Can the Local Affect the National? : Municipalities in Brazil and Argentina in Comparative Perspective.

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Research on Argentine and Brazilian federalism during democratic periods has mainly focussed on the ability of the national level political institutions to produce the expected outcomes of democracy. Since the most recent transition, both of these federations have struggled to achieve the intended expectations of democratization and decentralization. This paper explores from an institutional perspective whether federalism constrains the ability of the central government to provide non-contributory social protection to its citizens. By taking a specific policy goal conceptualized as a social right (that was similarly designed in both Brazil and Argentina), this analysis moves backwards in order to identify both institutional incentives and impediments to the successful delivery of public goods in this policy area. It proposes that the missing variable in understanding Brazil's gradual transformation towards a positive-sum federal game and Argentina's well documented non-cooperative federal game is the role played by municipalities in delivering national policy goals. Using the outcomes of two national poverty alleviation programs this paper demonstrates counter-intuitively that high levels of government decentralization to both the states and the municipalities within the a context of non-majoritarian political dynamics and hardening budget constraints in Brazil, have slowly led to national-local social policy collaboration. In Argentina, it demonstrates the ability of provincial governors to block national social policy goals and prevent municipalities from having their own agency is determined by a highly decentralized government system within the context of strong federalism. In contrast to the expectations of federal theory, intergovernmental conflict in Argentina could not be overcome by majoritarian political dynamics. In conclusion, by using this specific policy area and moving backwards it is possible to argue why policy decentralization in the context of strong federalism does not necessarily lead to improved public goods provisioning and increased social welfare but why policy decentralization in the context of three level federal game (*n + 2 player*) can. The central question this paper seeks to answer is why.

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Introduction

One must keep an equal distance from the two alternatives,
too much authority or too little is the end of freedom
-Hon. Pierre Elliot Trudeau

Following the most recent transitions to democracy in Brazil and Argentina that occurred during the late 1980s, the importance of federalism has re-emerged facilitating an understanding of policy outcomes in these two countries. Federalism, in its political, fiscal, and administrative dimensions has impacted both the consolidation of democracy and its quality in these two countries under study. The *zeitgeist* of a decade of democratic experimentation in Latin America led to government decentralization—the transferring of political power, fiscal resources, and policy responsibility towards its core federal units (states in Brazil and provinces in Argentina) and towards its local federal units (municipalities). Decentralization as a concept has been elucidated both for instrumental reasons in conjunction with public choice and economic theories of federalism, and for substantive reasons associated with empowering local government, increasing representation, and encouraging citizen participation. During the past decade, a plethora of comparative studies applying both traditions have emerged to interpret and to explain the rise of decentralization in Latin America (Souza 1997; Willis, Garman and Haggard 1999; Arretche 2000; Eaton 2004; Samuels and Montero 2004; Gibson and Faletti 2004; Oxhorn, Tulchin and Selee 2004; Ward and Rodriguez 2006)[2].

Argentina and Brazil have both been characterized as "strong federal systems". Samuels and Mainwaring (2004, 90) define strong federalism using four variables: the resource base of subnational governments, the power of governors, the articulation of subnational interests in the National Congress, and the distribution of government functions across levels of government. They assume that federalism strengthens the ability of subnational units (taken as aggregated) to constrain the central government. These authors then further assert that effective leaders can negotiate around these constraints imposed by political institutions better than ineffective ones (2004, 91). They offer no institutional explanation to changes in the *status quo.* The central goal of this paper is to propose that there is a missing variable—municipalities— whose strengthening can simultaneously decrease these constraints but does not weaken federalism, i.e., the ability of the centre to overawe its sub-units.

The separation of the state and municipal levels in Brazil dictated by the new 1988 National Constitution, the "hard-wiring" of national rules regulating sub-national finances, and non-majoritarian political dynamics[3] have enabled municipalities to avoid governors and directly collaborate with the central government. This in turns decreases the ability of the states to constrain central government initiatives in some key policy areas. In contrast, municipalities in Argentina are almost entirely captured by the provinces because of their national and provincially based constitutional ambiguity, the soft-wiring of national rules regulating sub-national finances, and a majoritarian political dynamic the limits subnational inter-party competition. The unification of the local and provincial level in Argentina meant that as federalism increasingly decentralized post-transition, it strengthened federalism allowing

[2] This is a selective, non-exhaustive list.
[3] Political dynamics are defined herein as what "regulates party competition—number of parties, spatial distribution of the vote, and competitiveness of the race" Calvo and Micozzi 2005, 7)

governors to further constrain the ability of the central government to deliver basic public goods. Although strong federalism successfully prevented a democratic central government from overawing its subunits as was seen during the 2001 crisis, it can be too constraining—limiting the ability of the central government to regulate subnational governments or provide public goods itself.

It should be highlighted that the goal of comparing these two federations cross-nationally is not to complete a normative evaluation which categorizes cases into "good" and "bad", efficient or inefficient systems (Riker, 1964), but rather to understand how a particular federation makes a highly decentralized system of federal government work in practice. Moreover, because federalism describes a set of institutions that make policy; the only way to compare federalism cross-nationally is through policy (Bermeo 2002, 102). This paper therefore focuses its comparison through the lens of non-contributory social protection policy—the design and implementation of two federal cash transfer programs designed to alleviate poverty.

Federalism as Riker's 'General' and 'Unique' Dilemma

In 1964 William Riker stated in the preface to his seminal work on the origins of federalism that it comes from one source but exists over diverse institutional and cultural settings making it both general and local [unique][4]. The one source that he was referring to is the ratification of the new constitution of the United States of America that occurred from 1787 to 1788, a process well documented in the eighty-five newspaper editorials known as the "Federalist Papers". The general dilemma of federalism--how to prevent the central government from overawing it units and its subunits from undermining it through free-riding-- can be located in Madison's paper Number 10. He expressed in the name of the public that "our governments are too unstable; that the public good is disregarded in the conflicts of rival parties' and that measures are too often decided, not according to rules of justice, and the rights of the minority party; but by the superior force of an interested and over-bearing majority" (2006: 40). In other words, the main concerns of a federal system of government was that as a political system it *could* lead to government instability, that the pursuit of public goods *could* be compromised by party-based competition, and that policy decisions were made by a powerful majority and not by the minority groups within the polity. In Madison's eyes the credibility of a decentralized federal structure was dependent on ability of a stable government to produce public goods according to the rules of justice. This sets an important caveat—in order for decentralization to be credible government had to be *ex ante* stable.

The unique dilemma of federalism is country specific and based on its historical evolution. In federal countries such as Argentina and Brazil, governors and regional powers have continually competed and constrained the central government's ability to govern leading to democratic instability and government collapse throughout the history of each nation. Centralization in each of these countries was a feature of non-democratic regimes, not a feature of democratic periods. Federalists believe that territorial decentralization prevents intergovernmental opportunism leading to instability through fragmentation. The fragmentation of territorial power makes it

[4] I am calling what Riker means as local 'unique' to avoid word confusion. Local in this paper always refers to the third tier of federal government located closest to the people.

harder for non-consensual will to be formed and sustained in the centre. According to a veto-players approach of politics it is also recognized that this fragmentation can limit the ability of the centre to govern. Fragmentation accomplished through a territorial division of power therefore requires "the cooperation of different institutions, accountable to different constituencies, before significant policy shifts can be made" (Bednar, Eskridge, and Ferejohn 2001: 230). It is here where the unique dilemmas of Argentina and Brazil significantly differ. Broadly stated, the ability of governors in Brazil from 1988-1995 to constrain the centre was based on its own weakness, created by a highly decentralized structure within the context of non-majoritarian political dynamics which made policy consensus difficult and slow. In Argentina, the ability of governors from 1983-2007 to constrain the centre was because "local and national parties and candidates rely on each other for their survival and success" (Ordeshook et al. 2004, 191), but this party-centred logic in Argentina is based at the provincial level which gives governors considerable political leverage over the national executive even when they are of the same party label.

Brazil and Argentina in Comparative Perspective

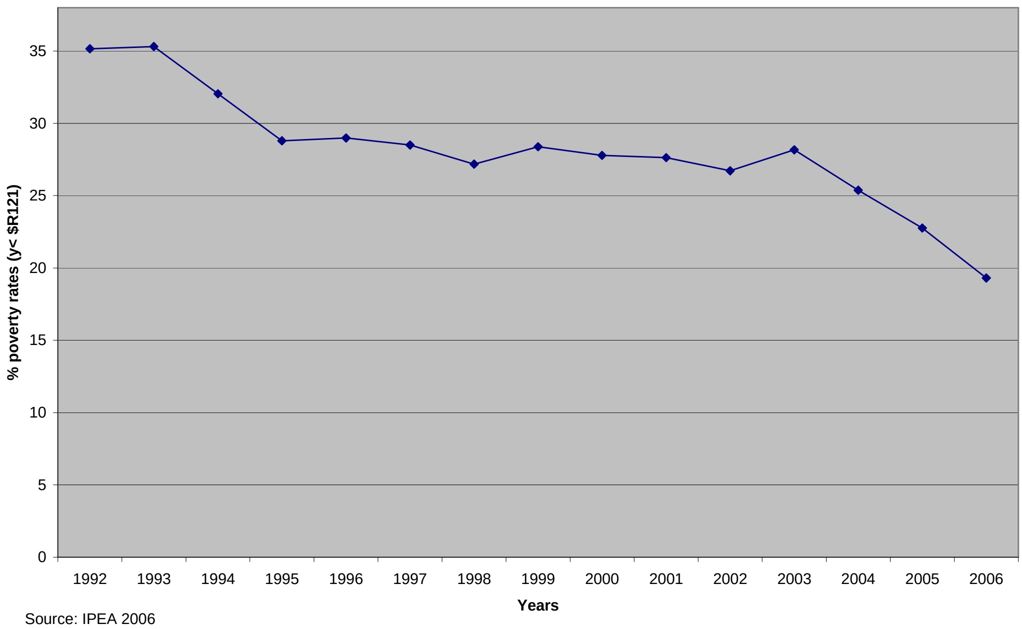
In the two countries under study here there exists a theoretical puzzle. On the one hand Argentina's rapid democratic success from 1983-1999 was facilitated by "a dominant two-party system" "a moderate to high level of party discipline in the legislature" and "the nation's federal framework [that] reduced the winner takes all nature of politics by providing areas of sub-national autonomy for opposition parties" (Jones, 1997, 261). During this time a successful alternation in executive power occurred between the two dominant powers, pervasive inflation was resolved, and macro-economic stability was achieved with renewed economic growth.

On the other hand, Brazil's slow democratization from 1985-2002 was attributed to an excess of veto points, presidents with national majorities situated within a weak fragmented congress, strong state governments, and a multiparty system with open-list proportional representation that produced weak and undisciplined parties. Still, during this time a corrupt president was impeached and successfully replaced by an alternate party, pervasive inflation was resolved, and macro-economic stability was achieved with renewed, albeit slower economic growth.

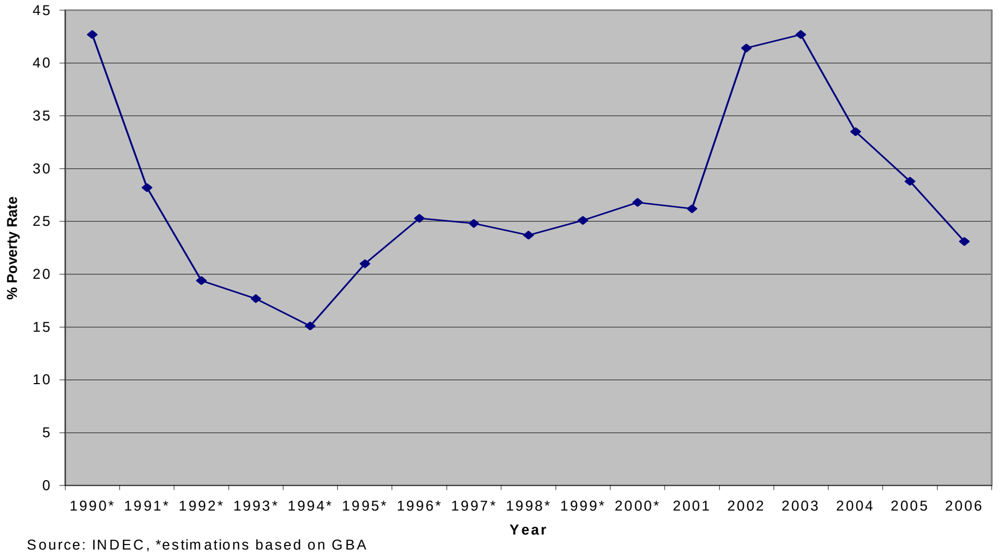
In terms of government performance Argentina has gained itself a reputation for policy volatility and its inconsistent implementation, whereas Brazil, has gained itself a reputation for gradualist muddling through and incremental change. These two generalized differences can be clearly observed in Brazilian poverty rates from 1992-2006, compared to Argentina's from 1990-2006 (Figures 1 and 2).

Figure 1 and 2: Brazilian and Argentine Poverty Rates

Figure 1: Poverty Rates Brazil 1992-2006



Poverty Rates-Argentina 1989-2006



The above figures for both countries demonstrate poverty reductions that were related to multiple economic and social policies. The consistency of poverty reduction in Brazil and its inconsistency in Argentina cannot be explained by a single factor. However, the main difference in the characteristics of government performance as it was stated in the former paragraph can be clearly observed.

Argentina – Constrained by Governors

The politicized nature of politics in Argentina has led to a consensus in the literature that public policy since its democratization (1983) has been highly volatile, inconsistently implemented, and patronage based (Lloyd-Sherlock 1997; Auyero 2000; Calvo and Murillo 2004; Brusco, Nazareno, Stokes 2004; Tommasi and Spiller 2007; Tommasi and Spiller 2008). Specifically, policy designed to alleviate poverty has been plagued by volatility, inconsistency, uncoordinated actions across and between ministries, a lack of political interest, and the lack of a clear national policy goals (Spiller and Tommasi 2007). In 2006, Argentina's main non-contributory social protection program designed to alleviate poverty had only been successfully implemented in 232 municipalities (16% of total municipalities) and delivered benefits to only 372,000 households. The program had been in existence since 2002, and had been promoted again in 2004 by the Ministry of Social Development as its benchmark program. Nominated *Programa Familias (PF)* this national policy initiative decentralized to the municipal level has not been successful in achieving its policy goals: fortify a direct relationship with citizens mediated through municipalities (bypassing governors) and alleviate widespread household poverty that in 2006 represented 23.1% of total households.

Based on the emergency context in which President Nestor Kirchner was elected in 2003, he enjoyed short term post-electoral independence from powerful provincial governors that were largely discredited from 2001-2003. This greatly motivated the new president to distance himself from the former interim President Duhalde (PJ) in order to re-gain political credibility for the Peronist Party (PJ). This situation provided the central government an incentive to discontinue the previous administration's benchmark social program called *Programa Jefes y Jefas de Hogares Desocupados* (PJJHD) that had a bad reputation in the nation's press for vote-buying. It would prove not to be an easy task given that many PJ governors and mayors relied on this program to create locally based "political rewards networks" (Remmer 2007). Moreover, the President's electoral support at the provincial and municipal level was low, taking into account that former President Menem beat him in the first round with 24.45% of total votes, but withdrew from the second round. At the time of Kirchner's victory, 66% of the winning governors in 2003 were PJ, but only four of the eight provinces were in Kirchner's own intra-party fraction know as *Frente Para la Victoria* (FPV). This means at the time of his victory only 16% of governors were in a direct alliance with him. At the municipal level his support was even lower. In the Province of Buenos Aires which represents 38% of the country's population, the effective number of parties in 2003 remained a low 1.97, given that 56% of elected mayors had been captured by former governor and president Duhalde's PJ alliance and the next party (opposition) the UCR, had been reelected in 31.34% of the province's dominant localities (Ministry of Governance, Buenos Aires). Given the central government's ability to govern in Argentina in 2003 was still dependent on the support of powerful PJ governors (Jones and Hwang 2005; Levitsky 2003) many of whom were over-represented in what is known as the most malapportioned lower legislative chamber in the OECD (Synders and Samuels 2004)-- Kirchner had no choice but to continue the previous administration's highly politicized social program in his government's official agenda. This would facilitate his ability to maintain the internal cohesion of the PJ party in the province of Buenos Aires and throughout the country.

In an attempt to contribute to the growing popularity of the President in October 2004, the central government tried once again to reform non-contributory social protection programs in order to discontinue the previous program that although in terms of registry was officially closed, still had considerable weight. The Minister of Social Development, the President's sister Alicia, was given the task of transferring Duhalde's benchmark program to Programa Familia, a program which had already existed since 2002 but had been largely dormant. In *decree 1506/04* the President chose to prolong the national employment emergency legislation (2002) which Duhalde's program existed on, until December 31st, 2005. Strategically, he gave the two involved federal ministries (labour and social development) 180 days to coordinate their databases and re-classify the recipients of all federally supported poverty alleviation programs into two categories: employable and un-employable. Those that were employable would continue receiving the previous program and those that were not, would be transferred into Programa Familias. The official plan of the administration was to restructure the previous short-term program into a more universal integrated approach to provide long-term social protection-- with a goal to fortify the relationship between the central government and Argentina citizens by transferring a small income directly to them mediated through municipalities. Of great significance, the work component (*contraprestaciones*) of the previous program which had involved the participation of local government and civil societies groups would be eliminated.

This new approach to social policy came in the form of three principal programs which continue to exist simultaneously today. PF (the largest in terms of budget) was intended to consolidate the government's actions towards families in situations of social vulnerability, given the country's emergency situation had not been surpassed and poverty policies that were new to Argentina required a long term perspective. Recipients who met the eligibility of PF would be transferred as of February 2005. Table 1 demonstrates that neither the expansion of PF nor the downsizing of the previous program (PJJHD) has been successful. Furthermore, based on information provided by the office of PF in late September 2006, only 90,482 of the then 333,302 recipients of PF had been transferred from the previous program (see table 1).

Table 1: This discontinuation of PJJHD relative to the expansion of PF

Year	**2002**	**2003**	**2004**	**2005**	**2006**
PJJHD	1,858,657	1,828,364	1,590,510	1,452,683	1,250,485
PF	161,522	220,772	203,801	243,449	371,290

Programa Familias is an example of an inconsistently implemented poverty alleviation program that is neither driven by popular support nor intergovernmental cooperation. It is a top-down initiative with no clear policy goal as demonstrated various interviews with key officials. The director of PJJHD stated that the goal of PF was to absorb the recipients of the workfare program in order to discontinue this program which had been "discontinued" (Interview Adriana Espinoza, MEySS). This was confirmed by the National Director of Social Expenditure and Programming in the Ministry of Economy who stated, "*de jure* yes- but *de facto* nothing has occurred over three years" (Interview, Dr. Damien Bonari). In the Ministry of Social Development the goals of the program reported were different. The director of PF in the MDS stated that in 2004 there were three choices: 1) leave them both running 2) unify them 3) or, reformulate them. She stated they had opted to reformulate them and that “the transfer of eligible beneficiaries is being coordinated with all the municipalities- we meet with each mayor in order to mutually coordinated it” (Interview Dr. Virginia Tedeschi). A senior representative in the municipality of La Matanza said “the municipality has nothing to do with PF and has never been approached, it just sits and watches” (Lic. Antonio Colicigno, San Justo). Alicia Kirchner’s right-hand official, the Deputy Minister of Social Policy and Human Development (MDS) Daniel Arroyo stated the over the long-term PF was intended to be the only conditional cash transfer program in Argentina for the poor and that it would be universal conceived as a “right” and a guarantee of basic income. Evident during these interviews with varying senior bureaucratic and political actors across varying levels of government is a lack of an explicit national policy goal, intergovernmental consensus, and un-coordinated actions across ministries and secretaries.

I propose three preliminary institutional mechanisms to explain the difficultly of the Argentina central government in implementing this cash transfer program designed to alleviate poverty.

Three Preliminary Institutional Mechanisms to Explain Social Policy Outputs in Argentine Federalism

The current political institutions of Argentine federalism do not enhance the central government’s ability to deliver basic social goods. From 1983-2002 several central government social protection programs were unsuccessfully sustained. These programs exhibited great volatility and were characterized by varying unexplained distributions across provinces.[5] The Kirchner administration (2003-2007) tried to promote its Programa Familias to correct documented inefficiencies, yet inconsistent implementation remained at the end of 2006 the main policy challenge for the success of poverty alleviation programs in this federal country.

According to the common theoretical wisdom of comparative politics the central government can overcome the ability of provincial-based actors from constraining its actions through party-centred political dynamics (Jones 1997). The problem with partisan-based cooperation being used as a coordinative mechanisms to ensure intergovernmental cooperation in Argentina is that it leads to both a zero-sum game of winner takes all and what Tommasi and Spiller (2008, 109) call “myopic policy choices”. The ability of these two predominant levels of government to play a game of punishment and reward federalism that produces sub-optimal policy outputs has created a politicized federal game within which public goods are poorly transferred to the general public.

Within the decentralized structure of Argentine federalism I suggest that are three key factors that have limited the ability of the central government to ensure the delivery of non-contributory social protection as a right—federation wide. My intention is not to find a single factor that explains the complexity of intergovernmental relations in

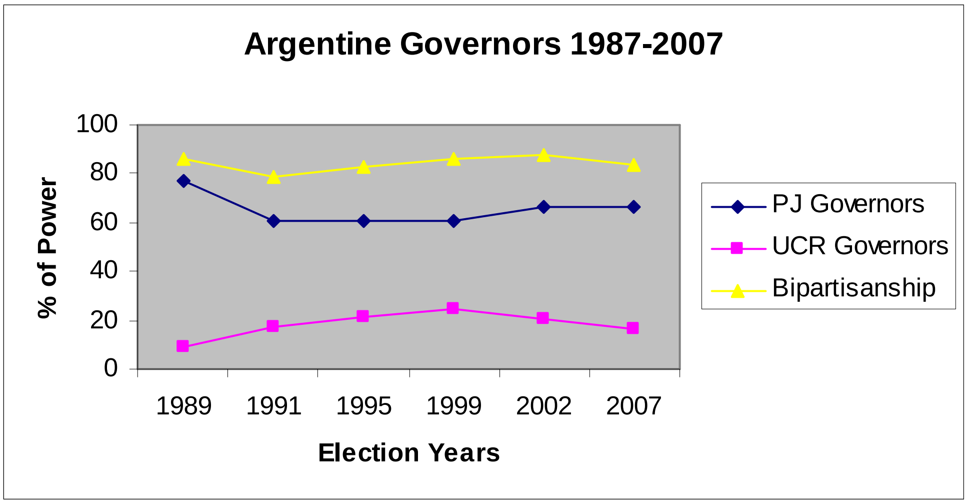
[5] See Weitz-Shapiro (2006) and Giraudy (2007) for detailed analyses of *Plan Trabajar* and Fenwick (2006) for an empirical analysis of *Programa Jefes y Jefas.*

Argentina (a highly confusing and dynamic situation), but to find a plausible explanation as to why these relations lead not just to "a race-to-the bottom but a race to escape—or defraud—the top" (Cai and Treisman 2004, 820)—that I propose, leads to inconsistent social protection implementation. My hypothesis is that the central government cannot itself regulate the quality of decentralized public goods distribution or provide the public goods itself because of the nature of the game. This is due to the interaction of three key factors: majoritarian political dynamics, ambiguous and provincial dependent municipal autonomy, and un-institutionalized rules regulating sub-national finances.

Majoritarian Political Dynamics

By classifying the Argentine political dynamics as 'majoritarian' I am subsuming an extremely complex reality and its consequent literature into a broad and useable concept for the purposes of comparative parsimony. On the surface, Argentina's political system appears to be highly democratic and governable. It is primarily organized around the stability of its two main majoritarian parties, the UCR and the PJ. Although Jones and Mainwaring have attributed party nationalization as being overall low in Argentina (defined as the extent to which a party receive similar levels of electoral support throughout the federation and at all levels of government), these two main parties have successfully controlled electoral majorities at all tiers (executive, legislative, provincial, and municipal), but most importantly at the provincial level (see table 2).

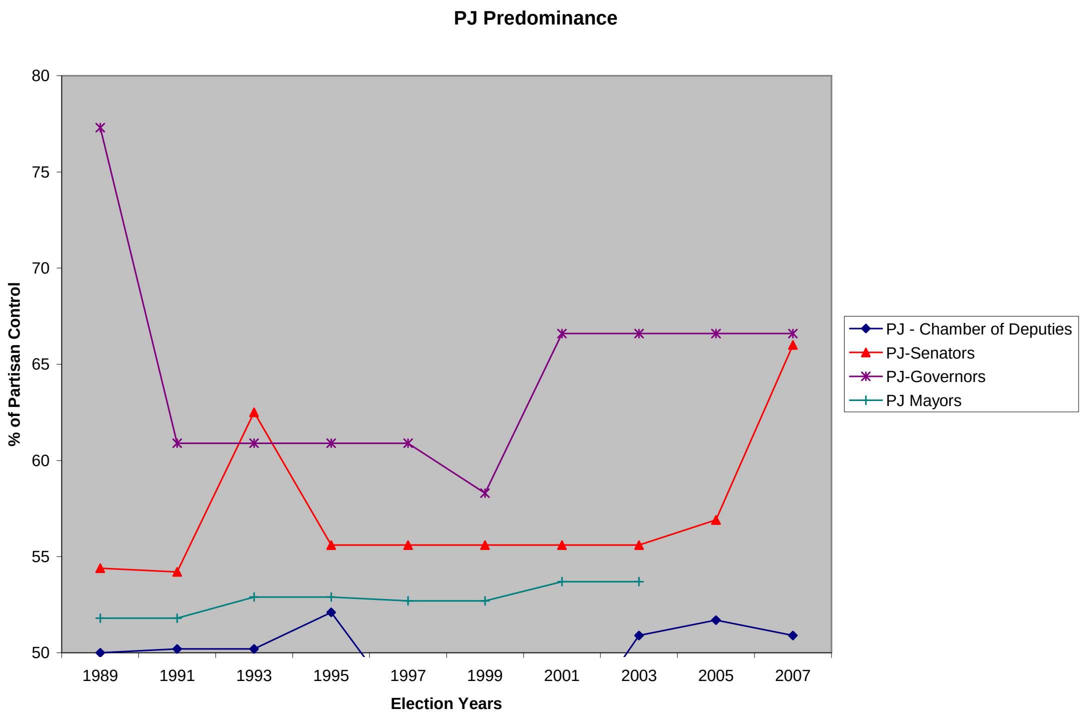
Table 2: Provincial Party Stability



Because each of these parties has exhibited high levels of party discipline in the national legislature and high levels of partisan identity throughout the federation, one could theoretically conclude (as did Jones in 1997) that the overall success and stability of Argentina's federal democracy is related to the ability of its party-system (inclusive of its electoral rules) to represent the "majority's will" and govern accordingly. Beyond the surface however, political institutions in Argentina and their organization are not optimal mechanisms for either citizen representation or democratic accountability. Using the words of Bernard Manin, "the vote is a valiant mechanism" (in Leiras 2004)—but is has been insufficient in Argentina to compromise candidates and their organizations to follow a certain course of action.

By disaggregating the various electoral tiers in Argentina one can see that this system of governance is far less institutionalized, far more complicated, and far less inclusive than initially meets the eye. The national and subnational levels of government do have a symbiotic relationship, but the partisan stability of the provincial and municipal level has enabled these two parties to limit subnational electoral competition in a way that increasingly competitive national competition does not affect the majoritarian dynamics of politics in Argentina. Most importantly, the highly decentralized organization of the two dominant political parties (particularly the PJ) impedes the ability of national party leaders and their elites to integrate, challenge, and directly influence policymaking or outputs delivered at the subnational levels. Because of the evident partisan stability at the provincial level as demonstrated in table 3, electoral patterns have always led to a PJ majority in most electoral tiers since 1989, except for in the lower chamber of deputies from 1997-2002 when the opposition-based coalition emerged. The opposition coalition's limited ability to govern during these years is attributed to its lack of control over the other PJ dominated tiers.

Table 3: PJ Predominance Across Multiple Electoral Tiers 1989-2007



Municipalities are an additional contributing factor to provincial dominance. The internal rules of provincially organized parties and their high level of strategic electoral regime autonomy, rarely allows opposition parties to build electoral support on the experiences of municipal government. Moreover, the ability of provincial party leaders to nominate mayors for higher level positions motivates ambitious local leaders to utilize an established party label in a given province to advance their personal careers. These local leaders prioritize creating political reward networks based on the distribution of patronage-based public goods. By creating these networks, they give value to party-based affiliates at higher levels of government to further their own careers and those of their co-partisans (Remmer, 2007). The success of this governing strategy, particularly for the PJ who has controlled the majority of all municipalities in the country since 1983, has allowed this party label to gain considerable local value—using it becomes a key starting point to access localized political networks. Moreover, with little incentive to provide constituency services at the municipal level because of closed-list electoral rules and the low level of inter-party competition-- the incentive at the municipal level is to provide services to and for powerful party affiliates.

What does all this mean for decentralized policy delivery? The obvious implication of the intrinsic value of patronage networks for political career-making in Argentina is that voter responsiveness does not revolve around programmatic appeals such as social policy reform, participatory budgeting, and poverty alleviation efforts. Rather, it depends on the ability of local officials to deliver resources to a small but powerful (generally organized) segments of local society. The majority-rule principle maintains subnational stability, but it does not lead to what it is theoretically assumed to—local democratization, policy innovation, and greater citizen participation.

In contrast to Brazil where a highly fragmented party system creates a policy transmission problem, nominal party predominance within the context of a provincially based party system with party-centered candidate rules such as in Argentina, creates a policy enforcement problem—particularly when intergovernmental cooperation is required to ensure the delivery of means-tested public goods to vulnerable families. Within this federal structure there is little political or electoral incentive for voters to bypass the incumbents of their province and support a localized electoral alternative. There is also little political or electoral incentive for mayors to bypass (or demand to have the right to bypass) their governors. The effect of strong majoritarian political dynamics in Argentina has not facilitated the kind of policy-based intergovernmental co-operation that is required in a highly decentralized structure of federal government. In fact, greater decentralization has enabled governors to increase their ability to constrain the centre.

Autonomous Municipalities

As already alluded to in this paper, subnational partisan stability is facilitated in Argentina by the ability of provinces to capture municipalities. For example from 1995-1999 there were only five opposition governors (UCR), not including the City of Buenos Aires. At the municipal level from 1995-1999, there were only five provinces were the majority of mayors were not PJ--they were the same five provinces—Catamarca, Córdoba, Chaco, Chubut, and Rio Negro.[6] Additionally from 1983-1999, 78.7% of municipalities re-elected the PJ party and 69.6% re-elected the UCR party. This shows the incredible level of partisan stability at the municipal level. However, generalizing about the institutional role of municipalities in each province is extremely difficult because of the institutional heterogeneity of each unit, all of whom are dependent on their respective provincial government for their institutional existence.

[6] Based on data from the Direcion Electoral National and the Jefatura de Gabienete (1999).

The definition and the rules regulating municipalities (including the extent of their autonomy, borrowing capacity, and the % of provincial resources they receive) are decided by each province's constitution. These institutional characteristics make it impossible to generalize about either the *de jure* or *de facto* role of municipalities in Argentina. The Provinces of Buenos Aires, Entre Rios, Mendoza, Santa Fe, and Tucuman do not provide municipal autonomy or organic laws for their local constituent units. Together, these municipalities represent 36% of the countries total municipalities.[7] Of the remaining 18 out of 23[8] provinces that do provide local autonomy within their constitutions, the right to be defined as a municipality is dependent on various population requirements—this means that some provinces only have one level of municipalities (autonomous or not) such as Buenos Aires and Mendoza, whereas San Luis nominally has six levels, where each unit's status and level of competence is decided based on the size of its population. The following table provides a general idea of the size of most municipalities throughout the country and where they are geographically located.

Table 4: The Distribution of Local Units per Size (2000)

Avg. Population Size per unit	Argentina # of units
Small (2,402)	**1551**
Medium (40,667)	**347**
Large (470, 220)	**24**

Source: INAP: Iturburu (2000).

Beyond institutional heterogeneity, there is also the additional variation caused by geographic and economic factors. Using an already developed classification, the following table offers an idea of the number of developed versus lesser developed localities (see table 5).

Table 5: The Demographic and Economic Diversity of Argentina Municipalities

*Socio-Economic Classification (Indicator based on population, literacy, education, infant mortality, household characteristics, exportations, electricity, GINI, poverty, and (un-)employment,	No. of Municipalities (1991 Census)*
Advanced: City of Buenos Aires, Santa Cruz, Chubut, La Pampa, Tierra del Fuego, Neuquén, Buenos Aires and Santa Fe	**280**
Intermediate: Córdoba, Río Negro, Mendoza, Entre Ríos, San Luis, Catamarca, San Juan, and Tucumán.	**518**
Under-Developed: La Rioja, Salta, Jujuy, Misiones, Corrientes, Santiago del Estero, Chaco y Formosa	**362**

Source: Ministry of Economy, Prov. of B.A. "Cuaderno de Economica 56" (2001). *See methodology and typology in Porto (2004), 40—only includes first level of local units.

The heterogeneous variation in political, fiscal, and administrative *de jure* autonomy, compounded by diverse economic and demographic situations is a massive challenge for municipalities in Argentina to transform themselves into the prime agents for

[7] This is against *de jure* the 1994 National Constitution
[8] I do not include the City of Buenos Aires in this section as it is not a province.

social policy implementation in the areas of education, health, and social assistance. Moreover, their lack of incentive to do so because of Argentina's political dynamics that re-elects mayors and local legislators not based on policy performance but 'other' factors, further limits the ability of municipalities in Argentina to contribute to the success of national policy goals. Political decentralization did not lead to democratization or a greater demand for decentralization at the municipal level in Argentina. The national constitution's ambiguous stipulation that provinces are to *de jure* guarantee municipal autonomy within their constitutions remains an incomplete reform.

High levels of fiscal and political decentralization to the provinces guaranteed that post-1983, these core federal units could prevent the central government from directly over-awing municipalities. The central government however could not prevent the provinces from constantly shirking their public policy responsibilities, nor did they have the authority to provide public goods directly themselves. Furthermore, municipalities lacking in both agency and fiscal resources were unable to induce policy competition between themselves in collaboration with the central government and the provinces--a situation which could potentially have increased the efficiency of decentralized social policy outputs. Instead, municipalities were entirely dependent on the provincial government for both financial assistance and political existence.

Low levels of municipal autonomy within the context of majoritarian political dynamics that does not provide mayors with an incentive to provide constituency services in order to forge their careers-- but does provide them with an incentive to use patronage to develop "political-rewards networks", increases the incentives of governors to punish and reward municipalities for their behaviour at the expense of the public good. This institutionally created dependency drastically reduces the agency of municipalities to co-operate with higher levels of government on their own terms to the benefit of their constituents.

Rules Regulating Sub-National Finances

An additional variable affecting the policy preferences at any level of government are the rules regulating sub-national finances. Similar to Brazil post-1988, Argentina is also a text book example of the soft budget syndrome. The effects of a soft budget syndrome within the context of a non-cooperative federal game not only produce sub-optimal social policy outputs, but they additionally produce volatile social policy outputs. The lack of central government political incentives to regulate subnational finances reduces their motivations to *de facto* harden them. The importance of the central government's ability to deliver discretionary fiscal transfers to politically important provinces has required that budget constraints in Argentina remain flexible.

Soft Budget Constraints

Similar to the fiscal situation of the states in Brazil in Argentina during the late 1980s, provinces accounted for approximately 40% of the nation's deficit and were considered a source of national financial and macroeconomic instability. However unlike in Brazil during the late 1990s, provincial governors in Argentina continued towards its fiscal crisis in 2001 to borrow large amounts of monies to cover their expenses through private loans-- guaranteed by their constitutional revenue transfers.

Although the central bank was supposed to withhold a portion of the province's co-shared federal revenue transfers to cover these private loans, as the fiscal situation deteriorated in the late 90s provincial loans increased simultaneous to governor demands for increased revenue transfers from the central government. By 1999, aggregate provincial debt accounted for 57.58% of total provincial income, this represents a 40% increase from 1994 (Tommasi, Saiegh, and Sanguinetti)--a clear empirical indication that fiscal recentralization did not *de facto* have a reducing effect on provincial debt accumulation or fiscal behaviour at all three levels of government.

Despite Argentina's majoritarian political dynamics, provincial governors and mayors who shared the same party label did not have a self-induced incentive to support long-term national fiscal stability. Under Menem, some macroeconomic successes were achieved because the national-level PJ party managed to create a "credible political coalition" (Tresiman 2004, 23) to support early fiscal reforms. These successes however did not permanently weaken the ability of governors to politically bribe the central government for fiscal bailouts, nor did they consolidate this political coalition. When the President's post was passed in 1999 to the opposition based coalition led by Fernando de la Rua (UCR), the country's fiscal situation deteriorated simultaneously to la Rua's credible pre-victory electoral coalition.

Previously, President Menem (PJ) had decreased the ability of governors (who control municipal debt and borrowing) to use central bank bailouts to cover their deficits from 1994-1998 by closing 20 of 26 provincial banks (Treisman, 2004, 29). In order to convince them to enforce these reforms, "Menem let them borrow privately using their future federal transfers as collateral—this provided credit, but made default costly" (Treisman, 29). Municipalities also borrowed funds from external sources, provided the provincial legislature approved these loans—except in the Province of Santa Fe that has no legislation regulating provincial or municipal borrowing. As already stated, under the PJ leadership the central government was able to have some success in regulating subnational fiscal behaviour. When the fiscal crisis became visible post-1997 however, provincial debt stocks (which includes all their municipalities) went from 61% of total revenue in 1997 to 75% at the end of 1999 (Webb, 2003, 202). The de la Rua administration had to harden sub-national budget constraints if they were to ensure national fiscal stability-- particularly in the context of neighbouring Brazil's 1999 devaluation which was another external shock.

In 1999, the central government tried to harden budget constraints by creating the "Federal Agreement for Growth and Fiscal Discipline". This agreement was intended to provide an incentive of lower debt financing to provinces who *ex ante*, agreed to fiscal reform measures. However, because of the rigidity of the 1998 Fiscal Convertibility Law (law 25.152) that prevented the central bank from financing any internal debts—international financial institutions were expected to finance assistance to the provinces. All external financial assistance was ultimately guaranteed by the central government, a characteristic that does not sway from the theoretical depiction of the "soft-budget syndrome" (Kornai 1979).

Hard Budget Constraints

In 2001 currency parity to the US dollar officially ended in Argentina. What followed has been well documented as one of the largest economic, political, and social crises in Argentina's contemporary history. Immediately following, a zero deficit law was passed (No. 25.156) that was to ensure that expenditure would only be paid using current revenues (Braun and Gadano, 2006). Within the crisis climate however, this law entailed a drastic decrease in the payment of public salaries and public pensions, a practice that was determined anti-constitutional and hence abolished in 2003. It was soon replaced in 2004 by the Law of Fiscal Responsibility. Without creating an institutional body to enforce sanctions, this law was intended to limit among other measures provincial debt (including municipal debt) to 15% of their current revenues (Braun and Gadano 2006). According to the National Director of Social Expenditures in the Ministry of Economy (2003-2007), this agreement required that disaggregate subnational fiscal information be provided to the central government, "but at present there exists no mechanism to do so which means de facto, only weak fiscal regulation can be enforced".[9] Braun and Gadano (2006, 16) present similar evidence: " the federal council of fiscal responsibility has no public fiscal information about either the central government, the provinces, or the municipalities". The central government in Argentina has not been strong enough to either regulate or enforce a rules-based approach to subnational fiscal behaviour, a quality the contributes to the ability of its provinces unified with their municipalities to undermine the quality of national policy goals and weaken the credibility of a highly decentralized federal system.

Brazil – Avoiding Governors

In 2002, Lula da Silva (PT) won the second round of the presidential election with 61.3% of valid votes giving him a clear mandate to reform public policy. He would strategically continue Cardoso's macroeconomic policies securing his electoral victory with "*a carta ao povo brasileiro*" guaranteeing their stability. This decision to continue Cardoso's tight monetary policy unquestionably contributed to unprecedented macroeconomic stability in Lula's first term (Power and Hunter 2007, 15). Intergovernmental fiscal relations would not radically change between the PSDB and PT passing of the post. While Lula would maintain the now locked-in *status quo* of fiscal policy, his trademark would be the reforming of social policy through the unification of four previously nationalized social programs, *Bolsa-Escola, Bolsa Alimentação, Cartão Alimentação, and Auxílio Gás.* He successfully discontinued the previous program that was conditional on school attendance and integrated its beneficiaries into his new trademark program called *Bolsa Família/Fome Zero* (see table 6).

Table 6: The Scope of Bolsa-Escola from Implementation through Discontinuation

Year	2001	**2002**	2003	2004	2005	2006 (August)
Total Families	**4,794, 405**	**5, 106,509**	**3,771,199**	**1,452,061**	**839,853**	**49, 268**
Proportion 2001= 100	**100**	**107**	**89**	**30**	**18**	**1**
Bolsa Familia	**--**	**--**	**3,615,516**	**6,571,842**	**8,700,451**	**11,101,180**

Source: MDS

[9] Interview, 19/09/2006, Buenos Aires.

Powerful governors were not able to prevent municipalities responsible for adhering to this federal program from participating. As a consequence, this program has not only alleviated poverty for over 11 million households throughout the federation, but it has also been shown according to the 2006 *Gétulio Vargas Foundation* (IPEA) to have had 'real' effects on the reduction of poverty, a key indicator of government performance in Latin America. The success of this federal initiative in achieving both the intended political effects of creating a direct relationship with citizens mediated through municipalities and reducing poverty, has contributed to the credibility of a highly decentralized system of federal government in Brazil.

Bolsa Familia (BF) was highly successful in terms of its all-inclusive territorial coverage and in absolute terms its mass size-- today delivering cash benefits to its initially declared goal of 11 million households allocated according to means-tested criteria throughout the federation[10]. Municipalities had to autonomously adhere to the program by signing a covenant with the federal government. They were responsible for the registration of families identified to be at risk based on municipal HDI. By 2006, all 5,665 municipalities adhered to this program with varying levels of success in registering eligible families within their territory-- given the program's out-reach is dependent to a certain degree on bottom-up leg-work. The program's dependence on municipal participation has allowed mayors to credit claim regardless of their partisan affinity with the governing coalition. The lack of importance given to national-local partisan affinity is facilitated by an open list system of proportional representation operational in Brazil. This electoral system entails that citizens vote for a candidate's name, not the party's. It makes candidates for local positions dependent on the electorate and their prior government experience to be re-elected and not on their party affiliation.

The design and implementation of Bolsa Familia cut out state-level participation. Lula's ability to build upon and expand the breadth of this social program without the involvement of state-level actors demonstrates that the biggest losers to its success were state governors who had no involvement in determining the success of this powerful government program. The ability of the central government to bypass governors contributed to federal government's popular support and ability to govern—Lula currently (based on April 28th 2008) enjoys the highest levels of popular support in Brazilian democratic history—69.3% (Pesquisa-CNT). Successful poverty alleviation based on both Bolsa Familia and increases to the minimum wage has contributed to Lula's popularity and the stability of his governing coalition (Hunter and Power 2007; Fenwick 2009, forthcoming).

The decentralized design of this social program structurally entailed that its positive outcomes were attributable to both the central government and to a certain degree all the participating municipal authorities. Within this program, municipal governments act as the primary agents of the central government. Their collaboration with the central government additionally has a fiscal incentive. Brazilian social expenditure is generally constitutionally hard-wired. Operating somewhat informally, this program contributed to the ability of municipalities to meet the required 1% they are legally required to spend on social assistance and inclusion. As one municipal level

[10] See Fenwick 2009 (forthcoming) for a more detailed analysis.

interviewee asserted, “Bolsa Familia allows us to work our fiscal accounts, although the money does not physically go through our local accounts, the total amount transferred is included on our balance sheets”.[11] Lastly and most importantly, socially vulnerable citizens who made less that $120 *Reais*[12] a month were also winners. It was the widespread eligible recipients across Brazil who had the most to gain by the success of this program. I propose three institutional mechanisms to explain the success of the central government in achieving this social policy goal.

Three Preliminary Mechanisms to Explain Effective Social Policy Outputs in Brazilian Federalism.

Post-1988 three institutional mechanisms have facilitated the central government’s ability in Brazil to deliver social protection to vulnerable households based on transparent means-testing. According to the common wisdom in the literature and the existence of a predatory federal game operational in Brazil from 1988 to 1995, the central government first had to overcome the ability of state-based actors to constrain its social and economic policy goals, before it could successfully reap the benefits of successful economic and decentralized social policy. I propose that gradually—non-majoritarian political dynamics, high levels of municipal autonomy, and hard subnational budget constraints have facilitated the central government’s ability to produce “stable but adaptable outcomes” (Melo et al. 2008, 112). All of these uniquely Brazilian explanatory factors have provided incentives for national-local collaboration in the area of non-contributory social protection policy.

Non-Majoritarian Political Dynamics

Non-majoritarian political dynamics are normally attributable negatively to the performance of Brazilian federal democracy (Lamounier 1993; Mainwaring 1995). For example, Lula (PT) clearly won the support of the national electorate—but his party’s representation at the state and municipal executive level remained low. In 2002, only 13.4% of states had a PT governor and in the 2004 municipal elections, only 7.5% of municipalities had a PT mayor (Niccolau, Electoral Datasets). Brazil with its incredibly fragmented party system does not have an “ideal federal party” like Argentina, Mexico, or the USA (Ordeshook et al. 2004, 192). Within the context of multipartism, the central government’s ability to govern is dependent on its ability to forge broad governing coalitions both within the national legislature and vertically with lower levels of government at the executive level. A Presidential-coalition model such as this one is noted for its lack of a majoritarian imperative (Cheibub and Limongi 2002). This model of governance inclusive of its high levels of inter-party fragmentation is recognized for lowering the importance of partisan identity in forming voter preferences because of the high number of parties that are represented. For example in 2006, the number of effective of parties in the lower house of the national legislature measured 9.3,[13] and up to ten or more parties in that actual governing coalition. Moreover, the average number of effective parties in gubernatorial election from 1990 to 2000 was four (Leite, 2005). The co-existence of

[11] Anonymous Technical Assistant, Municipal Secretary of Social Assistance and Social Development in the City of Sao Paulo.
[12] This refers to the plural of the *Real* the national currency of Brazil.
[13] Measured according to Laakso and Taagepera 1979.

multiple veto players lowers the use of partisanship being used to obtain particularistic goods because of so many involved actors (Tsebelis 1995).

With this kind of non-majoritarian political dynamics, elite political actors are not so concerned with office seeking but with policy seeking (Strom 1990). The loosely maintained coalitional logic of governance means that the ideological or party based ownership of policy ideas is less significant than in other countries with highly institutionalized and disciplined party systems where voter party identification is high. This dominant governing logic decreases the incentives of locally based actors not to cooperate and give up desired local benefits out of fear of party-based punishment from the states, who do not control their future careers. In the Brazilian political institutional context, mayors have an incentive to support a federally driven social program because they can personally credit claim for its successful effects within their territories.

This evident power-sharing in Brazil does not violate the principle of divided territorial authority inherent in federal systems. High levels of constitutional autonomy in Brazil entail that *de jure* all 27 states and 5,565 municipalities can opt-out of federal social policy initiatives. They can also simultaneously run parallel state and local programs with similar policy goals if it is within their administrative means. Within what is emerging post-1995 as a policy-driven regime, this successful non-contributory cash transfer programs enabled a win/win cooperative game that motivated an intergovernmental race to the top in poverty alleviation.

Many authors such as Ames (1995) have been critical of the rules of Brazilian non-majoritarian political system because they asserted it provided incentives to build coalitions not through ideological programs and providing national public goods, but through providing “pork”. Moreover, it is known that state-based power brokers make it difficult for a president to credit claim for targeted expenditures that are funnelled through the states (Rodden and Arretche 2004). From a central government perspective these political dynamics provided political incentives for federally-supported programs to by-pass this *meso*-layer of government so they could deliver broad national public goods and partly claim credit for them. Additionally non-majoritarian political dynamics provide a further incentive because “all votes matter in all territories for the President’s success” (Arretche and Rodden 2004, 11). Following this same logic, central-local collaboration is further facilitated by the fact that state-based power brokers in Brazil have few partisan incentives to facilitate federation-wide public goods delivered in the name of general common interest. In a federal country such as Argentina where a vertically integrated party label such as the *Partido Justicalista* is predominant at the sub-national level and both national and local party officials require the internal support of a provincially-based party system for their own personal political career making, it is not in the interest of the central government to bypass state-level bureaucratic implementing agencies. Neither is in the interest of local officials to accept a program that has been implemented by a party to which they do not belong.

The success of coalition based governments at all levels of government is in integrating the preferences of as many voters as possible. For example based on a public opinion survey carried out by IPOBE in 2002, the party identification of Brazilians who expected the PT administration to fulfil their campaign promise to “combat poverty, hunger, and misery” was a relatively high 22% from the rightwing opposition based Liberal Front Party (PFL), 21% from the opposition Social Democrat Party (PSDB), with the remainder 32% from Lula’s own party the PT and the catch-all centre party of the Brazilian Democratic Movement (PMDB)- (IBOPE/OPP 558/2002). This means that in a PSDB run municipality a considerable amount of its voters still expected their elected government to cooperate with the federally based opposition PT government to assist in fulfilling this nationally important expectation. Additionally, the non-simultaneous timing of municipal and federal elections encourages voters to split their votes, an opposition based candidate is not overly concerned with losing voters by cooperating with a federal program at the local level. The competitive logic of such dynamics is that “the survival of most politicians depends on their ability to deliver goods to the regions they represent” (Mainwaring 1992, 682). Post-1988, municipal governments autonomously had the authority to represent their territories and hence had an incentive, to deliver goods.

Constitutionally Autonomous Municipalities

The feasibility of intergovernmental collaboration is dependent on separating the subnational into two distinct institutional categories--states and municipalities. It is only in this way that the constraining effect of governors in a federal system characterized as strong can be lessened, while decentralization continues justified on its normative and instrumental grounds. Municipalization in Brazil-- “the transfer of implementation responsibility and/or resources from federal and state government to local governments” (Souza 2003, 3) was institutionalized within Article 30 of the National Constitution of 1988. All municipalities in Brazil have a distinct exercise of power from the two higher levels government. Additionally unique to Brazilian federalism they are all institutionally uniform, although clearly their economic and demographic heterogeneity is an advantage to some and a disadvantage to others (see table 7 and 8).

Table 7: The Demographic and Economic Diversity of Brazilian Municipalities

Region	**No. of Municipalities (2001)**	**Population (2003)**	**GDP per capita ($R 2002)**
Centre-West	463	12.317.271	8,166
North-East	1792	49.352.225	3,694
North	449	13.784.881	4,939
South-East	1668	75.391.969	10,086
South	1188	26.025.091	9,157
Brazil	5,560	176.871.437	7,631

Source: IBGE and IBAM

Table 8: The Distribution of Municipal per Size per Region (2003)

Pop. (1000)	Brazil	Centre-West	North-East	North	South-East	South
< 2	119	13	12	15	37	42
2-5	1246	142	252	84	382	386
5-10	1316	110	402	86	412	306
10-20	1342	105	573	107	331	226
20-50	989	62	405	110	279	133
50-100	309	18	100	32	105	54
100-200	123	6	25	7	64	21
200-500	82	3	13	6	42	18
500-1000	20	2	7	-	11	-
1000+	14	2	3	2	5	2

Source: IBAM Série Estudos Demográficos nº 23 (2004)

The variation in technical and administrative capacity of municipalities across Brazil that arises out of diverse economic and demographic situations is an additional challenge to consolidating their role as prime agents for social policy implementation. For this reason, municipalization post-1988 was implemented more successfully in states and regions that had a higher level of per capita GDP (Arretche 2000, 29). Both fiscal and administrative incapacity was an obstacle to the successful management of social policy implementation at the municipal level post-1988, particularly in the context of sub-budget constraints that resulted in higher revenue transfers that were not necessarily followed by greater local policy quality and no institutional mechanism available to monitor it.

Rules Regulating Sub-National Finances

Although high levels of municipal political autonomy and non-majoritarian political dynamics post-1988 decreased both the ability and the incentives of governors to punish or reward municipalities within their territories. These two explanatory factors however did not have an effect on municipal fiscal autonomy. The revenue-raising capacity of municipalities in Brazil is limited, amounting to 4.54% out of total tax collection. This factor provided municipalities with a non-political incentive to shirk their responsibilities back onto the states following early decentralization (1988-1995) which left social programs chaotic and uncoordinated.

The rules regulating sub-national finances in a federal system additionally affect the policy preferences at any given level of government. Brazil post-1988 was a text book example of the classic soft budget syndrome. The effects of a soft budget syndrome within the context of a predatory federal system led to sub-optimal policy outcomes until 1994 (Abrucio 2005), when a system of cooperative intergovernmental financing finally began to gradually emerge. The positive effects of decentralization in developing countries cannot be realised until larger fiscal questions have been resolved.

Soft Budget Constraints 1988-1995

Initially following Brazilian democratization in 1988, highs levels of subnational fiscal expenditure led to continual fiscal bailouts from the central government

(Rodden 2003, 213). State-level owned banks (who also extended credit to municipal governments) were permitted precariously to access external market credit because of the belief of lenders, that if they failed to cover their budgetary deficits they would be bailed out by the central government. Fiscal interventions by the central government arising from the established 'soft budget syndrome' of subnational levels of government weakened overall national macroeconomic performance until 1995. Moreover, the central government had a political incentive to support state governors because of their reliance on 513 state-controlled federal deputies in the lower chamber of congress to support the national executive's desired reforms. The 'new politics of governors' the re-emerged post-1988 in Brazil motivated the central government to overlook the fiscal burdens of supporting lower levels of government.

The success of fiscal federalism in any country is dependent on an efficient system of intergovernmental transfers and taxation. The main state-based tax in Brazil, a value added tax on merchandise and services called the *ICMS*, is controversially dependent on where products are produced as opposed to where they are consumed. In practice, this tax worsens the disparity between regions. For example, industrial São Paulo which amasses considerable revenues from the ICMS only relies 0.07% on central government transfers as a share of their total revenues, compared to the industrially under-developed Northern State of Acre which relies on central transfers to cover 75% of its revenue.[14]

This inefficient system of tributary finance is further worsened by the malapportionment of the lower chamber of Brazilian Congress which guarantees smaller under-developed regions political leverage over the central government to obtain funds. For example, the vote of citizens from Acre are over-represented in the Congress compared to the weight of the votes from São Paulo State (Synders and Samuels 2004) which provides the Governor of Acre an opportunity to engage in non-institutionalized federal bargaining with a pro-reform president. This sort of fiscal behaviour was common during the early 1990s when state-lending was extremely politicized and certain states borrowed heavily from federal financial institutions (Rodden 2003, 222). A politicized system of intergovernmental transfers coupled with what is considered by many fiscal federalists as an inefficient federal tax system did not facilitate the successful decentralization of social policy in Brazil from 1988-1994, nor did it overcome the ability of governors to constrain the federal centre.

Following the successful implementation of the *Real Plan* in 1994, the central government administration of FHC (1995-1998) made macroeconomic stabilization a priority and thus began to gradually harden sub-national budget constraints. According to Abrucio (2005) "the era of the *Real* marked the beginning of a crisis of state-based [corroding] federalism" (2005, 50). Although it is beyond the goals of this paper to digress into how FHC created his legislative coalitions for fiscal reforms throughout his two terms (1995-2002)[15], suffice it to say "the president [FHC] had a rare opportunity to take advantage of incentives for cooperation among some of the governors and within the legislature" (Rodden 2003, 237).

[14] "Transfers as share of state revenue" data taken from Rodden 2003, table 7.1 based on 1990-2000 averages.
[15] See Daniel Treisman (2004) "Stabilization Tactics in Latin America" for a detailed account.

Hard Budget Constraints 1995-2002

From 1995 onwards it became increasingly more difficult for subnational levels of government to receive outside support to cover their excessive public spending. The successful reduction of inflation in Brazil had a positive impact on regulating intergovernmental transfers and revenues at the subnational level (Abrucio 2005). Macroeconomic and fiscal stabilization provided the central government with renewed governing credibility that simultaneously weakened the fiscal situation of the states. Without inflation, states could no longer profit from it by pegging their debts and expenditure to a floating and highly volatile exchange rate.

In 1997, each state agreed to a package of adjustment targets which would place limits on personnel spending and privatize state enterprises (Rodden 2003)—all measures that would decrease mechanisms that had been at their disposition to ensure "state-corroding federalism" (Cai and Treisman 2004). By 1998, the borrowing autonomy of states was also affected by Senate Resolution 78. This agreement enabled the central government to withhold bailouts to the states by retraining federal transfers. The existence of external debt crises however (Asia 1997 and Eastern Europe 1998) worsened the situation of public debts in Brazil as a whole by increasing the international risk rating of Brazil. It simply became too expensive for the Brazilian Government to maintain the parity of the Real to the US dollar. In 1999, the central government successfully floated the currency. The January 1999 float rate from R$ 1.21 to R$ 1.98 raised considerably the debt/GDP ratio reflecting the dollar-denominated and dollar-indexed federal debt (World Bank). By providing an opportune moment to pass legislation tightening subnational budget constraints, the Fiscal Responsibility Law of May 4th 2000 (LRF) prohibited federal fiscal institutions from *ex-ante* bailing out the states. The soft-budget syndrome had been finally cured in Brazil and so far has remained both stable and enforced.

The fiscal responsibility law effects public policy outputs and creates incentives for national-local collaboration for the following reasons (summarized based on *World Bank Report #22523-BR*):

1. Sub-national governments must establish at the outset of each budget annual targets for revenues and expenditures. This is to be accompanied by a report on compliance with the previous years targets, which increases both transparency and regulates public policy spending responsibilities.
2. Personnel expenditures are set at each level of government and penalized if they exceed 95% of the limit at any level which serves to de-politicize executive authority over public bureaucracy.
3. The LRF prohibits state governments from lending to municipal governments. This decreases the fiscal ability of governors to *behold* mayors to their power.
4. The LRF makes provisions for state and municipal government fiscal transparency.

The drawbacks of hard budget constraints are that although it induces governors and mayors to make an effort (which is also penalized by criminal law if they do not), it holds the central government ultimately responsible for tracking and regulating state and municipal government performance. This has motivated the central government in Brazil to hard-wire social policy expenditure in the areas health, education, and social assistance to facilitate the monitoring and evaluation of constitutionally designated areas of subnational responsibility. The decreasing ability of subnational governments in Brazil to veto social policy decisions has decreased because of the hardening of budget constraints from 1995 onwards (Arretche 2007), but it has also provided a new opportunity for municipalities to have impact on public policy delivery.

It is within the interaction of all three explanatory variables, non-majoritarian political dynamics, the status of municipalities within the 1988 National Constitution, and the eventual hardening of budget subnational constraints that we can begin to understand how municipalities have contributed to the central government's ability to create a race-to-the-top in non-contributory social protection policy. It is this intergovernmental collaborative logic that explains how the central government successfully implemented a poverty-alleviation program mediated through municipalities in 5,565 localities delivering means-tested benefits to over 11 million people in less than three years.

Conclusion

This paper has explored from an institutional perspective whether federalism constrains the ability of the central government to provide non-contributory social protection goods. By taking two similarly designed federal cash-transfer programs conceptualized as a social right, this analysis moved backwards in order to identify both the institutional incentives and impediments to the successful implementation of this national social policy goal in each federal country. It has proposed that the missing variable to understanding Brazil's gradual transformation towards a positive-sum federal game and Argentina's well documented non-cooperative federal game is the role played by municipalities in either contributing to, or decreasing, the ability of state-based governors to constrain the central government.

The institutional incentives provided for municipalities to collaborate with the central government cannot be explained by a single factor, or, in a hierarchical fashion within a paired-comparison such as the one presented herein. Nevertheless, this paired comparison shows that a central government's ability to successfully implement this type of a social program is determined by three interacting institutional factors.

The first one, 'political dynamics' can be either majoritarian or not. Majoritarian political dynamics are generally believed in comparative political science to operate as a coordinating mechanism of intergovernmental competencies in a federal system of government. The case of Argentina shows that in a strong federal system where such political dynamics are provincially based, increased expenditure decentralization has led to a "race to escape—or defraud—the top" (Cai and Treisman 2004, 820). The only option available to this central government to enforce intergovernmental policy cooperation is to play a game of punishment and reward federalism using discretionary and non-discretionary fiscal transfers, or, to provide the public goods itself. In a developing country such as Argentina, this leads to a vicious circle because it compromises national macroeconomic performance through the 'soft budget syndrome' (which increases the constraining power of governors and mayors), particularly when the central government is being constrained externally.

Additionally, it encourages the central government to turn a blind-eye to subnational government performance. Moreover, it cannot provide non-contributory social protection goods itself without the cooperation of at least one level of subnational government, provinces or municipalities (which or more likely than not unified within majoritarian political dynamics). The ambiguous political, constitutional, and fiscal status of municipalities in Argentina allows them to be 'captured' by the provinces and impedes them from collaborating with the central government to provide these public goods. Thus in Argentina, the interaction of municipalities and provinces does not have an effect on the ability of the central government to deliver non-contributory social protection goods to its citizens.

In contrast, the case of Brazil shows the ability of governors to constrain national social policy goals began to decrease post-1988, in part because of decentralization to the municipal level. However, the success of this democratizing strategy did not come into full effect until post-1995 when macroeconomic stabilization had been achieved. A hardening of sub-national budget constraints eliminated the soft-budget syndrome that had compromised decentralized public goods provisioning (decreasing the ability of the governors and mayors to constrain the centre, and the states from capturing municipalities). In the context of non-majoritarian political dynamics at all levels of government, the Brazilian central government had an incentive to coordinate intergovernmental competencies through fiscal hard-wiring and to provide non-contributory social protection goods itself. As municipalization put these local units in direct competition with the states that had greater revenue-raising capacity, they had a new incentive to collaborate directly with the central government. Within the context of non-contributory social protection, this led to a win/win game in its provisioning that is evident in the success of Brazil's Family Stipend program Bolsa Familia.

The central goal of comparing the performance of these two countries within this policy area has been to assert that when the role of municipalities is treated as a separate institutional category from the *meso*-level (provinces or states), they have an interaction effect on the ability of governors to constrain the central government from intervening through either regulation or through providing non-contributory social protection goods themselves. Strong federalism, which has been mostly conceived in the Latin America Region on the basis of 'subnational' power, has overlooked the ability of municipalities to facilitate the central government's ability to both regulate and provide public goods.

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