Political Power, Fiscal Crises, and Decentralization in Latin America: Federal Countries in Comparative Perspective (and some Contrasts with Unitary Cases)

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What factors shape decentralization processes in Latin American federations? This work reviews and statistically analyzes current approaches on the topic, questions some claims of generality in their theoretical frameworks, and presents an argument to explain variation in decentralization processes across these federations. The main hypothesis is that the degree of decentralization (in fiscal and administrative terms) in Latin American federations has been shaped by the political power of the national executive and sub-national actors and the fiscal context in which they interact. The article presents statistical evidence (for federal and unitary countries between 1979 and 1998) to sustain some of the expectations in the argument and discusses some of its limitations.

Introduction

The immense majority of countries in Latin America, being federal or unitary, with relatively strong or weak sub-national governments, have initiated some kind of decentralization process during the last two decades. In political terms, this means that where sub-national officials were usually appointed, many Latin American countries are electing intermediate governments and the vast majority of them (in fact, all South American countries) have now elected local authorities.\(^1\) In fiscal terms, new resources have been decentralized to lower levels of government across the region (Falleti 2000, 1, 2005, 327; Rodden 2006, 25–26; World Bank 1998, 2001).\(^2\) Likewise, new functions and administrative capabilities have also been transferred to sub-national units in several countries. The administration of education and health services has been decentralized to lower levels of government in Argentina, Bolivia, Brazil, Chile, Colombia, and Mexico (among other countries; see: Di Gropello and Cominetti 1998; Falleti 2000).

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\(^1\) doi:10.1093/publius/pjn001

\(^2\) Advance Access publication 11 February 2008

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This dramatic convergence in Latin America toward the implementation of decentralization has generated a vast body of literature and theoretical frameworks to explain the dynamics and characteristics of these policies. Some of the main arguments stress institutional factors (such as electoral rules or party nomination procedures), economic variables (such as fiscal crisis or the level of economic growth), external pressures (from international financial organizations), or demands from civil society as the main factors that promoted decentralization in the region.

However, most of these explanations have important shortcomings: (i) a large number of them rely mainly on historical details for a single or very few cases, limiting the scope of the explanation; (ii) there have been very few large-n/quantitative analysis of the causes of decentralization (being Escobar-Lemmon 2001 and Panizza 1999, some of the few exceptions), so there is still a need to test the validity of the most important approaches in a larger number of cases; (iii) the majority of the studies, especially those using the institutional approach, develop static analyses that can account for some changes across cases but that are relatively poor to account for changes across time; (iv) most studies cannot account both for the implementation of centralization and decentralization policies across time (most studies seek to explain only the former process, as they mainly focus on the causes of decentralization policies).

This article attempts to, first, stress some limitations in these frameworks and empirically assess their main theoretical contributions in all the federal countries in the region (Argentina, Brazil, Mexico, and Venezuela) and some unitary ones (Chile, Ecuador, and Uruguay). I selected these cases in order to have the widest possible range of variation in the level of decentralization. Second, this work puts forward an argument on decentralization understood as the result of power struggles between central and sub-national units in federal democracies under conditions of fiscal crises. This claim is valid for federal democracies with relatively autonomous states or provinces. But I also include evidence for unitary countries with more dependent sub-national units (although in some of these countries sub-national units have recently gained more power). This argument can help us to account for decentralization processes across cases (federal and unitary) and it can provide dynamic explanations for decentralization and centralization processes alike.

First, I define decentralization and introduce the main approaches to account for its causes and some critiques to them. Second, I put forward the central hypothesis and operationalize it. Third, I develop a statistical analysis of the main and the competing arguments. I present the results, analyze them, and conclude in the final section.

Decentralization and its Dimensions: A Necessary Definition

Before getting into the debate on the causes of decentralization, it is important to differentiate two main dimensions of the process. First, administrative
decentralization, which is the transfer of administrative powers to deliver services at the sub-national level, and capabilities to decide the institutional structures to support those services; and second, fiscal decentralization, which is the possibility to count on sub-national resources, raised sub-nationally or transferred from the central government, to manage a budget (Montero and Samuels 2004, 7). A comprehensive decentralization process may include the direct transfer of responsibilities and executive capacities to democratically elected sub-national governments, in addition to the corresponding resources for public services and social programs.

The Causes of Decentralization Policies in the Region: An Open Debate

The arguments on the factors that have shaped decentralization policies in Latin American federations have been focused on several possible causes. Even though different works combine arguments, for analytic reasons they can be grouped into five main approaches: Decentralization “by economic collapse,” “from democratization and social mobilization,” “from outside,” institutional analysis, and decentralization “as a result of power struggles” among political units. The aim of this section is to briefly review the main approaches and present possible ways to operationalize them.

Decentralization “by Economic Collapse”

In this perspective, the recent decentralization wave in Latin America is seen as a consequence of the economic and fiscal collapse of the import substitution industrialization strategy and central planning during the late-1970s and early-1980s. The postcrisis period was characterized by economic adjustment in many countries of the region (and transition to democracy in most of those having authoritarian regimes). The general explanation is that, under fiscal crisis and financial constraints, central governments tended to implement adjustment policies and to decentralize functions (or “delegate” the crisis) to sub-national units (Rondinelli 1989; Bird et al. 1995; García Delgado 1997). Hence, more fiscal centralization (or more administrative decentralization) is to be expected in contexts of economic and fiscal crisis and adjustment reforms because presidents are pressed to stabilize national accounts and they can do so by centralizing resources or decentralizing functions (without transferring funds to deliver them).

This approach offers relevant insights for some federal cases (for instance, Argentina or Brazil during the 1990s). However, decentralization policies have not been exclusive of the neo-liberal reforms during the late-1980s and 1990s. Montero and Samuels (2004, 14) and Eaton (2001, 22, 2004, 69–71) claim that both developmentalist and neoliberal governments have historically decentralized and
re-centralized. Besides, and centered in the period under consideration in this article, some governments decentralized under conditions of fiscal instability (Argentina in the mid-1980s and Brazil in the late-1980s), while others re-centralized under similar situations (Argentina in the early-1990s and Brazil in the mid- and late-1990s) (Montero and Samuels 2004, 15). Despite these facts, this article acknowledges that economic and fiscal crises played a role in some federations (and probably in some unitary cases) during critical periods and explores if this explanation can be extended to other countries in the region and periods of time.

Decentralization “from Democratization and Social Mobilization”

For scholars in this second approach, decentralization policies are linked to transitions to democracy in Latin American countries (federal and unitary alike) and considered a consequence of sociopolitical pressures released after transitions from authoritarian rule. Democratic transitions and consolidation processes, political reforms to “renew” the political system, as well as increased political competition and participation created pressures to decentralize (Souza 1997; Tendler 1997; Manor 1999; Bird et al. 1995; Gómez Calcaño and López Maya 1990; Angell, Lowden, and Thorp 2001; Beer 2004).

The broad implication in this explanation is that decentralization is linked to a democratic transition from an authoritarian past. But this is not necessarily true for many cases. As stated by Montero and Samuels (2004, 18), correlation is insufficient to establish causation, and in many cases there is little evidence that democratization caused decentralization. For Eaton (2001, 3), “decentralizing governments have been both democratic and authoritarian and (...) centralizing governments have also been both democratic and authoritarian.” Besides, there is a logical link between democratic transition and democratization with increased political competition and more sub-national demands, which in some countries translated into decentralization processes. But in many others, they have not necessarily been immediately articulated into decentralization policies from the central government.

Other scholars in this approach, without explicitly considering the role of democratic transitions, have argued that more pressures from civil society to increase democratic participation and social accountability should be linked to more decentralization (Gómez Calcaño and López Maya 1990; Angell et al. 2001, Beer 2004). This article will empirically assess these claims in the statistical section.

Decentralization “From Outside”

The third approach incorporates international financial organizations (IFIs) and considers they have played an important role in promoting decentralization
in Latin American countries, especially during the 1990s. For Willis et al. (1999, 7, 16), IFIs have advocated decentralization as an antidote to the costs of over-centralization and have used lending programs to attain this objective. For this approach, decentralization policies are implemented due to “recommendations” (influences or impositions, depending on different interpretations) given by IFIs. Escobar-Lemmon (2001, 41) argues that the more adjustment recommended by IFIs, the higher the chances that a country will fiscally decentralize.

However, Manor (1999), while recognizing the role played by international organizations (especially the World Bank and the IMF) in supporting decentralization, considers that the decisions to decentralize were seldom donor-driven and in many cases these organizations tended to lag behind governments in less developed countries, especially in federations with long histories of decentralization (and re-centralization). Moreover, these organizations have not played a role in many cases, a fact that severely weakens the possibility of generalizing the argument. These claims are also supported by evidence presented by Falleti (1999; quoted in Montero and Samuels 2004, 16) and O’Neill (2005, 79–84).

I consider that there is enough empirical evidence in the three aforementioned works to sustain that IFIs have not played a significant role across the region and especially in federal countries. But still, the paper will explore if there is a link between adjustment (in which IFIs’ advice has played a role in some countries) and more decentralization in fiscal (as claimed by Escobar-Lemmon) and administrative terms.

More generally, Willis et al. (1999, 17) consider that “[i]nternational financial institutions, fiscal crises, political liberalization, and democratization, are factors common to virtually all Latin American countries, albeit in different degrees.” The authors highlight that “decentralization does not appear to follow a common pattern” and in this sense, they call to “look at the ways in which these pressures are managed by the politicians who initiate and vote on decentralizing reforms” because, for them, “decentralization results from a bargaining process among politicians at different levels of government” (Willis et al. 1999, 17). This work agrees with the last part of this argument and, based on it, presents a model to be tested empirically. However, it slightly diverges from its first part. It argues that even though the aforementioned factors could be relevant for some particular countries, they cannot be generalized across the region.

**Decentralization and Political Institutions**

For institutional arguments, electoral rules, such as party-nomination and closed- or open-list proportional representation (PR) rules (Willis et al. 1999, 18;
Garman et al. 2001, 12) have a crucial effect over processes of decentralization. PR with closed-lists electoral system and national as well as provincial-level nominations controlled by the president would give the national executive more political control over sub-national governments and, hence, more leverage to centralize funds (Garman et al. 2001, 212). In contrast, an open-list PR electoral system and federal and state-level nominations controlled by sub-national leaders would tend to buttress sub-national politicians and their capacity to influence national decisions. I call this approach “static institutionalism,” as variables do not tend to change much over time.

One important critique to this perspective is its over-emphasis on static outcomes and the vagueness regarding change. Political institutions, such as electoral systems and nomination rules, shape incentives, strategic decisions, and bargaining processes. Institutional configurations may account for some general characteristics of the decentralization processes (Garman et al. 2001; Willis et al. 1999) and some variation across federal and unitary countries. However, these variables are better at explaining “comparative statics” (Thelen and Steinmo 1992, 14) than processes of change within those countries. Decentralization policies have oscillated (sometimes drastically) between more or less centralization and decentralization, in ways that static institutional variables are relatively poor to account for.

Some scholars have constructed more “dynamic” institutional variables that address changes in party systems, such as the effective number of parties that measures the level of party system fragmentation (Laakso and Taagepera 1979) and the index of party system nationalization (Jones and Mainwaring 2003). Changes in these indexes may account for changes in policy outcomes, such as decentralization.

Decentralization “As a Result of Power Struggles” between Levels of Government in the Federation

Initially, this article agrees with historical institutionalist arguments claiming that decentralization processes have been the result of specific political dynamics characteristics of each country (Eaton 2001, 2004). However, it explores whether there are common patterns that can be identified across Latin America. In order to find an answer to this question, it makes an initial classification of countries in the region dividing them into two different analytical categories: federal and unitary. These two categories, and following Lijphart (1999), are divided further into two more: decentralized and centralized; so we have four possible combinations: centralized and decentralized unitary, centralized and decentralized federal cases. This initial classification will be useful to specify the argument put forward in this section.
Decentralization and Power Struggles in Federal Countries

Several works on federalism have analyzed the origins of this institutional structure (Riker 1964; Stepan 2001). Without getting into the details and debates on the bargaining processes through which federations emerged, this work argues that the literature has tended to overlook the tensions that continued to shape the distribution of power in these polities after the founding moment.

As stated by O’Donnell (forthcoming), the process of state formation involves violent and protracted struggles, after which [central] rulers made some important achievements.9 In federal countries, these achievements of the central government are characterized by particular arrangements for the distribution of political power and administrative capabilities with sub-national units. The main characteristic is that there is no complete centralization, but rather some form of power sharing among units (Dahl 1986, 114).10 The fact that is critical for this paper is that this “original” arrangement (usually institutionalized in a federal constitution), reflects tensions and struggles among units that do not cease to exist after the founding moment. The struggles over the distribution of power and resources continue over time and recurrently modify the relations between central and sub-national governments. These tensions are the core interest of this work.

Decentralization and Power Struggles in Unitary Countries

I distinguish between decentralized federal cases (in which governors are generally strong) and centralized unitary countries (with weak or more dependent governors11) because the dynamics among units are essentially different. In unitary countries, and especially those with weak governors, the decision to centralize or transfer resources and power is mainly taken at the national level [probably based on strategic considerations of the national executive, as in the cases analyzed in O’Neill’s (2003, 2005) work]. But in federal countries with strong governors these decisions depend on struggles among units, which clash for keeping or increasing their power and allocating scarce resources (interestingly, these cases are not considered in O’Neill’s work).

According to the aforementioned considerations, I selected cases based on data availability (the cases I included in the sample are those for which there is reliable and comparable data), but also on analytical concerns: I included all the federations in the region and some unitary cases, in order to have the widest possible range of variation in the independent variables. Besides, I chose cases in all four categories of the dependent variable: Decentralized federal countries (Argentina and Brazil), more and less centralized federal cases (Venezuela and Mexico), more or less decentralized unitary (Uruguay and Ecuador) and centralized unitary countries (Chile).
A Power Distributional Approach

Decentralization policies, as understood in this work, are the result of power struggles and political bargaining processes (Montero and Samuels 2004, 8; Willis et al. 1999, 17) among key political actors. Decentralization policies suppose transfers of political power, administrative structures, and fiscal resources. These transfers imply struggles and negotiations among actors at the national and sub-national levels to define its characteristics. The intensity and characteristics of these struggles will vary depending on whether we consider federal or unitary cases, in general, and more specifically, decentralized federal countries (in which sub-national units are relatively strong and autonomous) or centralized unitary ones (in which sub-national units are more dependent on the central government). This approach, following Thelen (2003, 215) and Knight (1999, 20; quoted in Thelen 2003, 215), is labeled “power distributional,” because the institutional configurations that decentralize funds and functions are a reflection of power asymmetries, “for it is such asymmetries that allow more powerful actors [in this study, either presidents or governors] to impose their institutional preferences on the less powerful actors” (Thelen 2003, 216).

Two Premises (on Political Power and Fiscal Urgency) and some Assumptions

On the Power of Political Actors (or their Capacity to take Action)

The first premise in this article is that political actors need political power in order to change the status quo (regulating the distribution of resources and functions). More specifically, if presidents and/or sub-national actors want to make any change in the distribution of resources and functions, they need political power. If they are politically weak, their capacity to do so diminishes substantially. Before getting into the second premise, I first define what I mean by the power of the president and governors.

The Power of the President

Political power can be a very diffuse concept but, according to the objectives of this article, the power of the president depends on her institutional capabilities as well as on her partisan power (Shugart and Carey 1992; Mainwaring and Shugart 1997; Coppedge and Mejia 2001). Institutional power is shaped by the constitutional and legal frameworks (for instance, if presidents have decree or veto powers), while partisan power is contingent on the support presidents have from their party and from a majority of legislators.12 Both factors are crucial to determine the capacity of the federal executive to take action.13 Besides, Mainwaring and Shugart (1997) produce an indicator of presidential partisan powers that associates the president’s share of seats in Congress with the discipline that can be expected from those members. In general, there is agreement on those two components of partisan
powers: the size of the president’s party or coalition, on the one hand; and party discipline, on the other. Coppedge and Mejía (2001, 7) combine these two characteristics to define a “reliable majority” or the percentage of congressional seats that the president can count on to vote in favor of her typical bill (see the Statistical section).

The Power of Governors
Several scholars have largely debated (at least since the seminal article by Schlesinger in 1965) about the main components and the best indicators to measure the power of governors, especially in the United States. Some of these specialists have stressed two main dimensions: First, gubernatorial institutional powers; and second, governors’ partisan powers, or the political control they have over their districts. Others have introduced a third one, gubernatorial enabling resources (Beyle 1990; Dilger et al. 1995). And there are still others who have criticized these measures because they are incomplete, as they concentrate on immediately quantifiable dimensions, while largely ignoring the governors’ informal powers such as personal resources (for instance, charisma, popularity, and persuasion) and enabling resources (such as staff support) (Bernick 1979; Dometrius 1987; Mueller 1985, 1987). Dilger et al. (1995) also associate the power of the governor with the professionalism of the state legislative, arguing that in the US, more professionalism in the legislative body increases the power of the governor (in a nonzero sum game).

I had to make changes to the original indexes on the power of governors because of theoretical and empirical reasons. On the one hand, the institutional (constitutional and legal) configurations of state governments in the United States and the Latin American countries are different (not only in relation to unitary cases but also to federal ones); hence, when I refer to the power of governors in Latin America, I include the following dimensions: (i) governors’ institutional powers; (ii) governors’ partisan powers; and (iii) governors’ influence over national/federal politics. In this sense, I consider that governors are more powerful the larger the institutional and political control they have over their districts, and the larger the influence they exert over national/federal politics.

But very importantly, and on the other hand, I had to make some simplifications for the statistical section due to the lack of available data for the cases considered in this article (see the Statistical section).

Coming back to the premises, the power these actors have affects their capacity to take action. In order to centralize or decentralize fiscal resources and/or functions both presidents and sub-national actors need political power. But, being political power crucial to influence their capacity to take action, it does not necessarily determine their need and urgency to do so.
On the Fiscal Context (or the need to take Action)

Besides the aforementioned premise on political power, this article presents four others related to the role played by fiscal resources and the fiscal context that are also central for the argument it puts forward:

1. Fiscal resources are crucial for presidents and sub-national actors: They need them to fulfill their functions in office, build up political support, and retain power (or further their political careers).

2. In contexts of resource scarcity, their ability to retain power or further their political careers can be endangered, they may need to curtail funds for the functions they are responsible for, and they may have fewer resources to build up political support. In critical circumstances, their leadership can be challenged, they may lose legitimacy, and they may face strong opposition.

3. The availability of funds for these actors to perform their duties and retain power (or further their political careers) diminishes as fiscal crises are larger. Fiscal crisis is simply a proxy for the lack of funds in the hands of presidents and sub-national actors (money that is available to them for political purposes), which is the key variable that concerns us here. In contexts of scarcity, the availability of these resources that can be used for political purposes diminishes. On the contrary, in conditions of economic expansion, these actors tend to have more funds available for political purposes.

4. Therefore, in contexts of fiscal crisis and resource scarcity, presidents and sub-national leaders have more incentives to change the status quo regulating the distribution of resources in their favor.

Some Assumptions

In general terms, I assume that presidents want to stay in power and increase the power they already have; they want to get re-elected (if that is possible) and gain prestige as well as public support. In relation to sub-national units, presidents want to have their political support. In order to forge political coalitions loyal to them, presidents try to maximize the control of federal resources and their arbitrary distribution. They also want to have control over taxing powers and transferred resources, to reduce the fiscal autonomy of sub-national elites, and make them more dependent on central resources. Presidents want more resources, more discretion over their funds, and more control over the resources of sub-national units. In relation to administrative functions, they prefer more functions if they can get political benefits out of them: For instance, if they can control key interest groups linked to them (such as unions) or distribute positions and resources to achieve goals. If these functions suppose important conflicts, few benefits, and more spending (especially in contexts of fiscal crises) presidents will prefer to transfer them. This is so because, by these means, they would be getting rid of
responsibilities for public policies, although they may still control the resources for their functioning. This would give them, in principle, more leverage to fulfill their functions and have more control over sub-national units.

If presidents are politically powerful, they will be more likely to centralize resources and administrative functions. If they cannot centralize functions, they will try to have control over the resources necessary for implementing them. If either of the two strategies supposes significant political conflicts with sub-national leaders, presidents will tend to be cautious about centralizing reforms. Under situations of fiscal urgency, they will try to get more resources and get rid of costly and conflictive functions, even if they suppose conflicts with sub-national actors.

In contrast, I assume that sub-national politicians seek to fulfill the functions they are responsible for, be re-elected (if that is possible), and further their political careers, preferring fiscal autonomy and discretion to federal control of their resources. They compete with presidents over the access to public funds and try to make the most of the relationship between resources from the national coffers and the functions for which they are responsible. They prefer non earmarked resources to those allocated from the national government. They want more resources to be transferred, especially those over which the national government does not have control over their allocation. That would help them fulfill their functions and further their political careers. In relation to administrative functions, they want them if they think they will get political benefits out of them and only if they are transferred with the resources necessary for their implementation and if they have some leverage in deciding how those resources are to be allocated.

If governors are politically strong, they will try to decentralize resources and functions, especially if they have the resources to secure their implementation and if they can control interest groups linked to them. In contexts of fiscal crises, they will try to get more resources and stop transfers of new functions from the central level, especially those which are fiscally costly and politically conflictive.

These general preferences have a sequential ordering: I argue that both presidents and sub-national actors will try to, first, get more resources (and more discretion over them) to fulfill their functions and build up political support. More funds (and more discretion) can be immediately translated into more political and fiscal benefits. If they cannot get them, and especially in contexts of fiscal crises, they will try to get rid of functions, passing them on to another level.

Simplifying the argument:

1. In contexts of fiscal crises, presidents prefer less fiscal and more administrative decentralization.
2. In contexts of fiscal crises, governors (or sub-national executives) prefer more fiscal and less administrative decentralization.
(3) In contexts of fiscal surplus, presidents prefer less fiscal and administrative decentralization.

(4) In contexts of fiscal surplus, governors (or sub-national executives) prefer more fiscal and administrative decentralization (see Table A).

Table A Preferences of presidents and governors

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<thead>
<tr>
<th>Preferances of the president</th>
<th>Fiscal crisis</th>
<th>Fiscal surplus</th>
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<tbody>
<tr>
<td>Fiscal decentralization</td>
<td>Less</td>
<td>Less</td>
</tr>
<tr>
<td>Administrative decentralization</td>
<td>More</td>
<td>Less</td>
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<table>
<thead>
<tr>
<th>Preferences of the governors</th>
<th>Fiscal crisis</th>
<th>Fiscal surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal decentralization</td>
<td>More</td>
<td>More</td>
</tr>
<tr>
<td>Administrative decentralization</td>
<td>Less</td>
<td>More</td>
</tr>
</tbody>
</table>

In light of these preferences, we should expect that:

(1) In contexts of fiscal crises:

(a) If the president is powerful and governors (or sub-national executives) are weak, then fiscal decentralization should decline and administrative decentralization should increase.

(b) If governors are powerful and the president is weak, then fiscal decentralization should increase and administrative decentralization should decline.

(c) If neither of them is more powerful than the other, the status quo will prevail.

(2) In contexts of fiscal surplus:

(a) If the president is powerful and governors (or sub-national executives) are weak, then fiscal and administrative decentralization should decline.

(b) If governors are powerful and the president is weak, then fiscal and administrative decentralization should increase.

(c) If neither of them is more powerful than the other, the status quo will prevail.

Evidently, there are gradations in these strategies and much variation across countries, especially if we consider federal and unitary ones (as well as the four possible combinations between unitary/federal and decentralized/centralized). Besides, each political context can affect political actors’ strategies through different sets of incentives. The strategies of each actor who takes part in the
negotiations can be affected by certain specificities of the political and historical context (such as long periods of hyper-inflation). Therefore, it may be relevant to analyze the particularities of each case. Nevertheless, this work considers that it is possible to establish some general probabilistic connections between the political power actors have, the role of changes in the fiscal context, and their effects on decentralization processes.

**Main Hypothesis**

The main hypothesis is that the degree of decentralization (in fiscal and administrative terms) in Latin American federations has been shaped by the power of the national executive and sub-national actors and the fiscal context in which they interact (which influences the strategies these actors take). The relevance of the power of presidents and governors in shaping the degree of decentralization in federal countries is an indication that struggles among these actors are critical to shape the outcome. In centralized unitary cases, the most relevant factors are the power of the president and the fiscal context.

**Dependent Variable**

The degree of decentralization can be measured in fiscal terms (percentage of expending or revenues at the sub-national level) and administrative terms (functions decentralized: for instance, health, education, housing, and social plans). According to the main hypothesis, the independent variables produce changes in the fiscal and administrative dimensions of the dependent variable, which may vary in nonsimultaneous ways. Thus, and according to our expectations, presidents with ample political powers would seek to centralize resources and functions under fiscal bonanza; or centralize resources and decentralize functions in contexts of fiscal crises. On the contrary, strong sub-national governments will seek to decentralize both resources and functions if they have enough funds to secure their implementation; or to decentralize resources and keep functions centralized under fiscal constraints.

Fiscal decentralization (\(\text{expshare}\)) is measured by the total share of expenditures at the sub-national level in relation to the total expenditures of the government. This is a commonly used indicator to measure fiscal transfers (Escobar-Lemmon 2001; Rodden 2006, 27).²⁵

To measure administrative decentralization (\(\text{admindec}\)), I develop an index that reflects whether sub-national units are responsible for some basic functions: health, education, and social assistance. This is a 0 to 6 index (0 denotes complete centralization and 6 complete decentralization of these three functions). A score of 2 in each of the functions decentralized means that this function is completely carried out at the sub-national level. A score of 0 mean that the national
level performs 100 percent of it; while a score of 1 would mean that each level (central and sub-national) performs 50 percent of the function.\textsuperscript{26}

**Independent Variables: Political Power of Presidents and Sub-national Actors**

The political power of the president is determined by his or her partisan powers (Shugart and Carey 1992; Mainwaring and Shugart 1997; Coppedge and Mejía 2001).\textsuperscript{27} I will empirically test if presidents have tended to be more prone to centralize resources and functions or to decentralize them and if the probability to achieve that depended upon their political power.

Governors and sub-national actors are powerful if they have institutional and political control over their districts and the larger the influence they exert over the national/federal level. However, there is not enough data available on all the dimensions presented before for all the countries and years covered by this study to get a useful and reliable index. Therefore, I present a much simpler way to measure it. As a rough proxy of the power of sub-national units, using available data, I create an index of political power of sub-national actors in federal and unitary countries, which consists on a 0–2 scale. I consider whether sub-national politicians are elected and whether they have institutional resources in relation to agenda setting powers and over the budget (control in preparing and executing at least part of the budget with relative autonomy from the central government) (2 points in the index if governors are elected and if they have institutional resources in relation to agenda setting and budgeting; 1 if only one level is elected and has institutional resources in relation to agenda setting and/or budgeting) or appointed and no significant institutional resources (0 point).\textsuperscript{28} I assume that appointed sub-national leaders are more dependent on the national government and less powerful, while elected ones who control institutional resources (i.e., agenda setting and budgeting powers; with important gradations across cases) will tend to have more power and autonomy in relation to the central government.\textsuperscript{29} The equations are:

$$\text{fiscal decentralization (expshare)} = \alpha + \beta_1(powerspres) + \beta_2(powersgov) + \varepsilon$$

$$\text{administrative decentralization (admindec)}$$

$$= \alpha + \beta_1(powerspres) + \beta_2(powersgov) + \varepsilon$$

Where the dependent variable, fiscal decentralization (\textit{expshare}), is measured by the total share of expenditures at the sub-national level in relation to the total expenditures of the government. Administrative decentralization (\textit{admindec}) is measured by an index that reflects whether national or sub-national units are responsible for selected functions.

The partisan powers of the president (\textit{powerspres}) are measured by the Coppedge and Mejía (2001)\textsuperscript{30} index of partisan powers and I construct an index of
partisan powers of the governors (powersgov). The study lags its effect to control for the current levels of decentralization (in time $t$) that are influenced by previous levels of partisan powers (in time $t-1$). This is so because it is assumed that it takes time for presidents to decide changes in public policies, approve them in Congress, and put them in execution.

According to this first model (called Partisan Power Model), and ceteris paribus, I expect fiscal and administrative centralization to increase, the larger the partisan powers of the president and the lower the partisan powers of the governors. On the contrary, and holding all other variables constant, I expect fiscal and administrative decentralization to increase, the lower the partisan powers of the president and the larger the partisan powers of the governors, as the preferences of these actors are diametrically opposed. Under fiscal crises, I expect fiscal centralization and administrative decentralization to increase the more powerful the president and the weaker the governors. Under fiscal constraints, governors will try to increase transfers and keep functions at the central level, preventing them from being decentralized.

**Alternative Explanations**

In a second model (Institutional Model), I account for the role of three sets of institutional variables on decentralization. First, I include “static” (relatively time invariant) institutional variables, such as proportional representation rules, $pr$, and closed lists, $cl$. The equations are:

\[
\text{fiscal decentralization (expshare)} = \alpha + \beta_1(pr) + \beta_2(cl) + \varepsilon;
\]

\[
\text{administrative decentralization (admindec)} = \alpha + \beta_1(pr) + \beta_2(cl) + \varepsilon
\]

Second, I include variables related to the party system, or what I called as more “dynamic” institutional variables (as they tend to change over time), which may also influence decentralization policies: the level of nationalization and fragmentation of the party system. Jones and Mainwaring (2003, 1, 7) develop the concept of party system “nationalization,” considering as nationalized a party system in which the major parties’ respective votes share do not differ much from one province to the next. For Jones and Mainwaring (2003, 6), in highly nationalized party systems, executives might have greater ability to forge legislative coalitions on the basis of national issues. In weakly nationalized party systems, presidents may face more pressures from regional leaders who try to include sub-national issues into the agenda.

The fragmentation of the party system also affects the chances of political actors at the central or regional level of building coalitions for decentralizing or centralizing reforms. For Coppedge (2001, 5–6), conventional wisdom argues that the lower the number of parties and the larger the government’s majority in Congress, the lower the transaction costs of redistributing and allocating resources for the president.
In relation to decentralization outcomes, the higher its nationalization and the less fragmented the party system, the easier it would be, in principle, for the central governments to get the majorities in Congress necessary to centralize resources and administrative functions (or the more difficult it would be for sub-national governments to press the central government for decentralizing resources and functions).  

\[
\text{fiscal decentralization (expshare)} = \alpha + \beta_1(\text{enp}) + \beta_2(\text{nps}) + \varepsilon;
\]

\[
\text{administrative decentralization (admindec)} = \alpha + \beta_1(\text{enp}) + \beta_2(\text{nps}) + \varepsilon
\]

where the variables related to the party system are: \( \text{enp} \), which is the level of fragmentation of the party system, measured by Laakso and Taagepera’s (1979) index of effective number of parties; and \( \text{nps} \), which is the Jones and Mainwaring (2003) index of nationalization of the party system.

Federal or unitary countries may have experienced different processes of decentralization, since federal countries have autonomous political and administrative structures for sub-national governments. Therefore, it is highly relevant to incorporate the effect of the federal system in decentralization analyses. I also run separate regressions for unitary and federal cases to reveal whether there are specific factors or changes in the magnitudes of the variables affecting the outcome in each set of countries.

\[
\text{fiscal decentralization (expshare)} = \alpha + \beta_1(\text{feder}) + \varepsilon;
\]

\[
\text{administrative decentralization (admindec)} = \alpha + \beta_1(\text{feder}) + \varepsilon
\]

In addition, countries with elected state and local authorities might have also experienced larger decentralization processes, as they have political autonomy and incentives to acquire more resources.

\[
\text{fiscal decentralization (expshare)} = \alpha + \beta_1(\text{state}) + \varepsilon;
\]

\[
\text{administrative decentralization (admindec)} = \alpha + \beta_1(\text{state}) + \varepsilon
\]

\[
\text{fiscal decentralization (expshare)} = \alpha + \beta_1(\text{muni}) + \varepsilon;
\]

\[
\text{administrative decentralization (admindec)} = \alpha + \beta_1(\text{muni}) + \varepsilon
\]

In these equations, and in the third place, I include variables to account for whether the country is formally federal or unitary (\( \text{feder} \)); and whether it elects local (\( \text{muni} \)) and state authorities (\( \text{state} \)).

For a third set of arguments based on economic crises, fiscal centralization and administrative decentralization should increase in contexts of economic crisis. The equations are:

\[
\text{fiscal decentralization (expshare)} = \alpha + \beta_1(\text{gdp}) + \beta_2(\text{deficit}) + \varepsilon;
\]

\[
\text{administrative decentralization (admindec)} = \alpha + \beta_1(\text{gdp}) + \beta_2(\text{deficit}) + \varepsilon
\]

Where \( \text{gdp} \) (GDP Model) is the rate of economic growth measured as changes (growth or fall) in the gross domestic product (GDP) (data from WB-WDI 2004).
and deficit (Deficit Model) is the fiscal balance of the national government (total income minus total expenditure, as a percentage of GDP; data from CEPAL-ECLAC 1997, 2005).

To test the effects of adjustment policies on decentralization, the paper also includes the IADB structural policy (or adjustment) index (spï) (SPI Model) (Escobar-Lemmon 2001, 30).  

\[
\text{fiscal decentralization (expshare)} = \alpha + \beta_1(\text{spi}) + \varepsilon; \\
\text{administrative decentralization (admindec)} = \alpha + \beta_1(\text{spi}) + \varepsilon
\]

For a fourth set of arguments based on social mobilization and democratization, more pressures from civil society to increase democratic participation and social accountability should be linked to more fiscal and administrative decentralization (note that both dimensions should increase simultaneously in this argument). To test the effect of the hypothesis, I use indicators of social and political mobilization (riots, strikes, and opposition gatherings, agdemons, Banks 1996; In: Przeworski et al. 2000).  I also include variables related to the level of democratization (political rights, fhpr, and civil liberties, fhcl; Freedom House 2005) (I call this model Demo-Mobil Model). The equations are:

\[
\text{fiscal decentralization (expshare)} = \alpha + \beta_1(\text{fhpr}) + \beta_2(\text{fhl}) + \varepsilon \\
\text{admin. decentralizat. (admindec)} = \alpha + \beta_1(\text{fhpr}) + \beta_2(\text{fhl}) + \varepsilon \\
\text{fiscal decentralization (expshare)} = \alpha + \beta_1(\text{riots}) + \beta_2(\text{strikes}) + \beta_3(\text{agdemons}) + \varepsilon \\
\text{admin. decentralizat. (admindec)} = \alpha + \beta_1(\text{riots}) + \beta_2(\text{strikes}) + \beta_3(\text{agdemons}) + \varepsilon
\]

This work incorporates dummy variables to control for relatively fixed characteristics of the seven cases under study. Dummies set a separate intercept for each country, thus establishing a way to account for all the un-modeled, country specific variables that are relatively constant for each case over the relatively short period of time considered in this work and might affect levels of decentralization across cases.

I test the effects of these models (Partisan Power, Institutional, GDP, Deficit, SPI, and Demo-Mobil Models; see Table 5 for descriptions of the variables and data sources), first by using ordinary least square (OLS) regressions. Second, because the data are cross-sectional and time serial, the paper also performs a regression taking into consideration random and fixed effects by generalized least squares (GLS) to correct for heteroskedasticity. With time series, it is also sensible to execute a first-order autocorrelation correction. This test takes into account the fact that the data are correlated with themselves, and thus the error terms are correlated. In order to control for autocorrelation, the paper runs a Prais–Winsten regression—iterated estimates—, to correct for first-order autoregressive errors. Finally, in order to avoid over-confidence in the standard errors using GLS, this work performs an OLS regression with panel corrected standard errors (Beck and Katz 1995).
The paper attempts to avoid the excessive concentration in particular cases or groups of countries of alternative explanations to decentralization through the cross-sectional and time-series statistical testing of the arguments. In this sense, the study includes all Latin American federations (Argentina, Brazil, Mexico, and Venezuela) and three unitary countries (Chile, Ecuador, and Uruguay), in a series of observations between 1979 and 1998. The total number of observations ranges between 45 and 217, depending on the different regressions performed (as indicated in the different models in tables 1–4).

### Results and Discussion

Results of the analysis for the full set of observations and countries are displayed in tables 1–4. The findings support some of the model’s main expectations. The political power of the president and the governors (or sub-national actors in general) are variables that affect the level of fiscal and administrative...
Table 2 Regression results

<table>
<thead>
<tr>
<th>Variables</th>
<th>Institutions for FD</th>
<th>Institutions for AD</th>
<th>State–local elections for FD</th>
<th>State–local elections for AD</th>
<th>PR\textsuperscript{a} and Cl\textsuperscript{b} for FD</th>
<th>PR\textsuperscript{a} and Cl\textsuperscript{b} for AD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationalization of party system (nps)</td>
<td>-11.73** (6.43)</td>
<td>0.36 (1.26)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Effective number of parties (enp)</td>
<td>0.94** (0.33)</td>
<td>0.19** (0.07)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Federal Constitut. (feder)</td>
<td>22.49*** (1.80)</td>
<td>1.43*** (0.37)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>State elections (state)</td>
<td>-</td>
<td>-</td>
<td>3.35*** (0.86)</td>
<td>0.30*** (0.09)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Local elections (muni)</td>
<td>-</td>
<td>-</td>
<td>5.29*** (1.19)</td>
<td>0.32** (0.12)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Proportional representation (pr)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10.44* (5.85)</td>
<td>dropped</td>
</tr>
<tr>
<td>Closed lists (cl)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-15.91** (5.59)</td>
<td>-2.85*** (0.19)</td>
</tr>
<tr>
<td>Argentina</td>
<td>12.09*** (1.44)</td>
<td>1.60*** (0.32)</td>
<td>24.80*** (2.34)</td>
<td>0.76*** (0.17)</td>
<td>22.75*** (5.60)</td>
<td>3.62*** (0.20)</td>
</tr>
<tr>
<td>Brazil</td>
<td>-0.8*** (1.96)</td>
<td>dropped</td>
<td>19.50*** (2.67)</td>
<td>dropped</td>
<td>dropped</td>
<td>dropped</td>
</tr>
<tr>
<td>Chile</td>
<td>dropped</td>
<td>0.01 (0.25)</td>
<td>dropped</td>
<td>-1.26*** (0.27)</td>
<td>dropped</td>
<td>1.00*** (0.26)</td>
</tr>
<tr>
<td>Ecuador</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mexico</td>
<td>dropped</td>
<td>-0.40 (0.38)</td>
<td>8.96*** (2.09)</td>
<td>-2.25*** (1.19)</td>
<td>2.01 (5.53)</td>
<td>0.30 (0.19)</td>
</tr>
<tr>
<td>Uruguay</td>
<td>3.70** (1.29)</td>
<td>dropped</td>
<td>-1.91 (2.13)</td>
<td>-2.29*** (0.19)</td>
<td>dropped</td>
<td>dropped</td>
</tr>
<tr>
<td>Venezuela</td>
<td>-13.09*** (1.41)</td>
<td>-1.39*** (0.29)</td>
<td>2.52 (2.17)</td>
<td>-2.02*** (0.18)</td>
<td>-4.43 (5.57)</td>
<td>0.53** (0.18)</td>
</tr>
<tr>
<td>Constant</td>
<td>13.58** (6.86)</td>
<td>1.34 (1.25)</td>
<td>8.04*** (2.59)</td>
<td>3.26*** (0.22)</td>
<td>23.80*** (6.01)</td>
<td>35.67*** (4.74)</td>
</tr>
<tr>
<td>R\textsuperscript{2}</td>
<td>0.98</td>
<td>0.85</td>
<td>0.84</td>
<td>0.84</td>
<td>0.81</td>
<td>0.97</td>
</tr>
<tr>
<td>R\textsuperscript{2} Adj</td>
<td>0.97</td>
<td>0.83</td>
<td>0.83</td>
<td>0.83</td>
<td>0.80</td>
<td>0.96</td>
</tr>
<tr>
<td>N (number of cases)</td>
<td>56</td>
<td>77</td>
<td>106</td>
<td>141</td>
<td>79</td>
<td>57</td>
</tr>
</tbody>
</table>

Note: Standard errors in parentheses.
\*p<0.10; **p<0.05; ***p<0.01 (two-tailed tests).
\textsuperscript{a}PR, proportional representation rules.
\textsuperscript{b}CL, closed lists.
Table 3  Regression results

<table>
<thead>
<tr>
<th>Variables</th>
<th>Deficit (continuous) for FD</th>
<th>Deficit (continuous) for AD</th>
<th>Deficit (dummy) for FD</th>
<th>Deficit (dummy) for AD</th>
<th>Deficit* President Power (for FD)</th>
<th>Deficit* President Power (for AD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deficit (continuous variable)</td>
<td>0.59*** (0.12)</td>
<td>0.05** (0.02)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Deficit (dummy variable)</td>
<td>–</td>
<td>–</td>
<td>–1.52 (1.21)</td>
<td>0.01 (0.13)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Deficit (lag)* Power of the President</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–5.08** (1.53)</td>
<td>–0.33 (0.22)</td>
</tr>
<tr>
<td>Argentina</td>
<td>6.68*** (1.42)</td>
<td>3.74*** (0.18)</td>
<td>35.73*** (1.90)</td>
<td>3.72*** (1.19)</td>
<td>9.30*** (1.65)</td>
<td>3.82*** (0.26)</td>
</tr>
<tr>
<td>Brazil</td>
<td>Dropped</td>
<td>3.30*** (0.19)</td>
<td>28.54*** (1.92)</td>
<td>3.22*** (1.19)</td>
<td>dropped</td>
<td>2.81*** (0.24)</td>
</tr>
<tr>
<td>Chile</td>
<td>−29.91*** (1.56)</td>
<td>0.88*** (0.19)</td>
<td>dropped</td>
<td>1.00*** (0.20)</td>
<td>−29.07*** (1.75)</td>
<td>0.94*** (0.25)</td>
</tr>
<tr>
<td>Ecuador</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mexico</td>
<td>−12.72*** (1.45)</td>
<td>1.21*** (0.18)</td>
<td>15.31*** (1.89)</td>
<td>1.16*** (0.19)</td>
<td>−9.75*** (1.71)</td>
<td>1.00*** (0.27)</td>
</tr>
<tr>
<td>Uruguay</td>
<td>26.60*** (1.54)</td>
<td>0.82*** (0.19)</td>
<td>2.91 (1.87)</td>
<td>0.82*** (0.19)</td>
<td>−25.60*** (1.60)</td>
<td>0.85*** (0.24)</td>
</tr>
<tr>
<td>Venezuela</td>
<td>−17.35*** (1.40)</td>
<td>0.97*** (0.19)</td>
<td>10.96*** (1.79)</td>
<td>0.89*** (0.19)</td>
<td>−16.36*** (1.53)</td>
<td>1.08*** (0.24)</td>
</tr>
<tr>
<td>Constant</td>
<td>37.32*** (1.12)</td>
<td>1.08*** (0.13)</td>
<td>8.38*** (1.20)</td>
<td>0.99*** (0.16)</td>
<td>37.05*** (1.23)</td>
<td>1.06*** (0.18)</td>
</tr>
<tr>
<td>R²</td>
<td>0.95</td>
<td>0.85</td>
<td>0.93</td>
<td>0.84</td>
<td>0.94</td>
<td>0.85</td>
</tr>
<tr>
<td>Adj R²</td>
<td>0.94</td>
<td>0.84</td>
<td>0.92</td>
<td>0.83</td>
<td>0.93</td>
<td>0.83</td>
</tr>
<tr>
<td>N (number of cases)</td>
<td>64</td>
<td>125</td>
<td>64</td>
<td>125</td>
<td>58</td>
<td>79</td>
</tr>
</tbody>
</table>

Note: Standard errors in parentheses.
*p < 0.10; **p < 0.05; ***p < 0.01 (two-tailed tests).
Table 4  Regression results

<table>
<thead>
<tr>
<th>Variables GDP Model, SPI Model, Demo-Mobil Model</th>
<th>Changes in GDP (lag) for FD (GDP Model)</th>
<th>Changes in GDP (lag) for AD (GDP Model)</th>
<th>Structural adjustment for FD (SPI Model)</th>
<th>Structural adjustment for AD (SPI Model)</th>
<th>Democratiz. and social mobiliz. for FD (Demo-Mobil Model)</th>
<th>Democratiz. and social mobiliz. for AD (Demo-Mobil Model)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in GDP (lag) (gdpgrlag)</td>
<td>0.001 (0.09)</td>
<td>0.006 (0.006)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Structural policy index (spi)</td>
<td>–</td>
<td>–</td>
<td>26.69*** (5.63)</td>
<td>3.26*** (1.50)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Political rights (Fhpr)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–1.25** (0.57)</td>
<td>–0.06** (0.03)</td>
</tr>
<tr>
<td>Civil liberties (Fhcl)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>0.23 (0.75)</td>
<td>0.05 (0.04)</td>
</tr>
<tr>
<td>No. of strikes (strikes)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>0.22 (0.53)</td>
<td>0.01 (0.03)</td>
</tr>
<tr>
<td>No. of riots (riots)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>0.73 (0.50)</td>
<td>0.04* (0.02)</td>
</tr>
<tr>
<td>Opposit. gatherings (agdemons)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–0.23 (0.26)</td>
<td>0.01 (0.01)</td>
</tr>
<tr>
<td>Argentina</td>
<td>19.67*** (2.28)</td>
<td>3.50*** (0.17)</td>
<td>22.35*** (1.82)</td>
<td>3.09*** (0.17)</td>
<td>7.31*** (1.82)</td>
<td>0.96*** (0.09)</td>
</tr>
<tr>
<td>Brazil</td>
<td>15.37*** (2.33)</td>
<td>2.78*** (0.17)</td>
<td>16.37*** (1.32)</td>
<td>2.14*** (0.17)</td>
<td>dropped</td>
<td>1.95*** (0.08)</td>
</tr>
<tr>
<td>Chile</td>
<td>-12.29*** (2.20)</td>
<td>0.80*** (0.17)</td>
<td>-13.21*** (2.14)</td>
<td>0.41* (0.19)</td>
<td>dropped</td>
<td>0.62*** (0.09)</td>
</tr>
<tr>
<td>Ecuador</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mexico</td>
<td>2.27 (2.18)</td>
<td>0.56*** (0.15)</td>
<td>1.38 (1.82)</td>
<td>0.09 (0.17)</td>
<td>dropped</td>
<td>-0.02 (0.08)</td>
</tr>
<tr>
<td>Uruguay</td>
<td>-9.57*** (2.25)</td>
<td>0.36** (0.16)</td>
<td>-9.90*** (2.09)</td>
<td>0.08 (0.17)</td>
<td>dropped</td>
<td>0.02 (0.08)</td>
</tr>
<tr>
<td>Venezuela</td>
<td>6.44** (2.25)</td>
<td>0.46*** (0.16)</td>
<td>dropped</td>
<td>0.80*** (0.17)</td>
<td>20.64*** (3.11)</td>
<td>0.02 (0.09)</td>
</tr>
<tr>
<td>Constant</td>
<td>18.87*** (2.00)</td>
<td>0.96*** (0.12)</td>
<td>5.50** (2.66)</td>
<td>0.33 (0.23)</td>
<td>26.64*** (5.75)</td>
<td>0.03*** (0.09)</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.84</td>
<td>0.81</td>
<td>0.93</td>
<td>0.91</td>
<td>0.95</td>
<td>0.96</td>
</tr>
<tr>
<td>Adj $R^2$</td>
<td>0.83</td>
<td>0.80</td>
<td>0.92</td>
<td>0.90</td>
<td>0.95</td>
<td>0.96</td>
</tr>
<tr>
<td>$N$ (number of cases)</td>
<td>133</td>
<td>193</td>
<td>54</td>
<td>77</td>
<td>45</td>
<td>114</td>
</tr>
</tbody>
</table>

Note: Standard errors in parentheses.

*p < 0.10; **p < 0.05; ***p < 0.01 (two-tailed tests).
### Table 5 Variable description and data sources

<table>
<thead>
<tr>
<th>Dependent variables</th>
<th>Indicator</th>
<th>Source</th>
<th>Years of coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative decentralization</td>
<td>Index of administrative decentralization</td>
<td>Data collected by the author (available upon request.)</td>
<td>1972–2005</td>
</tr>
<tr>
<td>Independent variables</td>
<td>Indicator</td>
<td>Source</td>
<td>Years of coverage</td>
</tr>
<tr>
<td>Political power of the governors</td>
<td>Index of political power of the governors</td>
<td>Database of Political Institutions (DPI, Version 2.0), and primary sources.</td>
<td>1983/5–2001</td>
</tr>
<tr>
<td>Nationalization and fragmentation of the party system</td>
<td>Index of nationalization of the party system</td>
<td>Jones and Mainwaring (2003)</td>
<td>1983/5–2001</td>
</tr>
<tr>
<td>Control variables</td>
<td>Indicator</td>
<td>Source</td>
<td></td>
</tr>
<tr>
<td>Federalism</td>
<td>Federal system, election of sub-national authorities</td>
<td>DPI, Version 2.0.</td>
<td>1979–2002</td>
</tr>
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</table>
decentralization for the selected group of countries. These variables perform according to our theoretical expectations and are significant as well as of relatively robust magnitude (Partisan Power Model). Out of the data, politically strong presidents have tended to increase fiscal centralization, while strong governors have done the opposite: decentralized funds. 40

The results also show that political power affects the level of administrative decentralization. More political power of the president is reflected in more centralization of functions (an increase in partisan powers of the president is reflected in a decrease in the index of administrative decentralization), while more political power of the governors is associated to more decentralization of functions. These findings show that, in general terms, presidents have supported more centralization and governors more decentralization. I still need to analyze how these variables interact with changes in GDP and the fiscal balance of the national government to explore if results hold under different economic and fiscal contexts.

If I run separate regressions for federal and unitary cases, results change. In unitary cases, the partisan power of the president is a robust and significant factor affecting decentralization; while the power of governors is statistically insignificant and of very weak magnitude. 41 Thus, while fiscal and administrative transfers in federal countries have depended on the power of presidents and the power of governors 42 (as a measure to reflect power struggles among them); in unitary cases, decentralization has basically depended on the power of the president, which magnitude is higher than in federal cases. 43

The federal structure and the election of state and local authorities increase fiscal and administrative decentralization. The relevance of the federal structure and the role played by the power of governors in federal cases are valuable reasons to sustain Lijphart’s (1999) classification in explaining decentralization: centralized and decentralized federal and unitary cases. Yet, as unitary countries have also decentralized, the federal structure by itself does not seem to be a sufficient cause to explain the process (Escobar-Lemmon 2001, 40); in fact, this paper argues that a more complex set of factors, related to the power of political actors and the fiscal context, affects the level of decentralization in federal and unitary cases.

Some features of the party system also appear to affect decentralization. The two variables on the characteristics of the party system reach the standard levels of statistical significance in the different regression results performed: On the one hand, the larger the fragmentation of the party system (higher effective number of parties), the more fiscal and administrative decentralization; and on the other, an increase in the level of nationalization of the party systems produces a decrease in the level of fiscal decentralization, as we expected theoretically 44 (Institutional Model).

More static institutional variables (such as electoral rules) do not seem to play a clear role in relation to decentralization outcomes: Closed lists seem to be linked to
lower levels of fiscal and administrative decentralization; although I cannot reach conclusive evidence regarding the effect of proportional representation rules.

Changes (growth or decline) in gross domestic product do not seem to affect the level of either fiscal or administrative decentralization (GDP Model). This variable does not reach the standard levels of statistical significance in the different regression results performed (even when I use its lagged value). These results may constitute some statistical evidence to reject the decentralization by economic collapse hypothesis as a general argument applicable to the selected countries in the region.

Despite these results, deficits at the national level seem to affect decentralization policies (Deficit Model). An increase in the value of the variable deficit (that is, smaller deficits) is reflected in an increase in the value of fiscal decentralization. This means that the larger the deficit the more fiscal centralization (as we expected theoretically). In relation to administrative decentralization, an increase in the value of deficit (or smaller deficits) is translated into relatively higher (although the coefficient is very low) values of admindes, or more decentralized functions. With the variable deficit, I cannot interpret whether there are different effects out of deficits or surpluses on the outcome, as the variable is continuous and I only test the effects of one unit increase in the value of the variable (that is one unit decrease in the deficit). In order to test in more detail the effects of the fiscal balance of the national government, I included a dummy variable for periods of surplus (0) or deficit (1). With this dummy variable, I can differentiate periods of fiscal bonanza from those of constraint. According to the results, periods of fiscal deficit are linked to more fiscal centralization and more administrative decentralization, as expected theoretically.

I also made an interaction term between political power and deficit. The statistical results show that an increase in the political power of the president, in contexts of fiscal deficit, is translated into a decrease in the level of fiscal decentralization. These results go in line with our theoretical argument: We expected powerful presidents in contexts of fiscal crisis and resource scarcity, to have the capacity as well as the incentives to change the status quo. And the data seem to show that, in general, when presidents had political power and were pressed by an unfavorable fiscal context, they have tended to modify the distribution of resources in their favor.

The fiscal deficit is simply a proxy for the lack of funds in the hands of presidents (money that is available to them for political purposes) and it does not say much about the amount and type of resources they have. We still need better indicators on the fiscal constraints faced by presidents and governors to analyze in more detail how they affect changes in the strategies these actors pursue.

The structural adjustment index appears to have an impact on decentralization (SPI Model). Countries that advanced more in structural reforms, as measured by
the IADB (1997) structural policy index, have also tended to decentralize more in fiscal and administrative terms. The problem with this argument is that it seems to be circular: Countries implementing reforms (those adjusting) are those that carried out decentralizing reforms, leaving unexplained the main factors that lead a country to adjust or decentralize. Escobar-Lemmon (2001, 41) makes a connection between adjustment and advice from IFIs, which we previously ruled out as a general claim applicable to the federal cases in the region (and some unitary). Besides, it is a shortsighted argument: it claims that decentralization is a post-debt crisis or 1990s structural-adjustment reform. But this policy was implemented, as well as re-centralizing reforms, several times in the history of many countries in the region, especially in federal ones. To test the full explanatory power of this assertion, we would need to expand the series of the index to years previous to 1985.

The variables associated to the level of democracy and social mobilization (Demo-Mobil Model) do not seem to provide conclusive evidence regarding their role in affecting the share of funds and the functions decentralized to sub-national governments. The Freedom House civil liberties index does not reach the standard levels of statistical significance. The index on political rights is statistically significant and it performs in the expected direction (increases in the \( fhpr \) score—that is, less political rights—seem to be associated with less fiscal and administrative decentralization). This means that the more political rights, the more fiscal and administrative decentralization (although the impact of this variable is small). The protest and mobilization variables (riots, strikes, and opposition gatherings) are not statistically significant. Out of the results, this study finds little evidence regarding the role of the decentralization from democratization and social mobilization hypothesis for the selected cases and years.

In order to be more confident, some tests were performed to check the robustness in the results. The findings are consistent with the original results and substantive conclusions do not change when using GLS to correct for heteroskedasticity and Prais–Winsten regression to correct for first-order autoregressive errors. I also performed an OLS regression with panel corrected standard errors (Beck and Katz 1995) to avoid overconfidence in the standard errors, and the results are consistent with the previous tests. The variables in these models explain an important amount of the variance in the dependent variable.

Ultimately, the model attempts to demonstrate that decentralization in Latin America has been strongly influenced by the political power of key actors who are constrained by changes in the fiscal context. According to the results obtained, presidents in the region have tended to favor the centralization of fiscal resources, whereas sub-national politicians have been more prone to influence the process in favor of their decentralization. The crucial element is who has had the political
power to decide the direction of the process and how urged these actors are by the fiscal context to take action.

Notes

The author thanks Guillermo O’Donnell, Michael Coppedge, Kent Eaton, Maria Escobar-Lemmon, Tulia Falleti, Fran Hagopian, Marcelo Leiras, Scott Mainwaring, Brian Pollins, Ben Radcliff, Eliza Willis, my colleagues Ángel Álvarez, Carlos Gervasoni, Claudia Maldonado, Carlos Mendoza, and Juan Moraes, and the four anonymous reviewers for their very insightful comments on earlier versions. The usual caveat applies. Particular thanks to Michael Coppedge and Andres Mejía Acosta for their generosity in sharing the index of partisan powers with me, and Scott Mainwaring and Mark Jones for giving me access to their index of nationalization of parties and party systems. Special thanks also to the Kellogg Institute, the Department of Political Science and the Graduate School at the University of Notre Dame, the Fulbright Commission and the Institute for International Education for their financial support for conducting research for this article and the broader project, and to the Universidad Católica Argentina, especially to Enrique Aguilar and Marcelo Camusso, the Universidad de San Andrés, especially to Carlos Acuña and Marcelo Leiras, and the Universidad Católica de Córdoba, especially to Mario Riorda, Martín Lardone, and Marcelo Nazareno, for their generosity and institutional support.

1. According to the Inter-American Development Bank (IADB), only three countries elected their mayors directly in 1980. In 1997, seventeen countries used this form of election of local authorities, while in other six mayors were appointed by elected municipal councils. Inter-American Development Bank (IADB) (1997, 99).

2. According to data compiled by Falleti (2005, 327), the share of revenues and expenditures of sub-national governments in Argentina, Bolivia, Brazil, Chile, Colombia, Mexico, Paraguay, and Peru increased from an average of 14 and 16 percent of the total in 1980, respectively, to 29 percent in 2000.

3. Other scholars include a third dimension: Political decentralization, which refers to the establishment or re-establishment of democratically elected sub-national governments (Willis et al. 1999, 8). I explore the role played by elected or appointed sub-national authorities on decentralization outcomes in the statistical analysis.

4. Venezuela and Colombia (the latter being unitary), for instance, have experienced relatively recent decentralizing reforms without an immediate authoritarian past (not at least since the late-1950s), as in the case of the Southern Cone countries. Bolivia (also unitary) decentralized in 1994, when the Popular Participation Law was passed, after almost twelve years of democratically held elections. Eaton (in Montero and Samuels, 2004) finds little evidence to support this hypothesis for the (unitary) Chilean and Uruguayan cases.

5. In Argentina, for instance, the military government of Lanusse decentralized revenues when leaving office in 1973 as a way to constrain the Camaño and Perón governments
(Eaton 2001, 10). The military government that took power in Brazil in 1964—even though it was highly centralized in several aspects—increased administrative and fiscal decentralization as a way to favor northern and northeastern states, where the armed forces found a base of conservative support. Besides, the post-transition democratic governments decentralized (Alfonsín, Sarney) and re-centralized (Menem, Cardoso) fiscal resources.


7. O’Neill rejects the hypothesis of decentralization as a result of pressures from IFIs in a selected group of countries (defined as the “Andean countries:” Bolivia, Colombia, Ecuador, Peru, and Venezuela).

8. Other authors have stressed the effects that “malapportionment” has on the functioning of federal democracies (Souza 1997; Samuels and Snyder 2001; Gibson 2004).

9. One of them is the expropriation of the control of the means of coercion from other political associations [such as cities or feudal lords (or regional caudillos in many Latin American countries)]. Another achievement is the expropriation of the means of administration, which leads to the centralization of power and the ending, or at least marginalization, of patrimonial (and regionally based) kinds of organization (O’Donnell, forthcoming).

10. Although the central government usually retains crucial prerogatives, such as the power to intervene on sub-national units under certain circumstances or to demand correspondence between sub-national legislation and the federal constitution.

11. I use the term “governors” to refer to sub-national authorities in federal countries (in which they are effectively called governors) and unitary ones (in which they can also be called “intendentes,” as in the case of Chile, or “prefectos”, as in Bolivia). To avoid confusion, on occasions I also refer to them simply as “sub-national actors.”

12. The president will be more powerful if she has support from both of them; less so, if one or more of them are absent.

13. The popularity of the president is another important factor, which may affect the executive capacity to deal with governors and congress. Due to lack of data for all the countries and years, I do not include this dimension into the statistical analysis.

14. Gubernatorial institutional power, as measured by Schlesinger (1965), is composed by tenure power (length of term in office and eligibility to serve successive terms); budget power (degree of direct gubernatorial control in preparing the budget); appointment power (extent of control over appointment ranging from no outside approval needed to independently elected officials); and veto power (combination of item veto privileges and votes needed to override veto) (quoted in Mueller 1985, 424). Beyle (1990) includes other dimensions: Gubernatorial tenure potential, appointment and removal powers, budget-making authority, legislative budget-changing authority, veto powers, and political party strength in the state legislature.
15. Governors’ partisan powers refer to the partisan control they have over the legislative seats. The control over the legislative is crucial, first, in order to have political support over legislation and reforms promoted from the state executive; and second, to neutralize control mechanisms that the state legislature can exert over the governor. Political control over the judiciary, the state bureaucracy, and state resources (clientelistic funds and those allocated by the state budget) although not taken into consideration in this work, can also be important dimensions for the analysis. The control over these resources gives governors more leverage over decisions they can take and actions they can implement without the oversight of other relevant institutions. The political control over other institutions, such as the legislative and the judiciary, has not been considered critical in the literature on the American states, as the institutional separations of powers has, in general, been taken for granted.

16. Gubernatorial enabling resources, according to Dilger et al. (1995, 560) includes the number of gubernatorial staff per state government employee, the amount of gubernatorial fiscal support per state government employee (funding for the office of the governor and auxiliary boards and commissions), and the governor’s appointment and removal powers over state agency heads.

17. Legislative professionalism is the legislature’s capacity to engage in the policy-making process with expertise, seriousness, and effort. Most of the indices that measure this concept include variables to account for differences in legislative pay, staff, and session length (Dilger et al. 1995, 559).

18. Here, we can include: (i) Whether the governors are elected or appointed; and, if elected their (ii) tenure potential; (iii) agenda setting powers; and (iv) power over the budget (or the legislature’s authority to alter the budget request).

19. Or, more precisely: (i) The amount of votes received by the governor in the state election; and (ii) governor’s partisan control over the state legislature (this is, of course, valid only in cases of elected governors).

20. Which may include: (i) The existence of coordination mechanisms among governors (such as regional delegations, or more or less formal institutions representing states and provinces); (ii) control over delegations in the federal congress; (iii) control over administrative or bureaucratic positions in the central government (ministries, agencies, etc.).

21. I include preferences related to control and discretion over transferred funds (i.e., earmarked and nonearmarked transfers), although they are not empirically assessed in the paper. The reason why they are included here is to have a more complex account of the preferences of presidents and governors over the process of decentralization and the conditions under which they prefer decentralization or centralization of funds and functions.

22. Changes in the distribution of resources have occurred more often than changes in the distribution of functions. This can be because changes in the distribution of resources require (in most cases) amendments to ordinary laws, while the centralization of functions may require (under some conditions and in some countries) constitutional reforms. In the theoretical framework, I do not consider the level of difficulty in these changes, only the preferences of political actors.
23. If new administrative functions suppose more political conflicts, few benefits, more control from the central government, and more fiscal costs for governors, they will prefer them to be centralized at the national level. Willis et al. (1999, 17) and Falleti (2003, 29–32) present very similar expectations in their works.

24. In the case of provincial/state governments, they can impede transfers of functions from the central government, centralize them at the national level (something theoretically possible but very unusual in the experiences of the countries considered in this study) or decentralize them to local units (further de-centralize). For the sake of simplicity, I do not develop these dynamics into the statistical analysis, although it is important to consider them as possible in theory.


26. The measures for fiscal and administrative decentralization are correlated at 0.78; although it may be regarded as a marked degree of correlation, I decided to use both measures for the regression analyses because of theoretical reasons associated to changes in the preferences of presidents and governors under fiscal crises or fiscal bonanza (Table A). Besides, the statistical results show that the effects of the selected independent variables over these two dimensions of the level of decentralization vary in magnitude and differ under different fiscal contexts (see the Statistical and the results section). Another possible measure of fiscal decentralization is the revenue share at the sub-national level. In this article, I use expenditure share not only because it is more widely used, but also because they seem to be measuring very similar phenomena: Expenditure share and revenue share at the sub-national level are highly correlated (0.94), while administrative decentralization and revenue share are correlated at almost the same level than with expenditure share (0.72). Finally, I used the revenue share of sub-national units and re-run the different regressions I run for expenditure share and substantive results do not change.

27. Partisan powers of the president represent only part of the picture, that of the political bargain between presidents and legislators to pass laws. This is not a minor issue, since decentralization is an important reform that needs Congress approval. But another part would require taking into account the role of sub-national politicians who also interact with the president and national legislators to advance their political careers and improve the resources of their districts. Partisan powers of the president, although limited, is an improved measure from others used previously; such as Escobar-Lemmon’s (2001, 35) measure of political power of the president, who considered as powerful presidents those that used constitutional or delegated decree authority.

28. The crucial difference is between elected governors and those that are appointed. But I also differentiate between regimes in which there are elections for governors with significant institutional resources (these are federal cases with more or less strong governors, coded as 2) and those in which there are only local elections (unitary cases in
which sub-national actors such as intendentes or prefectos are elected, have some institutional capabilities, and can actually establish negotiations over the distribution of resources and functions with the central government in a somewhat similar way to governors in federal cases) (coded as 1). The last category (coded as 0) includes (centralized unitary) cases in which there are appointed sub-national authorities without significant institutional resources. With more data available on the cases, this differentiation could be more precise based on the literature’s debate on gubernatorial power.

29. I am aware of the theoretical and empirical limitations this measure imposes, but it is the best I could get so far based on the data we have for the cases under study. I am constructing a more complete measure based on the specified dimensions for Argentina and Brazil, and hope to complete it for the other cases in the sample in the near future.

30. Coppedge and Mejía (2001, 7) calculate partisan powers taking into account the percentage of congressional seats that the president can count on to vote in favor of her typical bill. Ideally, we would need to calculate partisan powers for the particular bills that attempt to reform the distribution of fiscal transfers, but the data needed to construct these indexes is not currently available for the cases and years covered by this work. I consider that this issue generates incentives (especially for sub-national actors and legislators loyal to them) that may be different from those of other issues in the congressional agenda. This may justify the analysis of this issue as different from aggregated measures of partisan powers and roll call votes.

31. \( Pr \) is 1 if candidates are elected based on the percentage of votes received by their party and/or if the DPI sources specifically call the system “proportional representation”. When \( pr \) is 1, closed list (cl) gets a 1 if voters cannot express preferences for candidates within a party list, 0 if voters can. There are no available data in the DPI regarding the process of nomination at the national or sub-national level for the selected countries.

32. Low nationalization (or more regionalization) and more fragmentation would favor sub-national governments to increase their transfers. Intermediate situations, such as relatively fragmented and low nationalized party systems (or vice versa), should mean stability of the status quo ante, because neither presidents nor governors can change the direction of the transfers.

33. Although some formally unitary countries have also increasingly granted greater forms of political and administrative autonomy to sub-national governments (Colombia and Bolivia being some of the most relevant cases).

34. According to the National Constitution, the variable is coded 1 for federal countries and 0 for unitary.

35. \( Muni \) is recorded 0 if neither the local executive nor the local legislature is locally elected; 1 if the executive is appointed, but the legislature elected; 2 if they are both locally elected. No information, or no evidence, is recorded as blank. \( State \) refers to state or provincial elections and it is recorded in the same manner as \( muni \). Source: DPI, Version 2.0.

36. Escobar-Lemmon (2001, 36) tests the effect of “structural adjustment” by using the IADB “structural policy index,” which is a simple average of the policy indices of five
areas: (i) trade policy, (ii) tax policy, (iii) finance policy, (iv) privatization, and (v) labor legislation. It measures progress in reforming each of these areas and rates countries between 0 and 1; where 0 represents no adjustment and 1 indicates the maximum degree of adjustment possible in all five areas (IADB 1997, 95–96).

37. Riots is the number of violent demonstrations or clashes of more than 100 citizens involving the use of physical force (Banks 1996); strikes is the number of strikes of 1,000 or more industrial or service workers that involves more than one employer and that is aimed at national government policies or authority (Banks 1996); and agdemons is any peaceful public gathering of at least 100 people for the primary purpose of displaying or voicing their opposition to government policies or authority, excluding demonstrations of a distinctly anti-foreign nature (Banks 1996; In: Przeworski et al. 2000). In sum, I have access to data on how democratic or authoritarian were the countries in the sample in a certain year and how much protest or mobilization there was. This is only an indirect test of this hypothesis and more work should be done regarding alternative ways to operationalize it.

38. Freedom House (FH) assigns a rating for political rights (fhpr) and a rating for civil liberties (fhcl) based on a scale of 1 to 7, with 1 representing the highest degree of freedom and seven the lowest level of freedom. Escobar-Lemmon (2001, 35) uses similar data.

39. The series diverge depending on the variables included into the model, as there is variation in the data available for each country.

40. Results are more significant if the variable partisan powers are lagged.

41. The coefficient for the partisan power of the president in unitary cases for fiscal decentralization is −6.51 and significant at the 0.01 level (two-tailed test); while the coefficient for the power of governors is 0.77 and insignificant. For administrative decentralization, values are 1.26 and significant (at 0.001) for presidential power; and −0.05 and insignificant for that of the governors. The number of cases is relatively small for unitary cases (forty-one for administrative decentralization and seventeen for fiscal decentralization), so results should be taken with some caution.

42. Both variables are robust (−12.19 and 8.86, respectively) and significant (at 0.05 and 0.10 levels respectively; two-tailed) for fiscal and administrative decentralization (−1.94 and 0.66; significant at 0.001 and 0.05, respectively).

43. The power of the president in unitary cases explains a variance of 0.36 ($R^2$; or 36 percent) for fiscal and administrative decentralization, while it explains 0.06 (or 6 percent) for fiscal and 0.19 for administrative decentralization in federal cases. In federal cases, the power of governors explains 0.21 and 0.12 in the variance of fiscal and administrative decentralization, respectively.

44. For administrative decentralization, the nationalization of the party system performs in the expected direction, but it is not statistically significant when all the institutional variables are run together in the model. If I run nps alone, results are significant and in the expected direction.

45. GDP per capita does not reach the standard levels of statistical significance for fiscal decentralization either.
46. This important information seems to justify the separation of the fiscal and administrative dimensions in the analysis of decentralization and not consider both dimensions as part of the same process.

47. The results are in the correct direction and significant for fiscal decentralization and in the correct direction, but not statistically significant, for administrative decentralization.

48. The results for administrative decentralization and for interactions between power of governors and deficits do not reach the standard levels of statistical significance. I also used deficit divided by GDP per capita, and significant results do not change.

49. If I include the partisan powers of the president and political power of the governors into the model, controlling for spi, the effect of the main variables of this article does not change; a result that supports the main argument put forward in this work.

50. If the FH variables are lagged, neither of them reaches the level of statistical significance in relation to fiscal decentralization. In relation to administrative decentralization, both variables are of weak magnitude and significant; but while political rights perform in the expected direction (coefficient: −0.06; SE: 0.02), civil liberties performs in the opposite one (coefficient: 0.07; SE: 0.04). Therefore, we do not seem to find conclusive evidence regarding their role.

51. Only riots seem to be significant to explain changes in administrative decentralization. However, this variable performs poorly if regressed alone to both dependent variables.

52. I have found important problems for multicollinearity. Ppowerspreslag, ppowersgovlag, deficit, nps, and feder have relatively low values on the performed test. Besides, out of the regression results the F-test is significant and the individual coefficients are relatively large in magnitude and statistically significant (if not, this would also indicate multicollinearity).

53. The adjusted $R^2$ for ppowerspreslag, ppowersgovlag, nps, and feder is 0.94 (for FD) and 0.64 (for AD) in the PCSE regression. This is a relatively high value, but not unusual using country dummies. Perhaps a more accurate value of the explained variance is the 0.56 of the overall $R^2$ for the GLS regression.

54. This latter part is in line with the analysis developed by Eaton (2001).

References


