic cost of participation.

Furthermore, political decentralization must be accompanied by systems of territorial redistribution aimed not only at reducing initial disparities but also at paring down those that decentralization itself causes

¹⁵ For example, improvements to roads and other public facilities.

¹⁶ For example, forestation, sports, cultural activities, public security.

¹⁷ State support for these organizations should be regulated on the basis of the contribution they make to the provision of public goods, the public externalities they generate and their respective decision-making processes. On this last aspect, State support to an organization should be predicated on its functioning in a democratic manner and should be directly proportional to the scope and degree of participation that it can rally.

¹⁸ Especially in terms of mental health.

by stimulating efficiency. The problem is to find mechanisms whereby equity can be ensured without reducing the incentives for efficiency. The latter can be achieved by ensuring that transfers from the central system are subsidiary to local initiatives and contributions, but this could be counterproductive in terms of equity. A proposal for reconciling these two objectives will be presented later.

e) *Operational decentralization*

Political decentralization refers to the provision of local goods; however, there are some goods in respect of which decisions relating to nature, volume and resources are adopted nationally but which could be more conveniently implemented locally and, in many cases, not through deconcentrated administrations but rather through subnational government offices.¹⁹ In such cases, subnational governments—and their offices—no longer act as instruments for local decision-making but rather for national decision-making, and the decentralization to which these processes give rise is no longer political but only operational.²⁰ Whereas, in the first case, the decisions and financing correspond essentially to the local community and therefore subnational governments must be accountable for their management primarily to the community that has elected them, in the second, the decisions are taken on behalf of the higher level—which should also be responsible for the financing—and in this case the subnational government must be accountable primarily to the “principal” community, which is that of the higher level, represented by its respective government.²¹

2. Decentralization in Latin America

a) *The processes*

As mentioned before in the introduction to this study, in Latin America the processes of decentralization, whether political or economic, appear historically as a counter-trend to a prior tendency to centralize political and economic decisions under

national Governments. As a consequence of the debt crisis—which could also be described as a “crisis of centralism”—the tendency now is to transfer public good supply functions to subnational governments and the production of publicly-provided goods and services to economic competition. The main functions decentralized to subnational governments have been the provision of education and health and basic infrastructure and services, while in terms of economic decentralization, the tendency is to decentralize the production of transport infrastructure and services, basic services and more recently, insurance and health services.

Reviews of the main decentralization processes in the region (Finot, 1999 and 2001), carried out mainly on the basis of information and analyses generated by various ECLAC projects, show that there are still no significant signs that they have given rise to a generalized trend towards citizen participation, or have generated major and persistent improvements in terms of public efficiency and reduction of corruption. With respect to equity, while decentralization has helped to expand the coverage of social services, in many cases it has given rise also to appreciable differences between regions or localities in terms of infrastructure and equipment for the provision of social services and even in the quality of such services. Neither political decentralization nor the systems of territorial redistribution that accompany it have succeeded in reducing historical trends towards territorial concentration of income. On the other hand, there are signs that such systems contribute to budget disequilibria. In conclusion, it can be stated that in Latin America, decentralization has not yet achieved the expected objectives, at least not in any sustainable way.

b) *Why has decentralization not achieved the expected objectives?*

The main reason why the results obtained have fallen short of expectations in terms of participation and efficiency—which according to the conceptual framework developed in the previous section would be precisely the objectives of decentralization—lies in the fact that the basic systems for territorial transfers prevailing in the region are generally not geared towards supporting processes for the provision of public goods where decentralized decisions are adopted autonomously on the basis of local contributions. Political decentralization, understood as the capacity of local communities to provide by themselves public goods on the basis of their own initiatives or

¹⁹ In this case, subnational governments would act as agents of the central level, with all the advantages and disadvantages that have been analysed by Heymann (1988).

²⁰ Consequently, in order for there to be political decentralization, it is not enough simply to elect local governments. Political decentralization exists only insofar as the provision of local goods is decided by an autonomous agent.

²¹ This does not imply that in the second instance they must not be accountable to the citizens of their local community, since citizens in general are the final beneficiaries of all public goods.

contributions, is still scarce in the region. Such conditions only exist in a few relatively rich areas – insofar as they do not require transfers – and, in the case of basic infrastructure in Mexico, where there are freely available transfers which increase in proportion to the increase of local tax collection.²²

A more frequent form of political decentralization would be a “political decentralization of spending”²³ which is based on freely available transfers which are not tied to local contributions. This arrangement is predominant in Brazil (where the fundamental focus of decentralization is currently towards the municipalities) and in Argentina (where the process is geared essentially towards the provincial governments); it occurs to a lesser extent in the other countries through basic compensation systems. However, as expenditure is not linked to the local contribution, the economic efficiency mechanisms which are typical of decentralization do not come into play. When participation does occur, it refers only to expenditure.

The other cases of decentralization, aimed fundamentally either at intermediary levels or at the municipal level, are characterized by a mixture of political decentralization of spending and operational decentralization, with the second of these two tending to be dominant. This occurs because in most regions or localities, basic transfers are more or less tied to use and, in the case of others, which are complementary to basic ones –coming from Development Funds– a “local” contribution (which generally comes from basic transfers) is usually demanded but the decisions are taken centrally.²⁴ Under this arrangement social participation, when practised, is usually confined to identifying needs.

Lastly, none of the current systems of financing is designed to promote autonomous processes where citizens participate in decisions on the basis not only of expenditure but also of their respective contributions. On the other hand, centralized political and administrative mechanisms still predominate:

subnationally, under the two first modalities of decentralization identified (political decentralization and political decentralization of spending) and nationally, under the third (a combination of political decentralization of spending and operational decentralization), which usually generates opportunities for corruption. This was also the case in the example already referred to of Mexico, since political decentralization in that country occurs principally only at the intermediate level and in governments of large cities and only occurs at low levels in the administrative organs closest to the citizen. This general situation explains why decentralization in the region has still not yielded convincing and sustainable results in terms of participation and efficiency.

Furthermore, the reason why decentralized expenditure may have contributed in some countries to budget disequilibria is that the transfer systems through which most of this expenditure is covered are not subsidiary to local initiatives and contributions. This is probably due mainly to the great weight of social spending among the areas of responsibility transferred: How can transfers that are destined mainly to reducing poverty be tied to the generation of public funds at the local level?

c) *A fundamental explanation*

The basic explanation for this whole situation may be that in decentralizing, no distinction has been made between local goods, whose provision is appropriately organized at the subnational level, and national goods, where decentralization, if any, should be primarily operational. Indeed, while the demand for infrastructure and basic services is clearly distinguishable territorially, the right to accede to specific levels of health and education services can only be differentiated qualitatively, since all citizens have an equal right to a minimum guaranteed by the State, irrespective of their place of residence. While full political decentralization to the levels closest to the citizen could be achieved in the case of provision of infrastructure and basic services, only operational decentralization could be arranged for the provision of health care and education, since in this case the decisions as to the nature and quantity of goods and the source of funding fall primarily within the competence of the national authorities. However, both types of goods have been treated basically in the same way, since their decentralized provision is financed with similar transfer systems. These systems do not help to introduce economic incentives for participation in the supply processes and therefore efficiency and reduction

²² For a more detailed analysis on autonomous spending and transfer systems, see Finot (2001).

²³ Referred to by Medici (1995) as “dependent decentralization”.

²⁴ Mainly through social investment funds, but something similar occurs with the multiple technical assistance and training programmes of various public entities. The set of projects finally approved obviously do not coincide with local priorities. When local expenditure is perceived in this way, it proves well nigh impossible for subnational communities to execute their own development strategies.

of corruption, nor do they succeed in reducing the inequalities that decentralization itself creates.

Clearly, all the above has occurred in the specific historical context that prevailed in each country, but decentralization is also an instrument of reform with respect to development strategies, for which further evaluations and readjustments must be made in the light of the objectives that societies set for themselves. In the following section, a few guidelines drawn from the foregoing analysis are set out and may be useful in this connection.

3. Elements for redirecting decentralization processes

a) *A new objective*

Historically, decentralization has been part of a process of adjustment of public management to a new paradigm which is still being constructed. In addition to the foregoing objectives of improving living conditions for the people, achieving greater territorial and social equity and fostering constructive citizen participation, all this in conjunction with greater efficiency in public management, we must now promote adjustment to a global economy in which conditions of competitiveness are required not only at the macroeconomic and microeconomic levels but also at the mesoeconomic level, since also subnational territories compete now. Decentralization is becoming more necessary than ever for achieving this new fundamental objective together with the foregoing ones. However, it must also contribute effectively to financial sustainability. This could be achieved if the processes are reoriented through the above-mentioned differentiation between the provision of a social basket –which would include education and health– and the provision of infrastructure and basic services.

b) *What should we decentralize?*

On the one hand, decisions on the composition, levels and financing of a basket of goods and services to which all should have equal opportunities of access, irrespective of their place of residence, should be (re)centralized fundamentally at the national level. The structure and size of this basket would depend directly on each country's financing capacity.²⁵ In contrast, it

²⁵ The fact that financing is decided at the central level does not mean that subnational communities that have higher resources –including those from their respective fiscal revenues– may not contribute to a central fund which has this purpose. On the other

would be appropriate to devolve part of the content and above all the operation of these central decisions to subnational governments (mainly to the municipal level) and to entrust the production of services to competing establishments.²⁶

On the other hand, political decentralization would indeed be highly appropriate and would generate conditions of full autonomy²⁷ for subnational communities of different levels in the case of the provision of basic infrastructure and services, since, in this case, demand is clearly differentiated owing to physical factors and productive structure. In this case it would be appropriate to deepen the political decentralization to reach levels very close to the citizen, so that such provision can be adapted precisely to these differentiated demands. Together with this deeper decentralization, local communities of different levels must be encouraged to develop their own territorial development strategies –local economic development and improvement of the habitat– in an autonomous, participatory way in coordination with other levels and forming associations with each other on the basis of different demands. In order for this to occur, the distribution of tasks for provision should also be based on the principle of subsidiarity and the planning process should be carried out with respect for the autonomy of each level from the bottom up, establishing intergovernmental coordination mechanisms and explicitly encouraging territorial associativeness.

Specifically, the functions in which political decentralization should be deepened to levels that

hand, in areas where important differences exist in personal income, the impact of available resources could be increased if it is decided to subsidize consumption rather than supply, after a cost-benefit analysis.

²⁶ An interesting case of economic decentralization is the Colombian experience with the health system (for a full description of this system, its foundation and an assessment, see Jaramillo (1999)). In a more recent assessment, the same author recommends reducing the intervention of the intermediate level to control functions. On the other hand, there is consensus in the region that it is appropriate to decentralize education production processes to the establishment level. Furthermore, Chile and Bolivia show interesting results in opening up State production of education to competition: in the first case with subsidized education and in the second with the important participation of the “Escuelas de Cristo”, in both cases with State financing. Lastly, Chile is also an example of successful administration at the municipal level of subsidies granted by the central Government.

²⁷ Clearly, autonomy does not mean sovereignty: such provision must be carried out with strict observance of the policies of the higher level, which, however, must leave room for the decentralized provision to adjust to the different local characteristics.

correspond better to the relevant areas of demand in order to promote local development would be: land management; the organization and control of the provision of public utilities; the provision of urban, transport and water resource use infrastructure; education and health contents, and support for small and medium-sized enterprises.

To ensure the achievement of participation and efficiency objectives, the approval of local expenditure should be based on effective citizen participation in defining the amount of contributions –both current and future– which the community in question will provide in order to carry out this expenditure. Facilitating such participation would require: i) that the different levels have their own tax bases, that they can modify the tax rates (at least within certain limits) and, at the same time, that a ceiling be set for borrowing; ii) modifications in the systems of representation,²⁸ decision-making, information and accountability in State organizations, and iii) measures to ensure that a policy for social organizations linked to territorial development can be incorporated fully into the generation and management of cooperative solutions, fulfilling functions both of providing collective goods and of participation and representation for the provision of public goods.

c) *Modifications in transfer systems*

In relation to the foregoing differentiation, current transfer systems should be replaced by two different redistributive systems, both of them subsidiary: one social, aimed at ensuring for all inhabitants of the same country equal access to the above-mentioned social basket, and the other territorial, aimed at supporting participatory autonomous decisions at each subnational level and at reducing territorial inequalities. Municipal governments would operate the system of social redistribution as agents of the respective central governments, and subnational governments in general, as heads of autonomous entities, would be responsible for land management and for concerted action in the area of territorial economic development and the improvement of living conditions in their respective spheres, on the basis of the local initiatives and

²⁸ For example, in the State territorial organizations, the closer the level to the citizens the greater preponderance the electoral system must give to territorial representation in relation to proportional representation and must ensure that the representatives of each territory have the obligation to be informed and report to those they represent, through the organizations of the latter and the communication media.

contributions, but also relying on the resources accruing to their areas from the system of territorial redistribution. Moreover, in terms of the provision of basic services, an important portion of demand would be guaranteed by the social redistribution system (subsidies for consumption of drinking water, electricity, waste disposal, etc.).

However, while decentralization of decisions regarding citizen contributions would be appropriate for ensuring efficiency, in order to ensure equity the territorial redistribution system must tend to compensate not only for initial territorial differences but also for those that decentralization itself encourages and, as far as possible, this should be done without eroding the efficiency mechanisms associated with decentralization. If the system of territorial redistribution is to ensure efficiency and equity and, at the same time, contribute to financial sustainability, then territorial transfers should be freely available but should be tied to the local contribution of each community (Finot, 1997) and subject to the condition that decisions both on expenditure and on current and future local contributions (debt) must be adopted on a participatory basis. The concept of “relative local contribution” means that the contributions of each community must be measured not in absolute terms but in relation to their respective territorial income and/or resource endowment.²⁹

Moreover, citizens’ contributions in labour, materials and cash made through social organizations in order to aid in the provision of public goods and the generation of positive public externalities should be considered as paid taxes –or “quasi-taxes” as we suggested on a previous occasion– and therefore as local contributions. Explicit recognition of these contributions would represent moreover a fundamental advance in terms of building citizenship and could contribute in a decisive way to reducing the stigma currently attached to receiving subsidies from the State: instead, such subsidies would be seen as payment to citizens who often contribute a significant part of their income to the provision of public goods.³⁰

²⁹ For example, if only income criteria were adopted, it could be determined that while transfers were directly proportional to the poverty levels in each locality, but those intended for infrastructure and basic services should be tied to the relative local contribution, although the locality would have discretion over their use.

³⁰ Thus, various workshops conducted by the author in rural towns in Chuquisaca (Bolivia) showed that, on average, each small rural landowner’s contribution to the construction of public works in proportion to his income was 17 times higher than that of urban dwellers, including the territorial taxes paid by the latter.

d) *Differentiating between provision and production*

Lastly, it would be appropriate to distinguish clearly between the provision and production functions and to pursue the current trend towards economic decentralization in all sectors but to accompany it with a constant effort at regulation of emerging quasi-markets, in whose application local governments should play an important part.

e) *Possible results and viability*

Deepening decentralization along the lines described would not only make it possible to stimulate and facilitate citizen participation but would also achieve a synergetic relationship between development of citizenship, fiscal efficiency and equity. Moreover, orienting political decentralization toward territorial development could contribute both to generating significant advances in global efficiency and competitiveness and to increasing social cohesion and enhancing citizens' living conditions. This could be done on the basis of cooperative efforts, with solidary support through effective redistributive systems.

Decentralization, as described here, implies far-reaching institutional change which some consider unfeasible in the region (Véliz, 1980). However, in Latin America and the Caribbean, self-governing

practices co-exist and have developed alongside the centralist culture on which Véliz bases his conclusions, and such practices detract from the validity of those conclusions.³¹ The essential point is not the absence of alternative cultures to the centralist culture but the fact that decentralization and particularly political decentralization, which is a democracy-building process, affects the current distribution of power and generates tensions between democratizing tendencies and old and new centralist interests. Major advances in decentralization have almost always been responses to political crises and/or the result of the determination of political visionaries who have had broad popular support. But at present, in a global economy marked by competition among subnational territories –in the broad sense now given to the concept of territory– political decentralization is also an indispensable condition for strengthening competitiveness. This would place it once again in a prominent position on the regional political agenda. Intellectuals can make a decisive contribution by developing viable strategies for deepening the processes, which can then be used in appropriate political conjunctures.

(Original: Spanish)

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³¹ As shown, for example, not only by the operation of multiple grass-roots organizations across the region but also by the federalist culture that has been a feature of the Brazilian landscape since its independence from the Empire, a culture whose development has led to its current decentralization in favour of the municipalities and which is now moving towards a "non-State public" sector.

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